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## **Main points**

In this chapter, we report the results of our audit of the Public Employees Pension Plan's (PEPP) controls to protect its pension administration system from unauthorized access, unscheduled downtime, and inaccurate processing. We assessed PEPP's processes for the period August 15, 2005 to December 31, 2005.

We found PEPP has adequate controls to protect its pension administration system except PEPP needs policies and procedures for granting, removing, and monitoring user access. PEPP also needs a complete disaster recovery plan.

We also report the results of our audits of Finance-administered special purpose funds and Crown agencies with years ending December 31, 2005. We found that Finance generally does a good job of managing the funds and agencies.

However, for the Public Employees Dental Fund, Finance needs to ensure it receives accurate reports for dental claims paid for enhanced benefits. Without adequate reports, Finance does not know if each employer fully pays for the enhanced benefits claimed by employees.

## Introduction

The Department of Finance (Finance) helps the Government manage and account for public money. As part of these duties, Finance administers and is responsible for several special purpose funds and agencies.

## Special purpose funds and Crown agencies

Finance is responsible for the following special purpose funds and Crown agencies:

### Year ended December 31

Extended Health Care Plan  
Extended Health Care Plan for Certain Other Employees  
Extended Health Care Plan for Retired Employees  
Extended Health Care Plan for Certain Other Retired Employees  
Municipal Employees' Pension Commission  
Municipal Financing Corporation of Saskatchewan  
Public Employees Deferred Salary Leave Fund  
Public Employees Disability Income Fund  
Public Employees Dental Fund  
Public Employees Group Life Insurance Fund  
Saskatchewan Pension Plan  
SaskPen Properties Ltd.<sup>1</sup>

### Year ended March 31

General Revenue Fund  
Fiscal Stabilization Fund<sup>2</sup>  
Public Employees Benefits Agency Revolving Fund  
Public Employees Pension Plan  
Public Service Superannuation Plan  
Saskatchewan Pension Annuity Fund

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<sup>1</sup> Our office has been denied access to this Crown agency since December 31, 1993 (see Chapter 8 of our 1999 Fall Report – Volume 2 for further discussion of the matter).

<sup>2</sup> Finance does not prepare financial statements for this Fund. As required by *The Fiscal Stabilization Fund Act*, a schedule of transfers and accumulated balance appears in the *Public Accounts 2004-05: Volume 1: Main Financial Statements*.

## **Our audit conclusions and findings**

This chapter contains our audit conclusions and findings on the special purpose funds and Crown agencies with years ending December 31, 2005. We also report the results of our audit of the Public Employees Pension Plan's controls to protect its pension administration system. We reported our objective and criteria in our 2005 Report – Volume 3.

In our 2005 Report – Volume 3, we reported on the funds and agencies for the fiscal years ending on or during the year March 31, 2005.

Our Office worked with Deloitte & Touche LLP, appointed auditor for the Saskatchewan Pension Plan, and Meyers Norris Penny LLP, appointed auditor for the Municipal Employees' Pension Commission. We used the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*.<sup>3</sup>

### **In our opinion, for the special purpose funds and agencies with December 31, 2005 year-ends except for SaskPen Properties Ltd:**

- ◆ **the financial statements for Finance's special purpose funds and agencies are reliable**
- ◆ **Finance and its agencies had adequate rules and procedures to safeguard public resources except for the matter reported below**
- ◆ **Finance and its agencies complied with authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing**

### **Public Employees Dental Fund**

The Public Employees Dental Fund (Fund) accounts for the transactions of the Public Employees Dental Plan (Plan). The Plan promotes good dental health among plan members by reducing the members' costs for

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<sup>3</sup> To view a copy of this report, see our website at [www.auditor.sk.ca/rrd.html](http://www.auditor.sk.ca/rrd.html).

dental services. Finance through the Public Employees Benefits Agency administers the Plan.

For the year ended December 31, 2005, the Fund had employer contributions of \$15.2 million and claims of \$17.8 million. At December 31, 2005, the Fund held assets of \$6.5 million and had liabilities of \$0.9 million.

***Accurate reports needed for claims paid***

Finance needs to ensure it receives accurate reports for claims paid for enhanced benefits. Accurate reports are necessary so Finance knows if each employer is fully paying for enhanced benefits claimed by its employees.

The Plan provides core benefits to employees of all participating employers (departments, several Crown corporations, various agencies, boards, and commissions). The employers pay for these benefits at a straight percentage of their employees' gross salary.

The Plan also provides enhanced benefits to employees of certain participating employers. Each employer determines the enhanced benefits, if any, it will provide to its employees and the contribution rate for those enhanced benefits. The contributions required for enhanced benefits depend on the claims experience of each participating employer.

Finance administers claims for both enhanced and core benefits. Finance has contracted with an insurance company to adjudicate and process claims. Because the contributions for enhanced benefits depend on claims experience, Finance maintains separate claim records for core and enhanced benefits. Finance requires this information to ensure it collects the correct contributions from employers that provide enhanced benefits.

Finance receives regular reports from the insurance company that track claims paid for core and enhanced benefits. To ensure the insurance company is properly processing claims, Finance checks some transactions from the reports to the original claims. During the year, Finance found many allocation errors between core and enhanced benefits on the reports provided. However, Finance did not follow up the errors promptly. Because Finance did not receive accurate reports for

claims paid for the enhanced benefits of the Plan, it does not know if each participating employer is fully paying for the enhanced benefits claimed by its employees.

- 1. We recommend the Department of Finance ensure it receives accurate reports for claims paid for enhanced benefits of the Public Employees Dental Fund.**

## **Public Employees Pension Plan – Pension administration system**

The Public Employees Pension Board (Board) is responsible for *The Public Employees Pension Plan Act*. The Board's primary objective is to provide retirement benefits to members in accordance with the law. The Board manages the Public Employees Pension Plan (PEPP), a defined contribution pension plan. PEPP has contracted the Public Employees Benefits Agency (PEBA) to provide day-to-day administration.

PEPP implemented a new pension administration system (CPAS) in August 2005. CPAS allows PEPP to manage the administration of its member's accounts. These accounts consist of assets of over \$3.6 billion at December 31, 2005. PEPP plans future enhancements (Phase II) to CPAS that include allowing members to access information on their accounts via the Internet.

In our 2005 Report – Volume 3 ([www.auditor.sk.ca](http://www.auditor.sk.ca)) we reported the results of our audit of the adequacy of PEPP's project management processes for the implementation of CPAS. In that report, we said we planned to examine PEPP's controls to protect CPAS from unauthorized access, unscheduled downtime, and inaccurate processing. This chapter describes the results of our work.

### ***Objective, scope, and criteria***

The objective of our audit was to assess whether PEPP had adequate controls to protect the pension administration system (CPAS) from unauthorized access, unscheduled downtime, and inaccurate processing for the period from August 15, 2005 to December 31, 2005.

We did our work in accordance with *The Standards for Assurance Engagements* established by The Canadian Institute of Chartered Accountants (CICA).

To assess the adequacy of PEPP's controls, we used the criteria summarized in the Exhibit.

**Exhibit – Audit criteria**

PEPP should have control processes to protect CPAS from:

1. unauthorized access
2. unscheduled downtime
3. inaccurate processing

We developed the criteria based on our research of the *Trusted Services Criteria and Principles* authored by the CICA, international standards, literature, and reports of other auditors. Management agreed to the criteria.

We reported these criteria in our 2005 Report – Volume 3. The criteria outline our expectations. We describe our expectations in more detail when we discuss our key findings.

***Our audit conclusion***

**For the period August 15, 2005 to December 31, 2005 PEPP had adequate controls to protect CPAS from unauthorized access, unscheduled downtime, and inaccurate processing except that PEPP needs:**

- ◆ **policies and procedures for granting, removing, and monitoring user access**
- ◆ **a complete disaster recovery plan**

***Key findings and recommendations (by criterion)***

**Unauthorized access**

*To protect CPAS from unauthorized access, we expected PEPP to have:*

- ◆ *physical security controls*
- ◆ *user access controls*
- ◆ *responsibilities clearly defined*

Good physical controls protect information technology (IT) infrastructure from harm. Physical access controls protect all computers, network devices, disk drives, backup devices, and wiring from unauthorized access. PEPP has adequate physical security controls for protecting its facilities and equipment. For example, PEBA secures its offices after hours and has processes to prevent people from gaining unauthorized access to its IT areas during working hours.

User access controls ensure only approved people or processes can use an IT system. A common example of a user access control is a username and a password. The username identifies the user and the password grants access. It is important that PEPP verify any person or process that connects to CPAS.

PEPP has clearly defined staff responsibilities and who should have access to what in CPAS. Also, PEPP has adequate processes to prevent unauthorized user access to CPAS and the network. These processes include granting and removing user access based on staff responsibilities, ensuring that staff access is appropriately segregated, and enforcing strong password standards.

PEPP is improving its policies and procedures to ensure security remains strong in the future. For example, PEPP has drafted policies on how to grant and remove user access and how to handle security incidents. PEPP needs to approve and implement these policies.

PEPP also needs to strengthen its processes for granting remote access to contractors. Currently, the requirements contractors need to follow to access PEPP systems are not clearly documented and monitored. In



addition, PEPP needs to implement stronger controls to transfer files from remote locations.

In our 2005 Report – Volume 3, we recommended PEPP approve and implement policies and procedures for granting, removing, and monitoring user access. We continue to recommend PEPP complete, approve, and implement these policies and procedures.

### **Unscheduled downtime**

*To protect CPAS from unscheduled downtime, we expected PEPP to have controls that ensure:*

- ◆ *system and data backups occur and are tested*
- ◆ *disaster recovery plans are implemented and tested*

To reduce the amount of downtime for IT systems, an agency needs good backup and recovery processes. These processes ensure that systems and data can be restored in the event of a disruption (e.g., system malfunction).

PEPP has adequate backup processes including instructions for taking backups offsite. PEPP also has processes to test the recovery of backups.

Even with good backup and recovery procedures, an agency may not be able to recover its IT operations if a major disaster occurred. Disaster recovery processes ensure IT infrastructure becomes operational after a disaster. These processes allow PEPP to continue to administer the pension plan member's accounts even if a disaster occurs. A disaster recovery plan should identify all significant IT systems based on importance, recovery times, and processes to recover or restore each system. Management should approve and regularly review the disaster recovery plan. Management should also test the disaster recovery plan regularly to ensure it works.

PEPP has documented some procedures related to the continuity of its operations. PEPP has also documented some of its IT equipment and has an offsite facility available for use in the event of a disaster. However, PEPP has not prioritized its key IT systems based on each system's

importance, determined recovery time needed, or documented processes to recover or restore each system.

**2. We recommend the Public Employees Pension Plan prepare, approve, and test a complete disaster recovery plan.**

**Inaccurate processing**

*To protect CPAS from inaccurate processing, we expected PEPP to have:*

- ◆ *policies and procedures for managing CPAS*
- ◆ *processes to ensure CPAS is operating as planned*
- ◆ *processes for converting data*
- ◆ *change management processes*
- ◆ *processes to ensure management monitors CPAS*

To protect data from inaccurate processing, staff need to understand their roles and responsibilities. Clearly documented policies and procedures help staff understand how to perform their responsibilities.

PEBA has adequately trained staff to use CPAS. PEPP has also developed adequate procedure manuals for CPAS that outline business processes. PEPP needs to ensure it keeps these manuals up-to-date as processes change.

PEPP has adequate processes to ensure CPAS is operating as planned. For example, PEPP's procedures include performing regular reconciliations of information from CPAS to contribution and payment support. These procedures ensure CPAS is operating properly.

Major changes or additions to CPAS require PEPP to use strong change control processes for documenting, testing, approving, and moving changes from a test environment to operations. Major changes also require a quality assurance review after the change is complete. These processes ensure that system changes work as planned.

PEPP had an adequate process for converting data from the old pension administrative system to CPAS. PEPP has followed an informal process for making minor changes to CPAS. PEPP has also drafted a change

management policy and procedures. PEPP now needs to approve and follow these new change management requirements for any significant changes to CPAS in the future.

Management has developed standards and reports for monitoring the performance of CPAS. These standards and reports ensure that processing is accurate and timely within CPAS. As stated earlier, PEPP also has drafted a policy to handle security breaches. PEPP now needs to approve and implement the policy.

## Selected references

British Standards Institution (2001). *ISO: 17799. Information technology – Code of practice for information security management*. London, UK: Author.

CICA. (2003). *Trust Services Principles and Criteria*. Toronto: Author.

CICA. (1998). *Information Technology Control Guidelines*. Toronto: Author.

The Information Systems Audit and Control Foundation. (2000). *CoBIT- Governance, Control and Audit for Information and Related Technology 3<sup>rd</sup> Edition*. Rolling Meadows, IL: Author.