Finance

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Finance

Main points

To understand and assess the Government's financial performance, legislators and the public should use the Government's summary financial statements.

The usefulness of the General Revenue Fund's (GRF) financial statements is limited. These statements account for only a portion of the Government's activities and include significant errors that affect the reported annual surplus. Users should consider the impact of these limitations when using the GRF financial statements.

The Department of Finance needs to revise its service agreement with the Information Technology Office. The service agreement does not adequately address information technology security and disaster recovery. Also, Finance should improve its human resource plan to help it continue to have the right employees in the right jobs. It must also complete its business continuity plan. Complete business continuity plans help agencies provide critical services if a disaster occurs.

Since 2003, Finance has been replacing, in phases, the central financial and human resources system. Finance used an approved, written contingency plan to manage implementation of the most recent phase. Finance is not tracking all of the costs, i.e., costs incurred by other departments, to replace the old system. As a result, legislators and the public cannot know the total cost of the project.

The Judges of Provincial Court Superannuation Plan and Public Service Superannuation Plan still need to improve their pension plan governance. Also, the Public Employees Pension Plan needs to complete its business continuity plan, and improve its procedures for monitoring investments and its information technology security policies.

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Introduction

This chapter sets out:

- the results of our audits of the Department of Finance (Finance) and its agencies with years ending March 31, 2006

- actions taken on our 2003 recommendations related to pension governance and project management processes used to implement the Government's central financial and human resources systems

Background

Finance's mandate is to provide options and advice to Treasury Board and Cabinet on managing and controlling the Government's finances.

The Government is responsible for the Summary Financial Statements and the General Revenue Fund (GRF) financial statements. Finance, with direction from Treasury Board, prepares these statements, interim financial reports, and related budgets. Finance is also responsible for setting and using effective controls to permit the accurate preparation of these financial statements.

Finance:

- administers and collects provincial taxes
- arranges government financing, banking, investing, and borrowing
- administers public sector pension and benefit plans
- controls spending from the GRF

Finance also provides information, advice, and analysis in the following areas:

- Government-wide fiscal and economic policies including tax policy alternatives and budgetary decisions relating to the GRF

- Maintenance of revenue and expense systems and of financial management and accounting procedures

- Strategic policy development and analysis on matters related to public sector compensation and management of collective bargaining

- Government-wide performance planning and reporting (including implementing the Government's Accountability Framework)

Special purpose funds and Crown agencies

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

Year ended March 31
General Revenue Fund
Fiscal Stabilization Fund
Public Employees Benefits Agency Revolving Fund
Public Employees Pension Plan
Public Service Superannuation Plan
Saskatchewan Pension Annuity Fund
Judges of the Provincial Court Superannuation Plan

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.

Each year, the Assembly receives audited financial statements of each of the above agencies except for the Fiscal Stabilization Fund. Consistent with legislation, Finance does not prepare financial statements for the Fiscal Stabilization Fund. Rather, each year, Public Accounts - Volume 1 includes a schedule of transfers and accumulated balance (unaudited). Audited financial statements of the other agencies are available at www.gov.sk.ca/finance/paccts/default.htm.

Overview of the Department's finances

In 2006, Finance spent almost $1.1 billion and collected revenue of $6.3 billion[1].

The following is a list of Finance's major programs and spending for the year ended March 31, 2006.

	Original Estimates	Actual
	(in millions of dollars)	
Interest-GRF Debt	588	545
Interest-Crown Corporation Debt	251	286
Total Interest on Debt	**839**	**831**
Pensions and Benefits	214	207
Administration	41	40
	1,094	**1,078**

The following is a list of Finance's major revenue sources.

	Original Estimates	Actual
	(in millions of dollars)	
Individual Income Taxes	1,362	1,448
Interest – Crown Corporations	251	286
Sales Taxes	1,019	1,112
Canada Health Transfer	660	660
Canada Social Transfer	300	299
Transfers – Equalization	82	89
Fuel Taxes	365	376
Corporation Taxes	696	919
Tobacco Taxes	169	171
Income from Government Entities	537	607
Motor Vehicle Fees	126	135
Other	150	202
	5,717	**6,304**

[1] The financial information is from the *Estimates 2005-2006, Public Accounts 2005-06 Volume 1 – Main Financial Statements* (see www.gov.sk.ca/finance/paccts) and Finance's *Annual Report 2005-2006.*

Our audit conclusions and findings

Chapter 5 of our 2006 Report – Volume 1 contains the results of our audits of the special purpose funds and Crown agencies with years ending December 31, 2005.

Our Office worked with Meyers Norris Penny LLP, the appointed auditor for the Public Employees Pension Plan. We used the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*[2].

In our opinion, for the year ended March 31, 2006:

- **the Government's summary financial statements included in the Public Accounts, 2005-2006 Volume 1 are reliable**

- **the GRF's financial statements included in the Public Accounts 2005-2006 Volume 1 are reliable except for the improper recording of transactions related to transfers to the Fiscal Stabilization Fund, loans receivable from Crown corporations, and amounts owed for pensions**

- **the financial statements of the other above-listed agencies with March year ends are reliable**

- **Finance and its agencies with March year-ends had adequate rules and procedures to safeguard public resources except for the matters reported in this chapter**

- **Finance and its agencies complied with authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing except for the matters reported in this chapter**

In addition, the law requires us to report when a special warrant approved the payment of public money. For the year ended March 31, 2006, the Government approved the spending of $77 million by special warrant. It later included these special warrants in an appropriation act.

[2] A copy of this report is available at www.auditor.sk.ca/rrd.html.

The following sets out detailed audit findings related to Finance and its agencies.

Usefulness of GRF financial statements limited

The usefulness of the GRF's financial statements is limited for two reasons.

First, as noted in the auditor's report and described in this chapter, the GRF's financial statements include significant errors. These errors affect the reported annual surplus. The Government continues to use the GRF's annual surplus as one of its key performance indicators.

Second, as indicated in our auditor's report on the GRF's financial statements, the financial statements of the GRF do not include all the Government's financial activities.

Users should consider the impact of these limitations in the GRF's financial statements when using these statements. Also, to understand and assess the Government's overall financial performance, the appropriate financial statements to use are the Government's summary financial statements.

Inappropriate recording of transfers to Fiscal Stabilization Fund

The Government continues to use an inappropriate accounting policy to record transactions between the GRF and the Fiscal Stabilization Fund (Fund). The use of this policy results in inaccurate financial statements.

The GRF financial statements include transactions between the GRF and the Fund. The substance of these transactions is the amounts that the GRF owes the Fund must be repaid by the Fund to the GRF. The GRF's 2006 financial statements show a liability of $888 million owed to the Fund and an expense of $139 million.

Canadian generally accepted accounting principles (GAAP) as recommended by The Canadian Institute of Chartered Accountants do not allow the GRF to record changes in amounts due to the Fund as revenues or expenses of the GRF.

As the Government acknowledges in note 1 to the GRF financial statements, the Government does not follow GAAP when it records transfers between the Fund and the GRF. It has not followed GAAP since 2000 when the Government created the Fund through *The Fiscal Stabilization Fund Act*. The Act inappropriately deems any amount transferred from (to) the GRF to (from) the Fund as an expense (revenue) of the GRF.

The Government changes the actual amount of the GRF's annual surplus to another amount when it transfers amounts between the GRF and the Fund. The Government decides both the amount and timing of the transfers between the GRF and the Fund.

This accounting practice distorts the actual results of the GRF and has no impact on the overall finances of the Government. The accounting practice results in overstating the GRF's recorded accumulated deficit and understating the GRF's recorded annual surplus.

If the Government used the correct accounting policy:

- it would record a related asset (that is due from the Fund) of $888 million and decrease the accumulated deficit at the end of the year by $888 million

- it would decrease its expenses (the transfer to the Fund) by $139 million to zero and increase the annual surplus by $139 million

We continue to recommend that the General Revenue Fund's financial statements record transfers in accordance with Canadian generally accepted accounting principles for the public sector.

In February 2002, the Standing Committee on Public Accounts (PAC) considered this matter and disagreed with our recommendation.

Pension debts unrecorded

The Government continues to use an inappropriate accounting policy to account for the costs of its pension debts in the GRF. The use of this policy results in inaccurate GRF financial statements because the Government fails to record the amounts it owes for pensions (debt) and the total annual costs of these pensions.

The Government, through the GRF, sponsors several pension funds. In the GRF financial statements, the Government only includes the amounts it paid retired members or contributed to a pension fund during the year. The GRF's 2006 financial statements include pension expenses of $269 million and no related amounts owed.

GAAP requires the Government to record the amounts it owes for pensions and the total annual related costs in financial statements. Providing this information in notes to the financial statements is not an acceptable alternative.

As the Government acknowledged in note 1 to the GRF's financial statements, Treasury Board has decided not to follow GAAP. This decision has resulted in understating the GRF's recorded accumulated deficit of $4.3 billion and overstating its recorded annual surplus of $400 million.

If the Government used the correct accounting policy:

- it would increase the accumulated deficit at the end of the year by $4.2 billion

- it would increase operating expenses and decrease the annual surplus by $103 million

Further, the use of this accounting policy affects the accuracy of information reported in the annual reports of the two departments that sponsor pension plans. The 2005-2006 annual report of Learning understates its actual expenses by $54.6 million and that of Finance understates actual expenses by $48.1 million. Neither annual report discloses the related pension debt of $2.6 billion for teachers' pensions and benefits (i.e., Learning) or of $1.6 billion for government employees' pensions and benefits (i.e., Finance).

We continue to recommend that the General Revenue Fund's financial statements record pension costs in accordance with Canadian GAAP for the public sector.

In February 2002, PAC considered this matter and disagreed with our recommendation.

Loans to Crown corporations overvalued

The Government has not valued its loans to Crown corporations properly.

The GRF's 2006 financial statements include $153 million for three loans receivable from Saskatchewan Crop Insurance Corporation (Crop Insurance). This amount is included in loans from Crown corporations. These loans are overstated by $24 million for two reasons.

First, the Government has not reduced the value of the loans or recorded the related expense to account for the effect of interest subsidies. GAAP requires the Government to record a grant expense and reduce the value of the loan when it gives a borrower special loan terms that reduce the borrower's cost of borrowing from normal terms.

Each year, the GRF (through Department of Agriculture and Food) provides Crop Insurance with money to pay the interest on the loans (commonly called an interest subsidy). At March 31, 2006, these interest subsidies have reduced the value of the loans by about $12 million.

Second, the Government has not reduced the value of the loans by the amount Crop Insurance will need from the GRF to repay the loans. Crop Insurance's three loans are due in June 2006, September 2008, and September 2009 respectively. GAAP requires, where amounts borrowed cannot be repaid unless the Government gives money to do so, the Government to reduce the loans receivable by and record an expense for the amount expected to be repaid with money the Government gives the borrower. GAAP also requires that the Government, in subsequent years, reduce the related expenses for any previously expensed loan repayments. At March 31, 2006, we estimate that Crop Insurance cannot repay the loans when due unless the Government gives it a further $12 million (2005 - $44 million).

If the Government had recorded the loans receivable properly:

- ♦ it would have decreased the Loans from Crown corporations (receivable) and increased the accumulated deficit by $24 million

- ♦ when taking into account our prior year's reservations, it would have decreased operating expenses and increased the annual surplus by $20 million

Further, the above error affects the accuracy of information reported in the Saskatchewan Agriculture and Food's annual report since Agriculture and Food provides the interest subsidies. Saskatchewan Agriculture and Food's 2005-2006 annual report overstates its actual expenses by $20 million.

We continue to recommend that the Government account for loans to Crown corporations in accordance with Canadian GAAP for the public sector.

In September 2004, PAC considered this matter. PAC agreed with our recommendation and noted that the Saskatchewan Crop Insurance Corporation should continue to operate as it currently does.

Business continuity plan required

Finance and the Public Employees Pension Plan (PEPP) need written, tested, and approved business continuity plans[3] to help ensure they can continue to provide services in the event of a disaster.

Finance provides critical government services. These include controlling spending from the GRF (central payments system), managing the Government's debt, and collecting all revenue due to the GRF. These services also include managing the special purpose funds listed on page 348.

PEPP's critical services include receiving and recording contributions, handling transfers, and providing termination benefits, death benefits, and retirement benefits to members.

Finance and PEPP must provide these services even if a disaster disrupts their ability to operate in the normal manner. Without an adequate business continuity plan, Finance and PEPP are at risk of not being able to provide critical services in a timely manner.

[3] **Business Continuity Plan** - Plans by an organization to respond to unforeseen incidents, accidents, and disasters that could affect the normal operations of the organization's critical operations or functions. A disaster recovery plan is one component of a business continuity plan. Disaster recovery plan are plans by an organization to respond to unforeseen incidents, accidents, and disasters that could affect the normal operation of a computerized system (also known as contingency plan).

Business continuity plans should:

- Be supported by management. Management should make the required resources available to create and maintain the business continuity plan.
- Be based on a threat and risk assessment. This would include identifying and ranking Finance's critical services.
- Include plan activation and notification procedures, emergency procedures that would be used in the event of a disaster; and steps for the recovery and restoration of critical services.
- Be documented, approved by management, and made easily accessible when the plan needs activation.
- Be tested initially and on an on-going basis.
- Include policies for on-going maintenance and updating of the plan.

Finance has documented some parts of a business continuity plan but does not have a complete plan. For example, it has documented and tested a disaster recovery plan for the payment portion of its central financial system. However, it has not developed or documented all the key components of a business continuity plan.

PEPP has also documented some elements of a business continuity plan. For example, PEPP has documented some of its IT equipment and has arranged for use of an offsite facility in the event of a disaster.

Finance and PEPP need to identify and rank critical services and document the steps for recovery and restoration of critical services. Also, Finance and PEPP need to periodically update and test their business continuity plans.

PAC considered this matter for Finance on October 5, 2006 and agreed with our recommendation.

We continue to recommend that the Department of Finance prepare a complete business continuity plan.

1. We recommend that the Public Employees Pension Plan prepare a complete business continuity plan.

Finance management told us they are working to finalize a complete business continuity plan, but think they would be able to continue providing critical services in the event of a disaster.

Management also told us that in May 2006, they gave the Board of PEPP a draft business continuity plan that identified and ranked PEPP's critical services and included steps for restoring those identified services.

Control over security and disaster recovery of IT systems

Finance's service level agreement with the Information Technology Office (ITO) does not adequately address the areas of information technology (IT) security and disaster recovery.

Since September 2005, Finance has used ITO to provide it with IT services. Even though Finance uses ITO, it remains responsible to have adequate policies to support its IT requirements.

Finance's agreement with ITO sets out the scope, level, and quality of services ITO provides. However, the agreement does not include adequate provisions for security or the on-going availability of key information technology services.

The provisions for security focus on Finance's responsibility to follow ITO's security policy and standard. The agreement does not adequately set out security processes, expectations, and reporting requirements for services provided by ITO. Nor does it adequately address disaster recovery processes, expectations, and reporting requirements.

The disaster recovery plan that ITO is developing for its data centre does not identify the priorities or procedures required to restore Finance's applications. In the case of a disaster, Finance does not know if or when ITO would restore Finance's systems.

2. We recommend that the Department of Finance confirm, in writing, processes and policies that the Information

Technology Office uses to address its specific information and technology security and disaster recovery requirements, and then identify and set up additional policies unique to the Department of Finance as necessary.

Better human resource plan needed

In 2005-2006, Finance's formal human resources plan document did not have all of the key components that comprise a comprehensive human resource plan. A comprehensive human resource plan would help Finance ensure that it continues to have the right employees, in the right jobs, and at the right time.

A comprehensive human resource plan should:

- set out human resource priorities that are linked to the Finance's strategic direction
- describe key human resource risks
- outline gaps in current human resources
- describe strategies to bridge gaps and address risks
- outline implementation plan of major strategies

We do not expect all of the components to be in a single document.

Finance's Human Resource Plan describes its strategic direction. However, it does not identify key risks or project future human resource needs for new and ongoing activities. The Plan also does not set out the financial resources that Finance would need and when, or identify who is responsible to implement the planned strategies.

3. We recommend the Department of Finance revise its human resource plan to:

- **set out human resource priorities that link to its strategic direction**

- **document its future human resource needs (e.g., number, type, location of employees and required competencies) to meet the goals and objectives**

- **assign responsibility to staff to implement planned strategies**

Annual pension costs not included in Estimates

Accounting for pension costs on an accrual basis is important so that expenses reflect the full cost of the Government's pension promises.

Since 1998, we have recommended that Finance include the GRF's total pension costs for the year in the Estimates. The Estimates only include pension costs on a cash basis, that is, amounts the Government expects to pay retired members or contribute to a pension fund in that year.

The effects of not including the GRF's total pension costs in the Estimates are significant. For 2005-2006 Estimates:

- budgeted operating expenses of $6.6 billion were understated by $92.6 million
- surplus of $69,000 was overstated by $92.6 million
- accumulated deficit of $4.7 billion was understated by $4.2 billion

Finance did not provide legislators with the effects on the 2006-2007 Estimates of accounting for pension costs on an accrual basis. It has disclosed that it expects its expenses to increase by an additional $336.5 million[4] to account for pension costs related to the GRF.

In February 2002, PAC considered this matter and disagreed with our recommendation.

Public Service Superannuation Board

The Public Service Superannuation Board (Board) is responsible for the administration of *The Public Service Superannuation Act* and other relevant legislation. The Board's primary objective is to provide superannuation allowances to employees who retire and to the dependants of deceased superannuates and employees in accordance with governing legislation.

[4] 2006-2007 Saskatchewan Provincial Budget – Budget and Performance Plan Summary. page 76

The Board manages the Public Service Superannuation Plan (Plan), which consists of the Public Service Superannuation Fund, the Anti-Tuberculosis League Employees Superannuation Fund, and the Saskatchewan Transportation Company Employees Superannuation Fund. The Plan is a defined benefit final average pension plan.

In 2005-2006, the Plan received contributions of $4.4 million from employees and $96.2 million from the GRF. At March 31, 2006, the Plan held assets of $16.2 million and had liabilities of $1,791.1 million.

Retired members' pensions

The Board needs information about retired members of the Plan who are receiving a pension and have returned to work for the Government. The Board needs this information to ensure it pays pensions in accordance with the law.

Requirements for stopping the pensions of retired members who return to work for the Government are set out in section 27 of *The Superannuation (Supplementary Provisions) Act* (Act). The Act allows retired members to work as temporary, casual, or provisional employees for up to six months in a fiscal year without a reduction in their pensions. The Act requires the Board to stop the pension of a retired member:

- who works for the Government for more than six months in a fiscal year
- that the Government re-hires as a permanent employee when that member starts work

The Board does not have rules and procedures to know if retired members are working for the Government. The Board relies on retired members to notify the Board of re-employment with the Government. As a result, the Board cannot ensure that all pensions it paid comply with the law. Accordingly, we cannot determine if the Board complied with section 27 of the Act.

We reported this matter in our 2005 Report – Volume 3 and previous reports. In November 2001, PAC considered this matter and agreed with our recommendation.

We continue to recommend that the Public Service Superannuation Board establish rules and procedures to ensure that all retired members who are receiving a pension and return to work for the Government are paid in accordance with the Act. Alternatively, the Board should seek changes to the Act.

Public Employees Pension Plan

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. The Board has contracted the Public Employees Benefits Agency (PEBA) to provide day-to-day administration of PEPP.

PEPP's 2005-06 Annual Report included its audited financial statements. These financial statements report contributions of $78 million from employees and $73 million from employers, investment income of $285 million, and an increase in market value of investments of $187 million. For the year, PEPP incurred administrative expenses of $10 million and made transfers or payments out of PEPP of $137 million. At March 31, 2006, PEPP held assets of $3.8 billion.

Better monitoring of investments needed

PEPP needs to improve its procedures for monitoring investments.

As trustees of PEPP, the Board is responsible for safeguarding and investing members' money. PEPP retains a custodian for safekeeping investments, collecting investment income, and completing and recording investment transactions. PEPP has delegated day-to-day responsibilities for managing its investments to professional investment managers. These investment managers provide direction to the custodian to buy or sell investments.

To ensure the custodian accurately accounts for all transactions that investment managers initiated, agencies must regularly reconcile the custodian's investment holdings to those reported by the investment managers. PEPP's processes to monitor investments include weekly and quarterly reviews of the investment rate of return for each class of investments to the expected rate of return. In April 2006, PEPP changed its weekly review to a daily review. Also, PEPP requires an external consultant to analyze and report on the quarterly rate of return.

PEPP, however, does not require management to reconcile regularly the investments reported by its custodian to the investments reported by its investment managers. As a result, financial statements for March 31, 2006 prepared for audit purposes understated real estate investments by $8 million. When PEPP became aware of this difference, it adjusted the financial statements.

4. We recommend the Public Employees Pension Plan reconcile regularly the investments reported by the investment managers to the investments reported by the custodian, and investigate significant differences.

IT security policies and procedures needed

PEPP needs to establish written information technology (IT) policies and procedures for granting, removing, and monitoring user access to systems and data.

PEPP needs IT policies and procedures to ensure vital information is protected, accurate, complete, authorized, and available when needed. It must also monitor user access to ensure only authorized users access its systems and data.

We reported this matter in our 2006 Report – Volume 1 and our 2005 Report – Volume 3.

PEPP has not yet established written policies and procedures for granting or removing access to vital information and programs, or for granting remote access to contractors. Nor has it established processes for monitoring who has access to what systems and if that access is still appropriate. Absence of these processes could result in unauthorized disclosure of information, reliance on incomplete and inaccurate information, and the loss of vital information.

We continue to recommend that the Public Employees Pension Plan document, approve, and implement information technology policies and procedures for granting, removing, and monitoring user access.

PAC considered this matter on October 5, 2006 and agreed with our recommendation.

Annual report needs improvement

In our 2004 Report – Volume 1, we assessed whether the annual reports of the Government's pension plans contained sufficient information. We used the CCAF's[5] Reporting Principles to carry out this assessment. We concluded that the Government's pension plans needed to continue to improve their annual reports.

We recommended that the Government's pension plans improve their annual reports by describing their:

- progress towards key goals and objectives
- future direction and risks
- strategies to build capacity

In September 2004, PAC considered this matter and agreed with our recommendation.

We assessed PEPP's 2005-06 Annual Report to determine the progress PEPP had made in addressing our recommendations.

The annual report has significantly improved. It now includes information about the plan's mission, purpose, and strategic goals. The annual report describes strategic initiatives undertaken to achieve the strategic goals including such areas as plan governance, communication, and strategies to sustain or build capacity. It also includes PEPP's risks and the strategies in place to mitigate those risks.

We encourage PEPP to continue improving the annual report by describing its performance measures and targets for its goals and objectives. Targets help readers assess whether performance is stable,

[5] The CCAF-FCVI is non-profit research and education foundation that support capacity development for the public sector in the areas of governance, accountability, management, and audit.

improving, or deteriorating. Also, the annual report should continue to improve integrating financial and non-financial information to show how resources and strategies contribute to results. For example, the annual report could show how money spent to improve member communication is achieving results.

We continue to recommend that Public Employees Pension Plan improve its annual report.

Saskatchewan Pension Annuity Fund

The Saskatchewan Pension Annuity Fund (Fund) operates under *The Saskatchewan Pension Annuity Fund Act.* The Fund's purpose is to provide annuities to retiring members of designated pension plans including the Public Employees Pension Plan (PEPP). Members of the plans may choose to purchase an annuity from the Fund. The Saskatchewan Pension Annuity Fund Board administers the Fund. Finance provides day-to-day management through PEBA.

The Fund's *2005-06 Annual Report* includes its audited financial statements. The Fund had revenue of $25.0 million (including $16.0 million in transfers from PEPP) and expenses of $23.2 (including $13.0 for annuities). At March 31, 2006, the Fund held assets of $152.0 million and estimated annuities payable of $150.7 million.

Loss of public money

The Fund provided an incorrect annuity to a retired member of PEPP resulting in the loss of public money of $60,000.

PEBA staff calculate annuities for retiring members who chose to buy annuities from the Fund. PEBA inputs retiring member's information (e.g., age of retiree, type of annuity, and the accumulated balance transferred from the pension plan) into the Fund's computer system to calculate the monthly annuity. PEBA uses a checklist that sets out steps that it must follow to complete annuity calculations. One of those steps requires two other staff to review the calculation before payments begin.

In 2004, PEBA entered incorrect information for a retiree. The system calculated the monthly annuity based on the incorrect information and the normal review did not detect the error. The system calculated a monthly annuity of $1,200 instead of $860. The retiree required an additional $60,000 to receive a monthly annuity of $1,200. The external actuary detected the error at year-end and advised PEBA management. Management investigated all annuities issued during the year and found no other errors.

The Fund sought assistance from the Department of Justice in recovering the overpaid annuity. Justice advised the Fund that it would not be able to recover the money because of delays in detecting and reporting the error to the retiree and that it must continue paying the annuity. Accordingly, the Fund lost public money totalling $60,000.

We reviewed the work management did to detect additional potential errors in annuity calculation and agreed with their findings.

Management has implemented additional procedures to reduce the risk of incorrectly calculating annuities. The Fund now requires a reviewer to recalculate the annuity and document that review on the checklist.

Pension plan governance processes—a follow-up

As noted earlier in this chapter, Finance through the Public Employees Benefits Agency (PEBA) administers a number of pension and benefit plans.

In our 2003 Report – Volume 1, we reported that the Government's pension plans need to improve their governance processes. We recommended that the pension plan boards develop and implement strategic plans, define their responsibilities, define and communicate their financial and operational information needs, and develop and implement communication plans.

In September 2004, PAC considered this matter and agreed with our recommendations.

As part of our 2005 and 2006 audits of various pension plans, we assessed progress towards improving governance processes for the pension plans. Some pension plans have made significant progress in improving their governance processes. However, some plans have not made significant progress in improving their governance processes.

For the Judges of Provincial Court Superannuation Plan, we found that Finance has not yet developed a strategic plan that includes the goals and objectives, a summary of risks faced by the Plan and its members, and the key strategies to manage those risks.

For the Public Service Superannuation Plan, we found that the Public Service Superannuation Board (Board) has not yet developed a strategic plan that includes goals and objectives, a summary of risks faced by this Plan and its members, and the key strategies to manage those risks. Nor has the Board developed and implemented written communication plans.

However, the Board has made progress. It developed a governance manual that sets out specific responsibilities of the Board, an education plan for board members, and defined and communicated the Board's financial and operational needs to oversee the Plan.

Because the Board has not fully addressed its governance processes, it has not assessed its own effectiveness.

These Plans are significant to Finance, plan members, and the public. The Public Service Superannuation Plan has an unfunded liability of over $1.7 billion and the Judges of Provincial Court Superannuation Plan has an unfunded liability of $66 million at March 31, 2006. These liabilities are the Government's responsibility.

We continue to recommend that Finance develop and implement a strategic plan for the Judges of the Provincial Court Superannuation Plan that includes its goals and objectives, a summary of the risks faced by the plan and its members, and the key strategies to manage those risks.

We continue to recommend that the Public Service Superannuation Board:

- develop and implement a strategic plan including the Plan's goals and objectives, a summary of the risks faced by the Plan and its members, and the key strategies to manage those risks
- develop and implement written communication plans
- establish policies for periodic governance self assessment

Project management to implement MIDAS—a follow-up

Background

MIDAS[6] is the new computer system that has replaced the Government's central financial and human resources systems. As noted in the following exhibit, MIDAS has been implemented in phases, beginning with financial management and then moving to human resources/payroll.

Exhibit – MIDAS phases[7]

Phase		Implementation (active) date
Phase 1	Financial administration—including general ledger, accounts payable, revenue recording, budgeting, forecasting, cash management, financial management information	April 1, 2003
Phase 2	Capital asset management	April 1, 2005
Phase 3	Human resources/payroll administration—including employee and position management, payroll, benefits management, time and attendance, entitlements (e.g., vacation, sick leave), and training	April 1, 2006
Phase 4	Additional human resource components—Self-service, competency management, career and succession planning	Planned for 2008-2009

The implementation of MIDAS is a large IT project. Large IT projects are risky and require strong project management. In 2003, we audited Finance's project management processes to implement Phase 1 of MIDAS.

[6] "MIDAS" stands for Multi-Informational Database Applications.
[7] With material from Department of Finance, *Annual Report 2004-2005, Annual Report 2005-2006*.

We found that Finance had adequate project management processes to implement Phase 1 except for two areas.

First, Finance did not track all the costs for implementing MIDAS. It did not track the costs borne by user departments, such as costs for user acceptance testing, conversion, and project committees. Because total costs were not tracked, legislators and the public received an incomplete picture of the cost of the project. Without knowing the total cost, they were not able to compare the costs to the benefits.

Second, Finance did not have a written contingency plan to deal with the possibility that the project would be over budget, late, or lack quality.

PAC considered our recommendations September 29, 2004, and agreed with our recommendation that Finance use a written contingency plan. PAC did not agree with our recommendation that Finance track and monitor all project costs. PAC recommended that Finance track and monitor all of the project costs associated with the MIDAS project contained within Finance.

MIDAS Phase 3—human resources and payroll

Phase 3 of MIDAS concerns human resources and payroll. Implementation of this phase has involved both Finance and the Public Service Commission (PSC). Representatives from the two agencies co-chaired the steering committee leading the project. Although the two agencies jointly managed the project, budget responsibility was with Finance until implementation April 1, 2006. Since that date, PSC is responsible for the system.

In October 2006, we reviewed how management of Finance and the PSC acted on our recommendations from the first phase of MIDAS in implementing Phase 3. We did not audit overall project management for Phase 3. Nor did we evaluate the adequacy of the controls over MIDAS human resources and payroll system. We plan to audit these controls and report the results in a future report.

Not all project costs tracked

In 2003, we recommended that the Department of Finance track and monitor all MIDAS project costs, including other departments' costs.

Finance had budget responsibility for Phase 3 of MIDAS until implementation. Finance tracked its out of pocket costs for the project. This included the cost of staff seconded to Finance for the project.

However, Finance did not track the costs incurred by departments in their involvement in the development, testing, and implementation of the new system. Also, staff at individual departments spent significant time training to use the new HR system.

It is a fundamental principle of project management and transparent government that the full costs of projects be disclosed. Because Finance did not track all project costs, legislators and the public cannot know the true cost of the project.

We continue to recommend that the Department of Finance track and monitor all costs incurred on projects.

Contingency plan in place

In 2003, we recommended that, for future phases, the Department of Finance use a written contingency plan approved by the project steering committee.

Finance and PSC had a written process for managing project issues. The process was part of the overall plan (Project Charter) that had been approved by the project steering committee to govern the project. The project demonstrated use of this process in managing issues that arose. In addition, the project steering committee had plans to manage circumstances that could have impacted the budget, timing, and quality of the project. These contingency plans were documented in steering committee minutes or separately. We are satisfied that an approved contingency plan was in place.

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