

Finance

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Main points

In this chapter, we report that the Public Employees Benefits Agency (PEBA), a division of the Department of Finance, needs to receive timely and accurate information to properly administer employee benefit programs. It needs this information to ensure all employer contributions are received and only eligible employees receive benefits.

PEBA also administers the Municipal Employees Pension Plan for the Municipal Employees' Pension Commission. We report that the Commission needs a written, tested, and approved disaster recovery plan for its computer systems to provide critical services in the event of a disaster.

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
Saskatchewan Power Corporation Designated Employee Benefit Plan
Saskatchewan Power Corporation Pre-1996 Severance Plan
Saskatchewan Water Corporation Retirement Allowance Plan
SaskEnergy Retiring Allowance Plan
SaskPen Properties Ltd.¹
SaskPower Supplementary Superannuation Plan
SGI Service Recognition Plan

Year ended March 31

General Revenue Fund
Fiscal Stabilization Fund
Judges of the Provincial Court Superannuation Plan
Public Employees Benefits Agency Revolving Fund

¹ 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).

Public Employees Pension Plan
Public Service Superannuation Plan
Saskatchewan Infrastructure Fund
Saskatchewan Pension Annuity Fund
Saskatchewan Watershed Authority Retirement Allowance Plan

Our audit conclusions and findings

This chapter contains our audit conclusions and findings for the special purpose funds and Crown agencies with years ending December 31, 2006.

In our 2006 Report – Volume 3, we reported our audit conclusions and findings for Finance and the funds and agencies for their year ended March 31, 2006, except for the Saskatchewan Infrastructure Fund. The Legislative Assembly created this Fund in December 2006.

To form our opinions, we 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*.²

In our opinion, for the special purpose funds and agencies with December 31, 2006 year-ends except for SaskPen Properties Ltd:

- ◆ **Finance and its agencies had adequate rules and procedures to safeguard public resources except for the matters 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 except for the matters reported below**
- ◆ **the financial statements for the special purpose funds and agencies are reliable**

² To view a copy of this report, see our website at www.auditor.sk.ca/rrd.html.

Employee Benefit Programs

The Public Employees Benefits Agency (PEBA), a division of Finance, administers employee benefits programs as authorized by Cabinet.

PEBA did not receive timely and accurate information for the following benefits programs:

- ◆ Public Employees Dental Plan
- ◆ Public Employees Group Life Insurance Plan
- ◆ Public Employees Disability Income Plan
- ◆ Extended Health Care Plan
- ◆ Extended Health Care Plan for Retired Employees
- ◆ Extended Health Care Plan for Certain Other Employees
- ◆ Extended Health Care Plan for Certain Other Retired Employees

These Plans operate under *The Financial Administration Act, 1993*. The purpose of these Plans is to provide benefits to certain public sector employees.

Accurate payroll reports needed

PEBA needs accurate payroll reports from the Government's central payroll system for employer contributions relating to benefit programs that PEBA manages. Because PEBA uses outside service providers (insurance companies) to pay benefit claims, PEBA also needs to ensure that the service providers receive adequate information to pay authorized benefits to eligible employees.

For each of the benefit plans, PEBA must have processes to ensure that each Plan receives all employer contributions and that only eligible employees receive authorized benefits. PEBA uses the Government's central payroll system for departments to ensure each Plan receives proper contributions and only eligible employees receive benefits.

In April 2006, the Government changed its central payroll system for departments. The Public Service Commission (PSC) implemented the new system.

Although PEBA received estimated employer contributions for all of the Plans it manages, the new system did not provide any information relating to the actual employer contributions required for each Plan until October 2006. PEBA began receiving employer contribution reports from PSC in October 2006. However, these reports were not adequate as they did not provide all the necessary information and used incorrect rates to calculate employer contributions. By December 2006, PEBA verified employer contributions for some of the Plans, but it has not yet verified employer contributions for all of the Plans. As a result, PEBA does not know if it has received all the employer contributions for each of the Plans it administers.

To assess an employee's benefit entitlement, the insurance companies rely on eligibility information they receive from the central payroll system for certain Plans. PEBA must ensure the eligibility information the insurance companies receive is accurate and timely. However, PEBA did not ensure the information provided to the insurance companies was accurate and timely. The insurance companies did not receive eligibility information between April 2006 and June 2006. Lack of timely eligibility information could result in the payment of benefits to ineligible employees.

The risk of payment of Dental Plan benefits to ineligible employees is low because PEBA checks some dental benefit transactions and verifies employee eligibility for benefits. However, this risk is not low for the Extended Health Care Plans because PEBA does not check the transaction of those Plans. Payment of benefits to ineligible employees in the Extended Health Care Plans could result in increased premium rates for these Plans because the insurance company sets premium rates based on actual claims experience.

- 1. We recommend that the Public Employees Benefits Agency obtain timely and accurate payroll reports for its benefit plans to ensure all employer contributions are received.**
- 2. We recommend that the Public Employees Benefits Agency ensure its outside service providers have timely and accurate information to assess employee eligibility for benefits.**

Management told us that PEBA continues to work with PSC to resolve issues relating to payroll reports.

Accurate reports for dental claims paid needed

PEBA needs to receive accurate reports for claims paid for the Public Employees Dental Plan (Dental Plan).

The Dental Plan contains two types of benefits, i.e., core and enhanced. The Dental 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 Dental Plan also provides additional enhanced benefits to employees of certain participating employers. Each participating employer determines the enhanced benefits, if any, it will provide to its employees and the contribution rate. The contributions for enhanced benefits depend on the claims experience of each participating employer.

In our 2006 Report – Volume 1, we recommended that PEBA ensure it receives accurate reports for claims paid for enhanced benefits under the Dental Plan.

PEBA administers claims for both core and enhanced benefits. PEBA contracted an insurance company (Company) to adjudicate and process claims. Because the contributions for enhanced benefits depend on claims experience, PEBA must maintain separate claim records for each benefit. PEBA requires this information to collect the correct contributions from employers that provide enhanced benefits.

The Company provides PEBA with regular reports that track claims paid for each benefit. To ensure the Company is properly processing claims, PEBA checks some transactions from that report to the original claims employees submitted. Since 2005, PEBA has found many allocation errors between core and enhanced benefits on these reports. However, PEBA did not ensure the Company corrected those inaccuracies quickly. Because PEBA does not have adequate processes to ensure claims paid for the benefits of the Dental Plan are accurate, it does not know if each participating employer is fully paying for the enhanced benefits provided

to its employees. PEBA continues to work to address our past recommendation.

We continue to recommend that the Public Employees Benefits Agency ensure it receives accurate reports for claims paid for enhanced benefits of the Public Employees Dental Plan.

The Standing Committee on Public Accounts considered this matter in October 2006 and agreed with our recommendation.

In 2006, PEBA revised its Dental Plan. The revised plan sets out that when an employer's enhanced contribution exceeds the cost of providing the enhanced benefits, the surplus belongs to the contributing employer. The revised plan also requires PEBA to report to contributing employers monthly the amount of surplus or deficit relating to the enhanced benefits. Employers must pay the deficit when notified. Employers can request the refund of any surplus or allow the plan to retain such surplus to pay future enhanced claims. Currently, PEBA estimates that the total employer surplus is \$177,000 and the total employer deficit is \$455,000. Because PEBA did not determine enhanced benefits as described above, it did not report to the participating employers about the status of their funding for enhanced benefits. Accordingly, PEBA did not comply with the terms of the Dental Plan.

- 3. We recommend that the Public Employees Benefits Agency report monthly to participating employers the amount of surplus or deficit relating to enhanced dental benefits.**

Municipal Employees' Pension Commission

The Municipal Employees' Pension Commission (Commission) is responsible for administration of *The Municipal Employees' Pension Act*. The Commission manages the Municipal Employees' Pension Plan (MEPP). The Commission's primary objective is to provide retirement benefits to members in accordance with the law. The Commission has contracted PEBA to provide day-to-day administration of MEPP.

MEPP provides retirement benefits to some employees of school divisions and regional colleges, and employees of regional public libraries

and other local authorities (e.g., rural municipalities) within Saskatchewan. MEPP is primarily a defined benefit pension plan.

MEPP's 2006 Annual Report includes its audited financial statements.³ These financial statements report the following:

- ◆ contributions of \$36 million from employees and employers, investment income of \$61 million, and an increase in market value of investments of \$107 million
- ◆ administrative expenses (including investment and contractual fees) of \$6 million
- ◆ transfers or payments out of MEPP of \$64 million
- ◆ at December 31, 2006, MEPP held net assets of \$1.4 billion and had accrued pension benefits of \$1.2 billion

Disaster recovery plan needed

The Commission needs a written, tested, and approved disaster recovery plan for the computer system it uses to help ensure that it can continue to operate effectively in the event of a disaster. The Commission needs such a plan because it depends on the computer system to provide critical services.

The critical services the Commission provides include receiving and recording contributions from employers, handling transfers, and providing termination benefits, death benefits, and retirement benefits to members. The Commission must be able to provide these services even if a disaster disrupts its operations and services. Without an adequate disaster recovery plan, the Commission may not be able to provide its critical services.

Disaster recovery plans must:

- ◆ have management support which includes making the required resources available to create and maintain the disaster recovery plan
- ◆ be based on a threat and risk assessment including identifying and ranking MEPP's critical services

³ MEPP's annual reports are available at www.peba.gov.sk.ca

- ◆ set out plan activation, notification, and emergency procedures that would be used in the event of a disaster together with steps for the recovery and restoration of critical information technology services
- ◆ be documented, approved by management, and easily accessible when needed
- ◆ be tested initially and on a regular basis
- ◆ set out policies for regular maintenance and updating of the plan

The Commission has documented some elements of a disaster recovery plan. For example, the Commission has documented the information technology (IT) equipment it uses and has arranged for use of an offsite facility in the event of a disaster. However, the Commission needs to identify and rank its critical IT services, determine the recovery time and document processes to recover or restore each service. The Commission also needs to periodically update and test its disaster recovery plan.

4. **We recommend that the Municipal Employees' Pension Commission have a written, tested, and approved disaster recovery plan.**