Saskatchewan Government Insurance

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Main points

In this chapter, we report that the financial statements of Saskatchewan Government Insurance (SGI), its pension plan, the companies SGI owns, and the Saskatchewan Auto Fund (Auto Fund) all for the year ended December 31, 2006 are reliable. SGI had adequate processes to safeguard its public resources, resources of the pension plan, companies it owns, and the Auto Fund. In addition, SGI complied with authorities governing its activities and the activities of its pension plan, companies it owns, and the Auto Fund.

This chapter also reports the results of our audit of SGI's project management processes for the Auto Fund Redevelopment Project for the year ended January 31, 2007. The Auto Fund Redevelopment Project is a significant investment in information technology that SGI will use to deliver Auto Fund products (e.g. vehicle insurance and registrations). We concluded that SGI had adequate processes to manage the project except that it needs to:

♦ monitor the benefits it expects
♦ document its risks, security, and communication strategies

We make two recommendations to help SGI improve its project management practices.

Introduction

Saskatchewan Government Insurance (SGI) sells property and casualty insurance in Saskatchewan. Its wholly-owned company, SGI CANADA Insurance Services Ltd. (SCISL), sells property and casualty insurance in Manitoba and Alberta.

Also, SCISL owns 100% of the issued shares of Coachman Insurance Company (Coachman) and 75% of the issued shares of Insurance Company of Prince Edward Island (ICPEI). Coachman sells property and casualty insurance including automobile insurance in Ontario. ICPEI sells property and casualty insurance including automobile insurance in Prince Edward Island, Nova Scotia, and New Brunswick.

SGI also manages the Saskatchewan Auto Fund (Auto Fund). The Auto Fund is Saskatchewan's compulsory automobile insurance program. It receives money from the motoring public and pays claims. The Auto Fund does not receive any money from the General Revenue Fund (GRF). Nor does it pay any dividends to the GRF or the Crown Investments Corporation. The financial results of the Auto Fund are not included in SGI's financial statements.

SGI sponsors the Saskatchewan Government Insurance Superannuation Plan (SGI Plan). The SGI Plan is a defined benefit pension plan (closed to new members since 1978). The Board of Directors of SGI is responsible for administration of the SGI Plan under *The Pension Benefits Act, 1992.* The primary objective of the SGI Plan is to provide pensions to retired employees and the dependents of deceased pensioners and employees of SGI. SGI provides day-to-day management of the SGI Plan.

The 2006 annual report for SGI includes its consolidated financial statements (including the operating results of the companies SGI owns) for the year ended December 31, 2006. Those statements report revenue of $321.4 million, net profit of $52.1 million, total assets of $662.5 million, and retained earnings of $81.6 million.

The 2006 annual report for the Auto Fund includes its financial statements for the year ended December 31, 2006. Those statements report revenue of $641.1 million, net increase to the rate stabilization

reserve (net profit) of $57.0 million, total assets of $1,317.8 million, a rate stabilization reserve of $205.6 million, and a redevelopment reserve of $33.7 million.

The SGI Plan's annual report includes its financial statements for the year ended December 31, 2006. Those statements report contributions from employees and SGI of $0.1 million, pensions and refunds of $4.0 million, net assets of $45.7 million, and pension benefits owing of $45.2 million.

Our audit conclusions and findings

Cabinet appointed KPMG LLP auditor for SGI and the Auto Fund. The Boards of Directors for SCISL, Coachman, and ICPEI appointed KPMG as auditor for those companies. Also, SGI appointed KPMG as auditor for the SGI Plan. Our Office worked with the appointed auditor using the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*.[1] Our Office and KPMG formed the following opinions.

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

♦ **SGI, SCISL, Coachman, and ICPEI had adequate rules and procedures to safeguard their public resources and those of the Auto Fund and the SGI Plan**

♦ **SGI, SCISL, Coachman, and ICPEI complied with authorities governing their activities, those of the Auto Fund and the SGI Plan relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing**

♦ **the financial statements of SGI, Auto Fund, SCISL, Coachman, ICPEI, and the SGI Plan are reliable**

The remainder of this memorandum reports the result of our audit of SGI's project management processes for the Saskatchewan Auto Fund Redevelopment Project for the period from February 1, 2006 to January 31, 2007.

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[1] To view this report, see our website at www.auditor.sk.ca/rrd.html.

Saskatchewan Auto Fund Redevelopment Project

SGI is replacing the computer system that it uses to deliver Auto Fund products (e.g. vehicle insurance and registrations). The project commenced in 2005. SGI plans to deliver the system in five releases and complete the project in 2010.

SGI relies on its information technology systems to deliver Auto Fund products and services to the motoring public. SGI told us that the current system is out-dated and changes required to meet business demands are becoming increasingly difficult and expensive. SGI also told us that the new system would provide better and more accessible information, enable SGI to respond more quickly to Auto Fund customers, and better position the Auto Fund to meet its future demands.

In 2005, SGI estimated that the cost for the Auto Fund Redevelopment Project would be $35 million. SGI established a $35 million Redevelopment Reserve to meet the Auto Fund's commitment to this project.[2] SGI has spent about $6 million on the project as at December 31, 2006.

The Auto Fund Redevelopment Project is a significant investment in information technology (IT). Large IT projects are inherently risky. Strong project management controls and processes can reduce these risks and increase the likelihood of a project's success. Sound controls help ensure projects:

♦   are done on time (time management)
♦   are done on budget and include all costs (cost management)
♦   meet the needs of the organization and its clients (scope management)
♦   use quality standards including independent quality reviews (quality management)

We audited SGI's project management processes to report to the Legislative Assembly and the public how SGI is managing this significant project.

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[2] 2005 Saskatchewan Auto Fund Annual Report, page 23

Our objective and criteria

Our audit objective was to assess whether SGI has adequate project management processes for the Saskatchewan Auto Fund Redevelopment Project for the period February 1, 2006 to January 31, 2007.

To do this work, we followed *The Standards for Assurance Engagements* established by The Canadian Institute of Chartered Accountants.

Exhibit 1 sets out the criteria that we used for this audit. The criteria are based on international project management standards, literature, and reports of other auditors (see selected references). We discussed the criteria with SGI's management. Management agreed that the criteria are reasonable and attainable.

Exhibit 1-Audit criteria

For the Saskatchewan Auto Fund Redevelopment Project, SGI should have:

1. adequate processes to maintain management and stakeholder commitment to the project
2. adequate processes to track and report on the realization of the project's benefits
3. adequate project management practices and reports

Adequate project management practices include integration management, scope management, time management, cost management, quality management, human resource management, communications management, risk management, and procurement management (see Exhibit 2 on page 129).

Our conclusion

We concluded that SGI had adequate project management processes for the Saskatchewan Auto Fund Redevelopment Project except that it needs to:

- ♦ **have processes to monitor the benefits it expects**
- ♦ **document its risks, security, and communication strategies**

Our detailed findings and recommendations

We describe below our detailed findings together with our expectations (*in italics)* and recommendations for each criterion.

Criterion 1—Maintaining management and stakeholder commitment

We expected SGI to have project management processes to obtain and maintain strong senior management commitment to the project. We expected senior management would:

- ♦ *ensure that the project fits within SGI's strategic plan*
- ♦ *be accountable for the success of the project*
- ♦ *establish a strong project team with adequate resources to carry out the project*
- ♦ *have clear communication and reporting throughout the project*

SGI has adequate processes to maintain management and stakeholder commitment. The project fits within SGI's strategic plan, and SGI views it as a key project for the Auto Fund.

SGI has established a steering committee consisting mostly of executive managers. Two executive managers (the Vice President responsible for the Auto Fund, and the Vice President, Systems) have overall responsibility for the project. The executive managers have established processes to monitor the progress of the project. Those processes include regular steering committee meetings to review the status of the project, human resource issues, communications to end users, and any other critical issues. Under criterion 3, we discuss the need for SGI to document its communication strategy to stakeholders.

SGI has a strong project team to carry out the project. It has also hired contractors to assist in developing the new system. SGI assigned two project managers to oversee the project. One of those project managers is a hired contractor. Senior employees with a good understanding of the Auto Fund business also act as team leaders for key parts of the project. This will assist in the transfer of knowledge to SGI staff upon completion of the project. However, SGI could improve its documentation to facilitate the transfer of knowledge from each project phase and at the project's

completion. Such documentation is necessary especially when project teams include hired contractors. Management told us it plans to improve its documentation of how it will facilitate the transfer of knowledge to its staff from each project phase.

Criterion 2—Tracking and reporting on the realization of the project's benefits

We expected SGI would:

♦ *set out expected benefits of the project based on a strong business case that is consistent with its vision, strategic goals, and objectives*

♦ *have a process to quantify and track project benefits throughout the project and after implementation*

The benefits outlined should be measurable and management should report regularly on the achievement of the benefits. The business case should outline the full costs of the project and compare the costs to the expected benefits.

SGI told us that the primary benefit of the project is the replacement of the aging computer system that is not sustainable in the future. Also, SGI has set out other expected benefits in the project plan. Those benefits include improved customer service, increased staff satisfaction, and increased responsiveness to business change. However, SGI has not documented targets and criteria for measuring those benefits. Nor has it documented who is responsible for monitoring and tracking those benefits and how. Lack of clearly assigned responsibility could impede SGI in assessing how well it achieved the benefits it set out for the project.

SGI also developed estimates of expected cost savings with the new system. SGI expects to achieve an average savings of about one million dollars every year for the next 15 years, the expected life of the new system. However, SGI does not have sufficient documentation to support its expected saving (e.g., the basis for arriving at the estimated savings including assumptions used). A written analysis would help SGI to assess the reasonableness of the expected cost saving and to achieve the expected benefits.

1. **We recommend Saskatchewan Government Insurance have processes to monitor the benefits it expects from the Saskatchewan Auto Fund Redevelopment Project.**

Project managers told us that they plan to report to senior management on whether the project achieved the benefits that SGI set out in the project plan.

Criterion 3—Project management practices and reports

Good project management systems and practices as outlined in Exhibit 2 help ensure that project teams meet deadlines, contain costs, and meet requirements. We expected SGI would have processes to:

♦ *control the development and implementation of the project*
♦ *plan and report progress against the plan*
♦ *ensure project teams collectively have the necessary experience, skills, and leadership to manage the project including managing risks and quality of work, and communicating progress and successes*

SGI has established processes to manage all aspects of the project including the scope, budget, time, and human resources. It has processes to monitor key aspects of the project through periodic meetings that discuss the project status, issues, and coordination of the timing of required tasks. The project team tracks the progress of individual parts of the project through various reports.

SGI structured the project in a way to allow staggered implementation of the new system. It plans to implement release one in April 2007 and the final release in 2010. The planned first release is a relatively small part of the system that does not affect the issuance of driver licenses or vehicle registrations. The staggered approach gives the project team sufficient time to resolve any significant issues before beginning to implement the next part of the project.

The project managers have some processes to address key issues such as risk management, application security, and system development methodology. However, SGI did not adequately document key decisions and plans related to these issues. For example, SGI did not adequately

develop and maintain a detailed project risk document and the planned strategies to reduce those risks. Because large IT projects are inherently risky, good project management practices require that management identify possible risks and set out processes to regularly monitor, assess, and reduce those risks. Well-documented risk assessments help ensure project risks are promptly addressed.

To ensure that new systems have adequate security, agencies must specifically ask the project teams to build adequate security into the new system. Project teams must plan for sound security processes at the planning stages to avoid additional costs to incorporate necessary security processes after implementation. The project managers have some processes to plan for adequate security in the new system. However, SGI did not have written evidence that it has addressed all key aspects of security. For example, SGI did not have a written strategy to plan, test, and implement adequate security for the new system. Management told us SGI plans to use its current security environment to ensure it has adequate security for its new system.

SGI should improve how it documents the planned tasks that the project team needs to complete for the project. SGI has developed an overall plan and timeline for the different phases of the project. Project managers also have a detailed list of the individual items that they need to develop as part of the system. However, they do not have a written detailed plan that shows the key steps, timing for completing all steps, and the documented inter-dependencies of those steps for all development activities.

SGI has developed a communication strategy for the analysis phase of the project. However, it has not yet documented its communication strategy for the remainder of the project. For example, SGI has not evaluated the effectiveness of its communication related to the analysis phase. Nor has it set out how it will communicate the remainder of the project to its staff, issuers of driver licenses and vehicle registrations, and the general public. A written communication strategy would help SGI to maintain stakeholder commitment to the project and the assist the project in meeting user needs.

2.   **For the Saskatchewan Auto Fund Redevelopment Project, we recommend Saskatchewan Government Insurance document its:**

♦   **risks and strategies to manage the risks**
♦   **strategy to plan, test and implement adequate security**
♦   **communication strategy for keeping stakeholders adequately informed about the project**

In April 2007, management told us it has now drafted a communication strategy.

Exhibit 2—Project management framework

The three general criteria of a strong project management climate are:

♦   management commitment to the project
♦   the project's ability to achieve its objectives and benefits
♦   good project management systems and practices

We will audit to these criteria based on the risk and scope of our project. We will use the Project Management Institute's standard titled *A Guide to the Project Management Body of Knowledge* as the management framework to support the above three criteria.

1.   *Integration management*–the processes required to ensure that the various elements of a project are properly co-ordinated.

2.   *Scope management*–the processes involved in determining what the users need, how the needs will be met and verifying if they are met.

3.   *Time management*–the processes to plan, schedule, and control the project's activities to help get the project done on time.

4.   *Cost management*–the processes to plan, estimate, and control the project costs.

5.   *Quality management*–the processes needed to evaluate if the project is managed well and meets the stakeholders' needs.

6.   *Human resource management*–the processes required to make the most effective use of people involved in the project, including stakeholders. This includes change management, training, and staffing.

7.   *Communication management*–the processes, including the organizational structure, used to ensure the timely and complete creation, movement, and storage of information.

8.   *Risk management*–the processes to identify, evaluate, plan, and respond to risks.

9.   *Procurement management*–the processes to decide what to contract for tendering and selecting the best contractor; and negotiating, managing and closing the contract.

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