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Main points

The Ministry of Finance, primarily through the Public Employees Benefits Agency (PEBA), administers 18 government pension and benefits plans. For the year ending December 31, 2007, the financial statements of each of these are reliable. All plans had adequate rules and procedures to safeguard the public resources and comply with the authorities governing their activities, except for the following matters.

The Municipal Employees' Pension Commission continues to need a written, tested, and approved disaster recovery plan for its computer systems to help ensure that it can continue to operate effectively in the event of a disaster.

The Saskatchewan Pension Plan needs to improve its security policies and procedures for information technology.

At December 31, 2007, PEBA has signed service agreements with the pension and benefit plans that it administers. These service agreements set out the roles and responsibilities of PEBA and the plans, the services that PEBA will provide, and service delivery targets. We assessed the adequacy of PEBA's processes to manage the delivery of agreed-upon services to the pension and benefit plans for the period April 1, 2007 to December 31, 2007. We found PEBA had adequate processes except that it needs to explain significant differences between expected and actual results for each service standard described in the service agreements.

Introduction

The Ministry 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 agencies.

Year ended December 31

Extended Health Care Plan
Extended Health Care Plan for Certain Other Employees
Extended Health Care Plan for Certain Other Retired Employees
Extended Health Care Plan for Retired Employees
Municipal Employees' Pension Commission
Municipal Financing Corporation of Saskatchewan
Public Employees Deferred Salary Leave Fund
Public Employees Dental Fund
Public Employees Disability Income 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

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

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

Our 2008 Report – Volume 3 will include the results of our audits of the agencies with years ending March 31, 2008. This chapter contains our audit conclusions and findings for the special purpose funds and Crown agencies with years ending December 31, 2007.

Our audit conclusions and findings

To form our opinions, our Office worked with Meyers Norris Penny LLP, appointed auditor for the Municipal Employees Pension Commission and Deloitte and Touche LLP, appointed auditor for the Saskatchewan Pension Plan (Plan). We used the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*.²

We did not rely on Deloitte and Touche's (D&T) opinion on the adequacy of the Plan's rules and procedures to safeguard public resources because D&T did not report the need to complete the documentation of the Plan's information technology processes. *The Provincial Auditor Act* requires us to do additional work when we are unable to rely on the reports of the appointed auditors. Our additional work consisted of reviewing the Plan's existing information technology security policies and procedures and discussions with management.

In our opinion, for the special purpose funds and agencies with December 31, 2007 year-ends except for SaskPen Properties Ltd:

- ◆ **Finance and its agencies had adequate rules and procedures to safeguard public resources for these funds and agencies except for matters reported in this chapter**
- ◆ **Finance and its agencies complied with authorities governing activities of these funds and agencies relating to financial reporting, safeguarding public resources, revenue raising,**

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

spending, borrowing, and investing except for matters reported in this chapter

- ◆ **the financial statements for the these funds and agencies are reliable**

This chapter also includes the results of our audit of the adequacy of the Public Employee Benefits Agency's processes to manage the delivery of agreed-upon services to pension and benefit plans for the period April 1, 2007 to December 31, 2007.

Municipal Employees Pension Plan

Background

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 the Public Employees Benefits Agency 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.

These financial statements report contributions of \$38 million, transfers or payments of \$69 million, net assets of \$1.4 billion, and accrued pension benefits of \$1.2 billion.

Disaster recovery plan needed

The Commission needs a written, tested, and approved disaster recovery plan for its computer systems to help ensure that it can continue to operate effectively in the event of a disaster.

In our 2007 Report – Volume 1, we recommended that the Commission have a written, tested, and approved disaster recovery plan. In June 2007, PAC considered this matter and agreed with our recommendation.

The Commission needs a written, tested, and approved disaster recovery plan because it depends on its computer systems to provide critical services. The critical services 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.

The Commission continues to work on developing a disaster recovery plan for its critical services. For example, in 2007, the Commission improved its offsite storage of backups and began improving its recovery documentation. Management told us it has begun a program to test recovery processes for various disaster scenarios.

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

Management told us the Public Employees Benefits Agency is in the process of providing an overall disaster recovery and continuity plan for all of the plans it manages.

Saskatchewan Pension Plan

Background

The Board of Trustees of the Saskatchewan Pension Plan (Plan) is responsible for administering *The Saskatchewan Pension Plan Act*. The Plan is a voluntary pension plan and is available to anyone between 18 and 69 years. Contributions to the Plan are locked in and vested and are used to provide the member with a pension at retirement.

The Plan's annual report includes its audited financial statements for the year ended December 31, 2007. These financial statements report

contributions of \$7 million, annuities to pensioners of \$7 million, and net assets of \$191 million.

Security policies and procedures for information technology (IT) need improvement

The Plan needs to complete the documentation of its IT security policies and procedures. The Plan's IT security policies must be documented, approved, and communicated to the Plan's staff through an on-going awareness program.

The Plan has adopted some IT policies and procedures, but the policies are not based on a documented threat and risk assessment. Written and approved IT security policies and procedures, based on a documented threat and risk assessment will help management ensure that the Plan's IT policies meet its needs.

- 1. We recommend that the Saskatchewan Pension Plan approve information technology security policies and procedures that are based on a documented threat and risk assessment.**

Public Employees Benefit Agency - Managing service delivery

The Public Employees Benefits Agency (PEBA) is part of the Ministry of Finance. PEBA administers various government pension and benefit plans for employees of the Government of Saskatchewan and certain employees of municipal governments.³ PEBA has service agreements with the plans it administers. Those agreements set out the roles and responsibilities of PEBA and the plans, the services that PEBA will provide, and service delivery targets.

As administrator of the pension plans, PEBA serves about 63,000 active members and more than 12,000 pensioners on behalf of more than 1,000 participating employers. The benefit plans have about 77,000 members.⁴ The total assets of these pension and benefit plans are over \$6 billion.

³ Municipal governments include cities, towns, villages, rural municipalities, school divisions, regional libraries, colleges, and other designated organizations.

⁴ Saskatchewan Finance. (2007). *2006-2007 Saskatchewan Finance Annual Report*. www.finance.gov.sk.ca/annreport/FinanceAnnualReport0607/. (31 March 2008).

PEBA recovers its costs to administer these pension and benefit plans by charging the plans based on the costs incurred for each plan. For the year ended March 31, 2007, PEBA incurred \$9.7 million in administration costs and recovered those costs from the plans. The Public Employees Pension Plan and the Municipal Employees' Pension Plan account for approximately 75% of the administration costs.

At December 31, 2007, PEBA had signed service agreements with the following pension and benefit plans:

- ◆ Public Employees Pension Plan
- ◆ Saskatchewan Pension Annuity Fund
- ◆ Municipal Employees' Pension Plan
- ◆ Extended Health Care Plan
- ◆ Extended Health Care Plan for Retired Employees
- ◆ Saskatchewan Water Corporation Retirement Allowance Plan
- ◆ Saskatchewan Watershed Authority Retirement Allowance Plan
- ◆ SaskEnergy Retiring Allowance Plan
- ◆ SaskPower Designated Employee Benefit Plan
- ◆ SaskPower Pre-1996 Plan
- ◆ SaskPower Supplementary Superannuation Plan
- ◆ Saskatchewan Government Insurance Service Recognition Plan

PEBA must provide services that meet the requirements and targets described in the service agreements. Rigorous service delivery processes at PEBA will help promote a clear understanding of roles and responsibilities and maintain effective relationships with the plans.

Audit objective

The objective of our audit was to assess whether PEBA had adequate processes to manage the delivery of agreed-upon services to the pension and benefit plans (collectively called clients) for the period April 1, 2007 to December 31, 2007.

We followed *Standards for Assurance Engagements* established by The Canadian Institute of Chartered Accountants. Those standards require us to develop suitable criteria, review and evaluate relevant processes, and obtain sufficient and appropriate audit evidence to support our conclusions.

Audit criteria

We used the following criteria to assess the adequacy of PEBA's processes.

To have adequate processes to manage service delivery, PEBA should:

- ◆ monitor service delivery
- ◆ report on service delivery
- ◆ hold periodic service review meetings with clients
- ◆ make necessary changes to service delivery

We based these criteria on a review of available literature, our prior audit work, work of other auditors, and discussions with management. PEBA agreed that the above criteria are reasonable and attainable.

We describe the criteria more fully under detailed findings by criterion and recommendations.

Conclusion

We concluded that PEBA had adequate processes to manage the delivery of agreed-upon services to the pension and benefit plans for the period April 1 to December 31, 2007 except that it needs to explain significant differences between expected and actual results for each specific service standard described in the service agreements.

Detailed findings by criterion and recommendation

We describe below our detailed findings by criterion. For each criterion, we describe our expectations (*in italics*), findings, and recommendations.

Monitor service delivery

To monitor service delivery adequately, we expected PEBA to:

- ◆ *assign responsibility for monitoring and reporting on service delivery*
- ◆ *ensure appropriate systems are in place to collect and maintain information outlined in the service agreements*
- ◆ *verify the accuracy and completeness of information*

- ◆ *analyze the information*
- ◆ *conclude on compliance with service agreements based on analysis*

PEBA's service agreements with its clients define each party's responsibilities. PEBA assigns responsibility for managing service delivery to certain employees. Job descriptions and periodic checklists document specific employee responsibilities. PEBA has adequate systems to collect and maintain the information required by the service agreements.

PEBA has adequate processes to verify the accuracy and completeness of the information collected. Its employees compile and analyze information, identify and resolve any significant issues, determine compliance with the service agreements, and prepare written reports to the clients. However, PEBA needs to improve its analysis of information collected and reported to the clients as described below.

Where PEBA's service agreements contain specific service standards, (e.g., payments to members made within a specific number of days) PEBA reports actual results for each standard. However, PEBA explains differences between expected and actual results in total for all standards. Without adequate, documented explanation of such differences for each specific standard, the clients may not know and understand all significant issues and trends.

2. We recommend that the Public Employees Benefits Agency explain significant differences between expected and actual results for each specific service standard described in the service agreements.

Management told us that starting in 2008, PEBA is providing explanations for significant differences between expected and actual results for each service standard.

Report on service delivery

To report on service delivery adequately, we expected PEBA to:

- ◆ *prepare reports based on information collected*
- ◆ *identify key areas of risk in the reports*

- ◆ *review and approve reports*
- ◆ *provide reports to clients in accordance with agreements*

PEBA provides regular reports to its clients on service delivery. These reports provide information on specific service standards outlined in the service agreements and highlight significant areas of risk. PEBA reviews these reports prior to sending them to the clients.

The reports generally contain the information as required in the service agreements. However, as we reported earlier, PEBA needs to explain significant differences between expected and actual results for each specific service standard described in the service agreements.

Review service delivery

To review service delivery adequately, we expected PEBA to:

- ◆ *regularly meet with clients*
- ◆ *document results of meetings/discussions held with clients*

Senior employees of PEBA attend all meetings of the clients' boards of directors or trustees. They use this forum to discuss service delivery and other significant issues. PEBA employees document minutes for these meetings and significant issues for follow up and resolution. PEBA also uses telephone calls and emails to communicate with its clients. PEBA documents and follows up significant issues arising from these communications.

Change service delivery

To change service delivery adequately, we expected PEBA to:

- ◆ *take required actions*
- ◆ *communicate actions taken to the clients*

As described earlier, senior employees of PEBA regularly monitor service delivery. Where necessary, PEBA recommends changes to the service agreements and makes changes to its service delivery processes. Also, PEBA's clients periodically request changes to service delivery. Before making any changes to the service agreements or its service delivery processes, PEBA consults and agrees such changes with the clients.

Selected references

Office of the Auditor General of Canada. (2005). Royal Canadian Mounted Police – Contract Policing, Chapter 1. In *November 2005 Report of the Auditor General of Canada*. Ottawa: Author.

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