Finance

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Main points

The General Revenue Fund (GRF) 2008 financial statements continue to contain significant errors. For example, the reported net debt of $5.95 billion should be $9.41 billion and the reported annual surplus of $641 million should be $853 million. These errors occur because Treasury Board continues to use inappropriate accounting policies to account for pension costs and to record transfers between the GRF, Fiscal Stabilization Fund, and Saskatchewan Infrastructure Fund.

As part of its activities, the Ministry of Finance administers various pension and benefits plans. Finance continues to need complete business continuity plans for its various activities to ensure it can provide critical services in the event of a disaster.

Finance administers the disability benefit program for judges on behalf of the Ministry of Justice and Attorney General without proper legislative authority. It paid about $330,000 of disability payments in 2007-08 out of the Judges of the Provincial Court Superannuation Plan's bank account without legislative authority. Furthermore, Finance does not keep complete financial records for this program or prepare financial statements. Finance and the Ministry of Justice and Attorney General have not determined the amount owing for this disability benefit program.

The Public Employees Pension Plan and the Saskatchewan Pension Annuity Fund hire investment managers to provide direction to their custodians to buy or sell investments. To make sure its accounting for investments for these plans are complete and accurate, Finance needs to improve its processes to compare the amounts recorded in its records to those reported by its custodians and its investment managers, and follow up differences.

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Introduction

This chapter provides an overview of the responsibilities of the Ministry of Finance (Finance). Also, it sets out:

- the results of our audit of the financial statements of the Government of Saskatchewan
- the results of our audits of Finance and its agencies for the year ended March 31, 2008

This chapter also provides an update on the status of recommendations previously made by the Standing Committee on Public Accounts (PAC) that are not yet implemented.

Background

Treasury Board is responsible for setting accounting policies and approving the Summary Financial Statements and the General Revenue Fund (GRF) financial statements prior to their publication in the Public Accounts – Volume 1. Finance is responsible for the preparation of these statements in accordance with accounting policies set by Treasury Board. In addition, Finance is responsible for setting and using effective controls to permit the preparation of these financial statements.

Finance helps the Government manage and account for public money. Its mandate is to provide options and advice to Treasury Board and Cabinet on managing and controlling the Government's finances. Its responsibilities include the following:

- administering and collecting provincial taxes
- arranging government financing, banking, investing, and borrowing
- administering certain public sector pension and benefit plans
- receiving revenues from taxation and transfers
- controlling spending from the GRF
- maintaining ministry-wide revenue and expense systems including the financial modules of the computerized Multi-informational Database Applications system (MIDAS Financials)

- providing information, advice, and analysis on:
  - government-wide fiscal and economic policies including tax policy alternatives and budgetary decisions relating to the GRF
  - strategic policy development and analysis on matters related to public sector compensation and management of collective bargaining
  - financial management and accounting
  - annual performance planning, measuring, and reporting processes

Special purpose funds and Crown agencies

Finance administers and is responsible for the following special purpose funds and agencies (agencies). Each of the agencies (except for the Fiscal Stabilization Fund and Saskatchewan Infrastructure Fund) provide the Legislative Assembly with audited financial statements; some also provide an annual report.[1]

Year ended March 31
Fiscal Stabilization Fund
General Revenue Fund (GRF)
Judges of the Provincial Court Superannuation Plan
Public Employees Benefits Agency Revolving Fund
Public Employees Pension Plan
Public Service Superannuation Plan
Saskatchewan Infrastructure Fund
Saskatchewan Pension Annuity Fund
Saskatchewan Watershed Authority Retirement Allowance Plan

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

[1] Public Accounts – Volume 1 includes unaudited schedules of transfers and accumulated balances for the Fiscal Stabilization Fund and Saskatchewan Infrastructure Fund. These Funds are not required to prepare financial statements. In May 2008, *The Growth and Financial Security Act* disestablished these Funds and created the Growth and Financial Security Fund.

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
SaskPower Supplementary Superannuation Plan
SGI Service Recognition Plan

Chapter 5 of our 2008 Report – Volume 1 contains the results of our audits of the agencies with years ended December 31, 2007.

Overview of the Ministry's finances

For the year ended March 31, 2008, Finance had revenues of $7.0 billion and spent about $0.9 billion. Major revenues are as follows.

	Original Estimates	Actual
	(millions of dollars)	
Taxes	$ 4,096.9	$ 4,725.3
Transfers from the Federal Government	1,100.8	1,397.3
Other own-source revenue	214.1	247.6
Transfers from government entities	583.2	641.8
	$ 5,995.0	$ 7,012.0

The following is a list of major programs and spending:

	Original Estimates	Actual
	(millions of dollars)	
Operations		
Revenue	$ 17.9	$ 18.0
Provincial Comptroller	9.1	7.6
Central management and services	7.1	6.6
Budget analysis	4.9	5.0
Treasury and debt management	2.9	2.5
Other	1.6	1.7
	43.5	41.4
Finance – servicing government debt	560.0	528.2
Public service pension and benefits[2]	243.8	327.9
Total spending	$ 847.3	$ 897.5

Finance's annual report sets out differences between actual and budgeted revenues and expenses and explains significant differences in expenses.

Audit conclusions and findings

We have not completed our audit work on Finance's treasury function; we will include the results of this work in a future report.

To form our opinion on the Public Employees Pension Plan, our Office worked with Meyers Norris Penny LLP, its appointed auditor. We used the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors.*[3]

In our opinion for the year ended March 31, 2008:

- **the Government's Summary Financial Statements included in the *Public Accounts, 2007-2008 Volume 1* are reliable**

[2] Public service pension and benefits are estimated on a cash basis. Actual public service pension and benefits expense is restated from recorded balance $242.9 million to include $85.5 million of unrecorded pension costs (see details later in this chapter).
[3] To view a copy of this report, see our website at www.auditor.sk.ca/rrd.html.

- **the General Revenue Fund's financial statements included in the *Public Accounts, 2007-2008 Volume 1* are reliable except for not recording amounts owed for pensions and improper recording of transfers between the GRF and the Fiscal Stabilization Fund and the Saskatchewan Infrastructure Fund**

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

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

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

The law requires us to report when a special warrant approved the payment of public money. For the year ended March 31, 2008, the Government approved, through orders in council, spending of $142 million; the Assembly later approved these amounts through an appropriation act.

Business continuity plan required

Finance needs to complete a business continuity plan. Since our 2005 Report – Volume 3, we have reported that Finance needs a written, tested, and approved business continuity plan to help ensure it can continue to provide services in the event of a disaster. The Standing Committee on Public Accounts (PAC) considered this matter on October 5, 2006 and concurred with our related recommendation. Exhibit 1 sets out the content of a sound business continuity plan.

Exhibit 1 – Content of a good business continuity plan

A good business continuity plan must:

- have management support including making the required resources available to create and maintain the business continuity plan
- be based on a threat and risk assessment including identifying and ranking PEBA's critical functions
- set out the 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 key programs and services
- be documented, approved by management, and easily accessible when the plan needs activation
- be tested initially and on an ongoing basis
- set out policies for ongoing maintenance and updating of the plan

Finance provides critical government services. These include controlling spending from GRF, managing the Government's debt, and collecting all revenues due to the GRF.

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

Finance assembled a business continuity team and analyzed its business functions. The analysis included a threat and risk assessment and identified its critical services and a vital records inventory. As well, Finance documented and tested a disaster recovery plan for its central payment system.

Finance has not completed its plan. It needs to document the steps for recovery and restoration of critical services and test the plan.

We continue to recommend that the Ministry of Finance complete its business continuity plan.

Control over disaster recovery of IT systems

Finance's service level agreement with the Information Technology Office continues not to adequately address the area of disaster recovery.

Since September 2005, Finance has used ITO to provide information technology (IT) services. Even though Finance uses ITO, Finance remains responsible to have adequate policies to support its IT requirements. PAC considered this matter on March 13, 2007 and concurred with our recommendation.

Finance's agreement with ITO sets out the scope, level, and quality of services ITO must provide. However, the agreement does not adequately address disaster recovery provisions for the on-going availability of key information technology services or Finance's disaster recovery processes, expectations, and reporting requirements.

In the case of a disaster, Finance does not know if ITO could restore its IT systems within the required timeframe.

We continue to recommend that the Ministry of Finance confirm in writing the processes and policies that the Information Technology Office uses to address its specific disaster recovery requirements and then identify and set up additional policies unique to the Ministry of Finance as necessary.

Human resource plan needs improvement

Since our 2006 Report – Volume 3, we have reported that Finance's human resources plan document does not have all the key components that comprise a comprehensive human resource plan. PAC considered this matter on March 13, 2007 and concurred with our recommendation.

Finance has identified its key risks and included a projection of future human resource needs for new and ongoing activities. However, the plan does not yet set out the financial resources Finance will need and when. Also, the Plan does not identify who is responsible to implement planned strategies.

We continue to recommend that the Ministry of Finance complete its human resource plan.

Annual pension costs not included in Estimates

Using the accrual method of accounting for pension costs is important so that reported expenses reflect the full cost of the Government's pension promises.

Since 1998, we have recommended that Finance include total estimated pension costs in the Estimates. In February 2002, PAC considered this matter and disagreed with our recommendation.

The effects of not including the GRF's total pension costs in the estimates are significant. In the 2007-2008 Estimates:

- the planned operating expenses of $7.8 billion and the planned surplus of $75.0 million are understated by estimated expenses of $380.0 million[4]
- the planned accumulated deficit of $4.2 billion is understated by $5.1 billion

Finance did not provide legislators with the effects on the 2008-2009 Estimates of accounting for pension costs on an accrual basis. It has disclosed that it expects its expenses for the year to increase by an additional $281.4 million to account for pension costs related to the GRF.[5]

We continue to recommend that the Estimates include the full cost of pensions.

General Revenue Fund

Background

The General Revenue Fund (GRF) was established under *The Financial Administration Act, 1993*. The Act sets out the scope of the financial activities of the GRF. The Government must deposit into the GRF all public money other than those over which the Legislative Assembly has no power of appropriation[6] and those otherwise specially disposed of by

[4] *2007-2008 Saskatchewan Provincial Budget-Budget and Performance Plan Summary*, p.56.
[5] *2008-2009 Saskatchewan Provincial Budget-Budget and Performance Plan Summary*, p. 80.
[6] *The Financial Administration Act, 1993* (Act) defines appropriation to mean amounts: set out in an Appropriation Act, permitted or directed to be paid from GRF by this or any other Act, or approved through special warrants.

the Legislative Assembly (e.g., revenues of Crown corporations and agencies, special purpose funds, revolving funds). The Government must pay out of the GRF expenses and any loans, advances, or investments as permitted or required by law or by the vote of the Assembly.

Continued use of inappropriate accounting policies

Treasury Board does not use Canadian generally accepted accounting principles for the public sector (GAAP) to account for pension costs or to record transfers to and from the Fiscal Stabilization Fund and the Saskatchewan Infrastructure Fund when preparing the GRF financial statements.

It is important that governments use GAAP to prepare their financial statements. Using GAAP helps ensure the financial results are presented fairly and free from bias. It is not appropriate for governments to set accounting policies based on their own preferences.

Financial statements should reflect the costs of decisions made during the year. Because the Government uses inappropriate accounting policies, the GRF financial statements report net debt and annual surplus inaccurately. As exhibit 2 shows, if the Government had accounted for all transactions properly, the statements would have recorded net debt of $9.41 billion instead of $5.95 billion at March 31, 2008 and a surplus of $853 million instead of $641 million for the year ended March 31, 2008. Also, because the Government uses the GRF's annual surplus as one of its key performance indicators, users should consider the impact of the errors in the GRF financial statements.

Exhibit 2

Line item on financial statements	Amount reported in statements	Amount that should be reported in statements	Difference Amount reported is: Overstated (too high) Understated (too low)	Reason for difference
Statement of Financial Position				
Total Financial Assets	$6.38 billion	$8.01 billion	$1.63 billion (understated)	Unrecorded "Due from Fiscal Stabilization Fund and Saskatchewan Infrastructure Fund"
Total Liabilities	$12.33 billion	$17.42 billion	$5.09 billion (understated)	Unrecorded pension debt
Net Debt	$5.95 billion	$9.41 billion	$3.46 billion (understated)	Net impact of not recording the above amounts
Accumulated Deficit	$3.36 billion	$6.82 billion	$3.46 billion (understated)	Net impact of not recording the above amounts
Statement of Operations				
Total Operating expense	$8.04 billion	$8.47 billion	$429 million (understated)	Unrecorded pension costs for current year
Transfer to the Fiscal Stabilization Fund expense	$641 million	$ ---	$641 million (overstated)	Inappropriately including transfer as an expense
Surplus	$641 million	$853 million	$212 million (understated)	Net impact of above errors on current year surplus

Because the errors significantly impair the usefulness of these financial statements, we have qualified our auditor's report on the GRF financial statements published in *Public Accounts 2007-2008 Volume 1*. "Qualified" audit reports are not normal and should cause concern for legislators and the public. Our audit report advises readers of the errors in the financial statements.

We continue to recommend that the General Revenue Fund's financial statements record pension costs and transfers in accordance with Canadian generally accepted accounting principles for the public sector. The Standing Committee on Public Accounts considered these matters in February 2002 and disagreed with our recommendation.

The following explains the errors in more detail.

Pension debts unrecorded

The Government, through the GRF, sponsors several large pension funds (e.g., Public Service Superannuation Plan, Teachers' Superannuation Plan). As the Government acknowledges in note 1 to the 2008 GRF financial statements, Treasury Board has decided not to follow GAAP to account for its pension costs.

Rather, Treasury Board accounts for its pension costs in the GRF on a cash basis (i.e., only records amounts paid to retired members or contributed to a pension fund during the year).

The use of this inappropriate accounting 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 as required by GAAP. These statements do not record the total 2008 pension costs of $429 million and pension amounts owed at March 31, 2008 of $5.09 billion. As a result, the 2008 GRF financial statements overstate the annual surplus by $429 million and understate the accumulated deficit by $5.09 billion.

This inappropriate accounting policy also affects the accuracy of information reported in the annual reports of the two ministries that sponsor certain pension plans. The 2007-2008 annual report of the Ministry of Education will understate its actual expenses by $345 million and the 2007-2008 annual report of the Ministry of Finance will understate actual expenses by $85 million. The annual reports will not disclose the related pension debt of $3.19 billion for teacher's pensions and benefits (i.e., Education) or of $1.9 billion for primarily Ministry employees' pensions and benefits (i.e., Finance).

Inappropriate recording of transfers

The Government records transfers between the GRF and the Fiscal Stabilization Fund[7] and the Saskatchewan Infrastructure Fund[8] inappropriately. As the Government acknowledges in note 1 to the GRF's financial statements, Treasury Board has decided not to follow GAAP to account for its transfers between the GRF and these Funds.

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[7] *The Fiscal Stabilization Fund Act* established the Fiscal Stabilization Fund effective April 1, 2000. On May 14, 2008, *The Fiscal Stabilization Fund Act* was repealed by *The Growth and Financial Security Act* and the balance of the Fiscal Stabilization Fund was transferred to the Growth and Financial Security Fund.

[8] *The Infrastructure Fund Act* established the Saskatchewan Infrastructure Fund effective December 6, 2006. On May 14, 2008, *The Infrastructure Fund Act* was repealed by *The Growth and Financial Security Act* and the balance of the Saskatchewan Infrastructure Fund was transferred to the Growth and Financial Security Fund.

Treasury Board records transactions between the GRF and the Funds as revenue or expense of the GRF. Use of this policy enables the Government to change the GRF's annual surplus to another amount by recording transfers between the GRF and the Funds. The Government decides both the amount and timing of the transfers between the GRF and the Funds. Transfers between the GRF and these Funds have no impact on the overall finances of the Government.

The substance of the transactions between the GRF and these Funds is that the amounts that the GRF has paid or owes to the Funds must be repaid to the GRF. GAAP does not allow governments to record changes in the amounts owed from/due to or collected from/paid to the Funds as revenue or expense of the GRF.

The 2008 GRF financial statements inappropriately include a transfer to the Fiscal Stabilization Fund as an expense of $641 million. As a result, the 2008 GRF financial statements overstate the accumulated deficit by $1.6 billion and understate the annual surplus by $641 million.

Judges of the Provincial Court Superannuation Plan

Background

The Judges of the Provincial Court Superannuation Plan (Plan) was established under *The Provincial Court Act* and continues under *The Provincial Court Act, 1998*. Finance is responsible for the administration of the Plan.

The primary objective of the Plan is to provide pensions to judges who retire (superannuates) and to the dependants of deceased superannuates and judges in accordance with governing legislation. The Plan is a defined benefit final average pension plan.

In 2007-2008, the Plan had employee contributions of $0.4 million and $2.7 million in deficiency recoveries from the GRF. At March 31, 2008, the Plan held net assets of $19.2 million and had liabilities of $93.9 million, resulting in an unfunded liability of $74.7 million.

Finance also administers the disability benefits program for the judges on behalf of the Ministry of Justice and Attorney General.

Payments made without proper authority

Section 20 of *The Provincial Court Act, 1998* authorizes the disability benefit program and payments to be made out of the GRF. During 2007-08, Finance made disability payments of $331,198 out of the Judges of the Provincial Court Superannuation Plan's bank account without legislative authority.

The Judges of the Provincial Court Superannuation Plan's bank account is solely for holding money in trust for the registered pension plan. Section 32 of *The Provincial Court Act, 1998* specifically outlines the amounts that can be charged and paid out of the Plan. It does not include disability benefit payments for the disability benefit program.

At year-end, Finance had collected all the amounts owed to the Plan from the GRF to cover the disability benefit payments made from the Plan's bank account. However, Finance continues to make disability payments from the Plan's bank account and has the GRF reimburse the Plan for these payments.

1. We recommend the Ministry of Finance make payments from the Judges of the Provincial Court Superannuation Plan in accordance with the law.

Administering the disability benefit program without proper authority

Finance is administering the Judges Disability Benefit Program (Program) without proper legislative authority.[9]

Section 64(1) of *The Financial Administration Act, 1993* (Act) requires Finance to receive Lieutenant Governor in Council authority to administer this Program. Since 1998, Finance has administered the Program on behalf of the Ministry of Justice and Attorney General without receiving the required Lieutenant Governor in Council approval.

[9] Finance's administration of this program does not include the adjudication process for disabled judges; rather appointed judges that make up a Judicial Council perform the adjudication.

Finance does not keep complete financial records for the Program. In addition, Finance and the Ministry of Justice and Attorney General have not determined the amount owing for this Program.

Without complete financial records or determination of the amount owing, the Ministry of Justice and Attorney General does not know the complete cost of the Program. Also, legislators do not receive information about the cost of this Program.

Furthermore, for benefit programs that the Lieutenant Governor in Council approves for Finance's administration, the Act (i.e., section 64(11)) requires Finance to prepare and submit their annual financial statements to the Legislative Assembly. This process ensures legislators are aware of the cost of benefit programs. Because this Program has not received such approval, Finance has not prepared or submitted financial statements to the Ministry of Justice and Attorney General or the Legislative Assembly for the Program.

2. We recommend the Ministry of Finance seek legislative authority to administer the Judges' Disability Benefit Program.

3. We recommend the Ministry of Finance prepare audited financial statements for the Judges Disability Benefit Program and submit them to the Legislative Assembly.

Public Employees Benefit Agency

Background

The Public Employee Benefit Agency (a branch of the Ministry) administers the various pension and benefit plans as set out in exhibit 3.

Exhibit 3 – Pension and benefit plans administered by PEBA

Pension plans:
Anti-TB League Superannuation Plan
Judges of the Provincial Court Superannuation Plan
Liquor Board Superannuation Plan
Municipal Employees' Pension Plan
Public Employees Pension Plan
Public Service Superannuation Plan
Saskatchewan Pension Annuity Fund

Benefit plans:
Extended Health Care Plan
Extended Health Care for Certain Other Employees
Public Employees Deferred Salary Leave Plan
Public Employees Dental Plan
Public Employees Group Life Insurance
Public Employees Disability Income Plan
Judges Disability Benefit Program

Business continuity plan needed

Public Employee Benefit Agency (PEBA) needs a written, tested, and approved business continuity plan to help ensure that it can continue to provide critical services in the event of a disaster. Exhibit 1 sets out the content of a sound business continuity plan.

We previously reported this matter for certain pension plans PEBA administers (i.e., Public Employees Pension Plan first reported in 2006 Report – Volume 3, Public Service Superannuation Board first reported in our 2007 Report – Volume 3, and Municipal Employees Pension Plan first reported in our 2007 Report – Volume 1). The Standing Committee on Public Accounts (PAC) considered these matters and agreed with our recommendations in 2007 and 2008.

PEBA provides critical services to the pension and benefit plans it administers. These services include receiving and recording contributions from employers and employees, handling transfers, and providing benefits to members of the plans. PEBA must be able to provide these services even if a disaster disrupts its operations and services. Without an adequate business continuity plan, PEBA may not be able to provide its critical services.

PEBA needs to identify and rank its critical services, document the steps for restoring its critical services, determine recovery time, and document processes to recover or restore each service. PEBA also needs to periodically update and test its business continuity plan.

4. We recommend the Public Employees Benefits Agency complete a business continuity plan for the pension and benefit plans it administers.

Public Employees Pension Plan

Background

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

PEPP's 2007-08 Annual Report included its audited financial statements. These financial statements report contributions of $101 million from employees and $95 million from employers, investment income of $197 million, and a decrease in market value of the investments of $279 million. For the year, PEPP incurred administrative expenses of $16 million and made transfers or payments out of PEPP of $147 million. At March 31, 2008, PEPP held assets of $4.2 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 investment managers initiate, agencies must regularly reconcile the custodian's investment holdings to those the investment managers' report.

PEPP offers members a choice of investment funds. The custodian reports investment holdings by manager daily. PEPP uses this information to determine the daily holdings and valuation of the investment funds.

PEPP's processes to monitor investments include daily reviews of the investment rate of return for each class of investments and for each fund to the expected rate of return. Also, PEPP requires an external consultant to analyze and report on the quarterly rate of return by investment manager for each fund.

PEPP provides staff with written guidance on reconciling its investments each quarter. The guidance requires staff to compare the investments recorded in its financial records to amounts reported by its custodian and investment managers, and to follow up and document reasons for differences. It also requires staff, independent of preparing the reconciliation, to review and approve the reconciliations. Staff did not complete any of its quarterly reconciliations until after its year-end (May 2008) nor investigate or document reasons for all differences. For example, the Plan's holdings as reported in its annual financial statements are understated by over $4 million.

Without preparing timely investment holding reconciliations to the custodian, investment managers, and the Plan's financial records including reasons for differences investigated and documented, increases the risk that the recorded investments may be incomplete.

5. We recommend the Public Employees Pension Plan reconcile investments recorded in its financial records to those reported by the investment managers and the custodian, and document the resolution of significant differences.

Complete business continuity plan needed

PEPP needs a written, tested, and approved business continuity plan to help ensure that it can continue to provide critical services in the event of a disaster. Exhibit 1 sets out the content of a sound business continuity plan.

Since our 2006 Report – Volume 3, we have recommended that the Public Employees Pension Plan complete its business continuity plan. The Standing Committee on Public Accounts (PAC) considered this matter in March 2007 and agreed with our recommendation.

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

PEPP has made some progress in documenting its business continuity plan. It has prepared additional documentation of its backup and offsite storage procedures. As at March 31, 2008, PEPP still needs to rank its critical services, document the steps for restoring its critical services, determine recovery time, and document processes to recover or restore each service. PEPP also needs to periodically update and test its business continuity plan.

Management told us it has dedicated more time to document, test, and train staff on business continuity procedures.

Public Service Superannuation Plan

Background

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

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 2007-2008, the Plan received contributions of $3.8 million from employees and $103.7 million from the GRF. At March 31, 2008, the Plan held assets of $13.1 million and had liabilities of $1,941 million.

Complete business continuity plan needed

The Board needs a written, tested, and approved business continuity plan to help ensure that it can continue to provide critical services in the event of a disaster. Exhibit 1 sets out the content of a sound business continuity plan.

In our 2007 Report-Volume 3, we recommended that the Public Service Superannuation Board have a complete business continuity plan. The Standing Committee on Public Accounts (PAC) considered this matter in April 2008 and agreed with our recommendation.

The Board's critical services include receiving and recording contributions, handling transfers, and providing termination benefits, death benefits, and retirement benefits to members. The Board must provide these services even if a disaster disrupts its ability to operate in a normal manner. Without an adequate business continuity plan, the Board is at risk of not being able to provide critical services in a timely manner.

In 2007-2008, the Board made some progress in documenting its business continuity plan. It has prepared additional documentation of its backup and offsite storage procedures. However, as at March 31, 2008, the Board still needs to rank its critical services, document the steps for restoring its critical services, determine recovery time, and document processes to recover or restore each service. The Board also needs to periodically update and test its business continuity plan.

Management told us it has dedicated more time to document, test, and train staff on business continuity procedures.

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.

We have reported this matter since our 2001 Spring Report. In November 2001, PAC considered this matter and concurred with our recommendation.

Section 27 of *The Superannuation (Supplementary Provisions) Act* (Act) sets out requirements for stopping the pensions of retired members who return to work for the Government. The Act:

- allows retired members to work for up to six months in a fiscal year without a reduction in their pensions
- requires the Board to stop the pension of a retired member who works for the Government as temporary, casual, or provisional employees for more than six months in a fiscal year
- requires the Board to stop the pension of a retired member 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. Rather, the Board relies on retired members to notify the Board upon their re-employment with the Government. Without rules and procedures, 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.

In March 2008, the Government introduced Bill #9 (Bill) in the Legislative Assembly of Saskatchewan. This Bill, if enacted, would repeal section 27 of the Act and allow all retired members of the Plan to return to work without impacting their pensions. At September 30, 2008, the Bill had received first reading and therefore was not yet approved.

Saskatchewan Pension Annuity Fund

Background

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 (Board) administers the Fund. Finance provides day-to-day management through PEBA.

The Fund's *2007-08 Annual Report* includes its audited financial statements. The Fund had revenue of $16.8 million (including $6.0 million in transfers from PEPP) and expenses of $20.0 million (including $14.2 million for annuities). At March 31, 2008, the Fund held assets of $175.2 million and estimated annuities payable of $176.5 million.

Better monitoring of investments needed

The Board needs to improve its procedures for monitoring investments.

As trustees of the Fund, the Board is responsible for safeguarding and investing members' money. The Board retains a custodian for safekeeping investments, collecting investment income, and completing and recording investment transactions. The Board has delegated day-to-day responsibilities for managing its investments to a professional investment manager. The investment manager provides direction to the custodian to buy or sell investments. Also, the Board has delegated day-to-day management to PEBA.

To ensure the custodian accurately accounts for all transactions that the investment manager initiated, PEBA must regularly reconcile the custodian's investment holdings to those reported by the investment managers.

The Board's processes to monitor investments include quarterly reviews of the investment rate of return of investments compared to the expected rate of return. Also, it requires an external consultant to analyze and report on the quarterly rate of return. However, the Board does not require management to reconcile regularly the investments its custodian reports to the investments its investment manager reports. Management told us it reconciled monthly the par value of bonds reported by the custodian to that reported by its investment manager. We found no evidence of such reconciliations.

6. We recommend the Saskatchewan Pension Annuity Fund Board establish processes to regularly reconcile the investments reported by the investment manager to the investments reported by the custodian and investigate significant differences.

Status of other outstanding recommendations of the Standing Committee on Public Accounts

The following table provides an update on recommendations previously made by the Standing Committee on Public Accounts (PAC) that are not yet implemented and are not discussed earlier in this chapter.[10]

PAC REPORT YEAR[11]	OUTSTANDING RECOMMENDATION	STATUS
Ministry of Finance (Pension Plans)		
2007	PAC concurs: 5-3 that the Public Employees Pension Plan should document and approve all future changes to the computerized pension administration system.	**Not implemented** (as at March 31, 2007). A follow-up will be done when the Plan makes significant changes to its computerized pension administration system.
2007	PAC concurs: 5-4 that the Public Employees Pension Plan should document its risk assessments and action plans to reduce the risks to an acceptable level for the computerized pension administration system.	**Not implemented** (as at March 31, 2007). A follow-up will be done when the Plan makes significant changes to its computerized pension administration system.

[10] For the definitions of the key terms used in the table, see Chapter 21 – Standing Committee on Public Accounts.
[11] PAC Report Year refers to the year that PAC first made the recommendation in its report to the Legislative Assembly.

PAC REPORT YEAR[11]	OUTSTANDING RECOMMENDATION	STATUS
Ministry of Finance		
2005	PAC concurs: 9-3 that the Government should require departments and Treasury Board agencies to publish their planned targets for major long-term results.	**Partially implemented** (as at March 31, 2008). For further detail, see Chapter 20 – Government accountability.

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