

Education

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Main points

The Ministry of Education is responsible for the Teachers' Superannuation Commission (Commission). We make several recommendations to help the Commission establish adequate processes to safeguard public resources and comply with authorities governing its activities. Many of our recommendations have been previously reported. The Commission has made little progress in addressing our previous recommendations.

During the year, the Commission lacked an adequate governance process, an adequate written analysis of its human resource needs and strategies to address those needs, adequate written guidance for staff to follow, staff compliance with written guidance, and supervision of staff. We make several recommendations to help the Commission establish adequate processes.

Introduction

The Ministry of Education (Ministry) provides direction for Prekindergarten – Grade 12 education. As well, the Ministry provides leadership to the early learning and child care, literacy, and library sectors. These supports are intended to be an investment in student achievement and the well-being of all Saskatchewan children and youth, and the enhancement of literacy for all Saskatchewan people¹. *The Education Act, 1995*, *The Child Care Act*, and *The Public Libraries Act, 1996* set out the Ministry's responsibilities.

The Ministry is also responsible for certain special purpose funds and agencies including the Teachers' Superannuation Commission (Commission). Our 2008 Report – Volume 3 reports the results of our audit of the Ministry, and its special purpose funds and agencies for the year ended March 31, 2008. Our 2008 Report – Volume 3 did not include the results of our audit of the Commission because we had not completed our audit.

This chapter sets out the results of the audit of the Commission and the pension and benefit plans it manages for the year ended June 30, 2008.

Teachers' Superannuation Commission

The Commission operates under the authority of *The Teachers Superannuation and Disability Benefits Act*. The Commission consists of seven members appointed by Cabinet. Three of the members are nominated by Saskatchewan Teachers' Federation, three by the Ministry of Education, and the Commission's Chairperson is nominated by the other six members.

The Commission administers the Teachers' Superannuation Plan (Pension Plan) established under *The Teachers Superannuation and Disability Benefits Act*. The Pension Plan consists of the Teachers' Superannuation Fund, a defined benefit final average pension plan, and the Voluntary Contributions Fund that invests voluntary member contributions.

¹ Ministry of Education, 2007-2008 Annual Report, pg.4.

For the year ended June 30, 2008, the Pension Plan recorded contributions of \$11.7 million from teachers and \$44.0 million from the Minister of Finance. At June 30, 2008, the Pension Plan held total assets of about \$1.5 billion and had accrued pension benefits (benefits owing) of almost \$5.0 billion resulting in an unfunded pension liability of \$3.5 billion. The Commission's June 30, 2008 Annual Report includes the Pension Plan's financial statements.

In addition to the Pension Plan, the Commission also administers the following benefit plans for teachers and their spouses and dependents.

- ◆ Teachers' Disability Plan (Disability) established under *The Teachers Superannuation and Disability Benefits Act*
- ◆ Teachers' Dental Plan (Dental) established under *The Teachers' Dental Plan Act*
- ◆ Teachers' Group Life Insurance Plan (Group Life Insurance) established under *The Teachers' Life Insurance (Government Contributory) Act*

The Commission is required to provide the Ministry of Education and the Legislative Assembly with the financial position and results of all the plans it administers. The Commission does not prepare financial statements for the Disability, Group Life Insurance and the Dental plans.

The Commission receives money from the General Revenue Fund to pay for these benefit plans. In 2007-08, the Commission received and paid \$5.8 million in Disability claims, \$8.9 million in Dental claims, and \$3.8 million in Group Life Insurance claims. Teachers do not pay for Disability and Dental benefits and pay half of the premiums required for Group Life Insurance. The Commission has hired an insurance company to help administer the Dental and Group Life Insurance plans.

Audit conclusions and findings

In our opinion, for the year ended June 30, 2008:

- ◆ **the Commission had adequate rules and procedures to safeguard public resources except for the matters described below**

- ◆ **the Commission complied with authorities governing the Plans' activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing except for the matters described below**
- ◆ **the Teachers' Superannuation Plan's financial statements are reliable**

Governance processes need improvement

In our 2008 Report – Volume 1, we recommend the Teachers' Superannuation Commission develop and implement a strategic plan that includes its goals and objectives, a summary of the key risks it faces, and key strategies to manage those risks.

The Standing Committee on Public Accounts (PAC) considered this matter in June 2008 and agreed with our recommendation.

In June 2008, the Commission approved its strategic plan and risk assessment. The Commission now needs to implement the strategic plan including its risk strategies to manage its key risks.

We continue to recommend the Teachers' Superannuation Commission implement its strategic plan and key strategies to manage its key risks.

Management told us that the Commission approved a revised strategic plan in December 2008 after approving a revised risk assessment and management plan.

Also, in our 2008 Report – Volume 1, we recommend the Teachers' Superannuation Commission comply with its governance manual. PAC considered this matter in June 2008 and agreed with our recommendation.

In June 2006, the Commission approved a governance manual that outlines its governance processes. The Commission was not following all of the approved processes. The governance manual requires the Commission to define and communicate to management the financial and operational information the Commission needs to oversee all of its operations.

In June 2008, the Commission defined its regular financial reporting needs for overseeing the administration of the benefit plans. The Commission needs to ensure management complies with its reporting needs so that the Commission regularly receives the operating results and financial position for each of those benefits plans. Without complete financial information, the Commission may not be able to fulfill its oversight responsibilities.

We continue to recommend the Teachers' Superannuation Commission comply with its governance manual.

Management told us that the Commission has communicated its financial reporting requirements to management. Management also told us it plans in 2008-09 to provide quarterly financial and operational reports to the Commission.

Human resource plan needed

In our 2008 Report – Volume 1, we recommend the Teachers' Superannuation Commission identify its human resource needs and develop strategies to address any competency gaps. PAC considered this matter in June 2008 and agreed with our recommendation. The Commission made limited progress in developing a human resource plan.

When employees do not have the needed competencies, they may hesitate to do assigned tasks or do them incorrectly. For example, staff did not follow some of its control processes when management positions became vacant. Also, the Commission operated through the year without sufficient accounting expertise to maintain proper financial records and reports.

We continue to recommend that Teachers' Superannuation Commission identify its human resource needs and develop strategies to address any identified competency gaps.

After the year-end, the Commission along with the Ministry of Education and the Public Service Commission hired some senior managers including a Senior Manager of Financial Operations with an accounting designation. Also, the Commission worked with the Ministry of Education and the Public Service Commission to determine some of the staff

positions and job descriptions, but did this without formally assessing its human resource needs and the strategies required to address the competency gaps.

Control over cash and bank accounts needed

The Commission needs to establish adequate processes to control cash receipts, payments, and its bank accounts. Without adequate processes, the risk of losing public money increases.

In our 2008 Report - Volume 1, we recommend the Teachers' Superannuation Commission establish and communicate to staff policies and procedures that control public money relating to its benefit plans. PAC considered this matter in June 2008 and agreed with our recommendation. The Commission has made little progress in addressing this recommendation as described in our findings below.

Segregation of duties needed

The Commission does not adequately segregate the duties of its employees receiving cash and making payments. The lack of adequate segregation increases the risk of a loss of cash receipts, incorrect benefit payments, and the lack of timely detection of errors in the financial records.

For all plans, one employee receives and deposits the cash receipts. This employee also maintains the financial records for the Pension Plan. For the Dental Plan, another employee determines which teachers are eligible for benefits, requests and approves payments, and maintains the financial records. Management does not review the work of these employees.

- 1. We recommend the Teachers' Superannuation Commission segregate the duties of employees responsible for the receipt and payment of public money to reduce the risk of errors or fraud.**

Management told us it has begun reviewing procedures and the assignment of duties to staff to ensure an adequate segregation of duties.

Payments without support

The Commission made payments to an insurance company for dental benefits and administration of those benefits without proper support. Without adequate processes to pay benefits and proper support for payments, the Commission is at greater risk of making incorrect payments.

The Commission has an agreement with an insurance company to administer teachers' dental benefits. The Commission makes monthly payments to the insurance company for administering and paying teachers' dental benefits. However, it makes these payments without adequate invoices showing the amount of dental benefits paid and the costs of administration. Also, the Commission has not verified the invoices to the monthly report of dental benefits paid. For the year ended December 31, 2007, the Commission paid the insurance company \$8.9 million for dental benefits paid and administration fees.

In addition, the Commission does not verify the interest it pays on group life insurance benefits. The Group Life Insurance Plan requires the Commission to pay interest from the date of death to the date of payment on the benefits. For the year ended August 31, 2008, the Commission paid group life insurance benefits of \$3.8 million.

The Commission lacks adequate processes to pay pension benefits. *The Teachers Superannuation and Disability Benefits Act* sets out how to calculate pension payments. In one instance, we detected that the Commission incorrectly calculated the pension for a member whose salary exceeded the maximum pensionable salary. Although, the retired member's pension is greater than it should be, the Commission collected contributions on the salary that exceeded the maximum pensionable salary, which it refunded in December 2008. Management reviewed this calculation error and determined there were no other similar errors. We reviewed management's work and agree with its findings. Management told us that the pension overpayment resulting from this error was recovered in December 2008.

The Commission has agreements with other provinces allowing members to transfer their pensions into the Pension Plan. The Commission uses an actuary to help it determine the amount of money the members and other

provincial pension plans need to pay into the Commission's pension plan. The amount paid by the members depends on their number of years of service and salaries. The Commission did not check that the salaries used were correct. As a result, the Teachers' Superannuation Plan received about \$232,000 less than it should have from several members transferring into the Pension Plan. The Commission recovered about \$74,000 from the members' transferring pension plans. The remaining shortfall arises from members that have retired since they transferred into the Pension Plan. These members are receiving a pension that exceeds what they are entitled to under *The Teachers Superannuation and Disability Benefits Act*.

2. **We recommend the Teachers' Superannuation Commission have adequate support for all payments.**
3. **We recommend the Teachers' Superannuation Commission comply with *The Teachers Superannuation and Disability Benefits Act* when paying pension benefits.**

Management told us it plans to implement a reconciliation of the amount paid and amount charged by the insurance company for administration and paying of teachers' dental benefits. Management also told us it plans to implement procedures to review with the actuary interprovincial agreements to ensure the correct salary is used for teachers transferring into the Pension Plan.

Contributions into and payments out of the Teachers' Superannuation Fund lack authority

The Commission deposited money into the Teachers' Superannuation Fund (Fund) and made payments out of the Fund for disability benefits without authority.

Section 9 of *The Teachers Superannuation and Disability Benefits Act* (Act) allows the Teachers' Superannuation Fund to accumulate contributions from teachers, contributions from the General Revenue Fund, and investment income to pay pension benefits. The contributions and investment income are specifically for providing pension benefits. The Act does not allow the Fund to receive money to pay disability

benefits. Section 38 of the Act indicates that disability benefits are a charge and payable from the General Revenue Fund. During the year, the Commission received money from the General Revenue Fund to pay disability benefits. It deposited \$5.8 million into the Fund's bank account. The Commission also paid disability benefits from the Fund's bank account. As a result, the Commission did not comply with *The Teachers Superannuation and Disability Benefits Act*.

- 4. We recommend the Teachers' Superannuation Commission comply with *The Teachers Superannuation and Disability Benefits Act* by not putting disability contributions into and making disability payments out of the Teachers' Superannuation Fund.**

Management told us it is setting up a process to receive contributions and make disability payments outside of the Fund.

Need to reconcile bank accounts

The Commission does not reconcile its bank accounts to its financial records promptly. Also, there is no independent review and approval of the reconciliations. As a result, the Commission is at risk of losing money and having incorrect financial records.

Regular reconciliation and review of recorded bank balances to bank records provides a check that all charges to the bank accounts are proper and the entity has received all money and deposited it in the right bank account.

The Commission has established a policy to reconcile its recorded bank balances to the bank's records promptly. The policy includes an independent review and approval of completed bank reconciliations.

However, employees did not reconcile all bank accounts promptly. For example, the Commission did not begin reconciling the group life insurance and dental bank accounts until April 2008. Also, the Commission could not provide us evidence of review and approval of all monthly bank reconciliations for all of its bank accounts.

5. We recommend the Teachers' Superannuation Commission follow its rules and procedures for reconciling its bank accounts to its financial records.

Management told us it now prepares, reviews, and approves monthly bank reconciliations on a timely basis.

Commission needs to monitor cash flows

The Commission does not have adequate processes to forecast its cash needs to pay pensions and other benefits and to manage cash shortfalls. Without adequate processes, payments may be delayed, investments may be sold at a loss, or money may be borrowed without authority.

The Commission provides pensions and disability, dental, and group life insurance benefits to teachers. The Commission uses teachers' and General Revenue Fund contributions, investment income, and proceeds from the disposal of investments to pay for benefits.

The Commission does not have written guidance for staff to follow for forecasting its cash flow needs and to manage any cash shortfalls. During the year, the Commission did not have enough cash on several instances to pay for pensions, disability benefits, and dental benefits. Staff also did not inform senior management and the Commission of these cash shortfalls. As result, the Dental Plan bank account was in overdraft most of the year with overdrafts ranging between \$1,000 and over \$800,000. The Pension Plan's bank accounts were overdrawn on several instances with the overdrafts ranging from \$90,000 to over \$360,000.

The Commission based on a forecast of contributions and benefit payments requested additional contributions from the General Revenue Fund of \$53 million. Five months later, it returned \$46 million to the General Revenue Fund.

To deal with cash shortfalls, *The Financial Administration Act, 1993* allows the Commission to establish a line of credit with a bank. The Commission has not established a line of credit with a bank. We reported in our 2008 Report – Volume 1 that the Teachers' Superannuation Commission needs to obtain approval for bank overdrafts as required by

The Financial Administration Act, 1993. PAC concurred with our recommendation in June 2008.

6. We recommend the Teachers' Superannuation Commission establish adequate processes for managing its cash flow needs.

Management has told us that it has reviewed and strengthened its rules and procedures for monitoring cash flows and bank balances. It also told us that after identifying the cause of the forecasting error, it has developed a model that uses plan experience to assist in forecasting pension contributions from the General Revenue Fund.

We continue to recommend the Teachers' Superannuation Commission seek approval for borrowing as required by *The Financial Administration Act, 1993.*

Monitoring of investments needed

The Commission does not have adequate processes to ensure the existence, proper value, and recording of investments. This increases the risk that the Commission may not promptly detect investments that are missing, incorrectly valued, and incorrectly recorded in the financial records. This may lead to incorrect decisions.

The Teachers' Superannuation Plan has investment holdings of about \$1.5 billion in bonds, Canadian and foreign equities, private equities, pooled funds, money market securities, real estate, and mortgages.

The Commission is responsible for safeguarding and investing the money of the Pension Plan. The Commission retains a custodian for safekeeping investments, collecting investment income, and completing and recording investment transactions. The Commission has delegated day-to-day responsibilities for deciding when to buy or sell its investments to professional investment managers. These investment managers provide direction to the custodian to buy or sell investments. To ensure the custodian accurately accounts for all transactions that investment managers authorized, the Commission must regularly reconcile the custodian's investment holdings to those reported by the investment managers. To help the Commission assess existence of investments, it

should review the reconciliation and obtain assurance from the custodian as to the adequacy of its processes for safeguarding its investments.

The Commission has written guidance that requires it to reconcile quarterly investments reported by the custodian and investment manager to the Commission's financial records based on both cost and market value. However, staff did not follow the Commission's accounting policies to record its investments on a market value basis. As a result, for the first three quarters of the year, it did not reconcile the custodian and investment manager reports to the financial records on a market value basis. Also staff did not obtain assurance from the custodian as to the adequacy of its processes for safeguarding the Pension Plan's investments.

The Commission did not follow its established procedures to verify the value of real estate investments totalling approximately \$185 million. The custodian receives information about the holdings and their values directly from the investment manager. The Commission's policies require staff to review a sample of quarterly independent appraisal reports, ownership interests, and audited annual financial reports for its real estate property. The Commission's staff only performed this review twice during the year. Management did not monitor staff to ensure they were doing the reviews. As a result of the staff not following its policies and procedures we detected that real estate was understated by \$0.4 million.

The Commission holds over \$23 million in private equity investments. The Commission has not established written policies and procedures to ensure the proper value and recording of these investments. Because the Commission had not established policies and procedures the Plan's private equity was understated by \$5 million.

7. We recommend the Teachers' Superannuation Commission establish adequate processes to verify investments exist, are properly valued, and recorded in its financial records.

Management told us that beginning in August 2008, it now requires staff to maintain financial records and to reconcile them to the investment manager and custodian records quarterly. In addition, management told us it is working with the custodian and private equity manager to obtain timely information on the Commission's investment holdings.

Processes to oversee actuarial valuations needed

The Commission did not follow its written guidance to ensure the data used in the actuarial valuation of the accrued pension and disability benefits are accurate. Also, it did not assess the reasonableness of changes to assumptions and gains and losses due to actual plan experience differing from that expected. This increases the risk the accrued pension and disability benefits (benefits owing) reported in the Commission's financial reports are incorrect and that it uses inaccurate financial reports to make decisions.

Pension plans need periodic actuarial valuations of their pension obligations to prepare their periodic financial reports. To calculate the pension obligations, actuaries use data that pension plans provide. Management is responsible to ensure it provides complete and accurate data to the actuary and the actuary uses this data. Management also needs to assess the reasonableness of the method, changes in assumptions, and experience gains or losses calculated by the actuary.

The Commission hired an actuary to value the Pension Plan's accrued pension and disability benefits and related plan assets. Management provided the actuary with accurate data. However, the Commission did not verify that the actuary used the data provided until we told them this would be necessary to complete our audit of the pension and disability plans' financial reports. The Commission also did not review the actuary's reports to ensure the actuary used the data provided and that changes in assumptions and experience gains and losses were reasonable. As a result, we found the actuarial report presented for audit contained errors about the data used. The discount rate the actuary used for calculating the accrued disability benefits assumed the Disability Plan had an investment portfolio (the Disability Plan has no assets).

The actuary's reports also provide important information for the General Revenue Fund financial statements and the Summary Financial Statements. The Commission overstated the actuarial value of plan assets by \$5 million at March 31, 2008 disclosed in the Summary Financial Statements and General Revenue Fund financial statements.

- 8. We recommend the Teachers' Superannuation Commission follow its written guidance for preparing valuations of**

accrued pension and disability benefits and related plan assets.

Processes for preparing financial reports needed

The Commission does not have adequate accounting policies and procedures to prepare accurate interim and annual financial reports.

Without adequate accounting policies and procedures, there is a greater risk staff may not prepare accurate and timely financial reports.

In our 2008 Report – Volume 1, we recommend the Teachers' Superannuation Commission establish complete and written guidance for preparing its interim and year-end financial reports. PAC considered this matter in June 2008 and concurred with our recommendation.

During the year, the Commission made no progress in improving its written guidance for preparing its interim and year-end financial reports. As a result, staff did not record contributions, premiums, investment expenses, benefits paid, amounts owed to others, and owing from others in the financial records. Staff recorded these items for the Pension Plan in the financial records in July and August 2008.

For the year-ending June 30, 2008, the Commission had not yet prepared financial records for the benefit plans. Further, senior management and the Commission did not receive financial reports needed for decision making. The lack of accurate and timely financial records prevented the staff from preparing accurate interim financial reports for senior management and the Commission.

We continue to recommend the Teachers' Superannuation Commission establish complete and written guidance for preparing interim and year-end financial reports.

Management told us that it is preparing complete written guidance for staff to follow in preparing interim and year-end financial reports. Management also told us that in January 2009, it began preparing complete financial reports. In addition, management told us it plans to prepare financial statements for the Dental Plan and Group Life Insurance Plan for 2008 to be tabled in the Legislative Assembly.

Complete annual report needed

The Commission provides limited information about the Group Life Insurance, Dental, and Disability Plans and does not provide complete financial statements for those plans to the Legislative Assembly. Also, the annual report does not describe the goals and objectives of the benefit plans, the cost of providing those benefits, and who pays for them. Without this information legislators, plan members, and the public cannot assess the plans' performance and the Commission's effectiveness in administering these programs.

The Teachers Superannuation and Disability Benefits Act requires the Commission to submit to the Minister a report on the activities of the Commission for the preceding year and financial statements showing the business of the Commission.

In our 2008 Report – Volume 1, we recommend the Teachers' Superannuation Commission's annual report include a report on the activities and the financial statements of each benefit plan the Commission administers. PAC considered our recommendation in June 2008 and concurred with it.

The Commission provides to the Legislative Assembly in its annual report audited financial statements for the Teachers' Superannuation Plan and limited financial and operational information on the other benefit plans the Commission administers.

We continue to recommend the Teachers' Superannuation Commission's annual report include a report on the activities and the financial statements of each benefit plan the Commission administers.

Management has requested that we audit the financial statements of the Group Life Insurance Plan for the year ended August 31, 2008. Management also told us it plans to prepare a separate report on the activities of the Group Life Insurance Plan and submit the report and the audited financial statements to the Legislative Assembly.

In addition, management has requested that we audit the financial statements of the Dental plan for the year ended December 31, 2008. Management plans to include the Dental Plan's audited financial statements and report along with the Teachers' Superannuation Commission's June 30, 2009 annual report.