Health

6A

Introduction **77**

Government spending on health **77**

Crown agencies **77**

Our audit conclusions and findings **78**

Annual report needs improvement 79

First Ministers agree to report on health systems' performance 81

Financial measures for our health system 81

Department needs to approve district plans on time 90

Department needs better reports from districts 91

Service agreements with district health boards need improvement 92

Service agreement needed 92

Department needs to improve its capital project agreements 94

Policies needed for the Department's internal financial reporting 96

Payee list required 96

Saskatchewan Health Information Network 98

Reliability of financial statements 98

Board of Governors, Uranium City Hospital 100

Board needs to carry out its responsibilities 100

Code of conduct needed 100

Conflict-of-interest guidelines needed 101

Strategic plan required 101

Senior management positions require contracts 102

The Board needs to define required periodic financial information 102

Financial reports for the Board need improvement 103

Adequate rules and procedures required 103

Bank account not controlled 104

6A

Health

Inventory not safeguarded 105
Assessment of contracts required 106
External reporting requirements not met 107

Exhibit 1 – Suggested criteria for MLAs' use for deciding what information government agencies should disclose and to whom 108

Introduction

The Department of Health's mandate is to protect and improve the health of Saskatchewan people. To do this, the Department provides policy direction, direct services, and funding to health providers and health agencies.

For the year ended March 31, 2001, the Department received $2.08 billion from the General Revenue Fund and spent this money on its programs. The Department also raised revenue of $12 million. The Department's annual report contains information about the Department's revenues and expenses.

Government spending on health

Table 1 shows total health revenues of $2.292 billion by source. Table 2 shows total health costs of $2.281 billion by program. We obtained the information from the *Public Accounts 2000-2001: Volume 2: Details of Revenue and Expenditure* (to view a copy of this report, see http://www.gov.sk.ca/finance/paccts) and the March 31, 2001 financial statements of the District Health Boards and other government health agencies. In this chapter, we refer to all of these organizations together as the "Health System". The costs in Table 2 do not include Indian and northern health services, because the Federal Government pays these costs, nor the costs that individuals and private sector organizations pay for private health services.

Crown agencies

The Department is responsible for the following Crown agencies with March year-ends:

Board of Governors, Uranium City Hospital
Health Services Utilization and Research Commission
Saskatchewan Cancer Foundation
St. Louis Alcoholism Rehabilitation Centre
Saskatchewan Health Information Network
Thirty-two district health boards (see Chapter 6, Part C – District Health Boards).

Table 1

Health **Revenues** by Source for the year ended March 31
(in millions of dollars)

	2001	2000	1999	1998	1997	1996*
General Revenue Fund (GRF)	$ 2,076	$1,956	$ 1,789	$1,677	$ 1,608	$ 1,555
Service fees revenue	109	99	97	99	95	94
Transfers from other governments	23	21	21	19	17	24
Ancillary revenue	18	17	16	15	15	15
Donations	17	12	16	15	9	12
Investment income	11	11	9	9	10	11
Other	38	43	55	28	42	26
Total revenues	$ 2,292	$2,159	$ 2,003	$1,862	$ 1,796	$ 1,737

Table 2

Health **Costs** by Program for the year ended March 31
(in millions of dollars)

	2001	2000	1999	1998	1997	1996*
Acute Services	$ 864	$ 832	$ 713	$ 657	$ 625	$ 537
Supportive care services	414	382	358	332	336	371
Medical services and education	401	384	392	384	353	346
Prescription drug plan and extended benefits	141	128	115	98	94	93
Home based services	91	86	79	76	68	58
Provincial health services	78	64	64	59	49	65
Mental health services	58	55	51	46	42	40
Community health services	53	52	50	44	39	31
Rehabilitation services	43	44	39	37	38	36
Emergency response services	35	25	22	21	21	22
Health improvement initiatives	27	25	25	29	26	77
Administration	20	35	25	25	25	20
Ancillary	12	12	11	10	9	9
Alcohol and drug services	13	13	11	9	6	5
Other	31	26	28	13	43	27
Total expenses	$ 2,281	$ 2,163	$ 1,983	$ 1,840	$ 1,774	$ 1,737

* Prior to 1996, reliable comparable amounts are not available due to significant changes in the health system , in particular, the formation of the 32 health districts.

Our audit conclusions and findings

At the date of this report, the Board of Governors, Uranium City Hospital has not prepared its financial statements for the year ended March 31,

2001. Accordingly, we have not completed our audit work on the financial statements. We will report the results of this work in a future report.

In our opinion, for the Department and agencies for the year ended March 31, 2001:

- **the financial statements for the agencies listed on page 77 are reliable, except for Saskatchewan Health Information Network reported on pages 98 to 100 in this chapter;**

- **the Department and its agencies had adequate rules and procedures to safeguard and control their assets, except where we report otherwise in this chapter; and**

- **the Department and its agencies complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing and investing, except where we report otherwise in this chapter.**

We also include our assessment of the Department's annual report for the year ended March 31, 2001.

We report the results of our audits of District Health Boards in Part C of this chapter.

Annual report needs improvement

We reviewed the Department's annual report for the year ended March 31, 2001. We are pleased to note that the Department has significantly improved its annual report. The report describes the key risks the Department must manage well to succeed and how it plans to manage the risks. In future years, we plan to audit the Department's systems to manage its key risks.

The annual report has begun to set out a few financial performance measures (no targets as yet) that the Department uses to assess the financial performance of the health system. To encourage the Department to continue to develop financial measures and to set financial targets, we

describe on pages 81 to 90 some examples of financial measures the Department might use.

The annual report has begun to describe some operating performance measures that the Department uses to monitor the health status of Saskatchewan residents and the effectiveness of health programs. The Department, with the aid of key stakeholders, is developing a complete set of performance measures.

The annual report does not contain a complete set of financial statements for the health sector. It shows most of the Department's revenues and expenses, but not what the Department owns and owes. To encourage the Department to prepare complete financial statements, we have prepared a model set of financial statements for the Department and included them in Part B of this chapter.

The annual report does not make public timely performance information on major capital construction projects (total cost - $22.7 million). As a result, the public does not know whether the construction costs were within planned costs, whether there were any significant changes to the projects, and whether the expected projects' benefits were achieved.

Public confidence in the health system is important to the Department's success. While many factors are involved, public confidence will improve if the Department continues to improve the content of its annual report.

We also reported this matter in previous reports. We recognize that the Department has significantly improved the quality of its annual report. In January 1999, The Standing Committee on Public Accounts (PAC) agreed with our recommendations.

We continue to recommend that the Department's annual report describe more fully:

- the Department's performance indicators, targets and actual results compared to plans; and

- performance information on major capital construction projects.

1. **We recommend that the Department include a complete set of financial statements in its annual report prepared in accordance with Canadian generally accepted accounting principles for the public sector.**

First Ministers agree to report on health systems' performance

In September 2000, all First Ministers in Canada prepared a news release communicating to Canadians their vision of health: *Canadians will have publicly funded health services that provide quality health care and that promote the health and well-being of Canadians in a cost-effective and fair manner.*

In this communication, the First Ministers' committed to preparing public reports on their health systems' performance (i.e., health status, health outcomes, and quality of services) starting in September 2002. The First Ministers intend that the public reports will describe each health system's performance in 14 indicator areas and be prepared on a comparable basis. This will allow legislators and the public to compare the performance of their health system with the health systems in other jurisdictions. Appropriate third parties will verify (provide independent assurance on) these reports.

Legislators and the public need to know that the health reports are reliable and comparable with other jurisdictions. They also need to know that the independent audit assurance provided on the health reports is credible and consistent across jurisdictions. We are working with all legislative auditors to ensure that the audit assurance in all jurisdictions is consistent in form and is based on similar professional standards and auditing procedures.

We are working with the Department to ensure legislators and the public know that the health reports are reliable.

Financial measures for our health system

As described previously, the Department should develop financial targets and measures to help report its progress in achieving its financial targets. The Department has begun to develop financial measures, but needs to

do more. To foster this development, we set out below examples of financial measures the Department might use to measure its financial performance.

The Legislative Assembly and the public often ask about the state of the Health System's finances. They want to know whether the Health System's financial condition is growing stronger or weaker, and why. Also, many want to know where they can obtain the information required to help them make their own assessments.

A sound understanding of the Health System's finances is important to an informed debate about the issues facing the Health System. Those issues pertain to the affordability of programs and services, and the maintenance of Saskatchewan's health care infrastructure of buildings and equipment.

We derived information on measures from the Government's statistical reports, the *Public Accounts 2000-2001: Volume 2: Details of Revenue and Expenditure*, and the annual financial statements of health districts and other health crown agencies. The Department's, health districts', and crown agencies' fiscal year end is March 31. As gross domestic product (GDP), and the Consumer Price Index (CPI) are not available for a fiscal year, we use GDP and CPI statistics for a calendar year in our analysis. For example, the GDP statistic in the 2001 column is for the year ended December 31, 2000. The information is not adjusted for inflation.

We focus on six financial and economic measures for the years ended March 31, 1995 to March 31, 2001. The measures are modelled after the Research Report, *Indicators of Government Financial Condition*, published by The Canadian Institute of Chartered Accountants. Each measure can and should be analyzed in detail, combined with other information, and monitored over time.

The measures we report on include:

- total health spending as a percentage of the Province's GDP;
- total health spending as a percentage of the Government's total spending;
- change in health spending compared to change in the CPI and the Province's GDP;

- districts' operating surplus or deficit as a percentage of total district spending;
- districts' working capital ratio; and
- change in the district's capital assets.

The health costs used in these measures do not include Federal Government spending for Indian and northern health services or the costs that individuals and private sector organizations pay for private health services.

Readers should be aware that the measures will not provide them with information on trends in the health status of the province's residents or in the effectiveness of health services. The measures pertain only to the financial sustainability of the Health System.

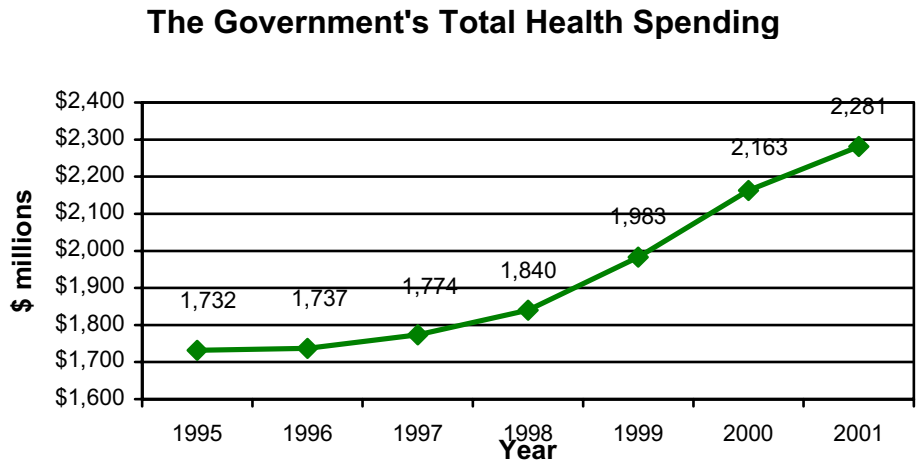
Total health spending as a percentage of the Province's Gross Domestic Product

The first performance measure of sustainability involves analyzing the total health spending as a percentage of the Province's GDP.

The Province's GDP is a measure of the value of goods and services produced in Saskatchewan in one year. The GDP reflects the size of the provincial economy. If health spending grows faster than the GDP, the economy may not be able to support that level of health care spending in the long run, unless spending on other government programs is reduced or taxes are increased.

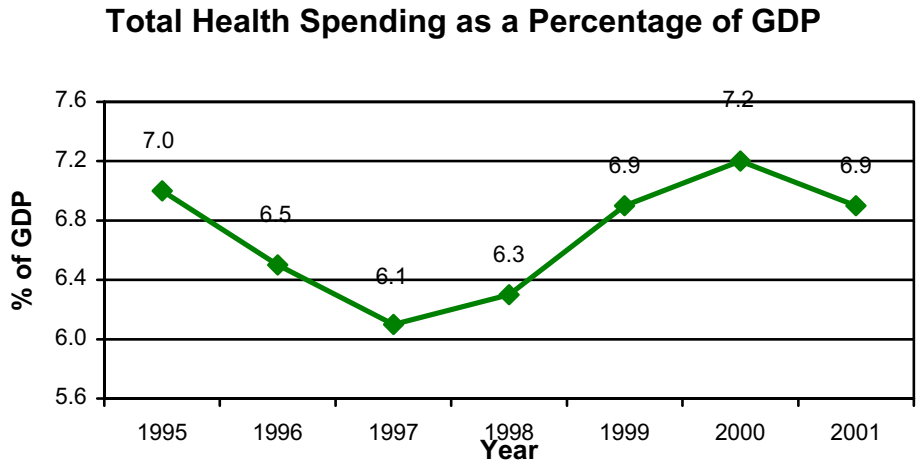
During the past seven years, health spending has increased by thirty-two percent from $1.732 billion in 1995 to $2.281 billion in 2001 (see graph below). Over the same period, the Province's GDP increased by thirty-three percent from $24.7 billion in 1995 to $32.9 billion in 2001 (see our 2001 Fall Report – Volume 1).

Graph 1



The following graph shows the trend in the total health spending as a percentage of the provincial GDP from 1995 to 2001. By comparing the total health spending to the Province's GDP, the financial demands placed on the economy by health spending can be assessed.

Graph 2



This comparison shows that from 1995 to 1997, health spending declined as a percentage of GDP, but from 1997 to 2000, health spending increased as a percentage of GDP. In 2001, health spending is at almost the same percentage of GDP as it was in 1995. This comparison indicates that the financial demands being placed on the economy by health spending are keeping pace with the Province's GDP.

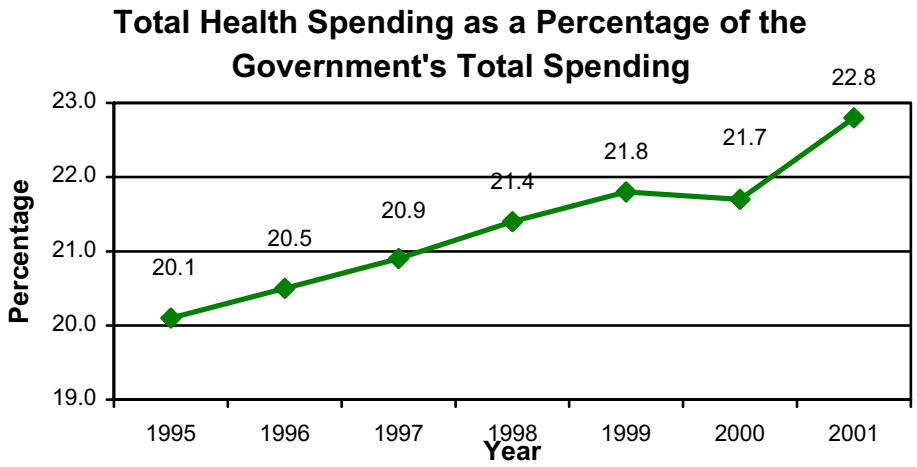
Total health spending as a percentage of the Government's total spending

The second performance measure of sustainability involves analyzing the total health spending as a percentage of the Government's total spending.

This measure shows the impact that health spending has on the spending to deliver other government programs. The ability to spend a greater percentage on health each year may not be sustainable because of the need to provide other necessary government services.

The following graph shows the trend in the health spending as a percentage of the Government's total spending from 1995 to 2001. By comparing health spending to the Government's total spending, the financial demands placed on the Government by health spending can be assessed.

Graph 3



This comparison shows that from 1995 to 2001, health spending has increased from 20.1 to 22.8 percent of the Government's total spending. The upward trend in this graph suggests a decrease in sustainability due to more demands for health care spending being placed on the Government's total spending.

Change in health spending compared to change in the Consumer Price Index (CPI) and the Province's GDP

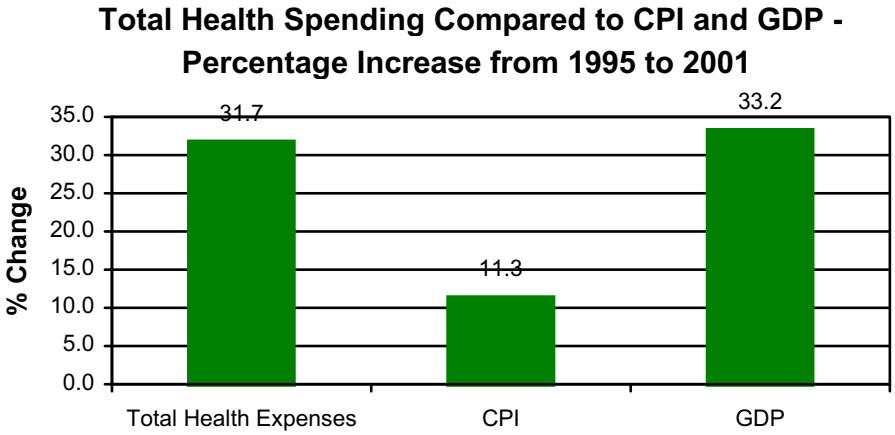
A third performance measure of sustainability involves analyzing the change in health spending compared to the change in the Consumer Price Index (CPI) and the GDP.

Comparing the change in health spending to the change in the CPI indicates whether health spending has kept pace with inflation. If spending increases keep pace with increases to the CPI, the health system is likely to be able to continue providing current levels of programs and services. If health spending increases are significantly lower than increases in the CPI, current health programs may be at risk because health spending is not keeping up with increases in the cost of living. If health spending increases are higher than the CPI, this could indicate an unsustainable trend because health spending is exceeding inflation.

Comparing the change in health spending to the change in GDP shows the rate that health spending changed to the rate that the provincial economy changed. If health spending increases are higher than the growth of the provincial economy, this could indicate an unsustainable trend.

The following graph shows that total health spending grew faster than the CPI, and at a rate approximately equal to that of our provincial economy. Although health spending is not growing faster than the provincial economy, it is growing faster than inflation. Because Saskatchewan's economy is vulnerable to changes in commodity prices, interest rates, and the weather, the increases in health spending in recent years could prove to be unsustainable. A downturn in Saskatchewan's economy would require the Government to make difficult decisions on health spending.

Graph 4



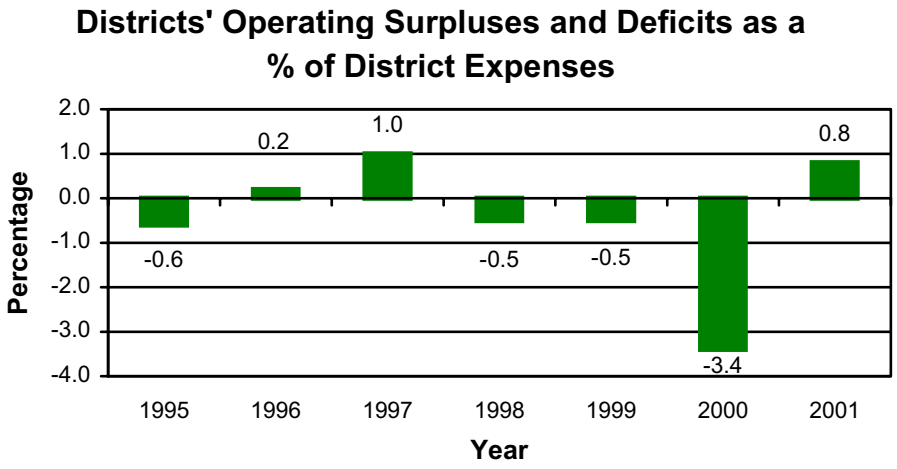
Districts' operating surpluses and deficits as a percentage of total district spending

A fourth performance measure of sustainability involves analyzing the districts' annual operating surplus or deficit as a percentage of total district spending.

The annual operating surplus (or deficit) shows the extent to which the districts have more (or less) operating revenue than operating expenses in a fiscal year. Districts that are able to run an operating surplus are better able to sustain their capacity to maintain their programs over the long term.

The following graph shows that at March 31, 1995, the districts had a total operating deficit of $5.8 million or 0.6% of total spending. By 1997, the districts had a total operating surplus of $12 million (1.0% of total spending). That upward trend reversed itself in the next three years because there were deficits each year. In 2001, the districts had a total operating surplus of $12 million (0.8% of spending). The return to a surplus position in 2001 shows that the districts have increased capacity to maintain their programs over the long term.

Graph 5



Districts' working capital ratio

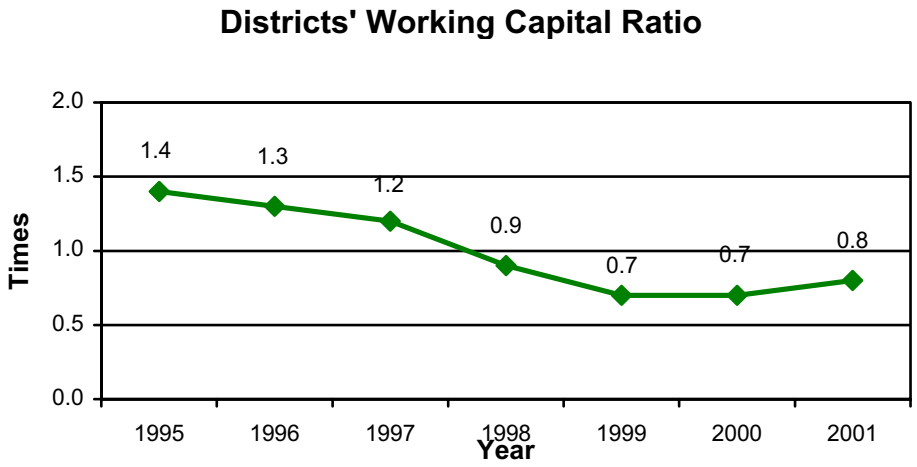
The fifth performance measure of sustainability involves analyzing the districts' working capital ratio.

The working capital ratio is calculated by dividing current assets by current liabilities. This ratio represents the districts' ability to pay employees and suppliers on time. Declines in current assets compared to current liabilities may impair a district's ability to maintain programs and services.

We have adjusted the districts' current assets for restricted funds (e.g., community trust funds) because they are not readily available for the districts' use.

The following graph shows a trend in the districts' working capital ratio from 1995 to 2001. The ratio reflects the number of times that current assets exceed current liabilities. At March 31, 1995, the districts had an average working capital ratio of 1.4 (i.e., districts had 1.4 times more current assets than current liabilities). The average working capital ratio fell to 0.7 in 1999, but it has risen slightly to 0.8 in 2001. This means that current liabilities still exceed current assets, which could impair the districts' ability to pay salaries, and other costs on time. If this downward trend continues, more districts may experience problems in meeting their current financial obligations to suppliers or employees. They also may be unable to maintain existing programs and services.

Graph 6



Change in the districts' capital assets

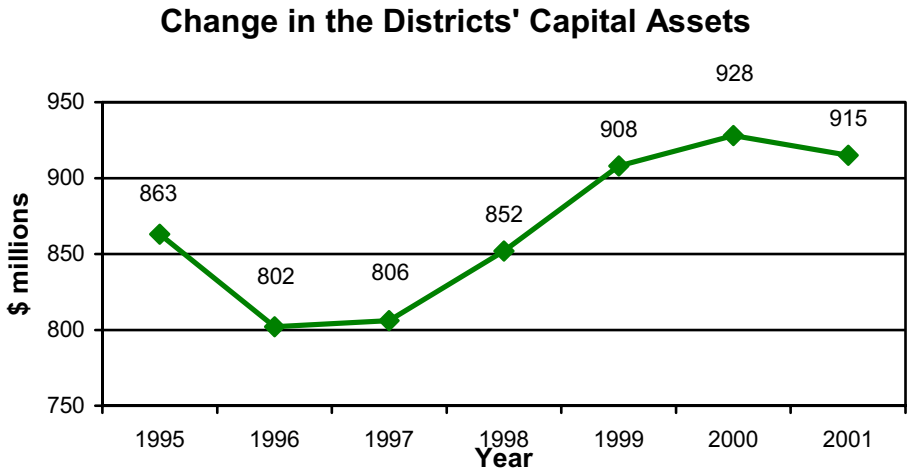
The final performance measure of sustainability involves analyzing changes in capital assets owned by districts.

Districts own most of the capital assets in the health system. Capital assets are resources such as property, buildings, and equipment that are used to deliver health services. Capital assets must be properly maintained or replaced, otherwise they lose their productive capacity. For example, if necessary building repairs, renovations, or replacements are delayed, the ultimate costs may be unsustainable. Districts, like other organizations, must maintain and replace their capital assets. Otherwise, they face potential future costs to repair, renovate, or replace these assets, which may impair their ability to deliver needed services.

Over the past decade or so, governments and health experts are encouraging the shift of health services from institutions (e.g., hospitals, nursing homes) to services in the home and community. This shift is resulting in less need for new capital assets.

The following graph shows a trend in changes in capital assets owned by districts. From 1995 to 2001, capital assets increased slightly from $863 million to $915 million. This upward trend appears to indicate continued sustainability of the districts' services.

Graph 7



Summary on financial measures

We hope the above analysis will promote discussion and debate on the state of our Health System's finances. We also hope this analysis will encourage the Department to begin reporting on the financial targets and measures it uses to assess its financial performance.

Department needs to approve district plans on time

The Department should approve the districts' annual health plans before the fiscal year begins (April 1). The Department paid $1.4 billion to districts to provide health services.

Each year, the Department requires districts to prepare health plans that outline their financial and operational plans. The districts prepare these plans in consultation with the Department. The Department uses these plans to establish the districts' expected financial and operational performance.

The Health Districts Act requires the districts to submit their annual health plans to the Department for approval. The Department asked the districts to submit their health plans for the year April 1, 2000 to March 31, 2001 by May 15, 2000. We think the Department should receive and approve the health plans before the year begins.

Nine of the thirty-two districts received approval of their health plans in July 2000. Twenty-two districts received approval of their health plans in November 2000. The final district received approval in March 2001.

While the Department regularly discusses health plans with the districts, timely approval of the plans is important to ensure that the Department and the districts have a common understanding of annual and long-term priorities and goals. Making decisions without a common understanding of priorities and goals may result in the Department and the districts making inappropriate decisions.

We reported this matter in previous reports. In January 1999, PAC agreed with our recommendation and recommended that the Department should, to the best of its ability, provide the districts with an indication of their funding levels for the next two or three years. The Department has not done this.

We continue to recommend that the Department approve the health districts' annual health plans before their fiscal year begins (April 1).

Department needs better reports from districts

The Department needs complete and timely information to ensure the proper use of public money (total expenses $1.4 billion) entrusted to the districts.

District annual reports do not adequately show program performance compared to plan. The Department requires districts to report on their program performance compared to their plans in their annual reports. The Department has issued guidelines to help districts to prepare their annual reports.

We recognize that several districts have improved the quality of their annual reports by starting to report performance measures. However, the districts' annual reports still do not adequately report on program performance compared to planned performance. Many reports do not set targets for desired program and service outcomes, and do not show actual outcomes. As a result, the annual reports are not as effective as they could be in enabling the Department to assess the effectiveness of the districts' services on the health status of residents.

We also reported this matter in previous reports. In January 1999, PAC agreed with our recommendation.

We continue to recommend that the Department work with health districts to ensure they submit complete and timely performance reports.

Service agreements with district health boards need improvement

The Department needs to improve its service agreements with district health boards to ensure appropriate use of public money.

The Department carries out many of its responsibilities through districts. Therefore, the Department needs service agreements with districts to ensure that the delivery of health care by districts achieves the Department's objectives.

The service agreements are adequate, except that they do not require the districts to report periodically their assessments of the control they have established to achieve the Department's operational objectives. Control comprises those elements of a district (including its resources, systems, processes, culture, structure, and tasks) that, taken together, support people in the achievement of the Department's objectives. To meet its responsibilities, the Department must know that the districts have systems, processes, and other control elements to ensure the proper use of public money entrusted to the districts.

We also reported this matter in previous reports. In January 1999, the Standing Committee on Public Accounts (PAC) agreed with the following recommendation.

We continue to recommend that the Department work with health districts to ensure service agreements require districts to report periodically on the systems and practices they use to achieve the Department's operational objectives.

Service agreement needed

The Department needs a service agreement with Canadian Blood Services to ensure that it achieves the Department's objectives.

Canadian Blood Services (CBS), a not-for-profit organization, was incorporated in 1998 under *The Canada Corporations Act*. Its members are the provincial and territorial health ministers, except Quebec. The 13 member Board of Directors consists of the Chairperson, four regional appointees, six members providing business, scientific, medical, technical, or public health expertise, and two members from the general public representing consumers.

CBS owns and operates the national blood supply system, except for Quebec. Its activities include recruiting blood donors, collecting blood and blood products, testing and laboratory work, processing, storage, distribution and inventory management, quality control, and the purchase and distribution of commercial blood products. The blood and blood products are distributed to hospitals across Canada.

The Department must ensure safe blood products are provided to the citizens of Saskatchewan. The Department is also responsible for ensuring the blood supply system is effective. Therefore, the Department must ensure that the delivery of blood products by CBS achieve the Department's objectives.

CBS members provide annual contributions to pay for the operation of the blood supply system. For the year ended March 31, 2001 the Department provided CBS with $25.2 million. The Government of Canada and CBS members signed a Memorandum of Understanding (MOU) in December 1997 documenting their understanding regarding their respective roles and responsibilities in a renewed national blood system. However, the Department has not made a service agreement with CBS to ensure it achieves the Department's objectives.

The MOU includes the following information usually found in a service agreement:

- describes the authority and responsibility of the Department and CBS;
- describes the services to be provided;
- describes the basis for paying for those services; and

- allows the Department access to CBS' records and personnel to verify its reports, or to verify the reports using CBS' independent auditors.

The MOU, however, does not include the following matters usually addressed in a service agreement:

- describe the financial, operational, and compliance objectives needed to manage the delivery of Saskatchewan's blood supply through CBS successfully. The agreement should require CBS to carry out its work to meet those objectives;

- ensure the Department receives accountability reports from CBS, including reports showing planned and actual results, compliance with legislative and related authorities, and how well CBS met the Department's objectives; and

- require CBS to periodically report its assessments of the control it has established to achieve the Department's objectives.

We encourage the Department to make a service agreement that addresses the above deficiencies and the points already included in the MOU. The lack of a service agreement could result in inappropriate use of public money entrusted to Canadian Blood Services.

We reported the lack of a service agreement in a previous report. In May 2001, PAC agreed with our recommendation.

We continue to recommend that the Department make a service agreement with Canadian Blood Services to ensure it achieves the Department's objectives.

Department needs to improve its capital project agreements

The Department should improve its capital project agreements (total costs - $21.5 million) with districts to help ensure that the Department can meet its objectives for capital construction.

The Department makes capital project agreements with districts to construct or renovate health facilities. The agreements need to set out the performance information the Department needs on construction projects.

Chapter 6 Part D describes that the capital asset plans of two larger districts that we examined are inadequate. To ensure that the Department can meet its objectives for capital construction, the Department needs to receive adequate capital asset plans from the districts.

The agreements should require districts to provide timely reports to the Department on:

- where the construction project is at the date of the report (actual compared to plan for requirements, cost, work completed; and explanations of differences between planned and actual results);
- what has been accomplished since the last reporting period (actual compared to plan for cost and work completed, and explanations of differences between planned and actual results);
- the estimated time and cost to complete the construction project;
- the status of the expected benefits, whether the benefits are still achievable, and if not, the effects, if any, on the project plan; and
- the status of the construction project's risks, new risks, and how the risks are being managed. Reports would include explanations of any change in the status of key risks from the last reporting period and the reasons for the change in status.

Without this performance information, the Department cannot ensure that capital projects managed by districts meet the Department's objectives. As well, the agreements need to set out a process for the Department to verify that the districts' performance information is reliable.

We reported this matter in a previous report. In May 2001, PAC agreed with our recommendation.

We continue to recommend that the Department's capital construction agreements:

- require health districts to provide the Department with adequate and timely performance information on capital construction projects; and

- describe the Department's process for verifying performance information.

Policies needed for the Department's internal financial reporting

The Department needs clear written policies and procedures for preparing sound internal financial reports to ensure good management decisions are made.

The Department needs timely, complete, and accurate financial reports throughout the year to help it make sound decisions. Adequate written guidance approved by senior management would increase the likelihood of reliable internal reports. Reliable reports should result in better management decisions.

The Deputy Minister should approve the internal financial reporting policies and procedures to ensure that senior management receives the information it needs to manage the Department.

We reported this matter in previous reports. In January 1999, PAC agreed with the following recommendation.

We continue to recommend that:

- the Department document policies and procedures to prepare sound internal financial reports; and

- the Deputy Minister approve the Department's internal reporting policies and procedures.

Payee list required

The Department of Health did not identify the persons who received payments made through the Saskatchewan Prescription Drug Plan, and the amounts received, as recommended by PAC.

The Department made payments to pharmacies of $98.7 million on behalf of eligible recipients and $335,000 directly to eligible recipients.

In March 1993, PAC recommended: "All government departments, agencies, and Crown Corporations reporting to Treasury Board should provide a list of persons who have received money."

The Department thinks it should not have to disclose this information because it thinks the information should be confidential. The Assembly has allowed some exceptions to disclosing payees such as payments to doctors. Executive Council, Chapter 14 of our 2000 Fall Report – Volume 3, provides further discussion of this important issue. Chapter 14 also sets out a process PAC could use for deciding what information government agencies should disclose and to whom (process reprinted in Exhibit 1 on page 108 of this chapter).

We also reported this matter in previous years. In its Second Report to the 2nd Session of the 23rd Legislature, PAC recommended that the Department further review the issue of disclosure of persons who receive money from the Saskatchewan Prescription Drug Plan and report back to PAC on the implication of adopting the Provincial Auditor's recommendation.

At PAC's May 30, 2001 meeting, the Provincial Comptroller advised PAC of the Government's policy to not provide payee information for high-volume programs of a universal nature, or income security or other programs of a confidential and personal nature.

It is the Legislative Assembly's role to decide what information it needs from government agencies to hold the Government accountable for its administration of public money. To assist the Assembly in this role, we encourage PAC to decide whether it wants information on who received payments from the Saskatchewan Prescription Drug Plan and the amounts using the process in Exhibit 1.

We continue to recommend that the Department provide the Legislative Assembly with a list of persons who received money from the Saskatchewan Prescription Drug Plan and the amounts.

Saskatchewan Health Information Network

The Saskatchewan Health Information Network (the Corporation) was established as a Treasury Board Crown Corporation by Order in Council 581/1997 under the provisions of *The Crown Corporations Act, 1993* (Act) effective August 19, 1997.

The Corporation was created to design, implement, own, operate, and manage the Saskatchewan Health Information Network (Network). The Network's purpose is to foster the development of the health information technology sector, to foster re-engineering of health delivery processes, and to protect health information as a strategic resource.

The Corporation receives money from the General Revenue Fund (GRF) to acquire and develop capital assets and to operate these assets.

The Corporation's financial statements for the year ended March 31, 2001 report revenues of $6.4 million, a deficit for the year of $0.7 million, an accumulated surplus (i.e., net financial assets) of $1.2 million, and net tangible capital assets of $15.7 million.

As explained below, the Corporation's 2001 financial statements are not reliable. The financial statements understate the Corporation's revenues and overstate its deficit by $1.4 million (2000 – $2.4 million).

Reliability of financial statements

As stated earlier, the Corporation receives money from the GRF. It is clear how the Corporation is to spend this money. In 1997, Cabinet announced it was committing $40 million dollars for the initial development of the Network. On March 11, 1998, Order in Council 161/1998 authorized the Corporation to spend up to a maximum of $38 million under the terms of a Master Services Agreement with Science Applications International Corporation (Canada) for the development and acquisition of capital assets (e.g., computers, computer programs) related to the Network.

The Corporation received the following amounts from the GRF to develop and implement SHIN: $20 million in 1998; $5 million in 1999; $9.6 million in 2000 and $5.4 million in 2001. The money the Corporation receives to

develop and acquire capital assets is restricted for that purpose. Therefore, the Corporation should record the money it receives from the GRF as debt of the Corporation (i.e., deferred revenue) until the Corporation incurs the project costs. When the Corporation incurs project costs, the Corporation should reduce the debt by the amount of the costs and record an equal amount as revenue. This practice follows the accounting recommendations of The Canadian Institute of Chartered Accountants (CICA).

However, the Corporation records the money it receives from the GRF as revenue of the Corporation regardless of whether or not the Corporation has incurred project costs. In our opinion, this practice does not follow the accounting recommendations of the CICA. For example, in 2000, the Corporation received $9.6 million from the GRF. The Corporation recorded the entire $9.6 million as revenue. However, the Corporation only used $8.2 million for those projects. Therefore, the Corporation incorrectly recorded $1.4 million of revenue because the Corporation had not incurred any project costs related to this money.

As a result the Corporation's financial statements for the year ended March 31, 2001, understate the Corporation's revenues and overstate its deficit by $1.4 million (2000 – $2.4 million).

We also reported this matter in our 2000 Fall Report, Volume 3 to the Legislative Assembly. In May 2001, the Public Accounts Committee considered this matter and noted that the CICA may be providing additional guidance on this issue in the future, and therefore, delayed a decision on our recommendation.

We continue to recommend that the Corporation record the money received from the General Revenue Fund for the acquisition of capital assets as a debt until the Corporation acquires the related assets.

We continue to recommend the Corporation amend its 2001 financial statements and table the revised financial statements in the Legislative Assembly.

The Corporation thinks its financial statements are in accordance with the recommendations of the CICA's Public Sector Accounting Board's recommendations which require grants to be recognized as revenue in

the year they are provided, as long as the transfer is authorized, eligibility criteria, if any are met, and the amount can be estimated. The Corporation thinks that all three of these conditions have been satisfied with the respect to the grants received from the GRF.

Board of Governors, Uranium City Hospital

Order in Council #508/95 dated June 5, 1995 set up the Board of Governors, Uranium City Hospital (the Hospital). The Department has informed us that the Hospital will be closing within 18 months.

In 2000, the Hospital had revenues of $1.7 million, expenses of $1.6 million and held assets of $0.2 million. The Hospital plans to include its financial statements in its annual report.

We have not completed our work on the March 31, 2001 financial statements because the Hospital has not prepared its annual financial statements. We will report the results of our audit of the Hospital's financial statements in a future report.

Board needs to carry out its responsibilities

The Board is responsible to oversee the management of the Hospital's operations. To do this, the Board needs to approve and monitor the Hospital's code of conduct, set strategic and operating direction, and monitor management performance and control. Effective management and control are important for any organization to achieve its strategic and operating objectives.

Code of conduct needed

The Board needs to establish a code of conduct to document the ethical values to be followed by management and staff. A code of conduct is important because an organization's values affect everything it does. When choosing ethical values, the Board needs to consider integrity, objectivity, accountability, and leadership.

We also reported this matter in our 2000 Spring Report to the Legislative Assembly. In June 2001, the Standing Committee on Public Accounts (PAC) considered this matter and agreed with our recommendation.

We continue to recommend that the Board approve and adopt a code of conduct for the Hospital.

Conflict-of-interest guidelines needed

The Hospital's code of conduct needs to include a conflict-of-interest policy for management and staff.

It is important to have a conflict-of-interest policy to prevent or discourage management and staff from furthering their own interests instead of working to further the goals of the Hospital. A conflict-of-interest policy should require management and staff to disclose all situations where there may be a real or perceived conflict-of-interest.

We also reported this matter in our 2000 Spring Report to the Legislative Assembly. In June 2001, PAC considered this matter and agreed with our recommendation.

We continue to recommend that the Board establish and approve an appropriate conflict-of-interest policy.

Strategic plan required

The Board delegated to the Chief Executive Officer (CEO) the responsibility to manage and control the operations of the Hospital, and to report back to the Board on the achievement of the Board's objectives. Therefore, the Board must provide clear direction to the CEO and monitor the performance of the CEO. To do this, the Board needs to approve a strategic plan and an operating budget to reflect the plan.

During our examination, we noted that the Board did not approve a strategic plan. The Board approved an operating budget for the year ending March 31, 2001 before April 1, 2000. However, it did not approve an operating budget for the year ending March 31, 2002.

We also reported this matter in our 2000 Spring Report to the Legislative Assembly. In June 2001, PAC considered this matter and agreed with our recommendations.

We continue to recommend that the Board approve a strategic plan.

We continue to recommend that the Board annually approve an operating budget before the fiscal year begins.

Senior management positions require contracts

The Board has delegated to the CEO and the Chief Financial Officer (CFO) the responsibility to manage and control the operations of the Hospital. The Board should have contracts with the CEO and the CFO to outline the Board's expectations of their performance.

The Board has a contract with the CEO. The contract addresses pay, however, it does not address the services the CEO is to provide. The Board hired an accounting firm to handle the CFO function. The Board does not have a contract for services with this firm.

Without adequate contracts, it is difficult for the CEO and CFO to know what their responsibilities are. Also, it is difficult for the Board to hold the CEO and CFO accountable for their work and to assess their performance.

2. We recommend that the Board prepare and approve adequate contracts for the Chief Executive Officer and Chief Financial Officer functions.

The Board needs to define required periodic financial information

In our 1998 Fall Report – Volume 2, we recommended that the Board, with the help of senior management, define and document the Board's periodic financial reporting requirements to ensure it receives suitable and timely financial reports for decision-making.

In June 2001, PAC agreed with our recommendation. To date, the Board has not formally set out what financial reports it needs to receive from management and when.

We continue to recommend that the Board, with the help of senior management, define and document its periodic financial reporting requirements to ensure it receives suitable and timely financial reports for decision-making.

Financial reports for the Board need improvement

In our 1998 Fall Report – Volume 2, we recommended that the Board improve its internal financial reports.

In June 2001, PAC agreed with our recommendation.

The internal financial reports provided to the Board need improvement to ensure that the Board receives suitable and timely financial reports for decision-making.

We continue to recommend that the Board of Governors, Uranium City Hospital improve its internal financial reports to include:

- financial statements prepared in accordance with Canadian generally accepted accounting principles;
- a written explanation of major differences between year-to-date actual results and year-to-date budget;
- a projection of revenue and expenses to the end of the year based on current information; and
- actual amounts of the prior year for comparative purposes.

Management told us that in 2001/02 it intends to provide prior year numbers for comparison purposes.

Adequate rules and procedures required

For the Board to adequately manage and control the Hospital, the CEO has to adopt and communicate the code of conduct for the Hospital and establish adequate written rules and procedures to achieve the Hospital's objectives, and to safeguard and control the Hospital's assets.

Written rules and procedures provide for the orderly and efficient conduct of business. They help to ensure goods and services purchased are:

- authorized and appropriate;

- received and used for the operation and management of the Hospital;
- physically secured; and
- priced fairly.

Rules and procedures also reinforce the Board's delegation of authority and the responsibilities of all employees. Adequate written rules and procedures help reduce the risk of errors, fraud, breakdowns in control, and unauthorized transactions.

In the following paragraphs, we set out examples of where the Hospital's rules and procedures were not adequate to safeguard and control the Hospital's assets. The rules and procedures were inadequate because either the rules and procedures were not in place, or were not functioning properly. As a result, we found many payments where there is no evidence that the Hospital received any goods or services.

Bank account not controlled

Employees document their hours of work, but the hours worked are not approved by anyone. This lack of approval increases the possibility that the Hospital may pay for work not done. As a result, we are unable to determine how much of the $300,000 (union salaries and benefits) was for services provided to the Hospital.

Also, we found there were inadequate controls for ordering, receiving, and approving the purchase of goods and services for the Hospital. We examined 22 payments made by the Hospital. For seven payments, we were unable to verify that an authorized individual had approved the purchase order. For seven payments, there was no evidence of the goods being received. For 17 payments, there was no evidence of approval of the invoice for the payment by an authorized individual. In addition, there is no evidence that the second cheque signer reviewed the invoices before approving the payment. As a result, we are unable to determine how much of the $300,000 spent on goods and services were for the benefit of the Hospital.

We also reported this matter in our 2000 Spring Report to the Legislative Assembly. In June 2001, PAC considered this matter and agreed with our recommendation.

We continue to recommend that the Board of Governors, Uranium City Hospital establish adequate written rules and procedures to ensure that goods and services purchased are authorized and appropriate, received, and used for the operation and management of the Hospital, and that the prices paid are fair.

In addition, the Hospital agrees its records to its Bank's records (monthly statements). This procedure is intended to ensure that the Hospital's recorded transactions are authorized, accurate, and complete. However, this procedure is not sufficient because the employee who performs this procedure can change the Hospital's accounting records and has cheque-signing authority. Also, no other official approves this employee's work.

This lack of segregation of duties and independent approval could result in unauthorized transactions and losses of public money without timely detection.

3. We recommend that the Board of Governors, Uranium City Hospital strengthen its rules and procedures to safeguard and control its bank accounts.

Inventory not safeguarded

The Hospital needs to improve its control over its inventory.

The Hospital did not have adequate controls to safeguard and control its inventory. Improper controls over inventory can result in the loss of inventory. For example, the Hospital did not consistently lock, or otherwise prevent public access to its storage rooms and cabinets, which contain its supplies of linen, kitchen, and cleaning products. The Hospital would not know if some inventory went missing.

We also reported this matter in our 2000 Spring Report to the Legislative Assembly. In June 2001, PAC considered this matter and agreed with our recommendation.

We continue to recommend that the Board of Governors, Uranium City Hospital improve its control over the Hospital's inventory by securing vulnerable assets.

In addition, the Hospital did not have adequate procedures and instructions to conduct the annual inventory count. For example, it had no documented procedures for staff members to follow when they counted the inventory. This lack of rules and procedures may result in staff not counting the entire inventory. Inaccurate inventory counts could lead to an inability to reconcile inventory on hand to the accounting records and to errors in the Hospital's financial statements.

4. We recommend that the Board of Governors, Uranium City Hospital prepare proper written inventory count procedures.

Assessment of contracts required

The Hospital needs to assess all of its contracts to determine whether an employer-employee relationship exists between the Hospital and its contract employees.

The Canada Customs and Revenue Agency (CCRA) has guidance for determining whether an employer-employee relationship exists. The rules for Canada pension plan, employment insurance, and income tax deductions and contributions are different if an employer-employee relationship exists.

The Hospital has fifteen contract employees. The Hospital does not make deductions from contract employees' pay for Canada pension plan, employment insurance, and income tax. Also, it does not contribute the employer's portion of the Canada pension plan and employment insurance for these contract employees to CCRA.

The Hospital recently received a ruling from CCRA for one of its contract employees stating that an employer-employee relationship does exist for that employee. As a result, the Hospital is not complying with the requirements of CCRA for at least one of its contract employees. Therefore, the Hospital may be subject to penalties and retroactive contributions if CCRA determines that an employer-employee relationship exists for all of the Hospital's contract employees. Because the Hospital

has not obtained a ruling from CCRA for all its contract employees to confirm that an employer-employee relationship does not exist, we are unable to determine if the Hospital is complying with CCRA's requirements.

5. We recommend that the Board of Governors, Uranium City Hospital obtain a ruling from Canada Customs and Revenue Agency for all its contract employees to determine whether an employer-employee relationship exists with its contract employees and then take deductions accordingly.

Management told us it plans to appeal CCRA's ruling.

External reporting requirements not met

The Public Health Act requires the Hospital to give its financial statements to the Assembly according to *The Tabling of Documents Act, 1999*.

The Board did not give its March 31, 2001 financial statements to the Assembly by the date required in the Act, i.e., September 28, 2001.

6. We recommend that the Board of Governors, Uranium City Hospital give its financial statements to the Assembly by the date required by *The Tabling of Documents Act, 1999*.

Exhibit 1 – Suggested criteria for MLAs' use for deciding what information government agencies should disclose and to whom