

Capital equipment plans of health districts

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- Background 143**
- Our audit 144**
- Audit conclusion and recommendation 145**
- Findings by criteria 146**
 - Capital equipment required to support strategic objectives and programs..... 146
 - Gap between required and existing capital equipment..... 146
 - Strategies to manage capital equipment 147
 - Justification of capital equipment strategies 147
 - Financial implications of capital equipment strategies..... 148
- Selected references 149**

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Background

This chapter examines the capital equipment plans of health districts. Health districts are responsible for delivering health care within the province. To carry out their role, health districts need capital equipment such as x-ray and dialysis machines, laboratory equipment and beds.

Saskatchewan's health districts managed over \$130 million of capital equipment at March 31, 2001. The Department of Health estimates that health districts spend \$30 million annually on new capital equipment (compared to about \$40 million annually on facilities). Health districts that serve residents from nearby districts (regional service delivery centres) or from the whole province (provincial service delivery centres) have extensive capital equipment requirements.

Scarce funds, rapid changes in technology, and ageing equipment make it important for districts to consider carefully the services they provide and the equipment they require to support those services. If health districts do not adequately manage their capital equipment, they risk not being able to deliver health services efficiently and effectively.

In particular, poorly managed equipment may reduce access to essential services. If capital equipment is not adequately maintained, it may not function safely. The use of obsolete or poorly maintained equipment may result in incorrect diagnosis or injury to patients. If health districts delay maintenance or postpone the replacement of capital equipment, they may achieve short-term savings, but they risk larger maintenance and replacement costs in future years. This may have a serious impact on future resource allocation decisions.

These risks may be reduced if adequate capital equipment plans are available and acted upon. Districts that have plans are in a better position to ensure that the required capital equipment is available and in good working order to provide health services. An adequate capital equipment plan would also help districts respond when new resources unexpectedly become available. For example, in 2000, the Federal Government agreed to provide an additional \$33.3 million (over two years) to Saskatchewan for medical equipment.

Health district managers told us it is difficult to plan effectively for capital equipment. Many health districts have been in deficit positions in recent years. New external funds become available only intermittently (as with the Federal Government funds). Some districts want the Department of Health to help them set priorities through a capital equipment plan for the province.

Our audit

The objective of this audit is to determine whether the capital equipment plans of selected health districts adequately include the key elements of capital asset plans in the public sector. We examined capital equipment plans that were approved by chief executive officers or other senior managers, and were available for use in the selected health districts on March 31, 2001.

We examined two of the six health districts that are regional service delivery centres with extensive capital equipment requirements. We focused on the information senior managers need for decision-making. We expected to find some elements of capital equipment plans in district strategic plans or operational plans.

In carrying out the audit, we followed *The Standards for Assurance Engagements* established by The Canadian Institute of Chartered Accountants.

We first reported the audit criteria that we used for this audit in Chapter 1B of our 2001 Spring Report. These criteria identify key elements for capital asset plans, which includes capital equipment and facilities. Six Saskatchewan Government organizations¹ confirmed that the criteria are reasonable and appropriate expectations for capital asset plans in Saskatchewan. These public sector agencies emphasized the importance of planning at least 10 years ahead for major equipment, buildings, and other infrastructure.

Exhibit 1 outlines the key elements for capital equipment plans in the public sector.

¹ Saskatchewan Departments of Health, Education, Highways, and Finance, Saskatchewan Property Management Corporation, and SaskEnergy Incorporated.

Exhibit 1

Criteria for capital equipment plans

Public sector capital equipment plans should include the following key elements:

- 1. Capital equipment required to support strategic objectives and programs**
 - ◆ overview of strategic objectives that will impact capital equipment
 - ◆ summary of required capital equipment for next ten years in line with strategic direction
 - ◆ responsibility for capital equipment
- 2. Gap between required and existing capital equipment**
 - ◆ summary of existing capital equipment
 - ◆ risks related to existing capital equipment
 - ◆ gap between existing capital equipment capacity and needs for ten years
- 3. Strategies to manage capital equipment**
 - ◆ strategies to obtain capital equipment to meet program needs
 - ◆ strategies to operate capital equipment
 - ◆ strategies to maintain capital equipment
 - ◆ strategies to dispose of capital equipment no longer usable or required
- 4. Justification of capital equipment strategies**
 - ◆ criteria used to select capital equipment strategies
 - ◆ outline of capital and non-capital alternatives to achieve strategic objectives
 - ◆ explanation of how capital equipment strategies minimize key risks
- 5. Financial implications of capital equipment strategies**
 - ◆ estimated life-cycle costs for planned capital equipment over the next ten years
 - ◆ sources of money to carry out capital equipment strategies

Audit conclusion and recommendation

We examined the capital equipment plans of two health districts that are regional service delivery centres. We found that one district’s capital equipment plan adequately included the key elements for capital equipment plans, except that the plan needed to better summarize capital equipment required to support the district’s strategic objectives and

programs. The other district's capital equipment plan did not adequately include the key elements.

- 1. We recommend that all health districts prepare capital equipment plans that contain the key elements for capital equipment plans in the public sector.**

Findings by criteria

For each criterion, we set out our expectations (in italics) and our audit findings. We describe these findings to illustrate existing practices and to highlight challenges faced by districts.

Capital equipment required to support strategic objectives and programs

We expected that capital equipment plans should summarize the capital equipment required to support the district's strategic objectives and programs. The plan should also state who would own and be responsible for capital equipment (e.g., the district, affiliate agencies, or partners).

We found that neither of the two districts adequately summarized the capital equipment they required, given their strategic objectives and plans for program delivery. One district had a financial schedule that listed the cost of planned equipment acquisitions for a four-year period. The other district's plan included a compilation of requested equipment, with some items looking forward several years. Although this district had an affiliate with significant capital equipment, the district's plan did not outline ownership of, or responsibility for, capital equipment.

Gap between required and existing capital equipment

We expected that a capital equipment plan should describe the gap between the district's existing equipment and the equipment that the district needs to deliver its programs and achieve its objectives. The plan should identify categories of existing assets and describe their condition. The plan needs to outline the risks that the district faces with its existing equipment.

We found that the plans of both districts described the gap between existing and required equipment in the context of equipment they

intended to purchase to meet their service needs. The plans described services that could not be delivered with existing equipment. The plans described some critical timing issues. Both districts planned three to five years ahead. Plans for major capital equipment that is essential for service delivery should look further ahead.

One district's plan adequately described the risks that related to the district's equipment. Those risks included interruption of services and reduced patient well-being. The plan also described risks in terms of standards to be met (e.g., Canadian Association of Radiologists). The other district's plan indicated only in a general way how equipment deficiencies impacted service. Neither district's plan described risks in terms of an inability to meet specific service delivery targets. Neither district's plan adequately described the condition of their existing equipment.

Strategies to manage capital equipment

We expected that a capital equipment plan should include various strategies to manage the equipment. These include strategies to operate, maintain, and dispose of equipment, as well as to acquire new equipment.

We found that the plans of both districts included strategies (e.g., timing, cost, and financing) for acquiring various types of equipment. The plans discussed the contribution of potential partners to help acquire equipment. One district's plan also described performance standards for the new equipment.

Only one district's plan included information about the other facets of managing equipment. This plan described staffing and training strategies for some operating equipment. It also noted structural changes that would be required to house equipment adequately. This plan outlined some strategies to maintain equipment, for example, through the use of a new computerized preventative maintenance program. Finally, the plan included strategies to dispose of some equipment.

Justification of capital equipment strategies

We expected that a capital equipment plan should describe the reasons for the district's decisions about equipment. By justifying equipment

strategies, the plan provides important information about what the district is expecting to achieve with the equipment. The plan should outline alternatives, including non-capital alternatives, for achieving its objectives. The plan should also explain how the selected strategies will minimize key risks.

We found that both districts described their general expectations for capital equipment. For example, in one of the plans, the new equipment was expected to reduce maintenance costs and improve patient care. The plans linked what the districts expected of their equipment to their overall objectives.

One district described how its objectives could be met by using alternatives to new capital equipment acquisitions. For example, the district's plan discussed how a strategic alliance with another health district would help avoid some new spending on equipment. The other district's plan explained how the equipment strategy minimized risks. The plan noted how several specific risks could be reduced.

Financial implications of capital equipment strategies

We expected that a capital equipment plan should describe the financial implications of its strategies. The plan should include the estimated life-cycle costs for equipment over the long term—up to 10 years. It should identify how the district intends to finance its equipment strategies (e.g., reserves, loan, donations, and/or operating budget).

We found that one district's plan included start-up and annual operating costs for some items, in addition to acquisition costs. The plan also outlined the overall cost to replace capital equipment in the district. The other district's plan showed only acquisition costs for four years.

Both districts identified how they expected to finance their plan. For example, both districts depended on fundraising by foundations to assist with the purchase of capital equipment. However, both districts' plans focused only on acquisitions and did not describe sources of money for other facets of their equipment strategies. In many cases, other costs would be built into the districts' operating budget.

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