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Introduction

On August 1, 2002, *The Regional Health Services Act* (the Act) created 12 regional health authorities (RHAs). The Act amalgamated all 32 former district health boards into the newly created RHAs.

The Act makes the RHAs responsible for the planning, organization, delivery, and evaluation of health services in their health regions.

In 2003, the RHAs had revenues totalling \$1.8 billion and a combined net loss of \$28 million. At March 31, 2003, the RHAs held assets of \$1.1 billion. Each RHAs' annual report contains its financial statements.

The RHAs and their appointed auditors are listed below. Our Office audits the Regina Qu'Appelle Regional Health Authority directly.

<u>RHA</u>	<u>Appointed Auditor</u>
Cypress	Stark & Marsh
Five Hills	Stark & Marsh
Heartland	Jensen Stromberg
Kelsey Trail	Neumann & Neumann
Keewatin Yatthé	Meyers Norris Penny LLP
Mamawetan Churchill River	Deloitte & Touche LLP
Prairie North	Deloitte & Touche LLP
Prince Albert Parkland	Meyers Norris Penny LLP
Regina Qu'Appelle	N/A
Saskatoon	KPMG LLP
Sun Country	Meyers Norris Penny LLP
Sunrise	Parker Quine LLP

Our audit conclusions and findings

We carried out our audit responsibilities for 11 of the RHAs by working with the auditors hired by the RHAs. As noted earlier, we audited the Regina Qu'Appelle Regional Health Authority directly.

For the RHAs where we worked with other auditors, we followed the framework recommended in the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (to view a copy of this report, see our web site at <http://www.auditor.sk.ca/rrd.html>).

In our opinion, for the year ended March 31, 2003:

- ◆ **the RHAs financial statements are reliable except where we report otherwise in this chapter;**
- ◆ **the RHAs had adequate rules and procedures to safeguard public resources except where we report otherwise in this chapter; and**
- ◆ **the RHAs complied with the authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing except where we report otherwise in this chapter.**

The RHAs' appointed auditors and our Office formed the opinions referred to above with the following exceptions.

- ◆ The reports of the appointed auditors of Sunrise, Sun Country, and Five Hills RHAs did not describe the overstatement of assets and revenues in the financial statements for these RHAs as explained later in the chapter—*Preparing reliable financial statements*.
- ◆ The reports of the appointed auditor of the Saskatoon RHA did not describe the need for the RHA's board of directors to receive regular reports on the RHA's performance as noted later in the chapter—*Setting direction and monitoring performance*, or to have an information technology (IT) disaster recovery plan as described later in the chapter—*Information technology disaster recovery plan needed*.

When we are unable to rely on the work and reports of appointed auditors, *The Provincial Auditor Act* requires us to do additional audit work. Our additional work consisted of reviewing the RHAs' accountability reports, IT documentation, and discussing areas of concern with management.

In this chapter, we organize our audit findings and recommendations into four groupings. These groupings reflect important responsibilities of the

boards of directors (Boards) in their role of overseeing their RHAs' operations. These are:

- ◆ setting direction and monitoring performance;
- ◆ safeguarding public resources;
- ◆ complying with the law; and
- ◆ ensuring adequate accountability to the Legislative Assembly and the public.

Setting direction and monitoring performance

All Boards need to improve how they set direction and monitor their RHAs' performance.

To set direction and monitor performance, the Boards need to agree with management on:

- ◆ the RHAs' expected results (objectives);
- ◆ the key risks to achieving the objectives and how the risks are managed;
- ◆ the planned costs of achieving the objectives;
- ◆ the performance measures and targets to monitor progress in achieving the objectives; and
- ◆ the content of periodic reports to the Boards comparing actual results to plans.

At March 31, 2003, the RHAs had been in existence for only eight months. As a result, the Boards have not yet fully developed systems to set direction and monitor the performance of the RHAs.

However, the RHAs are working with the Department of Health to help the Minister of Health provide direction and monitor the performance of all RHAs. This work should provide useful guidance to the Boards on the kinds of performance information they need to govern their RHAs.

The Boards need to continue their work in setting direction and monitoring performance. We recognize measuring and reporting on objectives and costs will take time and resources.

- 1. We recommend that:**
 - ◆ **the boards of directors of all regional health authorities (RHAs) define the RHAs’ objectives and the measures and targets needed to monitor progress in achieving the objectives; and**
 - ◆ **the RHAs’ internal reports to the boards of directors compare actual performance to planned performance.**

Better financial information needed

The Board of the Keewatin Yatthé Regional Health Authority (Keewatin) needs better financial information to monitor the RHA’s performance.

The Board is responsible to oversee the management of Keewatin’s operations. To carry out its responsibilities, the Board requires adequate financial information.

The financial reports the Board received did not contain complete or accurate information. For example, the financial information the Board received was limited to the RHA’s revenues and expenses. Also, the reports noted that management was uncertain about the accuracy of the reported revenues and expenses (i.e., the revenues and expenses may have been incorrectly coded).

Incomplete and inaccurate financial information could result in management and the Board making incorrect decisions.

- 2. We recommend that the board of directors of the Keewatin Yatthé Regional Health Authority receive complete and accurate financial information.**

Written policies and procedures required

The Regina Qu’Appelle Regional Health Authority (Regina) did not have adequate written policies and procedures to achieve Regina’s objectives and safeguard public resources.

For example, Regina did not have policies and procedures for budgeting and financial reporting.

Written policies and procedures provide for the orderly and efficient conduct of business. They reinforce the Board's delegation of authority and the responsibilities of all employees. They also help to prevent errors, fraud, breakdowns in control, and unauthorized transactions.

3. We recommend that the Regina Qu'Appelle Regional Health Authority establish financial management policies.

Safeguarding public resources

Boards of agencies need to ensure that management has established adequate processes to safeguard public resources.

We note the following instances where processes were not adequate to safeguard public resources.

Bank accounts need to be controlled

Three RHAs did not have adequate control of their bank accounts.

Keewatin did not reconcile its bank account for over one year. Bank reconciliations provide a check on the accuracy and reliability of accounting records. This process also ensures that all charges to the bank account are appropriate. As a result, the reconciliation should be prompt and approved. The lack of control processes could result in the RHA not detecting unauthorized payments promptly.

Our audit procedures did not detect any unauthorized payments. The RHA reconciled its bank account at March 31, 2003.

The Heartland Regional Health Authority (Heartland) did not ensure that it received the proper goods and services for all payments. For example, there was no evidence that cheque signers examined related purchase orders and suppliers' bills. In addition, Heartland did not ensure that it paid employees only for work done by ensuring their supervisors approved the time sheets. Heartland did not adequately segregate the duties of employees handling cash and recording cash. One employee

received all cash and cheques and recorded their receipt. As a result, Heartland may have made payments to suppliers for goods and services not received and to employees for work not done. In addition, the RHA may not have recorded all cash received.

In addition, Heartland did not keep separate accounting records or bank accounts for its restricted capital funds and its Community Trust funds. As a result, the risk increased that Heartland incorrectly reported and used the funds.

The Mamawetan Churchill River Regional Health Authority (Mamawetan) did not have adequate processes to ensure that it paid its employees only for work done. Management did not approve all the employee's time sheets. In addition, management did not review and approve payroll records to ensure they were accurate and complete. As a result, Mamawetan may have paid employees for work not done.

4. We recommend that the Keewatin Yatthé, Heartland, and Mamawetan Churchill River Regional Health Authorities improve the control over their bank accounts.

Capital asset records needed

Two RHAs need better processes to safeguard their capital equipment.

RHAs use a lot of equipment to provide health services to their residents. To safeguard their equipment, the RHAs should periodically count their equipment and reconcile the count to the equipment accounting records to ensure the records are accurate and complete, and the equipment exists.

Regina and Keewatin did not count their equipment. As a result, these RHAs did not have the information needed to know if their records are accurate and the equipment still exists. As a result, they may make poor decisions relating to their equipment purchases and disposals. Also, the equipment is not properly safeguarded.

5. We recommend that the Regina Qu'Appelle and Keewatin Yatthé Regional Health Authorities ensure their accounting records for equipment are accurate and complete.

Better processes over payroll needed

Keewatin needs to improve its processes to ensure that payments to its employees are complete, accurate, and authorized.

The Saskatchewan Association of Health Care Organizations (SAHO) prepares the RHA's payroll. SAHO gives the RHA monthly payroll reports showing how much employees are paid and key information such as sick leave expense and vacation pay owed to employees. SAHO prepares its reports using information it receives from the RHA.

To ensure that its payments to employees are accurate, complete, and authorized, Keewatin needs to ensure that it sends accurate information to SAHO. The RHA also needs to agree its payroll information to the reports it receives from SAHO promptly and take corrective action if necessary.

Keewatin did not agree its payroll information to SAHO's payroll reports. As a result, the RHA is at risk that it could make inaccurate or unauthorized payments to its employees.

Our audit procedures did not reveal any errors in Keewatin's payments to its employees.

- We recommend that the Keewatin Yatthé Regional Health Authority strengthen its processes over payments to employees.**

System development controls needed

The Sunrise Regional Health Authority (Sunrise) needs written processes for developing information systems.

Developing new systems is risky. If Sunrise does not manage the development of new systems well, costs increase, deadlines pass, and systems fail.

Management has developed processes for developing information systems. However, the Board has not formally reviewed or approved

these processes. As a result, Sunrise did not ensure that its processes are adequate to properly manage the development of future systems.

- 7. We recommend that the board of directors of the Sunrise Regional Health Authority approve written processes for developing information systems.**

Information technology disaster recovery plan needed

Seven RHAs need written, tested, and approved information technology (IT) disaster recovery plans to ensure that they can continue to deliver their programs and services if their IT systems are not available. The RHAs should base the plans on a risk assessment focusing on key programs, systems, and data.

An IT disaster recovery plan should:

- ◆ set out the responsibilities of those who are to implement the plan;
- ◆ include emergency procedures to be used while the system is unavailable;
- ◆ include steps for the recovery and restoration of the system;
- ◆ have documentation of program processes and procedures; and
- ◆ be regularly tested and updated.

- 8. We recommend that the Prairie North, Heartland, Cypress, Sunrise, Kelsey Trail, Saskatoon, and Mamawetan Churchill River Regional Health Authorities prepare information technology disaster recovery plans.**

Board minutes need approval

The Board of the Keewatin Yatthé RHA needs to approve its minutes.

Board minutes are the key record of the Board's governance processes and decisions taken. Therefore, the Board must review and approve its minutes to document that the minutes are an accurate and complete record of the Board's meetings. Once the Board has approved the minutes, usually at the next meeting, the Board's chair and Board secretary should document the Board's approval by signing and dating

the minutes. The Board's chair and secretary did not sign any of the Board's minutes during the year ended March 31, 2003.

Without signed Board minutes, the Board cannot ensure all activities and transactions of the RHA are properly authorized.

- 9. We recommend that the board of directors of Keewatin Yatthé Regional Health Authority promptly approve the Board's minutes.**

The Board chair and secretary signed the board minutes for the year ended March 31, 2003 in November 2003.

Complying with the law

Boards of agencies need to ensure management has complied with legislative and related authorities including key agreements.

We note the following instances where the RHAs did not comply with the law and other authorities.

Compliance with The Regional Health Services Act needed

Heartland did not comply with *The Regional Health Services Act* (the Act) when it made renovations to the Kindersley Integrated Health Facility.

The Act does not permit the RHA to alter a facility without prior approval of the Minister. Heartland submitted plans to the Minister in advance of the renovations. However, the RHA did the renovations before receiving the Minister's approval.

- 10. We recommend that the Heartland Regional Health Authority receive approval from the Minister of Health before making facility renovations.**

Compliance with The Housing and Special Care Homes Regulations needed

Two RHAs did not comply with *The Housing and Special Care Home Regulations* because they failed to set up separate trust bank accounts for residents' monies held for safekeeping.

Section 3 of *The Housing and Special Care Homes Regulations* requires that cash turned over to the operator of the home for safekeeping be deposited in a banking institution and the account designated as a trust account. The two RHAs have not established such bank accounts.

- 11. We recommend that the Heartland and Sun Country Regional Health Authorities comply with *The Housing and Special Care Homes Regulations* when holding trust monies for safekeeping.**

Compliance with service agreements by affiliates required

The Sun Country RHA is unable to ensure that private health care agencies (affiliates) that provide services on behalf of the RHA are meeting the RHA's objectives.

The RHA has service agreements with its affiliates. Sun Country paid the affiliates \$12 million during the year to provide services to residents of the health region. The service agreements require the following information from each affiliate each year:

- ◆ internal control opinion on financial control systems;
- ◆ audit report on the compliance with legislative and related authorities;
- ◆ report on services and activities and their costs; and
- ◆ report on the health status of the residents and the effectiveness of programs.

None of the affiliates provided any of this information to the RHA. Without this information, Sun Country is unable to ensure that the affiliates are achieving the RHA's objectives. In addition, without this information, we are unable to ensure that the RHA spent money only for intended purposes.

12. **We recommend that the Sun Country Regional Health Authority ensure that private health care organizations comply with its service agreements.**

Non-compliance with the Tabling of Documents Act, 1991

The Tabling of Documents Act, 1991 requires the Keewatin Yatthé RHA to give its financial statements for the year ended March 31, 2003 to the Legislative Assembly by July 28, 2003. The RHA has not given its audited financial statements for the year ended March 31, 2003 to the Legislative Assembly at the date of this report. Accordingly, the RHA did not comply with *The Tabling of Documents Act, 1991*.

13. **We recommend that the Keewatin Yatthé Regional Health Authority give its financial statements to the Legislative Assembly in accordance with *The Tabling of Documents Act, 1991*.**

Ensuring adequate accountability to the Legislative Assembly and the public

Annual reports

All RHAs need to improve their annual reports to help the Legislative Assembly (Assembly) and the public to assess the RHAs' progress in achieving their plans.

We examined each RHA's annual report for the year ended March 31, 2003. We used the reporting principles and guidelines set out in the Department of Finance's *Public Performance Reporting Guidelines, April 2003* to assess the annual reports.

We found the RHAs' annual reports do not provide adequate information to enable the Assembly and the public to assess the RHAs' performance. The annual reports do not describe each RHA's objectives, their key risks in achieving their objectives, or their performance measures to monitor progress in achieving the objectives.

The Department of Health is providing direction that should help the RHAs to improve their accountability to the Assembly and the public. The Department:

- ◆ published its long-term goals and objectives;
- ◆ developed performance measures all RHAs must use to assess their progress in achieving the Department's objectives;
- ◆ approved each RHA's long-term plan; and
- ◆ is working with the RHAs to develop guidelines for regular performance reporting to the Minister of Health.

The above direction should provide useful guidance to the RHAs for preparing their annual reports.

14. We recommend that all the Regional Health Authorities' annual reports include:

- ◆ **their objectives, performance measures, and actual results compared to plans; and**
- ◆ **the risks to achieving the RHAs' objectives, and how the RHA will manage the risks.**

Preparing reliable financial statements

In our opinion, the financial statements of three RHAs for the year ended March 31, 2003 are reliable except for the overstatement of the RHAs' assets and the revenue from the General Revenue Fund (GRF) in the following amounts: Sunrise—\$2.1 million, Sun Country—\$6 million, Five Hills—\$1.8 million.

The Minister of Health signed agreements with RHAs for capital construction. The Department directed the RHAs to record the above amounts as construction revenue from the GRF even though the RHAs had not done the construction entitling them to the money. Also, the Department had not paid the RHAs the money at March 31, 2003. Canadian generally accepted accounting principles (GAAP) do not permit the RHAs to record revenue until they become entitled to the money, i.e., carry out the construction.

The recording of the construction revenue before doing the construction is not in accordance with GAAP. As a result, the RHAs overstated their revenue and assets by the amounts noted earlier.

15. We recommend that the Sunrise, Sun Country, and Five Hills Regional Health Authorities:

- ◆ properly account for construction revenue from the General Revenue Fund; and
- ◆ amend and reissue their 2003 financial statements accordingly.

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