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Introduction

On August 1, 2002, *The Regional Health Services Act* (the Act) created 12 regional health authorities (RHAs). The Act makes the RHAs responsible for the planning, organization, delivery, and evaluation of health services in their RHAs.

In 2004, the RHAs had revenues totalling \$1.9 billion (\$1.5 billion from the General Revenue Fund). They had a combined net loss of \$30 million. At March 31, 2004, the RHAs held total assets of \$1.1 billion. Each RHA's annual report, given to the Legislative Assembly, contains its financial statements. In addition, for the first time, all RHAs have provided the Legislative Assembly with a list of payments made to vendors and employees. We commend the RHAs for making this vital information public.

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	Virtus Group LLP
Heartland	KPMG LLP
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. When we work with other auditors, we follow the framework recommended in the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (see our web site at <http://www.auditor.sk.ca>).

In our opinion, for the year ended March 31, 2004:

- ◆ **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. This is explained later under *Preparing reliable financial statements*.
- ◆ The reports of the appointed auditors of the Heartland, Saskatoon, Sun Country, and Sunrise RHAs did not describe the need for the RHA's board of directors to receive regular reports on the RHA's performance. We describe this later under *Setting direction and monitoring performance*.
- ◆ The reports of the appointed auditor of the Saskatoon RHA did not describe the need to have an information technology (IT) disaster recovery plan. This is described later under *Information technology disaster recovery plan needed*. Also, the appointed auditor did not report the need for the RHA to have information technology policies and procedures based on a threat and risk assessment. This is described later under *Information technology policies and procedures 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 determining the extent that the

RHAs overstated their assets and revenues, reviewing the RHAs' accountability reports and 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.

The Boards have not fully developed systems to set direction and monitor performance. 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.

We reported this matter in previous reports. In June 2004, the Standing Committee on Public Accounts (PAC) agreed with our recommendations.

We continue to recommend that:

- ◆ the boards of directors of all Regional Health Authorities define the Regional Health Authorities' objectives and the measures and targets needed to monitor progress in achieving the objectives; and
- ◆ the Regional Health Authorities' internal reports to the boards of directors compare actual performance to planned performance.

Written policies and procedures required

Two RHAs did not have adequate, up-to-date written policies and procedures to achieve their objectives and safeguard public resources.

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

Regina Qu'Appelle and Kelsey Trail did not have adequate written financial management policies covering, for example, budgeting, monthly financial reporting, and year-end procedures. The RHAs have begun to set and document these policies.

We reported this matter in previous reports. In June 2004, PAC agreed with our recommendation.

We continue to recommend that the Regina Qu'Appelle and Kelsey Trail Regional Health Authorities establish complete written financial management policies, such as budgeting, reporting, projections and revisions to plans, as well as general accounting procedures.

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.

Financial controls needs to be followed

Mamawetan Churchill River needs to follow its processes to control its bank account to make payments to vendors.

Mamawetan paid more than \$14 million from its bank account during the year. Management did not always approve the monthly bank reconciliations that staff prepare. Reconciling the recorded bank balance to the bank's records provides a check on the accuracy and reliability of accounting records. Management approval ensures that all changes to the recorded bank balance are authorized.

Management did not adequately follow its control processes for purchasing goods and services. Management did not consistently prepare or approve purchase orders for goods and services. As a result, Mamawetan may have paid for unauthorized goods and services.

- 1. We recommend that the Mamawetan Churchill River Regional Health Authority follow its processes for controlling its bank account and for making payments to vendors.**

Capital asset records needed

Two RHAs need better processes to safeguard their capital equipment.

The 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 agree the counts to the equipment accounting records. This would help to ensure the records are accurate and complete, and the equipment exists.

Regina Qu'Appelle and Sun Country did not count their equipment. As a result, these RHAs did not know if all their equipment exists and is properly safeguarded. This could also cause them to make poor decisions for equipment purchases and disposals.

We reported this matter in previous reports. In June 2004, PAC agreed with our recommendation.

We continue to recommend that the Regina Qu'Appelle and Sun Country ensure their equipment is safeguarded.

Disaster recovery plan needed

Five RHAs need written, tested, and approved information technology (IT) disaster recovery plans to ensure they can continue to deliver their programs and services if their critical IT systems are not available. The plans should be based on a risk assessment that includes a prioritization of key programs and systems.

Although Kelsey Trail, Mamawetan, Prairie North, Saskatoon and Sun Country have processes to back up their systems and data, they have not formalized their processes in a written, tested, and approved IT disaster recovery plan.

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.

We also reported this matter in previous reports to the Legislative Assembly. In June 2004, PAC agreed with our recommendation.

We continue to recommend that the Kelsey Trail, Mamawetan, Prairie North, Saskatoon, and Sun Country prepare information technology disaster recovery plans.

Information technology policies and procedures needed

Four RHAs need to establish information technology (IT) policies and procedures (processes) to ensure the confidentiality, integrity, and

availability of information systems and data. Keewatin Yatthé needs to follow its established IT processes.

Cypress, Kelsey Trail, Mamawetan Churchill River, and Saskatoon need IT processes that ensure vital information is protected, accurate, complete, authorized, and available. The RHAs should base their IT processes on a formal threat and risk analysis. A threat and risk analysis would allow management to identify the processes they need to protect systems and data. For example, the IT processes should identify who is responsible for the security of systems and data, define how access to systems is granted or removed, and clearly identify the rules that staff need to follow. The RHAs also need to define how they will monitor compliance with IT processes and address weaknesses.

Also, the RHAs do not have adequate security awareness plans. Such plans reduce the possibility that staff could unintentionally create security risks that result in losses or disclosure of data. Awareness training would help ensure staff are aware of security policies, security risks, and privacy issues.

Keewatin Yatthé has adequate IT policies, but does not adequately follow them.

Without established IT processes, the RHAs risk unauthorized disclosure of confidential information, reliance on incomplete and inaccurate information, and loss of vital information.

- 2. We recommend that the Cypress, Kelsey Trail, Mamawetan Churchill River, and Saskatoon Regional Health Authorities establish information technology policies and procedures that are based on a threat and risk analysis.**
- 3. We recommend that the Keewatin Yatthé Regional Health Authority follow its established information technology policies and procedures.**

Adequate service agreement with affiliates required

Sun Country's agreements with its affiliates are not adequate to ensure they achieve Sun Country's financial, operational, and compliance with the law objectives.

Sun Country carries out some of its services through its affiliates (i.e., a privately-owned hospital and nursing homes).

Sun Country's service agreements are adequate except they do not require the affiliates to provide the following reports:

- ◆ reports on the processes that the affiliates use to safeguard public money;
- ◆ reports on the affiliates' compliance with legislative and related authorities; and
- ◆ reports on the affiliates' progress in achieving Sun Country's objectives.

In addition, these reports should be verified by the affiliates' external auditors or by Sun Country itself.

As a result of inadequate agreements, Sun Country cannot ensure that the affiliates are achieving its objectives.

- 4. The Sun Country Regional Health Authority should strengthen its agreements with its affiliates to ensure they achieve the Authority's objectives.**

Complying with the law

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

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

Compliance with The Housing and Special Care Homes Regulations needed

Two RHAs did not comply with *The Housing and Special Care Homes Regulations* regarding the safekeeping of patients' money.

Section 3 of *The Housing and Special Care Homes Regulations* requires RHAs to deposit patients' money held for safekeeping in a bank. Heartland and Sun Country did not always comply with this regulation. Depositing the cash in a bank reduces the risk of loss of patients' money due to error or theft.

We reported this matter in previous reports. In June 2004, PAC agreed with our recommendation.

We continue to recommend that Heartland and Sun Country comply with *The Housing and Special Care Homes Regulations* when holding patients' money.

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 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, 2004. 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 report.

All RHAs have made improvements to their annual reports. The annual reports set out each RHA's goals and provide information on services provided to residents in the region. Also, the reports are starting to describe the RHAs' objectives and performance measures.

The RHAs need to continue to strengthen their annual reports. The reports do not provide adequate information to enable the Assembly and

the public to assess the RHAs' performance. The annual reports do not adequately describe the RHAs' 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 improve their accountability to the Assembly and the public. The Department:

- ◆ published its long-term goals and objectives;
- ◆ developed performance measures that 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.

We reported this matter in previous reports. In June 2004, PAC agreed with our recommendation.

We continue to recommend that all the Regional Health Authorities' annual reports include:

- ◆ objectives, performance measures and actual results compared to plans; and
- ◆ risks to achieving its objectives and how the risks are managed.

Preparing reliable financial statements

In our opinion, the financial statements of three RHAs for the year ended March 31, 2004 are reliable except for the overstatement of the RHAs' assets and revenue from the General Revenue Fund (GRF) in the following amounts:

(\$millions)	Revenue		Assets	
	2004	2003	2004	2003
Five Hills	\$ 1.2	\$ 1.8	\$ 3.0	\$ 1.8
Sun Country	5.4	6.0	6.6	6.0
Sunrise	4.9	2.1	5.8	2.1

The Minister of Health made agreements with the RHAs for future capital construction to be carried out by the RHAs. 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. In addition, the Department had not paid the RHAs the money at March 31, 2004. The Department told us it was following the accounting policies laid out by the Provincial Comptroller.

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 incurring the construction costs is not in accordance with GAAP. As a result, the RHAs overstated their revenue and assets by the amounts noted above.

We reported this matter in previous reports. In June 2004, PAC recommended: "That the Department of Health should follow the accounting policies laid out by the Provincial Comptroller".

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