

Regional Health Authorities

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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 health regions.

In 2005, the RHAs had revenues totalling \$2.0 billion (\$1.8 billion from the Department of Health) and had a combined net gain of \$11.6 million. At March 31, 2005, the RHAs held total assets of \$1.1 billion. Each RHA's annual report, given to the Legislative Assembly, 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	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, 2005:

- ◆ **the RHAs had adequate rules and procedures to safeguard public resources except where we report otherwise in this chapter**
- ◆ **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' financial statements are reliable 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 the Five Hills, Heartland, Kelsey Trail, Saskatoon, Sun Country, and Sunrise RHAs did not describe the need for the RHA's Board of Directors to set performance targets or 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*.
- ◆ 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 *Accounting principles not consistent with GAAP*.

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 three 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
- ◆ ensuring adequate accountability to the Legislative Assembly and the public

Setting direction and monitoring performance

Board needs to set performance targets

The RHAs have made progress in setting the direction and monitoring the performance of the regions. All have adapted the goals and objectives of Health into their own strategic plans. The Boards use the plans to direct management in delivering health services in their region. The Boards have outlined the expected results (objectives). The Boards have set performance indicators to monitor progress.

As described later in this chapter, the RHAs' March 31, 2005 annual reports describe their objectives and the performance indicators used to assess progress in achieving the objectives. The Boards, however, have not yet set performance targets for many of their indicators. We encourage the Boards to request regular reports from management on the RHAs' progress in achieving their objectives and targets.

Performance targets help define what successful achievement of an objective is, help measure progress towards achieving the objective, and can aid in prioritizing objectives when an entity has limited resources and capacity.

Without Board set targets for each key indicator, management may not know if it is focusing the RHA's scarce resources correctly and effectively to meet the Board's strategic objectives and priorities. Also, without reporting actual performance against key targets, the Board may not know if its objectives are being achieved according to its plan.

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

We continue to recommend that:

- ◆ the boards of directors of all Regional Health Authorities set the performance targets needed to monitor progress in achieving their objectives
- ◆ the Regional Health Authorities' internal reports to the boards of directors compare actual performance to planned performance

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.

Control over bank account needed

Prince Albert Parkland Regional Health Authority

Prince Albert Parkland RHA needs to follow its processes to ensure that employees are paid only for work done.

Prince Albert Parkland RHA's processes include requiring supervisors to approve work done by employees before they are paid. Supervisors do not always document their approval of the work done by employees. Documented approvals ensure that the RHA pays employees only for work carried out.

- 1. We recommend that the Prince Albert Parkland Regional Health Authority follow its processes to ensure that employees are paid only for work done.**

Kelsey Trail Regional Health Authority

Kelsey Trail RHA needs to improve its controls over its payments to suppliers.

The RHA has not set out purchase limits for employees authorized to order goods and services. In addition, some employees can approve changes to the names of eligible suppliers, approve payments to suppliers, and record payments to suppliers into the accounting system. Also, the RHA does not require payment support to be reviewed in all cases by someone independent of the payment process.

Without independent functions, errors or frauds are less likely to be detected in a timely manner. Management review and approval of payment records ensures that they are accurate and complete. Independent functions are necessary for a strong system of internal control.

- 2. We recommend that the Kelsey Trail Regional Health Authority appropriately segregate the duties of employees making payments.**
- 3. We recommend that Kelsey Trail Regional Health Authority set purchase dollar limits for employees authorized to order goods and services.**

Mamawetan Churchill River Regional Health Authority

Mamawetan Churchill River RHA needs to follow its established processes for making payments to vendors.

The RHA has adequate processes for purchasing goods and services and making payments to vendors. The processes require the RHA to use purchase orders when ordering goods or services other than regular monthly items such as power, rent, or telephone payments. Purchase orders identify the goods or services to be received, the price to be paid, and provide a way to ensure that proper approvals are received.

Mamawetan Churchill River RHA did not consistently use purchase orders. This could result in unauthorized expenditures. The RHA needs to follow its established processes to ensure public resources are safeguarded.

We also reported this matter in previous reports to the Legislative Assembly. In October 2005, PAC agreed with our recommendation.

We continue to recommend that the Mamawetan Churchill River Regional Health Authority follow its processes for making payments to vendors.

Need for Internal Audit not assessed

Regina Qu'Appelle RHA has not formally assessed the need for an internal auditor.

Large, diverse organizations with complex management systems, such as the Regina Qu'Appelle RHA, need to know if their systems are adequate to ensure the organization is meeting its objectives. An internal auditor can give this assurance to the RHA's Board and management.

An internal auditor can also provide assurance on the reliability of financial reports and the effectiveness of controls to safeguard public resources and ensure that revenues and expenses are authorized and public money is used for intended purposes.

The scope and objectives of an internal auditor depend on the requirements of the RHA's Board and management. The RHA needs to do a risk assessment of its activities to determine where it is at the greatest risk of loss of public money or spending money for unintended purposes. This risk assessment should help the RHA to decide if it needs an internal auditor.

4. We recommend that the Regina Qu'Appelle Regional Health Authority Board assess whether it needs an internal auditor.

Written policies and procedures required

Regina Qu'Appelle RHA does not have adequate, up-to-date written policies and procedures to safeguard public resources.

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

The RHA does not have adequate written financial management policies covering budgeting, monthly financial reporting, or year-end procedures. The RHA also lacks documentation of its general accounting policies and procedures.

The RHA's Board needs to ensure that there are written policies and procedures for staff to follow to safeguard public resources and ensure timely and reliable interim and year-end financial reporting. It is important that these policies and procedures be readily available to all staff. A lack of written policies and procedures may create confusion regarding delegation especially when turnover occurs.

While some policies and procedures do exist, many of them are outdated. Regina Qu'Appelle RHA has begun the process of establishing and documenting Board policies. The RHA needs to continue this process until all policies and procedures are documented.

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

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

Capital asset records needed

Three 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.

Keewatin Yatthé, 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 the RHAs to make poor decisions for equipment purchases and disposals.

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

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

Adequate service agreement with affiliates required

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

The RHAs carry out some of their services through affiliates (i.e., privately-owned hospitals and nursing homes). The RHAs' service agreements are adequate except they do not consistently require the affiliates to provide the following reports:

- ◆ financial statements prepared using Canadian generally accepted accounting principles
- ◆ reports on the processes that the affiliates use to safeguard public resources
- ◆ reports on the affiliates' compliance with legislative and related authorities
- ◆ reports on the affiliates' progress in achieving the RHAs' objectives

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

The RHAs cannot ensure that their affiliates are achieving the RHAs' objectives because their service agreements do not require the above reports.

We also reported this matter in previous reports except for Regina Qu'Appelle. In October 2005, PAC agreed with our recommendation.

We continue to recommend that the Regina Qu'Appelle and Sun Country Regional Health Authorities strengthen their agreements with their affiliates to ensure they achieve the Authority's objectives.

Disaster recovery plan needed

Seven 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 Keewatin Yatthé, Kelsey Trail, Mamawetan Churchill River, Prairie North, Prince Albert Parkland, 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
- ◆ be regularly tested and updated

We also reported this matter in previous reports except for Keewatin Yatthé and Prince Albert Parkland. In June 2004, PAC agreed with our recommendation.

We continue to recommend that the Keewatin Yatthé, Kelsey Trail, Mamawetan Churchill River, Prairie North, Prince Albert Parkland, Saskatoon, and Sun Country prepare information technology disaster recovery plans.

Information technology policies and procedures needed

Six RHAs need to establish information technology (IT) policies and procedures (processes) to ensure the confidentiality, integrity, and availability of information systems and data.

Cypress, Keewatin Yatthé, Kelsey Trail, Mamawetan Churchill River, Prince Albert Parkland, 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 allows management to identify the policies and processes it needs to protect its 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.

Without complete IT policies and procedures, the RHAs risk the unauthorized disclosure of confidential information, reliance on incomplete and inaccurate information, and the loss of vital information.

We also reported this matter in previous reports except for Keewatin Yatthé and Prince Albert Parkland. In October 2005, PAC agreed with our recommendation.

We continue to recommend that the Cypress, Keewatin Yatthé, Kelsey Trail, Mamawetan Churchill River, Prince Albert Parkland, and Saskatoon Regional Health Authorities establish information technology policies and procedures that are based on a threat and risk analysis.

Ensuring adequate accountability to the Legislative Assembly and the public

Annual reports need improvement

All RHAs need to improve their annual reports to help the Legislative Assembly (Assembly) and the public to assess the RHAs' performance.

We examined each RHA's annual report for the year ended March 31, 2005. We used the reporting principles and guidelines set out in the Department of Finance's *Public Performance Reporting Guidelines* to assess the annual report.

Health has provided direction that should help the RHAs to improve their accountability to the Assembly and the public. Health has also set guidelines for preparing the annual report. These guidelines have not encompassed all of the reporting principles required by the Department of Finance. Health:

- ◆ published its long-term goals and objectives
- ◆ developed performance indicators all RHAs must use to assess their progress in achieving Health's objectives
- ◆ approved each RHAs long-term plan
- ◆ working with the RHAs, has developed guidelines for regular performance reporting to the Minister of Health

All RHAs are complying with these guidelines set out by Health.

All RHAs have made improvements to their annual reports. The annual reports set out the RHAs' goals and objectives for providing services to their residents. The annual reports describe the performance indicators used to assess the RHAs' progress in achieving their goals and objectives.

The RHAs need to continue to strengthen their annual reports. The reports do not disclose adequate information to enable the Assembly and the public to assess each RHA's performance. The annual reports do not describe the RHA's key risks in achieving their objectives or their performance targets to monitor progress in achieving their objectives.

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:

- ◆ performance targets and actual results compared to plans

- ◆ risks to achieving its objectives and how the risks are managed

Accounting policies not consistent with GAAP

In our opinion, the financial statements of three RHAs for the year ended March 31, 2005 are reliable except for the incorrect recording of the RHAs' revenue and assets.

In March 2004, the Minister of Health made agreements with seven RHAs for capital construction to be carried out in the future. Three of the RHAs followed Health's direction and recorded construction revenue from the General Revenue Fund (GRF) even though the RHAs had not done construction entitling them to this money. Also, Health had not paid the RHAs the money.

In our opinion, Canadian generally accepted accounting principles (GAAP) do not permit the RHA to record revenue until it becomes entitled to the money, i.e., carries out the construction. Construction was carried out in the current year. The three RHAs have not recorded revenue appropriately in 2004-05 because they had recorded it last year.

In March 2005, the Minister of Health made agreements with five RHAs for capital construction to be carried out in the future. Again, Health directed these RHAs to record construction revenue from the GRF even though the RHAs had not done construction entitling them to this money. Also, Health had not paid the RHAs the money.

Three of the RHA appointed auditors and our Office think that eligibility requirements must be met before construction revenue can be recorded. Another appointed auditor thinks that the commitment for future grants is sufficient to record the construction revenue. Four RHAs did not record the revenue and their auditors agree with this accounting policy. One followed Health's direction and recorded the revenue, and its auditor agreed with this policy. Health approved the RHAs' financial statements regardless of which policy they chose.

We reported this matter in previous reports. In June 2004, PAC recommended that the Department of Health follow the "accounting position of the Provincial Comptroller's Office."

The Provincial Controller's office told us that it:

agrees with RHAs recording revenue when amounts are authorized and eligibility criteria are met. However, pending the outcome of the work being conducted by the CICA, the Provincial Controller's office accepted the position of the four RHAs that did not record the revenue.

The Canadian Institute of Chartered Accountants (CICA) is currently examining accounting standards concerning government transfer payments (grants) to clarify principles for recording grants because current standards do not provide sufficient guidance. The CICA project is not finished. We are awaiting further clarification from the CICA.

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