

|   |            |
|---|------------|
| <b>Main points .....</b>  | <b>166</b> |
| <b>Introduction .....</b>   | <b>167</b> |
| <b>Audit conclusions and findings .....</b>   | <b>167</b> |
| Bank accounts need controlling .....  | 168        |
| Information technology policies and procedures needed .....   | 170        |
| Written policies and procedures required .....  | 171        |
| Internal audit function needed .....  | 172        |
| Capital assets need controlling .....   | 173        |
| Disaster recovery plans need testing .....  | 174        |
| Affiliate reporting required .....  | 174        |
| Other matters .....   | 175        |
| <b>Five Hills Regional Health Authority—achieving planned outcomes .....</b>                          | <b>176</b> |
| Opportunities to learn new management skills .....  | 176        |
| Written progress reports and annual analysis of results .....   | 177        |
| Align resources to expected outcomes .....  | 178        |
| <b>Status of other outstanding recommendations of the Standing Committee on Public Accounts .....</b> | <b>179</b> |

## Main points

Regional Health Authorities (RHAs) need to improve how they safeguard public resources. Six RHAs need to control bank accounts when making payments to employees and vendors and establish information technology processes based on threat and risk analysis. Regina Qu'Appelle needs to implement an internal audit function and establish complete financial management policies.

We followed up on our past recommendation to improve processes to achieve planned results for Five Hills Regional Health Authority. We concluded Five Hills Regional Health Authority has made progress but needs to do more work to fully address our recommendations.

## Introduction

*The Regional Health Services Act* (the Act) makes the 12 Regional Health Authorities (RHAs) responsible for the planning, organization, delivery, and evaluation of health services in their health regions.

In 2008, the RHAs had revenues totalling \$2.4 billion (\$2.2 billion from the Ministry of Health). They had a combined annual surplus of \$1.7 million. At March 31, 2008, the RHAs held total assets of \$1.3 billion. Each RHA's annual report includes its financial statements.

Under the Act, RHAs have the authority to appoint auditors. Where RHAs have appointed auditors, we work with appointed auditors using the framework recommended in the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* ([www.auditor.sk.ca/rrd.html](http://www.auditor.sk.ca/rrd.html)). We audit the Regina Qu'Appelle directly.

The following lists the other RHAs and their appointed auditors.

| <u>RHA</u>                | <u>Appointed Auditor</u> |
|---------------------------|--------------------------|
| Cypress                   | Stark & Marsh            |
| Five Hills                | Virtus Group LLP         |
| Heartland                 | KPMG LLP                 |
| Kelsey Trail              | Neupath Group, PC Inc.   |
| Keewatin Yatthé           | Meyers Norris Penny LLP  |
| Mamawetan Churchill River | Deloitte & Touche LLP    |
| Prairie North             | Menssa Baert Cameron     |
| Prince Albert Parkland    | Meyers Norris Penny LLP  |
| Saskatoon                 | KPMG LLP                 |
| Sun Country               | Virtus Group LLP         |
| Sunrise                   | Parker Quine LLP         |

## Audit conclusions and findings

**In our opinion for the year ended March 31, 2008:**

- ◆ **the RHAs had adequate rules and procedures to safeguard public resources except for the matters reported 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**
- ◆ **financial statements for the RHAs are reliable**

We relied on the reports and work of RHAs' appointed auditors except for the report and work of the appointed auditor of Sun Country. We did not rely on that work and report because the appointed auditor did not report the lack of adequate information technology (IT) policies and procedures and the need for testing of the disaster recovery plan for Sun Country. We describe this matter later in this chapter 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 reviewing IT documentation and discussion with management.

We also report in this chapter other matters relating to the loss or improper use of public money and results of our follow-up work on our past recommendations for certain RHAs.

In addition, we provide an update on the status of the recommendations that the Standing Committee on Public Accounts (PAC) made in the past that the RHAs have not yet implemented.

## **Bank accounts need controlling**

Mamawetan Churchill River, Cypress, Kelsey Trail, Prince Albert Parkland, and Prairie North need to follow their processes to control bank accounts when making payments to employees and vendors.

In our 2007 Report – Volume 3, we recommended that Mamawetan Churchill River follow its processes to control bank accounts when making payments to employees and vendors.

PAC considered this matter in January 2008 and agreed with our recommendation.

During 2007-08, employees and managers of Mamawetan Churchill River continued to ignore the established processes to control bank accounts. Managers did not always approve employee timecards on a timely basis. Also, employees did not consistently prepare and obtain approval of purchase orders until after the receipt of goods or services.

Employees usually learn how to complete assigned tasks from their managers. When managers do not do their jobs according to the established processes, employees get the message that non-compliance with established processes is acceptable.

Lack of approval of employee timecards and purchase orders could result in loss or misuse of public money.

We continue to recommend that Mamawetan Churchill River Regional Health Authority follow its processes to control its bank accounts when making payments to employees and vendors.

Employees of Cypress, Prairie North, and Kelsey Trail did not follow the established processes to help ensure employees are paid only for work done.

In our past Report, we recommended that Cypress follow its processes to control bank accounts when making payments to employees.

PAC considered this matter in January 2008 and agreed with our recommendation.

Hourly-paid employees record hours worked on time sheets. Time sheets determine the employee's pay and update information such as vacations. If time sheets are inaccurate, employees' pay and other benefits may also be inaccurate.

All three of these health authorities require supervisors to approve all time sheets. However, supervisors did not consistently approve time sheets during the year. Lack of approval of time sheets increases the risk of incorrect payments and benefits.

We continue to recommend that Cypress follow its processes to control its bank accounts when making payments to employees.

- 1. We recommend that Prairie North Regional Health Authority and Kelsey Trail Regional Health Authority follow their processes to control bank accounts when making payments to employees.**

Prince Albert Parkland's processes require employees to agree (reconcile) its recorded bank balance (i.e., general ledger) to the bank's records each month. Such reconciliations help ensure the accuracy of the accounting records. Staff did not always reconcile the bank accounts to monthly bank statements. Nor did management always approve the monthly bank reconciliations that staff prepared.

- 2. We recommend that Prince Albert Parkland Regional Health Authority follow its processes for reconciling its recorded bank balances to the bank's records promptly.**

## **Information technology policies and procedures needed**

In our past Reports, we recommended that Kelsey Trail, Mamawetan Churchill River, Prince Albert Parkland, Saskatoon, and Sun Country establish IT policies and procedures based on a threat and risk analysis.

In October 2005, June 2007, and January 2008, PAC considered and agreed with our recommendations.

Kelsey Trail worked diligently to establish adequate IT policies and procedures. However, Mamawetan Churchill River, Prince Albert Parkland, Saskatoon, and Sun Country have not yet completed this work.

Mamawetan Churchill River has not established processes to monitor employee compliance with established IT policies. Nor has it performed a threat and risk analysis to ensure its processes are adequate to protect systems and data.

Prince Albert Parkland has developed some IT policies, but the policies have not been approved or communicated to its employees.

Saskatoon still needs to establish and implement a security policy for key applications and monitor user access. It also needs to follow its processes by approving user access to systems and data.

During the year, Sun Country completed a threat and risk analysis of its IT systems to assess the confidentiality, integrity, and availability of its systems and data. The analysis identified serious risks to the IT systems. For example, the analysis identified that the infrastructure is not reliable or stable, employees do not have the necessary skills to support the current IT systems or any future IT initiatives. Sun Country has developed a plan to address these risks. However, the RHA has not yet implemented the plan.

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

We continue to recommend that Mamawetan Churchill River, Prince Albert Parkland, Saskatoon, and Sun Country Regional Health Authorities establish information technology policies and procedures based on a threat and risk analysis.

In 2008, we decided to assess if Cypress had adequate controls to secure (i.e., protect the confidentiality, integrity, and availability of) its IT systems and data. We concluded that Cypress did not have adequate processes to do so. Chapter 10E reports what we did and our recommendations to help improve security of IT systems and data at Cypress. We encourage other RHAs to use the criteria we described in the Chapter to assess the adequacy of security of their own IT systems and data.

## **Written policies and procedures required**

Regina Qu'Appelle and Cypress do not have written policies and procedures for financial management and safeguarding public resources.

Since 2003, we have reported this matter for Regina Qu'Appelle.

In June 2004, PAC agreed with our recommendation.

Regina Qu'Appelle has documented some, but not all, of its policies and procedures. For example, it does not have written policies for capital assets, investments, contract management, and timely and reliable financial reports.

Cypress also did not have complete and documented policies and procedures. For example, Cypress did not have written policies for delegation of authority, capital assets, investments, and contract management.

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

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

- 3. We recommend that Cypress Regional Health Authority establish complete written financial management policies and procedures.**

## **Internal audit function needed**

Regina Qu'Appelle needs an internal audit function to provide assurance to the Board and senior management on the adequacy of controls and staff compliance.

Large, diverse organizations with complex management systems, such as Regina Qu'Appelle, need to know if their systems are adequate to meet their objectives. An internal audit function can provide assurance to the Authority's Board and management on the reliability of financial reports, the effectiveness of controls to safeguard public resources, and staff compliance with controls. An internal auditor can also provide assurance that revenues and expenses are authorized and public money is used for intended purposes.

In our 2005 Report – Volume 3, we recommended that Regina Qu'Appelle assess whether it needed an internal auditor. In April 2006, PAC considered this matter and agreed with our recommendation.



Regina Qu'Appelle has concluded that it needs an internal auditor based on its formal assessment of 2005-06. However, it has not hired an internal auditor.

Regina Qu'Appelle has several operating centres that receive money, buy goods, and approve invoices for payment. Some operating centres do not adequately segregate duties. At some operating centres, certain employees receive cash and also record these amounts in the financial records. This lack of segregation of duties increases the risk of fraud and error. As we report on page 175, Regina Qu'Appelle lost about \$1,000 in 2007-08 because an employee processed improper petty cash transactions at a long-term care home.

Regina Qu'Appelle needs an internal audit function to provide assurance to the Board and senior management on the adequacy of management processes and staff compliance with these processes.

**4. We recommend that Regina Qu'Appelle Regional Health Authority Board implement an internal audit function.**

## **Capital assets need controlling**

Prairie North and Keewatin Yatthé need better processes to safeguard their capital assets.

Both RHAs use various equipment (capital assets) to provide health services to their residents. Prairie North and Keewatin Yatthé have invested about \$10.8 million and \$1.4 million respectively in capital assets.

The RHAs record their capital asset purchases and disposals in their capital assets records. To help ensure their capital assets exist and capital asset records agree to the accounting records, the RHAs need to periodically count their capital assets and agree the counts to the capital asset records and the accounting records. The RHAs did not count and agree the capital assets to their accounting records. As a result, they did not know if the capital assets exist or their accounting records are accurate.

Inaccurate equipment records could cause the RHAs to make wrong decisions about equipment purchases and disposals.

- 5. We recommend that Keewatin Yatthé Regional Health Authority and Prairie North Regional Health Authority periodically count their capital assets and agree their capital asset records to their accounting records regularly.**

## **Disaster recovery plans need testing**

In our 2007 Report – Volume 3 and past reports, we recommended that Keewatin Yatthé test its established disaster recovery plans to assess their effectiveness. We also recommended that Mamawetan Churchill River, Prince Albert Parkland, and Sun Country Regional Health Authorities prepare information technology disaster recovery plans.

PAC considered this matter and agreed with our recommendations in June 2004 and June 2007.

During the year, Mamawetan Churchill River, Prince Albert Parkland, and Sun Country created disaster recovery plans, but they have not yet tested those plans to assess their effectiveness. Also, Keewatin Yatthé has not yet tested the disaster recovery plan it established last year. An outdated and untested disaster plan increases the risk that the plan may not work when needed.

We continue to recommend that Keewatin Yatthé Regional Health Authority, Mamawetan Churchill River Regional Health Authority, Prince Albert Parkland Regional Health Authority, and Sun Country Regional Health Authority prepare and test their information technology disaster recovery plans.

## **Affiliate reporting required**

In our 2007 Report – Volume 3 and past reports, we recommended that Saskatoon obtain auditor's report on internal control and legislative compliance from its affiliates as required by its operating agreements.

In June 2007, PAC considered this matter and agreed with our recommendation.

Saskatoon and Prince Albert Parkland carry out some of their services through affiliates. Operating agreements between the RHAs and affiliates set out what periodic reports affiliates must provide. These reports include auditor's reports on internal control, legislative compliance and periodic financial reports. Without those reports, RHAs cannot ensure that their affiliates are safeguarding public resources.

Saskatoon and Prince Albert Parkland need to obtain timely information to ensure their affiliates' (i.e., privately owned hospitals and nursing homes) safeguard public resources properly. Some of these RHAs' affiliates provide periodic financial reports and auditor's reports on internal controls and legislative compliance as the operating agreement requires. However, not all affiliates of Saskatoon and Prince Albert Parkland provided those reports in a timely manner.

We continue to recommend that Saskatoon Regional Health Authority obtain required reports (auditor's report on internal control and legislative compliance) from its affiliates in a timely manner.

- 6. We recommend that Prince Albert Parkland Regional Health Authority obtain all the required reports from its affiliates in a timely manner.**

## **Other matters**

### **Regina Qu'Appelle**

During the year, Regina Health Authority received a complaint about improprieties at a long-term care home. Management investigated cash handling processes at that location and found that an employee processed improper petty cash transactions resulting in cash shortage of about \$1,000. The Regina Health Authority dismissed the employee and reported the matter to the police.

### **Keewatin Yatthé**

During the year, Keewatin Yatthé lost \$700 of public money. Management found that one bank deposit totalling \$700 did not reach Keewatin Yatthé's bank account. Management did no investigation to determine

who may have caused this loss and what it must do to help improve its processes to safeguard public money.

## Five Hills Regional Health Authority—achieving planned outcomes

The Five Hills Regional Health Authority (Five Hills) is responsible for preventative, acute, and long-term healthcare services for about 55,000 people in south-central Saskatchewan. In 2007-08, Five Hills spent about \$108 million and carried out its services through 1,700 employees and several affiliated agencies.

Providing regional health services is complex. To get reasonable results, the health service agencies must use clinical practices proven effective, efficient service-delivery processes, and focus its management on planned outcomes.<sup>1</sup>

In our 2007 Report – Volume 1 (Chapter 6, pages 75-88), we concluded that at December 31, 2006, Five Hills had adequate processes to achieve planned outcomes except for analyzing results (i.e., activities completed and outcomes achieved) and using that analysis to support its decisions. Also, it did not provide its managers with learning opportunities about outcome-oriented management. We made three recommendations. Those recommendations appear in the next section in italics. On June 25, 2007, PAC agreed with the recommendations.

We describe below key actions that management has taken up to August 31, 2008 on each recommendation. While Five Hills has made some progress on each recommendation, further action is needed.

### Opportunities to learn new management skills

*We recommend that Five Hills Regional Health Authority routinely provide its managers with opportunities to learn about outcome-oriented management (i.e., about selecting useful targets, analyzing results in the short, medium, and long term and using performance information).*

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<sup>1</sup> Outcomes are the consequence of activities; they describe the public benefit achieved through services.

Five Hills now provides managers with more opportunities to learn about some aspects of outcome-oriented management. Five Hills has made funding available each year for interested managers to access leadership training. This training may include aspects of outcome-based management. Also, management involved in certain quality projects receive training on process and quality improvement. This training provides managers with a disciplined, data-driven approach and methodology to address identified problems and is intended to change how they think and behave. Related training includes techniques and tools on ways to identify the cause of the problem, consider potential solutions, and analyze results. At the time of our follow-up, about 11 managers were trained in this process and Five Hills had about 50 separate quality projects either underway or completed. These opportunities should help its managers better understand some aspects of outcome-based management.

However, at August 31, 2008, Five Hills did not routinely provide managers with opportunities on other key aspects of outcome-based management such as selecting useful targets and ways to monitor longer term results. Also, Five Hills' orientation for new managers continued to omit training on outcome-oriented management and it had not developed a management training plan.

## **Written progress reports and annual analysis of results**

*We recommend that Five Hills Regional Health Authority prepare, at least annually, written progress reports for its strategic priorities that include analysis of results (i.e., activities and outcomes). Analysis should compare actual results to baselines and planned targets, include forecasts, and explain why the results vary from the plan.*

Five Hills has updated its strategic plan. Since 2007, Five Hills prepared written reports about actions taken on its strategic priorities. Management provides the Board with quarterly updates on the progress of its strategic priorities. These reports focus on the activities completed or underway and include cross references to related reports or materials previously made available to the Board. At August 31, 2008, these reports to the Board did not compare actual results to baselines or planned targets with explanations as to why the results vary from the plan.

In conjunction with its quality projects, management received progress charts for each project. These charts compared planned targets to actual activities for each project and forecasted completion dates for activities. Up to August 31, 2008, these projects have focused on addressing identified service-delivery processes (e.g., reduce wait-list times, bathroom cleaning standards, supply storage). The alignment between these projects and Five Hills' strategic priorities was not always evident and is not made explicit in the related reports.

## **Align resources to expected outcomes**

*We recommend that Five Hills Regional Health Authority support its decisions to align resources to expected outcomes using reports that analyze progress toward planned priorities.*

Five Hills has more closely linked the allocation of certain resources to its planned outcomes (as reflected either in its strategic priorities or the provincial priorities set by the Ministry of Health). Some of Five Hill's initiatives require reports on progress towards planned outcomes (e.g., Pursuing Excellence initiatives). This form of reporting provides additional information to help make resource allocation decisions.

Senior management gave the Board reports that analyzed progress on strategic priorities. For example, reducing the wait for health services was a priority. When wait-time reports showed a two to four day wait for some, and a 14 to 24 day wait for other diagnostic imaging tests, managers reallocated staff resources for better service.

Also, the Ministry of Health aligned and allocated new resources to Five Hills based on progress towards provincial priorities such as recruitment and retention, safety, and quality improvement.

## Status of other outstanding recommendations of the Standing Committee on Public Accounts

The following table provides an update on recommendations previously made by the Standing Committee on Public Accounts (PAC) that are not yet implemented and are not discussed earlier in this chapter<sup>2</sup>.

| PAC REPORT YEAR <sup>3</sup>                            | OUTSTANDING RECOMMENDATION  | STATUS   |
|---|---|--|
| <b>Ministry of Health (Regional Health Authorities)</b> |   |  |
| 2002  | PAC concurs:<br><br>6D-1 that all RHAs should prepare capital equipment plans that contain the key elements for capital equipment plans in the public sector. | <b>Partially implemented</b> (as at March 31, 2007).<br><br>Capital equipment plans are improving but still do not contain all key elements of good plans. |

<sup>2</sup> For the definitions of the key terms used in the table, see Chapter 21 – Standing Committee on Public Accounts.

<sup>3</sup> PAC Report Year refers to the year that PAC first made the recommendation in its report to the Legislative Assembly.

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