Saskatoon Regional Health Authority 14D

Main points

We report that Saskatoon Regional Health Authority's (Saskatoon) financial statements are reliable and it had adequate controls to safeguard public resources except for the following.

Capital spending—Oliver Lodge Special Care Home

During the year, Saskatoon decided that approximately $5 million that it loaned to one of its affiliates to help expand its long-term care facility was likely not collectible and expensed this amount. By doing so, Saskatoon changed the affiliate's portion of funding for this project. *The Regional Health Services Act* (Act) does not allow regional health authorities to change funding formulas without Ministerial approval. Saskatoon did not obtain such approval. In addition, the Act does not allow affiliates to borrow money for capital projects without Ministerial approval. The affiliate did not obtain the Minister's approval for borrowing from Saskatoon.

Service Agreement with Amicus

With the direction of the Ministry of Health, Saskatoon entered into a Continuing Care and Service Agreement to construct and operate a long-term care facility, on a sole source basis, with Amicus Health Care Inc. (Amicus), a newly incorporated company. In return, Saskatoon agreed to pay Amicus about $185 daily per bed. Neither the Ministry of Health nor Saskatoon were able to tell us what process they used to seek interest from healthcare providers or what criteria they used to select Amicus for the project. The Ministry of Health and Saskatoon did not use their normal processes for entering into this Agreement. We did not see any evidence why the Ministry of Health and Saskatoon did not do so.

The estimated project cost is approximately $27 million. Multi-million dollar projects require transparency and open and competitive processes. Lack of clear and transparent processes increases the risk that decision makers may not become aware of other alternatives and potentially more cost-effective options for such projects. Clear and transparent processes to seek interest from private sector healthcare providers and well communicated selection criteria would help avoid real or perceived conflicts of interest, bias, and controversy in any such future projects.

Reducing injuries to care staff—a follow up

We followed up on the status of our recommendations on a 2003 audit. Saskatoon has now implemented all of the past recommendations.

Introduction

The Saskatoon Regional Health Authority (Saskatoon) operates under *The Regional Health Services Act* (Act) and is responsible for the planning, organization, delivery and evaluation of health services within the geographic area known as Saskatoon Health Region. Saskatoon employs approximately 13,000 staff and has 847 physicians providing health services to over 300,000 residents. It operates 10 hospitals, 29 long-term care facilities, 12 primary health cares sites and 14 public health sites.

Saskatoon's financial statements for the year ended March 31, 2011 show operating fund revenues totalling $954 million and expenses totalling $950 million. It also shows capital fund revenues totalling $274 million and expenses totalling $50 million. Saskatoon held assets totalling $641 million at year-end. Saskatoon's financial statements are included in its 2011 Annual Report.

Audit conclusion and findings

In our opinion, for the year ended March 31, 2011:

- **Saskatoon Regional Health Authority had adequate rules and procedures to safeguard public resources except for the matters described in this chapter**
- **Saskatoon Regional Health Authority complied with the authorities governing its activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing except for the matters described in this chapter**
- **Saskatoon Regional Health Authority's financial statements are reliable**

We worked with KPMG LLP, Saskatoon's appointed auditor, to form our opinions. We used the framework recommended in the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (www.auditor.sk.ca/rrd.html).

In this chapter, we also report on the Continuing Care and Service Agreement with Amicus Health Care Inc. and the results of our follow up work relating to Saskatoon's practices to reduce injuries to care staff.

Capital spending needs approval

Saskatoon needs to obtain appropriate and timely approval for transactions with its affiliates[1] as required under *The Regional Health Services Act* (Act).

Saskatoon and Oliver Lodge Special Care Home (an affiliate) commenced a capital project for the expansion of the special care home called Oliver Lodge for a total cost of $22.3 million. On October 18, 2007, the Ministry of Health (Health) approved the project and agreed to fund 65% of the project costs ($14.5 million). Saskatoon was to receive the necessary capital grant from Health to pay the 65% share of the project costs. The affiliate was responsible to raise and pay the remaining 35% of the project cost ($7.8 million). Saskatoon received the capital grant to fund its portion of the project cost.

This project was originally planned in 2004 for 44 beds with the affiliate's expected share of cost to be $3.1 million. By 2007, the project expanded to 89 beds and the affiliate's share of cost increased to $7.8 million. At that time, documents show that the affiliate expressed its concerns about raising funds to meet its share of the cost.

During the course of the project, the affiliate paid Saskatoon the amount it raised for the project totalling approximately $3 million. In October 2007, it signed a Memorandum of Understanding (MOU) with Saskatoon for Saskatoon to pay all construction costs as incurred. The construction of the project began in April 2009.

As the project progressed, the affiliate had difficulty raising the balance of its portion of the cost. The project continued and Saskatoon continued to pay all project costs. In essence, Saskatoon agreed to finance, interest free, the balance of the affiliate's portion of the required funding.

[1] Under *The Regional Health Services Act*, affiliate means a health care organization that operated an approved healthcare facility before the Act came into force. This includes any successor.

The MOU that the affiliate and Saskatoon signed is akin to a borrowing agreement. The Act prohibits affiliates from borrowing any money without the Minister's approval. The affiliate did not seek such approval from the Minister. In addition, while the Act has provisions allowing regional health authorities to provide funding to affiliates, it does not include any specific provision allowing regional health authorities to lend money to affiliates.

1. We recommend that affiliates of Saskatoon Regional Health Authority comply with *The Regional Health Services Act* when borrowing money for capital projects.

The project is now complete and Saskatoon has paid for the affiliate's remaining portion (approximately $5 million) of the project costs.

At March 31, 2011, Saskatoon had an account receivable from the affiliate for $5 million. Saskatoon considered this receivable uncollectable and expensed this amount in its financial statements because of the uncertainty about the affiliate's ability to raise additional funds. As a result, Saskatoon used public money for an unauthorized purpose.

The Act does not allow regional health authorities to make agreements with health care organizations that are not consistent with guidelines or directions provided by the Minister. Saskatoon did not comply with the Act as its agreement (MOU) with the affiliate effectively changed the funding arrangement for this project from that approved by the Minister in 2007.

As we stated earlier, the Act does not specifically allow regional health authorities to lend money to affiliates. Health needs to clarify whether the regional health authorities have powers to lend money to their affiliates and what approval processes are required to do so.

2. We recommend that Saskatoon Regional Health Authority comply with *The Regional Health Services Act* when making changes to funding arrangements for capital projects.

3. We recommend that Ministry of Health clarify whether the regional health authorities have powers to lend money to health care organizations.

Management told us that Saskatoon Regional Health Authority will seek retroactive ministerial approval for this transaction because the amount due from the affiliate is not considered collectible.

Policies and procedures needed for security of information technology (IT) systems and data

We recommended that Saskatoon Regional Health Authority establish information technology policies and procedures based on a threat and risk analysis. *(2004 Report – Volume3)*

In October 2005, the Standing Committee on Public Accounts (PAC) agreed with our recommendation.

Management told us Saskatoon is currently developing comprehensive IT policies and procedures based on a prioritized list of risk exposure. Management also told us that the IT security policy framework for Saskatoon is in the final stage of approval and that the framework will provide guidance for the development of other supporting IT policies and procedures.

Status – We continue to make this recommendation.

We recommended that all regional health authorities establish adequate disaster recovery plans and regularly test those plans to ensure their effectiveness. *(2009 Report – Volume 2)*

In June 2010, PAC agreed with our recommendation.

Like other regional health authorities, Saskatoon relies on IT systems and data to provide patient care. The primary function of a Disaster Recovery Plan (DRP) is to rebuild or restore IT resources to provide access to necessary information immediately after a major disaster or interruption.

Saskatoon does not have a complete DRP. Management told us that Saskatoon is in the first stage of developing its DRP. Saskatoon has developed a checklist of procedures and documentation required to proceed to completion of its DRP. During the past year, Saskatoon tested its ability to restore data.

Status – We continue to make this recommendation.

Capital equipment plan needed

We recommended that Saskatoon Regional Health Authority should prepare a capital plan that contains the key elements for capital equipment plans in the public sector. *(2001 Fall Report – Volume 2)*

In February 2002, PAC agreed with our recommendation.

Saskatoon's capital equipment plan is improving but it still does not contain all key elements of good plans.

Status – We continue to make this recommendation.

Service Agreement with Amicus Health Care Inc.

Background

On April 19, 2010, Saskatoon signed a Continuing Care and Service Agreement (Service Agreement) with Amicus Health Care Inc. (Amicus) to build and operate a 100 bed long-term care facility in Saskatoon. Amicus is a non-profit corporation incorporated under *The Non–Profit Corporation Act 1995.* The documents filed with the corporate registry branch of the Information Services Corporation show that Amicus was registered on January 20, 2010 for the sole purpose of providing quality, holistic health care to long-term care residents.

Amicus' long-term facility would use a new service delivery model that, among other things, will allow some couples to remain together even if their care level is different. The construction of this facility began on April 1, 2010 and is expected to be ready for occupancy in January 2012.

Under the Service Agreement, the estimated cost of construction was $27 million. Amicus was responsible to obtain a $27 million (maximum) first priority mortgage on the facility. The term of the Service Agreement is seven years (two years for constructing the facility and five years for operating the facility). The Service Agreement is renewable for an additional five years. Saskatoon agreed that the 'per day' rate would

cover the full cost of debt servicing for the facility together with reasonable operating costs.

This is a significant long-term care project for Saskatoon. We wanted to:

- ensure that Saskatoon properly recorded and disclosed its obligation under the Agreement in its financial statements
- assess the process followed to contract with Amicus for consistency with the established process
- assess whether the terms of the Agreement with Amicus are consistent with previous similar agreements

Our work consisted of interviewing Saskatoon and Health officials and examining the Service Agreement and related reports and documents.

Impact on Saskatoon's financial statements

The Service Agreement does not require Saskatoon to make any payments to Amicus while the facility is under construction. Under the Service Agreement, Amicus is responsible, at its sole cost, for obtaining and repaying any financing required in connection with the construction and furnishing of the long-term care facility.

Saskatoon followed Canadian generally accepted accounting principles (GAAP) and disclosed the existence of the Service Agreement with Amicus in its 2011 financial statements.

No financial institution is a party to the Service Agreement. While the facility is under construction, the contractual obligation under the agreement does not meet the definition of a financial guarantee under GAAP because Amicus is responsible for the construction of the facility.

Saskatoon expects the facility will be completed and start operating in early 2012 at which time Saskatoon will need to have more disclosure in its annual financial statements. Such disclosure should reflect the long-term nature of the arrangement with Amicus and a contingent liability relating to the terms in the Service Agreement. Once construction is completed, Saskatoon assumes the risk over debt repayment and the operation of the new facility.

Both Saskatoon and Amicus have the right to terminate the Service Agreement by giving the stipulated notice to the other party. Upon termination or non-renewal by either party, Amicus may require Saskatoon to buy its assets and pay the outstanding balances owing to the Mortgagee including outstanding interest charges on the mortgage.

Saskatoon assessment for long-term care beds

We understand from Saskatoon officials that for many years Saskatoon has not had a new long-term care facility built or a major expansion of an existing facility other than the Oliver Lodge project described earlier in this chapter. Officials told us that as part of Saskatoon's annual strategic planning, they conduct a needs assessment for long-term care beds in the region. In May 2010, Saskatoon's assessment indicated the need for about 200 beds in the next two to three years. We did not audit Saskatoon's need assessment.

Individuals residing at long term facilities are called clients. Management routinely provides the Board information about the number of clients on the waiting list and management's efforts to accommodate them.

To accommodate its clients, Saskatoon's process has been to discuss partnering opportunities with existing affiliate health organizations to establish more accommodation for clients. At the time of entering into the Service Agreement with Amicus, Saskatoon had not sought any formal expression of interest from its affiliates to build or expand existing residences for clients.

Sole sourcing with Amicus

In March 2010, the Saskatoon Board of Directors (Board) received information about a draft Memorandum of Understanding (MOU) that Health was contemplating signing with Amicus. Saskatoon did not know how Health had selected Amicus for this MOU. Neither Saskatoon nor Health were able to tell us what process they used to seek interest from private sector healthcare providers in building a new long-term healthcare facility for Saskatoon.

On March 10, 2010, management informed the Board that because Amicus will not agree to be designated as an affiliate, signing an

agreement with Amicus will pose challenges. In general, the Board heard that the agreement with Amicus might jeopardize the relationships with other affiliates who are held to different standards and expectations. In addition, the Board was informed that the agreement with Amicus may be seen as inequitable, lacking transparency and that the opportunity of this kind of agreement has never been discussed with other affiliates. Management also informed the Board that discussions were on going and alternatives to the MOU and service agreement could be considered.

Health and Amicus signed the MOU on March 22, 2010. We note Health did not use a tendering process leading up to the selection of Amicus. Health could not tell us what criteria it used to select Amicus for this project. Nor could Health provide us with a cost benefit analysis of the proposal.

On May 12, 2010, on the advice of management, the Board approved the Service Agreement with Amicus. The Board heard that Saskatoon had been assured that Amicus will provide care in a way that meets all of the standards and accountabilities that Saskatoon requires.

On May 18, 2011, Health designated Amicus as a health care organization (HCO). Under *The Regional Health Services Act,* an HCO is an affiliate or a prescribed person that receives funding from a regional health authority to provide healthcare services. Under the Act, HCOs that were operating healthcare facilities in the region prior to *The Regional Health Services Act* are called affiliates. The Act requires HCOs to co-operate with the Minister and the regional health authority and comply with the Act and regulations.

Health's normal process for seeking additional long-term care beds is through the participation of affiliates and HCOs. Under this process, regional health authorities, after consulting with their HCOs, bring forward proposals to enhance current facilities or build new facilities to create long-term care beds in their regions. Health reviews proposals, sets the portion of project costs that the related HCOs and community organizations must contribute, and decides how many and what proposals it will recommend for Treasury Board approval.

Effective February 15, 2011, Health's revised funding formula requires HCOs and community organizations to raise 20 per cent of the capital

costs of the proposed project before Health approves the project and provides the remaining 80 per cent. Prior to this revision, the funding formula was for HCOs and community organizations to raise 35 per cent and Health provided the remaining 65 per cent.

In the case of Amicus, Amicus agreed to cover 100% of the construction costs. However, once constructed, Saskatoon is to cover on-going operating and capital costs through the daily per bed rates.

Although Amicus is considered a pilot project for a new service delivery model and capital funding formula, we did not see any evidence why Health did not follow its normal process for entering into an agreement with a healthcare provider or seek broader consultation on partnering with other organizations.

A clear and transparent process to seek interest from private sector healthcare providers for such projects would help ensure that the decision makers receive varied, innovative, and financially competitive proposals. In addition, well-communicated selection criteria would help to avoid real or perceived conflicts of interest, bias and controversy in such selection processes.

4. We recommend that the Ministry of Health and Saskatoon Regional Health Authority establish policies for use when seeking interest from private sector healthcare providers to build healthcare facilities.

5. We recommend that the Ministry of Health and Saskatoon Regional Health Authority establish criteria to use when selecting private sector healthcare providers to build healthcare facilities and provide the established criteria to all interested private sector healthcare providers.

We note that *The Regional Health Services Amendment Act* will come into force on January 1, 2012. When in force, RHAs will pay HCOs for their assets at a fair market value only when the agreement is terminated by RHAs.

A unique Service Agreement with Amicus

The Service Agreement that Saskatoon signed with Amicus is different from its agreements with its affiliates for providing long-term care.

Saskatoon normally pays its affiliate for occupied beds only. Management told us that although the Service Agreement does not require so, Health has directed Saskatoon to begin paying Amicus for 100 beds from the day the facility opens notwithstanding how many beds are occupied in the facility. This is a significant departure from Saskatoon's current practice of paying only for beds occupied.

Affiliate service agreements allow affiliates to retain client revenue (money received from residents), but also allow Saskatoon to claw back amounts above the approved surplus or to fund deficits at year-end. The Amicus agreement also allows Amicus to retain client revenues but does not allow Saskatoon to claw back any surplus or fund deficits.

Saskatoon pays its affiliates total daily per bed rates that include both operating and capital funding ranging from $124.49 to $157.97 and $1.39 to $7.16 respectively. Daily per bed rates for capital funding only subsidize costs of any borrowing that affiliates might have obtained for facility maintenance or renovations.

The Service Agreement with Amicus stipulates a combined daily per bed rate not to exceeding $185 based on 2009/10 dollars to cover debt servicing (capital) and operating costs. The proposed total daily per bed rate for Amicus is $184.88 consisting of $137.14 for operating and $47.74 for capital. The proposed daily operating rate of $137.14 per bed for Amicus falls within the range of operating rates in the region. The proposed daily capital rate is higher than other affiliates because of Amicus borrowing 100% of the capital required for construction. We were unable to obtain the basis for calculating this rate for Amicus. As well, neither Health nor Saskatoon could provide us any written analysis to support that funding long-term beds in this new way is cost effective for the Province.

Reducing injuries to care staff—a follow up

Employers and individual managers are legally responsible for workplace safety. Individual workers also must do their part to keep themselves, their co-workers, and their patients safe.

In Saskatchewan, injuries continue to remain common in health sector workplaces. In 2010-11, Health regions continue to have about 7 time-loss injuries for every 100 workers. In 2010-11, the number of time-loss days per 100 workers in the health regions dropped to about 350 days – a two to three per cent reduction over the prior year.[2]

Our 2003 Report – Volume 1, Chapter 2 concluded that Saskatoon did not adequately use best practices to reduce injuries to care staff. We made three recommendations. In June 2004, PAC agreed with our recommendations.

Since our 2003 Report, we have assessed Saskatoon's progress towards addressing our recommendations three times. Each time, we reported that Saskatoon needed to do more to address our recommendations.

In 2011, we did our fourth follow up. The following section sets out the recommendations (in italics) and Saskatoon's progress up to September 30, 2011 towards meeting our recommendations. Saskatoon has now implemented our past recommendations.

Board commitment to reduce injuries

We recommended that the Board of Saskatoon Health Region commit to workplace safety as a priority, and that the Board receive frequent reports about injury rates and actions to reduce injuries.
(2003 Report – Volume 1)

Saskatoon continued its commitment to workplace safety by setting targets to reduce work-related injuries to care staff, allocating resources to achieve targets, and holding senior managers accountable to reduce the injury rates. For example, Saskatoon created Workplace Excellence,

[2] Ministry of Health *2010-2011 Annual Report*, p. 28.

a workplace safety initiative intended to help achieve personal health, workplace health, and financial health for everyone in the region.

Saskatoon provided quarterly reports to the Board showing progress on injury rates compared to targets and provincial injury rates. The reports also explained what is being measured, why, and the actions Saskatoon is taking to meet the targets.

Status – Saskatoon has implemented this recommendation.

Active occupational health committees

We recommended that the occupational health committees of the Saskatoon Health Region:

- ***analyze the causes of injuries in areas with high injury rates at every meeting***
- ***make written recommendations to senior management and their Board to fix unresolved causes of injuries*** *(2003 Report – Volume 1)*

Saskatoon's occupational health committees received a summary analysis of injuries every three months to help monitor trends and the causes of injuries. Minutes showed that the committees reviewed and discussed these reports, including statistics related to the incidents and actions taken or proposed. In addition, these committees received inspection reports highlighting common causes of injuries.

The occupational health committees work closely with the safety consultants and managers, and involve senior management to resolve employees' health and safety concerns. This allows Saskatoon to resolve issues relating to the identified safety concerns and causes of injuries. Saskatoon's Board receives the occupational health committee's written reports and recommendations only when senior management and the committee fail to resolve the safety concerns identified.

Status – Saskatoon has implemented this recommendation.

Status of previous recommendations of the Standing Committee on Public Accounts

The following table provides an update on recommendations previously agreed to by PAC that are not yet implemented and are not discussed earlier in this chapter.[3] Our intent is to follow up on outstanding recommendations in upcoming reports.

PAC REPORT YEAR[4]	OUTSTANDING RECOMMENDATION	STATUS
IT Security (2010 Report – Volume 2)		
2011	11D-1 that the Saskatoon Regional Health Authority implement adequate information technology policies.	**Not implemented** as at July 30, 2010.
2011	11D-2 that the Saskatoon Regional Health Authority adequately restrict access to information technology equipment, systems, and data.	**Not implemented** as at July 30, 2010.
2011	11D-3 that the Saskatoon Regional Health Authority configure and update its computers and network equipment to protect them from security threats.	**Not implemented** as at July 30, 2010.
2011	11D-5 that the Saskatoon Regional Health Authority monitor the security of its information technology infrastructure.	**Not implemented** as at July 30, 2010.
2011	11D-6 that the Saskatoon Regional Health Authority provide timely reports to the Board of Directors and senior management on the state of its information technology infrastructure.	**Not implemented** as at July 30, 2010.

[3] For definitions of the Key Terms used in the exhibit, see Chapter 27 – Standing Committee on Public Accounts.
[4] PAC Report Year refers to the year that PAC first made the recommendation in its report to the Legislative Assembly.

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