

Chapter 2

Regina Qu'Appelle Regional Health Authority

1.0 MAIN POINTS

In January 2013, at the request of the Ministry of Health, we examined the processes Regina Qu'Appelle Regional Health Authority (Regina Qu'Appelle) used for the preparation of its 2013 budget and for its 2012-13 financial reporting. The results of our work are included in this chapter.

During 2012, the Board of Directors (Board) of Regina Qu'Appelle received and reviewed incomplete, incorrect, and untimely monthly projected year-end results. This same information was also provided to the Ministry of Health. Regina Qu'Appelle needs to improve its processes for budgeting, financial reporting, and financial oversight.

In November 2012, the Board raised concerns about Regina Qu'Appelle's large deficit. In January 2013, the Board received financial reports which included the correct projected financial forecast that showed that the deficit for the year could total about \$24 million. Because management provided the correct projected financial information to the Board so late in the year, the Board could not take timely corrective actions to potentially recover the deficit.

We make six recommendations for Regina Qu'Appelle to help improve its processes.

2.0 INTRODUCTION

On August 1, 2002, *The Regional Health Services Act* (the Act) created the Regina Qu'Appelle Regional Health Authority (Regina Qu'Appelle). The Act makes Regina Qu'Appelle responsible for the planning, organization, delivery, and evaluation of health services in its health region or any other area that may be directed by the Minister of Health.

For the year ended March 31, 2012, Regina Qu'Appelle had operating fund revenues totalling \$930.2 million and expenses totalling \$929.2 million. It also had capital fund revenues totalling \$13.3 million and expenses totalling \$31.6 million. At March 31, 2012, it held assets totalling \$430.6 million.

In January 2013, at the request of the Ministry of Health, we examined the processes Regina Qu'Appelle used for 2013 budget preparation and financial reporting. The results of our work are included in this chapter.

In November 2012, a new CEO took charge and began, along with the Board of Directors (Board), to make operational changes at Regina Qu'Appelle including changes to address the issues identified in this chapter.

Regina Qu'Appelle prepares a budget on an annual basis. It prepares a preliminary budget based on the prior year's funding adjusted for known changes (e.g., changes to service volume, programs/services, needed capital equipment, collective bargaining agreements). Management reviews and discusses budget proposals with the Ministry of



Health (Ministry). The Ministry may recommend further changes to the proposed budget (e.g., defer some expenses or seek operational cost savings). The Board approves the final budget for submission to the Ministry.

Regina Qu'Appelle's policies require management to prepare monthly financial reports. The financial reports include year-to-date actual results, explanations for variances between actual and budget, and financial forecasts to year-end.

3.0 BUDGET PROCESSES NEEDS IMPROVEMENT

Management presented its final budget to the Board on May 28, 2012. The budget set out Regina Qu'Appelle's strategic priorities and described "breakthrough initiatives". The breakthrough initiatives identified projects designed to help Regina Qu'Appelle achieve its goals within its budget constraints and quantified \$12.3 million of operating efficiencies based upon these initiatives. The budget presentation also identified key risks to achieving its planned results.

The Board approved the 2012-13 Regina Qu'Appelle budget on May 28, 2012. The approved budget showed that Regina Qu'Appelle would have a \$2.0 million surplus at the year-end. However, at the time the Board approved the budget, Regina Qu'Appelle had already started to fall behind on the financial targets outlined in this budget. Financial reports for April 2012 and May 2012 showed accumulated operating deficits of \$5.1 million and \$7.0 million respectively. The Board had not yet received these reports.

In June 2012, Regina Qu'Appelle's forecasting system projected a year-end deficit of \$9.3 million. The breakthrough initiatives and operating efficiencies that management had identified were not achieving the desired results and the actual operating deficits continued to grow (see **Figure 1**). As we state later, the projected operating deficit increased to \$24 million in December 2012.

The large size of the deficit raises questions as to whether the cost savings initiatives and operating efficiencies set out in the budget were achievable. It is not possible to know how much of the deficit could have been avoided if the Board and management had taken more action on a timely basis. It also is not clear whether the initiatives set out in the original approved budget will be achieved in a future period.

- 1. We recommend that the Board of Directors of the Regina Qu'Appelle Regional Health Authority review and approve future budgets on a timely basis.**

4.0 FINANCIAL REPORTING PROCESSES NEED IMPROVEMENT

Regina Qu'Appelle prepared monthly financial reports during the year. The financial reports included actual financial results, explanations for variances between actual results and budgets, and projections to year-end.

In June 2012, Regina Qu'Appelle's forecasting system projected a \$9.3 million deficit at the year-end. In July 2012, management reviewed the forecast. Based on management's commitment to achieve the approved budget, management directed accounting staff to modify the year-end forecast to show a surplus of \$2 million at the year-end. Management communicated to all branches about the need to balance the budget but did not prepare a plan setting out strategies to achieve cost savings to contain the growing deficit. Nor did it communicate to the Board any information about the projected year-end operating deficit or how it planned to address the growing deficit.

Historically, Regina Qu'Appelle had projected year-end results accurately and did not need to manually adjust system projected year-end results. While adjusting the forecast may be appropriate in certain circumstances (e.g., program closure), management's modified monthly forecasts (see **Figure 1**) were not supported by actual year-to-date financial results or a plan to reduce the monthly deficits.

The financial reports that management provided to the Board had incomplete information about the projected year-end results (see **Figure 1**) and incomplete explanations about differences between the actual and budgeted operating results. This same information was also provided to the Ministry of Health.

2. We recommend that Regina Qu'Appelle Regional Health Authority provide the Board of Directors reliable monthly financial reports that include reasonable and supportable projections of year-end results.

Actual financial results provided to the Board were accurate. However, we found that variance explanations provided to the Board were not reasonable or supported. For example, explanations for differences between actual and budget salary expenses did not fully explain the reasons for the overages.

3. We recommend that Regina Qu'Appelle Regional Health Authority include in its monthly financial reports to the Board of Directors complete reasons for differences between the year to date budgeted and actual expenses.

As we noted earlier, management did not inform the Board on a timely basis about the projected year-end deficit or how it planned to contain the growing deficit. As the year progressed, actual spending in excess of approved budget continued to increase. In the fall of 2012, management set up a committee to look into how best to manage the deficit. In December 2012, management established a strategy to reduce expenditures. While the strategy may help to reduce future expenditures, the plan was not timely to address the current years' projected operating deficit.

Management needs to prepare timely plans setting out the corrective actions needed and assigning the responsibility for monitoring and achieving established financial targets. Management should also carefully monitor whether its plans are achieving the intended results.



- 4. We recommend that Regina Qu'Appelle Regional Health Authority develop action plans to address projected operating deficits and provide a formal plan to the Board of Directors for approval.**

Figure 1 provides a summary of financial information provided to the Board. The table is based on a review of Regina Qu'Appelle's monthly actual results and an examination of its forecast projections.

Figure 1 – Summary Financial Information

	Actual Year-to-date Surplus/(Deficit) Unaudited	Projected Year-end Surplus/(Deficit) From Forecast System	Manual Adjustments Made by Senior Management	Projected Year-end Surplus/(Deficit) Reported to Board
(in millions)				
April 2012	(\$5.1)	No year-end projection	No year-end projection	No year-end projection
May 2012	(\$7.0)	No year-end projection	No year-end projection	No year-end projection
June 2012	(\$7.7)	(\$9.3)	\$11.3	\$2.0
July 2012	(\$7.9)	(\$6.0)	\$8.0	\$2.0
August 2012	(\$6.4)	(\$7.5)	\$9.5	\$2.0
September 2012	(\$9.5)	(\$11.4)	\$6.6	(\$4.8)
October 2012	(\$13.0)	(\$20.9)	\$12.4	(\$8.5)
November 2012	(\$17.0)	(\$24.5)	None	(\$24.5)
December 2012	(\$16.6)	(\$24.0)	None	(\$24.0)
January 2013	(\$19.4)	(\$25.5)	None	(\$25.5)
February 2013	(\$19.3)	(\$23.7)	None	(\$23.7)
March 2013	(\$19.7)	Not applicable	Not applicable	Not applicable

Source: Regina Qu'Appelle Regional Health Authority financial information

5.0 BOARD MONITORING NEEDS IMPROVEMENT

A board has a responsibility to oversee the conduct of their organization, monitor financial results, and ensure that all major issues affecting their organization are given proper consideration. Board members must collectively have adequate expertise to assume an active role in managing exceptional circumstances (e.g., serious financial difficulties). Lack of a thorough and timely review of financial reports by the Board increases the risk that management may not perform as expected and any corrective action may not be timely. Delayed corrective actions may not achieve the expected results.

The Board did not ask and management did not provide the Board any explanation for clearly inconsistent projected year-end results when compared to actual operating results between June and October 2012.

The Board did not receive all of the monthly financial reports on a timely basis. The Board received and reviewed the financial reports on the dates indicated below.

Financial reports for April	June 14, 2012
Financial reports for May, June, and July	September 18, 2012
Financial reports for August and September	November 15, 2012
Financial reports for October	December 17, 2012
Financial reports for November	January 17, 2013
Financial reports for December	February 29, 2013
Financial reports for January and February	March 26, 2013

The Board of Regina Qu'Appelle should have requested and received detailed reasons for inconsistencies between the actual operating results, planned operating results, and the projected year-end results. In November 2012, the Board raised concerns about the large deficit. In January 2013, the Board received reports showing Regina Qu'Appelle's actual deficit at the end of November 2012 was \$17 million and it was projecting a year-end deficit of \$24.5 million. Although the Board began to address the projected year-end deficit, it was not possible to recover the deficit prior to the year-end.

5. We recommend that the Board of Directors of Regina Qu'Appelle Regional Health Authority perform regular, timely, and thorough reviews of financial reports.

6. We recommend that Regina Qu'Appelle Regional Health Authority request the Ministry of Health to appoint individuals to the Board of Directors with financial expertise necessary to assess financial reports.