

DISTRICT HEALTH AUTHORITIES - COLCHESTER EAST HANTS, CUMBERLAND & PICTOU COUNTY

BACKGROUND

9.1 The Health Authorities Act was proclaimed effective December 21, 2000. It gave the Governor in Council the authority to establish health districts and District Health Authorities (DHAs) to govern them. The basis for the move to District Health Authorities was the 1999 *Report of the Task Force on Regionalized Health Care*.

9.2 Nine health authorities were established, effective January 1, 2001, under the District Health Authorities General Regulations, to replace the previous four Regional Health Boards and three Non-designated Organizations. Three health authorities were established from the former Northern Regional Health Board:

- **Colchester East Hants Health Authority (CEHHA)** - Operates several health care facilities and programs including Colchester Regional Hospital (CRH), Lillian Fraser Memorial Hospital (LFMH), mental health, public health, addictions and related services. Received grants of \$47.0 million from the Department of Health in 2004-05, and incurred a deficit of \$.1 million from operations.

Since the fall of 2001 the CEHHA has been working to ensure adequate physical resources are available to deliver effective care to the people of the District. A Master Program / Master Plan for the Colchester Regional Hospital was approved by the Department of Health in 2003. In 2004 a site for a new facility to replace the existing hospital was announced. Order in Council 2005-401, dated September 9, 2005, approved the Department's 75% (\$78 million) share of the cost of the project. This approval will allow the CEHHA to move to the next stage of planning - tendering for architectural design. The new facility is expected to be completed in 2010.

- **Cumberland Health Authority (CHA)** - Operates several health care facilities and programs including Cumberland Regional Health Care Centre, South Cumberland Community Care Centre, North Cumberland Memorial Hospital, All Saints Springhill Hospital, Bayview Memorial Hospital, mental health, public health, addictions and related services. Received grants of \$36.6 million from the Department of Health in 2004-05 and incurred a deficit of \$1.1 million from operations.

- **Pictou County Health Authority (PCHA)** - Operates several health care facilities and programs including Aberdeen Regional Hospital, Sutherland Harris Memorial Hospital, mental health, public health, addictions and related services. Received grants of \$46.7 million from the Department of Health in 2004-05, and incurred a deficit of \$1.2 million from operations.

9.3 The deficit figures noted above were taken from the DHAs' audited financial statements for 2004-05. It is important to note that the District Health Authorities

and the Department of Health (DOH) may continue to negotiate funding after the fiscal year has ended. The annual deficits recorded on the financial statements are calculated at a point in time and may actually be reduced if the DHAs are successful in their attempts to have the Department of Health fund certain specific items and provide more revenue for the completed fiscal year. For example, after the audited financial statements were released, DOH agreed to fund the 2004-05 deficits noted above.

- 9.4** Under the previous organization structure, there had been only one administrative function for the Northern Regional Health Board. The Department of Health directed that the arrangements for finance and payroll, materiel management, information technology and human resources were to be continued under the District Health Authorities and that no changes were to be made without DOH approval. The three DHAs currently have shared services agreements in place, effective April 1, 2004, which expire March 31, 2007. Human resource services are based in Colchester East Hants. Materiel management is managed from Pictou County and information technology services are managed from Colchester East Hants.
- 9.5** The Department of Health agreed to recent changes to the shared financial services. Finance and payroll services have separated into three separate departments, one for each DHA, reporting to a Director of Financial Services at each DHA. The Directors of Financial Services report to the respective Vice Presidents of Operations. The computerized financial and payroll system had been centralized but is now being transferred to the three DHAs.
- 9.6** Two of the three DHAs projected operating deficits in the range of \$1 million for fiscal 2003-04. Government determined that an independent assessment should be undertaken to determine whether the organizations were performing as well as should be expected and whether there was an opportunity for improved financial performance. A consultant completed value for money assessments of Colchester East Hants and Pictou County Health Authorities and released reports in February 2004 (see <http://www.gov.ns.ca/health/downloads/CEHHA%20final%20report.pdf> and <http://www.gov.ns.ca/health/downloads/PCHA%20final%20report.pdf>). The following quotes from these reports summarize the basic conclusions:

“Overall, CEHHA [Colchester East Hants Health Authority] is performing very well in comparison with its peers and uses its resources wisely. It appears to be underfunded relative to its peers and has been unable to develop significant new programs to meet identified needs.” (Value for Money Assessment Colchester East Hants Health Authority, Virginia MacDonald and Associates Limited, February 2004, page 6)

“The overall performance of DHA 6 [Pictou County Health Authority] is about in the middle of the seven DHA’s compared. However, a better understanding of the true cost of services provided to non DHA 6 residents would likely result in a higher ranking for this district. Overall, the organization appears to be well managed and addressing issues proactively. Some improvements are required in reporting of workload and costs and there may be opportunities for improvements in laboratory, food service, ER and OR costs. When

more accurate information is available a follow up review should be undertaken.” (Value for Money Assessment Pictou County Health Authority, Virginia MacDonald and Associates Limited, February 2004, page 9)

- 9.7** In 2005, the Department of Health engaged another consulting firm to conduct an operational review of PCHA to identify improvement opportunities. The report was submitted in February 2006.
- 9.8** The District Health Authorities are accredited by the Canadian Council on Health Services Accreditation (CCHSA) which performed accreditation surveys of all three DHAs in February 2005. Colchester East Hants and Cumberland were granted *Accreditation with Condition: Report*, while Pictou County was granted *Accreditation with Condition: Focused Visit*. The accreditation results indicate that the CCHSA identified issues which will need to be followed up by submission of a report or an accreditation visit in 12 months.
- 9.9** This was our first audit of these three DHAs. We audited the predecessor Northern Regional Health Board in 1999.

RESULTS IN BRIEF

- 9.10** The following are the principal observations from this audit.
- The District Health Authorities have adequate financial management processes at the management and Board levels, although we did recommend certain improvements.
 - The Department of Health should approve DHA business plans and funding levels on a more timely basis as required by the Health Authorities Act. We support the Department’s efforts to redesign the business planning and DHA funding processes to achieve more timely approval for the 2006-07 fiscal year.
 - CEHHA should improve its systems for reporting and monitoring nursing overtime. We did not audit these systems at the other two DHAs.
 - The DHAs should improve policies related to travel claims.
 - The DHAs should improve compliance with procurement policies for the acquisition of professional services which fall below the thresholds where public tendering is required.

AUDIT SCOPE

- 9.11** The objectives of this audit, at all three DHAs, were to:
- review and assess financial management including business planning,

budgeting, financial reporting and monitoring at the management and Board levels;

- follow up on progress in addressing the recommendations of prior reports by consultants and external auditors relating to financial management;
- obtain an electronic copy of the DHAs' general ledger transactions for 2004-05, analyze transactions in the areas of travel and professional services, and obtain explanations for any identified anomalies;
- test a sample of transactions for compliance with policies; and
- review the most recent results of accreditation reviews by the Canadian Council on Health Services Accreditation and any follow-up action taken.

9.12 In addition, at Colchester East Hants Health Authority only, we reviewed policies governing nursing overtime, and analyzed a sample of overtime payments for compliance and due regard for economy and efficiency.

9.13 Audit criteria were taken from recognized sources including the Canadian Council on Health Services Accreditation's *Standards for Leadership and Partnerships and Human Resources*, the Health Authorities Act, the Provincial Finance Act and the Office of the Auditor General of Canada's *Financial Management Capability Model*.

9.14 We visited each of the three District Health Authorities in the fall of 2005 and conducted audit work on site. We interviewed members of management and staff and reviewed minutes of Board and Finance Committee meetings as well as various documents including accreditation reports. We reviewed reports from external consultants and auditors, and examined their files where necessary. We obtained electronic copies of the general ledger databases of each District Health Authority, and used data extraction software to perform required analysis and draw a sample of transactions for further testing.

PRINCIPAL FINDINGS

Strategic Planning

9.15 The purpose of a strategic plan is to set out an organization's priorities and long-term direction. A business plan annualizes and provides detail of the more specific goals, priorities, resource requirements and activities to be undertaken to support the achievement of the strategic plan.

9.16 All three DHAs have prepared strategic plans which include a vision, mission, values and strategic directions. Goals and objectives were also developed for the strategic directions. The preparation of the strategic plans was a collaborative effort with the Nova Scotia Association of Health Organizations (NSAHO) and external facilitators and included input from the DHA Board members, community health board members, staff and external stakeholders.

- 9.17** Colchester East Hants released its revised strategic plan in early 2004 and the latest status report on implementation was presented to the Board in May 2004. Cumberland released its strategic plan in June 2004 and has not formally updated the Board on the status of implementation but has plans to do so. Pictou presented a status report on implementation to the Board in June 2004. There has been no external reporting on the status of implementation of the strategic plans.
- 9.18** The DHAs have adopted a continuous quality improvement process. The process includes the development of goals, objectives, operational plans and performance indicators at the program, departmental, divisional and overall DHA level. It is through this process that linkages from strategic plans to annual plans will be developed and reported. We encourage the DHAs to continue to implement this process.

Business Planning

- 9.19** The Health Authorities Act requires the DHAs to prepare a yearly business plan (including a budget) for submission to the Department of Health. The Department is required to provide comments on the business plans submitted within 30 days of receipt. The DHAs are required to submit revised business plans 30 days after comments have been received from the Department. Final business plans must receive Governor in Council approval; however, the Act does not specify the date by which Governor in Council approval must be received. If Governor in Council approval has not been obtained, Section 59(4) of the Health Authorities Act indicates that a DHA can only spend up to one-half of the total operating expenditures in the previous fiscal year. This limit has been exceeded where there has been a delay in the approval of business plans.
- 9.20** In November 2004, the Department of Health issued a *Guide for Health Services Business Plan and Budget Submissions 2005-2006*. This document specified
- the format of the business plan,
 - the financial templates to be submitted to the Department, and
 - the assumptions to be followed in preparing the budgets.
- 9.21** **Multi-year funding targets** - As part of the 2003 budget instructions to the DHAs, DOH advised that the Province had agreed to multi-year budget funding levels for the next three years. This responded to our long-standing recommendation that DHAs be informed of funding for a longer period of time to enable better planning. Preliminary funding targets for 2005-06 were again confirmed shortly before the initial business plans were required to be submitted in December 2004. The DHAs had been advised to prepare their annual business plans on a status quo basis; that is, no new or expanded programs were to be undertaken without DOH's approval and no additional staff was to be employed.
- 9.22** In paragraph 9.2 we noted that the three DHAs had a combined deficit of \$2.4 million for the fiscal year ended March 31, 2005. These deficits would have been higher if the Department had not provided additional funding after the business

plans were approved. In other words, DHA expenditures have been growing at a faster rate than the multi-year funding targets.

- 9.23** **Operating deficits** - Section 31(1) of the Health Authorities Act does not permit the DHAs to incur deficits. If a DHA is projecting a budgetary deficit, strategies to mitigate the deficit must be documented in the business plan. All mitigation strategies are to be reviewed and approved by DOH staff. We acknowledge that if DHAs are to maintain current programs, services and employment levels, the mitigation options available to the DHAs are limited.
- 9.24** In the 2002-03 fiscal year, the Department informed the DHAs that deficits incurred during that fiscal year would not be funded, any deficits incurred would be carried forward and included as the first cost of the ensuing fiscal year budget.
- 9.25** **Lack of approval of 2005-06 business plans** - The DHAs submitted 2005-06 business plans to the Department at the times required. Business plans and budgets were continually updated throughout 2005 and 2006 by the DHAs in response to comments and funding updates from the Department. The last budget submitted by Cumberland Health Authority for the 2005-2006 fiscal year was balanced because of additional funding for expanded operations, and required no mitigation strategies to be developed. The last budgets submitted by Colchester East Hants and Pictou County Health Authorities for the 2005-2006 fiscal year included mitigation strategies and were balanced
- 9.26** DOH and Executive Council approved the 2005-06 business plans for most DHAs in November 2005 - eight months into the fiscal year. Business plans for CEHHA and CHA received Executive Council approval in February 2006, and the PCHA business plan for 2005-06 was not approved until May 2006 – after the fiscal year was complete. Changes in PCHA senior management during 2005-06 may have contributed to the delay.
- 9.27** Business plans and funding levels should be confirmed by DOH prior to commencement of the fiscal year to ensure that business plan activities and any savings related to the mitigation strategies are achieved. The June 2004 Report of the Auditor General (page 67, paragraph 6.21) noted a similar situation for the 2003-04 fiscal year.
- 9.28** We acknowledge that the Department is not able to complete the business plan approval process until it is aware of its funding level as approved through the Estimates process which, for the 2005-06 fiscal year, did not occur until mid-May 2005. However, this should not lead to a delay of several months in approving business plans. Meanwhile, the DHAs are left with a great deal of uncertainty trying to develop mitigation strategies that will result in a balanced budget.
- 9.29** The DHAs receive the majority of their funding from the Department of Health through the business planning process. Operating funding is generally unrestricted (i.e., transferable between programs and capital) although there are some restricted (i.e., non-transferable) areas. To enable appropriate financial management, funding

approval should be received prior to the start of the fiscal year. This would allow the DHAs to assess planned expenses and available revenues before any funds are expended. Mitigation strategies required to achieve a break-even budget could then be implemented at the beginning of the fiscal year. Further, the Boards could then approve final budgets in a timely manner.

Recommendation 9.1 (repeated from June 2004 Report)

We recommend that business plans should receive Governor in Council and Department of Health approval prior to commencement of the fiscal year.

- 9.30** DOH's plans for 2006-07 business planning - DOH has redesigned the business planning process and timetable for the 2006-07 fiscal year, see Exhibit 9.1. The timetable calls for the Department and Executive Council to complete discussions by January 31st and the DHA business plans to be approved by the Department by February 15th. The revised timetable and process have been approved by Treasury and Policy Board. We support the Department in its efforts to redesign the process and timetable to achieve more timely approval of DHA business plans in the future.

Funding Formula

- 9.31** While it is beyond the scope of this audit to comment on the adequacy of DHA funding from the Department of Health, we wish to highlight the need for a funding formula to rationalize funding allocations. A funding formula should also help the Department make its annual funding decisions on a timely basis. In our 2002 Report, we recommended that management of the Department establish a project plan to develop a funding formula. In 2005 we followed up on progress in addressing this recommendation. Chapter 5 of our December 2005 Report noted that the Department had made no progress to date; however, the Department indicated that it planned to take action in the future. Consultants have also made this recommendation (see paragraph 9.54 below).

Recommendation 9.2 (repeated from 2002 Report)

We recommend that the Department of Health establish and implement a funding formula to rationalize funding allocations to DHAs.

Budgeting

- 9.32** As part of the business planning process, the DHAs prepare an annual budget. The budget establishes an annual plan for allocation of resources to accomplish goals and objectives stated in the business plan.
- 9.33** There are a range of possible approaches to preparation of a budget which may be appropriate in different circumstances including zero-based budgeting, line-item

budgeting, incremental budgeting, status quo budgeting, target-driven budgeting, performance budgeting or program budgeting. (See paragraph 3.10 of the 2001 Report of the Auditor General for an explanation of these approaches.) The current budgeting process has elements of several of the approaches but it is primarily target-driven and based on the status quo.

- 9.34** [Budgeting for operating expenditures](#) - The budget processes are initiated and led by the Senior Leadership Team (SLT) at each DHA. Budget managers in conjunction with Finance Division staff prepare the budget. The Finance Department, SLT and the Audit and Finance Committee review and challenge the budget. Once satisfied, the Audit and Finance Committee recommends the budget to the Board for acceptance. We reviewed the system to prepare the operating budgets and concluded that the DHAs have implemented reasonable processes.
- 9.35** At all three DHAs, we were informed that Finance staff ensured mathematical accuracy of the budget and the supporting spreadsheets, and the accuracy of the entry of budget information into the financial systems. Documentation of these quality control procedures should include formal sign off as evidence that the procedure was performed. No formal sign off was occurring at the DHAs.
- 9.36** Members of the SLT review the budgets for their areas of responsibility. In addition, the overall budgets are discussed at senior management meetings. Although some reports are prepared, the review and challenge process was not well documented. Documentation is important to ensure decisions are recorded for future reference.
- 9.37** The Finance Committee and the Board were fully informed of the business planning activities and funding requirements. The Finance Committee at Colchester received a written overview of the budget as well as a summary of changes made to the budget when it was subsequently revised. We suggest this type of information should also be provided to the Finance Committee of the other two DHAs.
- 9.38** [Budgeting for capital equipment](#) - The Department of Health does not allocate funding between operating and capital. The DHAs receive operating grants and can decide to spend a portion of this on capital. DOH does not approve capital purchases other than major projects which are specifically funded.
- 9.39** We reviewed the yearly prioritization process for capital equipment purchases and concluded that the DHAs have appropriate processes. All DHAs have policies concerning the budgeting of capital assets over \$5,000. Capital equipment request forms are completed, reviewed and prioritized by inter-department committees. We noted that prioritization of these requests is based upon various factors such as medical necessity, risk, safety and the condition of existing equipment. The prioritized lists are reviewed and recommended for approval by the Senior Leadership Teams and the Finance Committee of the Board.
- 9.40** As part of the business planning process, the DHAs were requested to submit three proposals for capital equipment purchases that would be considered for Federal

Medical Equipment funding by DOH. The DHAs submitted the required funding proposals. The Department approved the proposals submitted and provided the following funding:

- CEHHA - \$650,000
- CHA - \$705,000
- PCHA - \$296,000

Monitoring and Forecasting

- 9.41** A sound financial monitoring process depends upon appropriate policies and procedures. Timely reporting of issues is necessary for appropriate corrective action and should start early in the year.
- 9.42** Although the DHAs have appropriate monitoring and forecasting processes in place, only Colchester East Hants has formally documented its policies to govern the monitoring and forecasting function. Written policies should include clear definition of financial reporting formats; timing and approval requirements; definition of thresholds for when variances require explanation; and requirements for forecasting.
- 9.43** Monitoring and forecasting at Colchester East Hants and Pictou begins once the June or July actual financial results are available. The monitoring and forecasting process at Cumberland is not timely as it has not commenced until eight months into the fiscal year. Management indicated that there are plans to provide the monitoring and forecasting on a more timely basis.
- 9.44** Colchester East Hants prepares written explanations for the variances between the yearly budgets and forecast. Cumberland and Pictou provide written explanations of variances between the year-to-date budget and actual. Only Colchester has a written policy specifying the threshold amount for variances which must be explained. Finance staff at Cumberland and Pictou advise SLT as well as the Audit and Finance Committee of the projected surplus/deficit to year-end. However, the forecast should be formal and show a comparison of the yearly budget to the projected forecast.

Recommendation 9.3

We recommend that CHA and PCHA develop written policies and procedures requiring periodic monitoring and forecasting.

We also recommend that CHA and PCHA financial reports be modified to include a comparison between the budget for the year and a current forecast of results to year end, and written analysis of variances.

Governance - Finance Committee

- 9.45** There are no professional accountants on the Finance Committees of the DHAs. We believe that Finance Committees of the DHAs should include at least one person with a professional accounting designation and/or extensive financial management experience (for example, a bank manager) to ensure that the Finance Committees have a sound grasp of financial management and reporting issues. This is especially important in the current fiscal environment where DHAs are experiencing financial difficulties and there is increasing attention to the stewardship roles of Audit and Finance Committees.

Recommendation 9.4

We recommend that the Finance/Audit Committee for each DHA include at least one professional accountant or person with recognized financial expertise.

Shared Services

- 9.46** When the DHAs were formed, the Department of Health directed that the arrangements for finance and payroll, materiel management, information technology and human resources were to be continued as shared services and that no changes were to be made without DOH approval. Three-year agreements were put in place and renewed again in 2004 for a further three years. While responsibilities were clearly established, service performance standards were not defined.
- 9.47** Due to dissatisfaction with the services and staffing difficulties, the parties recently mutually agreed to discontinue finance and payroll as a shared service. There were also concerns with access to the computerized financial system. Because of the way the system was configured, access was limited to one DHA at a time. DOH agreed with the separation of the financial services because of the planned migration of all DHAs to the SAP financial system in the future. DOH directed that there was to be no additional operating costs associated with the overall financial restructuring. Two of the three DHAs have established their own finance and payroll divisions and the third DHA is in the process of completing its restructuring. Current cost estimates prepared by DHA management indicate that there has been no increase in costs. Human resources, information technology and materiel management are still in place on a shared services basis.
- 9.48** We note that there are still no performance standards under the new, decentralized arrangement. Performance standards and reporting on achievement are required for appropriate management of all services, regardless of whether they are shared.

Recommendation 9.5

We recommend performance standards be included in the agreements for all shared services. Performance standards and reporting on achievement should also be required for financial services divisions.

Financial Statement Audits

- 9.49** The annual financial statements of the DHAs are audited by public accounting firms. The external auditors prepare a management letter at the conclusion of their audits. The auditors formally present the audited financial statements and management letter to the Finance Committees of the Boards.
- 9.50** We reviewed the external auditors' working papers for the year ended March 31, 2005 and management letters for the years ended March 31, 2004 and 2005 and noted the following two significant matters.
- The auditors noted the need for a capital asset management system to record information on all assets owned by the DHAs. The DHAs indicated they have plans to establish such a system.
 - In the March 31, 2004 management letters, the auditors noted that there were a number of issues related to access rights of employees using the various computerized information systems, including accountability, responsibility and restrictions on the rights of users. Appropriate processes and procedures are critical to ensure that only authorized users have access to the computer systems required to perform their jobs. Management indicated that draft security policies have been developed and access rights have been established for various information systems.

External Consultants

- 9.51** The Department of Health and the DHAs have engaged consultants to review selected operations. The following paragraphs provide information on certain reviews conducted by these consultants.
- 9.52** **Information technology security** - An external consultant was hired to perform a security assessment of the information and communications systems in use at the three DHAs. The consultant's April 2005 report made a number of recommendations in areas such as business continuity and backups, security of computer systems, network infrastructure, policies and standards and security of laptop computers. In September 2005, Information Technology completed a plan to address these recommendations. As of March 2006, management indicated that many of these recommendations have been implemented.

Recommendation 9.6

We recommend the DHAs address the recommendations made by the external auditors and the external consultant concerning information systems security.

- 9.53** **Value-for-money assessments** - As noted in paragraph 9.6, in collaboration with the Districts, the Department of Health engaged consultants to conduct value-for-money assessments at Colchester East Hants and Pictou County in the fall of 2003. The external consultants made a number of recommendations in the reports released in February 2004. Some of the recommendations made were specific to these DHAs and other recommendations required action by the Department of Health.
- 9.54** One of the recommendations made by the consultants who reviewed CEHHA was that “The DOH should proceed to develop a funding formula which will promote fair, equitable and transparent funding allocation to all districts.” (*Value for Money Assessment Colchester East Hants Health Authority, Virginia MacDonald and Associates Limited, February 2004, page 6*). This is consistent with our Recommendation 9.2 above.
- 9.55** Other significant recommendations made in the CEHHA and PCHA 2004 assessment reports included the need to:
- develop standardized reporting and benchmarks to facilitate comparisons of performance and to facilitate inter DHA comparisons;
 - develop decision support resources including software and personnel to improve the accuracy and usefulness of the various databases; and
 - review continuing care services provided in the districts.
- 9.56** Capital District Health Authority and the IWK Health Centre engaged another firm of consultants to complete operational reviews in 2003-04. Using the same consultants, the Department also conducted a review of PCHA in 2005. The final report, released in February 2006, included a number of recommendations and identified potential savings of \$1.75 million. PCHA has established a committee to address all of the recommendations from these external reports. Implementation of certain recommendations has been deferred pending completion of the Province-wide review currently underway which is discussed below.
- 9.57** Senior management of the Department, in conjunction with the Council of CEOs (all DHAs), decided the scope of the consultants’ operational review work should be expanded to include all DHAs. A request for proposal process was completed in mid-March 2006, and the Department engaged the firm of consultants referred to in paragraph 9.56. The two DHA reviews completed earlier (IWK and Capital Health) will not be repeated but revisited to include the additional scope areas to ensure consistency. The remaining reviews are scheduled for completion during the 2006-07 fiscal year.
- 9.58** **Equipment reprocessing** - Effective equipment decontamination processes are critical to the safe delivery of hospital services such as surgery.

- 9.59** In 2004, there were three incidents at CEHHA which highlighted the need for a focused review of the reprocessing of instruments. External consultants were requested to complete a risk assessment and review the equipment reprocessing at Colchester East Hants.
- 9.60** The January 2005 review report identified a number of risk areas in equipment reprocessing at Colchester-East Hants and made recommendations for improvement. Management indicated that a reprocessing working group was established in March 2005 and that it has actively been addressing and implementing the recommendations made including review of policies and procedures. Management provided us with details of several significant changes made including the replacement of a sterilization unit and purchase of additional instruments and indicated that the infection rate is considerably below accepted standards.

Accreditation

- 9.61** As noted in paragraph 9.8, the Canadian Council on Health Services Accreditation (CCHSA) conducts an accreditation review on the DHAs every three years. In February 2005, the three DHAs were reviewed. Colchester East Hants and Cumberland Health Authorities were granted *Accreditation with Condition: Report while* Pictou County was granted *Accreditation with Condition: Focused Visit*.
- 9.62** The accreditation reports contained 33 recommendations for Cumberland, 30 recommendations for Colchester East Hants, and 21 recommendations for Pictou. The CCHSA will re-visit Pictou in 12 months to determine progress in addressing certain significant recommendations. The other two DHAs are required to file reports within 12 months on progress in addressing the more significant recommendations. The DHAs plan to address all recommendations made in these reports through quality management processes. CCHSA will follow up on the implementation of all recommendations during the next accreditation survey in three years.

Compliance with Policies

- 9.63** Our objectives in this section of the audit were to analyze certain aspects of the data in the DHAs' computerized financial information systems to determine whether there were any potential anomalies, obtain explanations and test certain transactions for compliance with policies. We downloaded the electronic databases and used data extraction and analysis software. We specifically identified travel expenses and professional fees, for each of the DHAs, and nursing overtime at Colchester East Hants as areas of focus.
- 9.64** **Travel** - Travel expenses for the three DHAs totaled \$1.3 million for the 2004-2005 fiscal year.
- 9.65** We reviewed the travel policies in all three DHAs and concluded the policies should be strengthened to reduce risk of inappropriate expenditures. For example,

policies do not specifically require submission of original supporting invoices rather than signed credit card vouchers; the identification of persons attending hospitality meals claimed; and review and approval of travel expenses of the Chief Executive Officer (CEO) by the Board Chair.

9.66 We tested a sample of 79 travel claims, totaling \$106,700, submitted by the CEOs, physicians and other staff, for compliance with travel policies and adequate controls. Our findings are summarized below. Note that not all findings applied to all three DHAs; some applied to only one, some applied to two and some applied to all three.

- Some CEO travel claims were not approved by the Chair of the Board.
- A number of claims were filed without original receipts but rather with credit card statements.
- Some CEO travel claims included other expenditures which should have been processed through the accounts payable system because they were not travel expenses (e.g., purchase of a fax machine, relocation expenses for physicians).
- CEOs were not always using standard travel expense claim forms.
- The rationale and recipients for expenses related to hospitality hosted by CEOs were not always described.
- Travel expenses of locum physicians were sometimes prepared and approved by the Chief of Medical Staff and not signed by the physician.

9.67 Lack of independent review and approval of expense claims increases the risk of claims for unauthorized travel and non-compliance with policies.

Recommendation 9.7

We recommend that DHAs clarify and strengthen travel policies by requiring:

- submission of original supporting invoices rather than signed credit card vouchers;
 - identification of the people for whom meals are claimed;
 - review and approval of CEOs' travel expenses by the Chair of the Board; and
 - signature of the claimant on all travel claim forms.
-

9.68 **Professional fees** - Procurement activities are governed by Nova Scotia's Government Procurement Process ASH Sector (ASH Sector Policy) and the Government Purchases Act. The policy applies to Provincially-funded public sector entities such as academic institutions, school boards and health authorities (the ASH sector) and crown corporations. The Policy, which was revised in May 2004, provides guidelines for procurement in various situations including

tendering, sole sourcing, and alternative procurement practices. The objective of the policy statement is to establish and maintain a high level of confidence in the procurement process by ensuring that procurement is carried out in an open, fair, consistent, efficient, and competitive manner.

9.69 Specifically, the ASH Sector Policy states:

- “The ASH sector follows the Government of Nova Scotia Procurement Policy and agrees that all procurement processes and practices are to be open, fair, and subject to the policy objectives laid out in the Procurement Policy . . .
- ASH sector entities utilize their existing procurement practices and processes for the acquisition of goods valued at less than \$25,000, services valued at less than \$50,000 and construction valued at less than \$100,000. To the degree these practices and processes are not consistent with the policy objectives of the Procurement Policy, they are to be modified by the ASH sector entity to make them compatible.
- For acquisition of goods valued at \$25,000 or greater, services valued at \$50,000 or greater, or construction valued at \$100,000 or greater, ASH sector entities will, if needed, modify their own procurement practices and processes so they fully comply with the obligations identified in the Atlantic Procurement Agreement and the Agreement on Internal Trade . . .
- ASH sector entities are expected to maintain appropriate records to support procurement transactions available for audit . . .”

9.70 Professional fees paid by the DHAs totaled \$1.2 million for the 2004-05 fiscal year. We tested a sample of 59 payments for professional services totaling approximately \$280,000 for the three DHAs and found that the procurement policies were not being applied consistently for acquisition of professional services below the thresholds in the ASH Sector Policy. We found a few instances at each DHA where professional services, such as legal, audit and consulting services, had not been awarded through a competitive process. Although management was able to respond verbally when we asked for reasons why the contract awards were not subject to competition, there was no approved, written documentation of reasons for exemptions from the policy. In such cases, senior management should officially approve exceptions to the policy and require that documentation be prepared.

Recommendation 9.8

We recommend compliance with the requirements of the ASH Sector Procurement Policy including competitive processes for all procurements. All exemptions should be appropriately approved and documented.

Nursing Overtime

9.71 At Colchester East Hants, we reviewed policies governing nursing overtime, and analyzed a sample of overtime payments for compliance and due regard for

economy and efficiency. Exhibit 9.2 reflects the overtime by DHA for the 2004-05 fiscal year, in total and for nursing.

- 9.72** The Colchester East Hants Health Authority (CEHHA) has approximately 352 Registered Nurses (RNs) and Licensed Practical Nurses (LPNs). Exhibit 9.3 reflects the nursing overtime paid at CEHHA for fiscal years 2002 through 2005. Overtime rates are governed by the terms and conditions of the collective agreements between the DHAs and the nurses' union, which represents both RNs and LPNs. The negotiated rate of pay for overtime varies from 1.5 (where more than 48 hours notice is given) to 2 times the hourly rate paid to the RN and LPN. Recent contract negotiations resulted in more overtime qualifying for payment at double time rates. We acknowledge shortages in the availability of nurses in the Province places additional demands on the current nursing workforce and difficulties in finding replacements.
- 9.73** Exhibit 9.4 shows the distribution of overtime hours worked for fiscal 2004-05 by the number of nursing staff. On average, approximately 75% of the nursing staff worked less than one day of overtime per month.
- 9.74** Exhibit 9.5 shows the distribution of overtime hours by the rate paid. The majority of paid overtime and time in lieu is earned at the double rate. Scheduling staff as far as possible in advance potentially could lead to more overtime at the lower rate and cost savings. Currently, staff scheduling is done manually. The DHAs do not have workload measurement systems. An automated workload measurement and scheduling system could lead to efficiencies in scheduling nurses and has the potential to give staff more notice of required overtime.
- 9.75** The Nova Scotia hospital Information System (NShIS – see Chapter 6 of June 2005 Report of the Auditor General) includes a module which addresses some of the Health Authorities' needs in this area. However, this Patient Care System (PCS) module has been implemented in only two DHAs. The Department of Health indicated that the NShIS software is currently being upgraded. Because of the upgrade, implementation of PCS is temporarily delayed. The Department has indicated that a plan for PCS roll-out to the remaining DHAs is being developed.
- 9.76** The hospital has processes for planning, scheduling, authorization and payment of overtime at rates in compliance with the union agreements. The authorization forms include categories for the various types of overtime; for example, extra shift, extension of a shift, call back and schedule change. We found the information systems did not adequately capture the cause of the overtime and, therefore, important information was not being collected to facilitate appropriate monitoring of this area. The absence of such information makes it difficult for management to appropriately monitor overtime and take corrective action if required.

Recommendation 9.9

We recommend implementation of workload measurement systems for better scheduling of

nursing resources. We also recommend improvement in the information systems relating to the summary reporting of causes for overtime.

- 9.77** DHA and DOH management recognize the impact of the high cost of overtime. All recognize that increasing the pool of qualified staff would alleviate the strain. Efforts to recruit staff are ongoing.

CONCLUDING REMARKS

- 9.78** Our audit of financial management indicated that the DHAs utilize reasonable processes for business planning, budgeting and monitoring. However, the timing of approval of business plans and funding levels by the Department of Health needs to be improved. The late approval creates an environment of uncertainty at the DHAs which is not conducive to good financial management and violates the Health Authorities Act.
- 9.79** Controls over procurement of professional services and documentation of travel expense claims should be improved to ensure compliance with policies and due regard for economy and efficiency. We also concluded that the reporting and monitoring of nursing overtime needs to be supported by better information systems.
- 9.80** We support the Department's efforts to complete value-for-money audits of DHAs on a Province-wide basis as these should provide useful input for benchmarking comparisons and development of a funding formula.
-

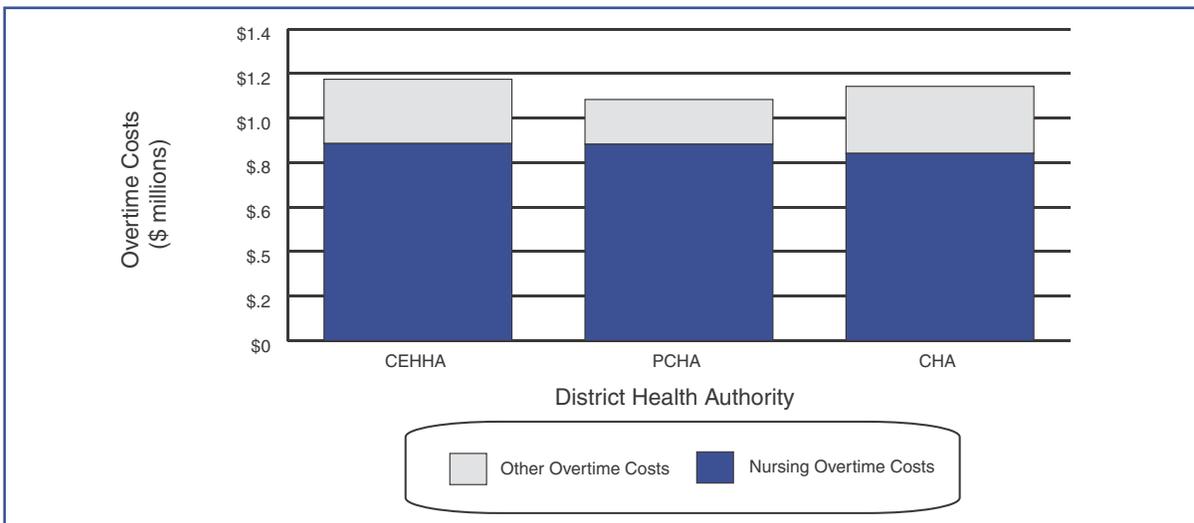
**Business Planning Process for DHAs
2005-06 Actual compared to 2006-07 Planned**

Exhibit 9.1

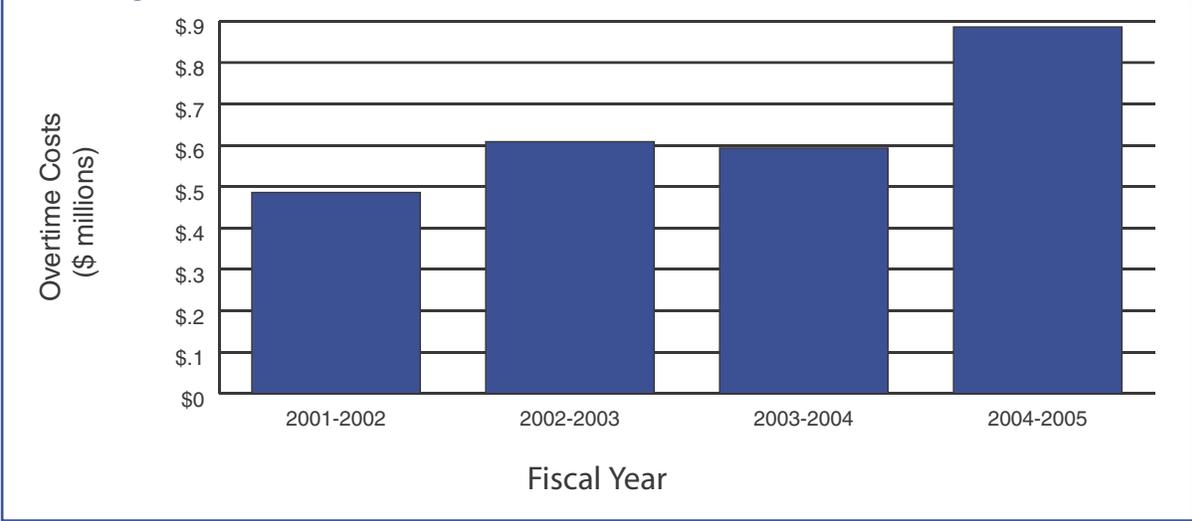
Activity	2005-2006 Business Plan Deadline	2006-2007 Business Plan Deadline
Targets to DHAs	Updated Dec. 2004	Oct. 14, 2005
Kickoff – Communications to: <ul style="list-style-type: none"> • CEO's/Board Chairs 	Nov. 9, 2004	Oct. 14, 2005
Status Update – DHA's – Finance <ul style="list-style-type: none"> • Developments since Oct. – Revamp and tweak if/where necessary 	N/A	Nov. 30, 2005
Plan Submissions – By DHA's	Dec. 17, 2004	Dec. 15, 2005
Plan for Presentation <ul style="list-style-type: none"> • DHAs – Finance – CEOs – refine mitigations, plans and decide what to take forward 	Ongoing throughout 2005	Jan. 13, 2006
Cabinet Presentation/Discussion <ul style="list-style-type: none"> • CEOs, SLT 	Throughout 2005	Jan. 31, 2006
Targeted Approval by DOH	-	Feb. 15, 2006
Budget Implementation	Ongoing throughout 2005	March 31, 2006

**Overtime Costs by DHA
Year ended March 31, 2005**

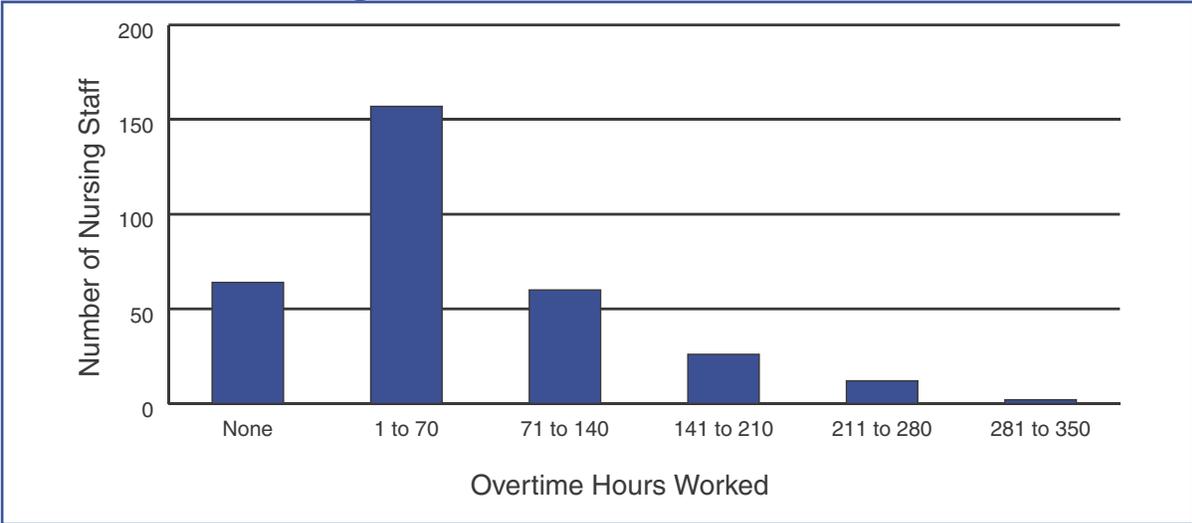
Exhibit 9.2



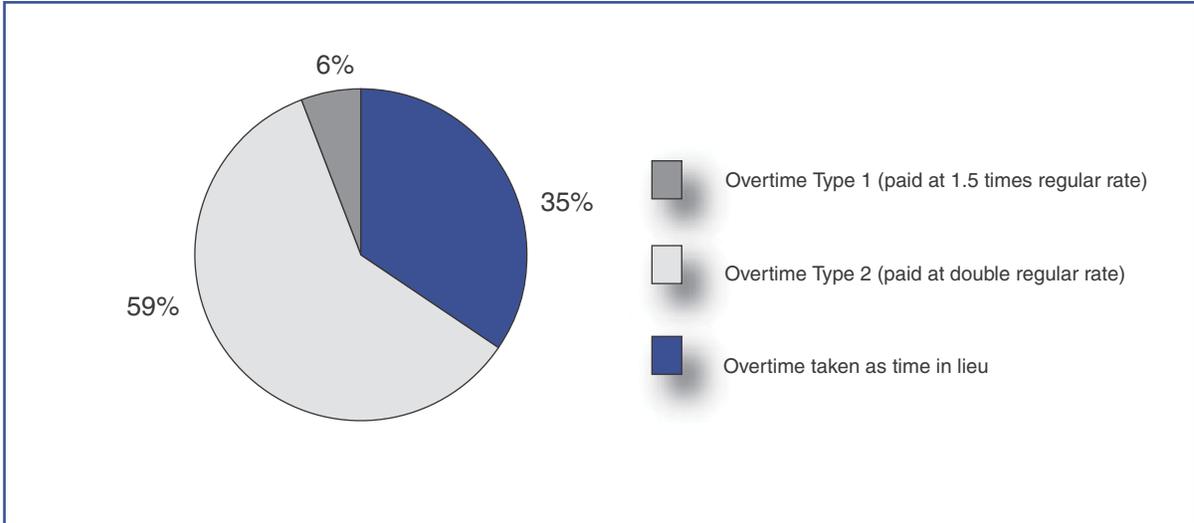
Colchester Regional Hospital & Lillian Fraser Memorial Hospital Nursing Overtime



Colchester East Hants Health Authority Distribution of Nursing Overtime Hours - Year ended March 31, 2005



**Colchester East Hants Health Authority
Nursing Overtime Hours by Type - Year ended March 31, 2005**



COLCHESTER EAST HANTS HEALTH AUTHORITY'S RESPONSE

I am writing on behalf of the Board and leadership team for Colchester East Hants Health Authority in response to the audit completed by your office for Colchester East Hants Health Authority (completed in April, 2006). Our organization is in agreement with and support the recommendations made within this report and wish to note that as a result we will continue to work with the Department of Health and other health authorities in the development of policy that will ensure the effective management of resources. Wherever possible we will assume a leadership role in such development.

As noted in various sections of the report several of the recommendations from your office have already been acted upon. This activity has resulted from several sources including:

- reports from other audit activity;
- district led quality improvement activity;
- or as a result of your report's recommendations.

To ensure compliance with all recommendations noted we will be providing regular updates through our Finance Committee and the full Board of Directors for the Health Authority.

Please accept our thanks to you and your staff for the opportunity to participate in this important review.