

BACKGROUND

- 8.1** The IWK Health Centre was created following a joint proposal to merge the IWK Hospital for Children and the Grace Maternity Hospital. The Izaak Walton Killam Health Centre Act was proclaimed in 1997 and amended in 2001.
- 8.2** The Health Centre is located in Halifax. It is a tertiary care facility that uses a program-based model of care to serve women, children and families throughout the Maritime provinces. There are approximately 5,000 babies delivered at the IWK each year. Of nearly 72,000 patient days spent in the Health Centre in 2001-02, approximately 64,000 or 89% related to Nova Scotia patients, with the remaining 11% related to out-of-province patients. The Health Centre employs more than 2,400 staff and has 101 adult beds, 110 baby beds and 121 children's beds.
- 8.3** When the Province established District Health Authorities (DHAs) in 2001, the IWK was given status as one of two Provincial Health Care Centres (PHCCs) under the Health Authorities Act. The accountability relationship established by this Act applies to the IWK Health Centre as well as DHAs. The other PHCC, the Queen Elizabeth II Health Sciences Centre, is governed by the Board of the Capital District Health Authority. The IWK is the only organization that does not come under the authority of a DHA.
- 8.4** The IWK and the Capital District Health Authority signed an Affiliation Agreement in June 2001. This is discussed further in paragraph 8.26 of this report.
- 8.5** The Health Centre's revenues for 2001-02 were \$118.3 million (2000-01: \$110.6 million) and expenses totaled \$117.4 million (2000-01: \$108.5 million). The Province's grant to the Health Centre comprised \$108.4 million of the \$118.3 million in revenues in 2001-02. The IWK Foundation contributed \$2.7 million for capital equipment purchases and \$6.1 million in specific purpose grants (use of funds is restricted either by donor or Foundation) for total contributions to the Health Centre in 2001-02 of \$8.8 million. Historically the IWK Health Centre has operated without a deficit. As at March 31, 2002, the accumulated balance in the Health Centre's operating fund was \$0. The Health Centre's expenditures exceeded budget by approximately \$3.2 million for 2002-03. The Department of Health informed the IWK that DOH will provide funding to cover this amount.
- 8.6** Our last audit of the IWK was conducted in 1993, prior to the merger of the IWK and the Grace Maternity Hospital, and involved the children's facility only. The financial statements of the Health Centre are audited by a public accounting firm.

RESULTS IN BRIEF

8.7 The following are the principal observations from this audit.

- The Health Centre uses the Carver model of Board governance. This model is applied differently from other health facilities we have audited in the extent to which decisions are delegated by the Board to management. For example, the Health Centre CEO has the responsibility to approve the business plan whereas in other organizations this responsibility would remain with the Board. The Health Centre Board takes its responsibility for governance very seriously and has established a framework that, although different from other organizations, is strongly supported by governance literature.
- The IWK Health Center has a well-established process for developing the annual business plan and budget. Appropriate levels of management contribute to this process. Cost savings initiatives are allocated to program budgets. However, operational plans developed to achieve budget reductions are not formally documented and the results of specific savings initiatives are not tracked. Operational plans should be formally documented. Actual savings from budget reductions should be monitored and corrective action taken if savings are not realized.
- The Health Centre's expenditures exceeded budget by \$3.2 million for 2002-03. The Department of Health has indicated it will provide funding to cover this amount.
- The Canadian Council on Health Services Accreditation (CCHSA) conducts an accreditation review on all accredited health services organizations every three years. The IWK Health Centre received an unqualified accreditation in 2002, which is the highest level of accreditation. The CCHSA noted that the Centre's system for drug distribution results in a higher risk of medication errors than in comparable facilities. We have recommended that the Centre investigate the risks associated with this matter and consider whether it would be appropriate to make changes on a more timely basis than is currently planned.
- The IWK's annual financial statements do not discuss the relationship between the Health Centre and the Foundation. The IWK and the Foundation are related parties and the IWK's financial statements should disclose certain information such as any transactions between the parties during the fiscal year.
- The Health Centre continues to make progress in establishing systems to monitor and report indicators of economy and efficiency such as lengths of stay. We recommend that the Health Centre continue to work with other facilities and organizations such as the Department of Health and the Canadian Institute for Health Information to further develop targets, monitor performance and make comparisons between facilities.

AUDIT SCOPE

- 8.8** The objectives of this assignment were to:
- determine whether the IWK Health Centre has adequate planning and monitoring processes;
 - determine the quality assurance systems and control procedures in place relative to the quality of data submitted to CIHI;
 - review the Hospital's audited financial statements and the results of external and internal audits and the Canadian Council on Health Services Accreditation's most recent survey;
 - determine compliance of the procurement function with Government Procurement Policy and whether accounting controls over pharmacy inventory are adequate; and
 - determine if the IWK monitors whether certain resources are being utilized with due regard for economy and efficiency, and whether systems provide adequate information to support such monitoring.
- 8.9** Audit criteria were taken from recognized sources including *Standards for Acute Care Organizations* - The Canadian Council on Health Services Accreditation, *Financial Management Capability Model* - Office of the Auditor General of Canada and Treasury Board Secretariat, *Auditing of Efficiency* - Office of the Auditor General of Canada and the *Nova Scotia Government Procurement Policy*. Our audit included interviews with management and staff, examination of documentation and review of external auditor's working paper files.

PRINCIPAL FINDINGS

Planning and Monitoring

- 8.10** **Background on governance** - In 1998, one year after amalgamation, the Board introduced, on a trial basis, the Carver model of Board governance (*Boards That Make A Difference, A New Design for Leadership in Nonprofit and Public Organizations*, John Carver). This model is used in many not-for-profit organizations, although other organizations we have audited do not apply the model in the same way as the Health Centre. Following the two-year introduction phase, the Board formally accepted full implementation of this model. In applying the model, distinction is made between Board and management responsibilities. The thrust is that the Board shall govern, and through the President and CEO, direct the affairs of the Health Centre. The Board focuses on policies and monitoring and does not provide detailed direction in day-to-day management. The CEO and CFO are formally charged with specific fiduciary responsibilities which set out their limits of authority, responsibilities and formal reporting requirements. These individuals

then organize the management structure and processes below them to ensure the fiduciary responsibilities are satisfactorily completed and reported upon.

- 8.11** The detailed governance policies are formal and clear. The Board relies on the President and Chief Executive Officer (CEO) and the Chief Financial Officer to provide formal reporting of progress in achieving various objectives and any major risks impeding achievement of the established objectives. The IWK's Board of Directors *Governance Policies* include a policy on fiduciary responsibility which states *"The President and CEO shall not fail to establish and implement multi-year business plans which support the establishment ends of the Health Centre and which is balanced within plus or minus one percent revenues annually and do not exceed revenues within a 24 month cycle."*
- 8.12** The primary difference between governance at the Health Centre and other organizations we have audited is the extent to which decisions are delegated by the Board to management. For example, the Health Centre CEO has the responsibility to approve the business plan whereas in other organizations this responsibility would remain with the Board (see paragraph 8.14 below). The Health Centre Board takes its responsibility for governance very seriously and has established a framework that, although different from other organizations, is strongly supported by governance literature.
- 8.13** The Board Affairs Committee is currently reviewing the information the Board receives and the role of the Board versus the CEO to determine whether there are any changes which should be made in the implementation of the Carver model. Current plans are for this process to be completed by fall 2003.
- 8.14** [Strategic planning process](#) - The Board is required through the bylaws to develop and review on a regular basis the mission, objectives and strategic plan of the Health Centre. The CEO is responsible to assist the Board in establishing and maintaining the overall strategic directions of the Health Centre, including the business plan.
- 8.15** The process for preparation of the 2001-05 strategic plan was extensive and included review of information on the health and health needs of children, youth and women in the Maritimes and consultation with staff and patients of the IWK, physicians, members of Community Health Boards and others. Four key directions were selected. The Board reviewed the strategic plan and verified that outcomes developed matched the Board's overall goals.
- 8.16** An accountability framework was developed whereby staff are assigned responsibility for projects and progress is reported bi-monthly to the project coordinator. Senior management monitors overall progress and provides quarterly reports to the Board. External updates are included in the IWK's annual report, community updates and other publications.
- 8.17** [Linkage to business plan](#) - The four key directions established in the strategic plan are broken down into a number of goals which drive the business planning

process. The Health Centre holds an orientation/information session in November of each year for all staff with business planning responsibilities.

- 8.18** In late fall, the Department of Health advises the IWK Health Centre of the Department's financial expectations. Generally, budget preparation is based on maintaining a status quo budget and identifying cost drivers. New or expanded programs are identified and prioritized and any initiatives approved by DOH are included in the Health Center's budget.
- 8.19** The IWK Health Centre follows a program-based model. Each program area is comprised of several care teams such as Emergency, Special Care Nursery or Childbirth. Each care team develops its own business or service plan based on best practices and may request new or expanded programs. Service plans are reviewed and challenged at the program level before final funding decisions are made.
- 8.20** The care teams' service or business plans are consolidated to form a program business plan. Each program director is responsible to ensure the accuracy of the program area's budget submission and reasonableness of assumptions included in the plan.
- 8.21** The Health Centre business plan is developed from information in the program business plans using a template provided by DOH. The budget control officer uses the care team budgets but does not verify any formulas used by the care teams in totaling budgets. There is no independent verification (e.g., by Internal Audit) to ensure the mathematical accuracy of the budget submissions or the final, summarized budget for the Health Centre.

Recommendation 8.1

We recommend that the Health Centre institute a quality assurance process for the budget, including an independent review by someone other than the preparer, such as the internal auditor.

- 8.22** The Health Centre business plan is reviewed by senior management. Staff at the IWK informed us that SMT (Senior Management Team) performs a detailed review and challenge of the business plan and budget and SLT (Senior Leadership Team) performs a higher level review and challenge. There is no documentation of the two levels of senior management review and challenge. Although certain high level, Health Centre-wide initiatives to reduce expenditures are noted, not all decisions which impact program funding are formally documented. Health Centre management stressed the importance of maintaining the confidentiality of initiatives under consideration because of implications for individual staff. We recognize the need to maintain confidentiality; however, we believe the Health Centre should strive to document approved budget initiatives to ensure everyone understands the action to be taken.

Recommendation 8.2

We recommend that the Health Centre strive to document all initiatives approved during the review and challenge of the business plan and budget.

- 8.23** Following notification of the funding level from DOH, the Health Centre reviews the total available funding as compared to the budget requests. Certain Health Centre-wide targets such as maintaining staff vacancy rates are identified by senior management. The available funding is allocated to the various program areas and the programs are responsible for living within these budgets.
- 8.24** The Health Centre noted a lack of DOH or Executive Council approval or disapproval of specific initiatives in the Centre's business plan. Certain initiatives may affect service delivery or staffing and the Health Centre may not know the Province's position until much later in the year. This lack of clarity impacts on the IWK's ability to prepare operational plans on a program basis. In our 2002 Annual Report (Chapter 8 - Accountability of District Health Authorities), we noted that "accountability would be improved if DHA business plans were submitted to Executive Council as provided in the [District Health Authorities] Act...and Executive Council formally approved, with documentation, DHA planned initiatives in addition to the funding approval. This would help to clarify the government's performance expectations for the DHAs."
- 8.25** Operational plans are a key component to living within the available budget dollars. These plans detail how reductions will be achieved to ensure the budgetary targets are met. During the business planning process for 2002-03, the IWK identified a number of initiatives to help provide for a balanced budget. These included maintaining a 1% staff vacancy rate, reducing education funding, implementing an initiative with the Capital District Health Authority (CDHA) for laundry services and other reductions within the various program areas for a total of \$3 million. Clinical service plans developed to support the original budget request were not updated to reflect actual funding available. Staff at the IWK informed us that there are plans on how to deal with budget shortfalls in program areas but these plans are not formally documented. The IWK's projected deficit for 2002-03 was \$3.2 million. After year end, DOH informed the Health Centre that it would provide funding to cover this amount.

Recommendation 8.3

We recommend that operational plans be formal and written. This would ensure that staff have plans in place to fully address any budget shortfall and provide better accountability for funds.

- 8.26** *Joint planning with CDHA* - The Health Authorities Act requires that the IWK and the Capital District Health Authority submit a joint business plan. "The Capital District Health Authority, the Nova Scotia Hospital and the provincial health-care centres shall prepare

and submit a joint health-services business plan...” (Section 69(1)) Management at the IWK interpret this to mean that the Health Centre should collaborate with the Capital District in planning as opposed to preparing a written joint plan. The Health Centre has an Affiliation Agreement (signed June 2001) with the CDHA and management believes it meets the requirements under the Act. This Agreement deals with joint administrative initiatives such as shared services for laundry. The Agreement refers to formal evaluations of any joint administrative initiatives as well as annual reports. To date, there have not been any evaluations or annual reports. Staff at the Health Centre informed us that they would provide this information to the Department of Health if requested. The IWK and CDHA have also implemented joint clinical initiatives in many areas such as MRI (magnetic resonance imaging) and transition of patients reaching age 16 to adult care. Clinical initiatives often originate with staff in these areas and are not necessarily itemized in the business plans of the IWK or CDHA.

Recommendation 8.4

We recommend that the Health Centre comply with the provisions of the Health Authorities Act and the Affiliation Agreement relating to joint planning and shared services. Such services should be formally reported upon and evaluated as required.

- 8.27** **Capital budget process** - The Health Centre appears to have a well-established capital budgeting process. Capital requests are first prioritized at the program level. The Capital Equipment Committee then reviews all capital requests and prioritizes the requests Health Centre-wide. Once the available capital funding is known, it is allocated to capital projects or purchases based on this prioritized list.
- 8.28** The IWK’s Health Services Business Plan submitted to DOH requested \$23.3 million in capital funding for 2002-03. The Health Centre has a plan for the redevelopment of the children’s portion of the facility over a five-year period, at a total cost of \$37.5 million. Part of the capital request to DOH for 2002-03 related to costs for the first year of this plan. The Health Centre has not received any indication from DOH that they are willing to fund a portion of these redevelopment costs. The IWK will not move forward with this project until they have a funding commitment from the Department. The business plan also indicates the Health Centre expects to receive an additional \$5.6 million in capital funding from other sources such as the Foundation.
- 8.29** The Department of Health no longer allocates funding between capital and operating. DHAs and the IWK receive an operating grant and can decide to spend a portion of this on capital if they choose. Although capital funding requests are included in the Business Plan each year, DOH does not specifically approve capital purchases other than major projects which are specifically funded. IWK staff informed us that for 2002-03, \$880,000 of \$126.6 million in total Health Centre revenues (which includes DOH and other sources) was allocated to capital purchases.

- 8.30** The Department of Health also has a separate process for DHAs and the IWK to apply for urgent capital requests during the year. This is not part of the annual budget process and is reviewed on a per request basis. The Health Centre received \$1 million in funding under this process in 2002-03.
- 8.31** **Board involvement** - The Board receives the Center-wide business plan which includes the service plans and operating budget for the program areas. Senior management is responsible for completing the business planning process. The Board receives information on Center-wide business planning activities, funding requirements and discussions between DOH and the IWK to finalize the budget.
- 8.32** **Monitoring and forecasting** - The Health Centre distributes monthly financial reports to staff with budget responsibilities. These reports are more detailed at the cost centre level and are summarized for the care team and program levels. Monthly financial statements and a cash flow projection are also forwarded to the Board of Directors for information. Staff, management and the Board are satisfied with information received and believe the information is provided on a timely basis.
- 8.33** There is a formal quarterly variance review process which starts at the end of the first quarter. Program staff provide variance explanations to respective program directors as well as the budget control officer. The budget control officer produces a variance analysis for the Health Centre from the program information. Finance staff informed us that all variances in excess of \$1,000 require explanation. We suggested that this limit and other relevant expectations be documented in a policy and communicated to staff.
- 8.34** During the 2002-03 budget process, the Health Centre identified specific reductions for DOH to help achieve the Centre's budget targets. All cost savings initiatives, with the exception of shared laundry services, were allocated to program budgets. These initiatives were then monitored through the Health Centre's regular process which compares cost centre expenditures to budget. However, the results of specific savings initiatives were not monitored, compared to projections and reported. As a result management has not reported whether projected savings were achieved and neither the Department of Health nor the Health Centre has the necessary information to monitor the success of these specific reduction initiatives.

Recommendation 8.5

We recommend that management monitor and report during the year on specific savings initiatives approved during the Business Planning process.

New Parking, Retail and Research Facility

- 8.35** The IWK is constructing a \$16 million parking, retail and research facility. An external consultant was engaged to study the traffic/parking demand and conduct an internal staff survey dealing with support or utilization of the retail facilities. A cash flow projection was completed, utilizing information from the two studies mentioned above, and reflects a positive net cash inflow of approximately \$100,000 per annum flowing from the project. The business case was reviewed and challenged internally and also reviewed by the Departments of Health and Finance. The financial planning, review and challenge appear adequate. However, these are forecasts and if the forecast is not achieved, then debt servicing costs will have to be funded from general revenue, ultimately by the Province.
- 8.36** In January 2003, the Health Centre received Order in Council approval to borrow \$16 million through the Municipal Finance Corporation to fund the project. Section 33 of the Health Authorities Act and section 59C of the Provincial Finance Act require government approval for borrowing transactions. In October 2003, a new Order in Council was approved which authorizes the Minister of Finance to loan up to \$16 million to the IWK for the project for a term not to exceed 20 years. The Department of Health indicated that the source of financing was changed after discussions with the Municipal Finance Corporation and the Department of Finance. The Health Centre acquired the land for this facility from the Halifax Regional Municipality at a cost of \$700,000. Section 30 of the Health Authorities Act requires that capital expenditures be included in the approved Health Services Business Plan or have prior written approval of the Minister. This transaction was not included in the Health Centre's business plan and Ministerial approval was not obtained. However, DOH funded the land purchase which implies approval.

Systems for Collection of CIHI Data

- 8.37** **Background** - The Canadian Institute for Health Information (CIHI) is a not-for-profit corporation that provides health information. All of Nova Scotia's publicly-funded acute care facilities are required by way of a provincial/territorial bilateral agreement to submit health data to CIHI. This data is then used by CIHI to develop and maintain national health information standards, databases and registries.
- 8.38** On September 30, 2002 the Department of Health released a report on the Province's health indicators to fulfil a commitment by all provincial jurisdictions and the Federal government to issue reports on comparable health indicators. This document was titled *Reporting to Nova Scotians on Comparable Health and Health System Indicators: Technical Report* and we provided an audit opinion on the accuracy of data and adequacy of disclosure. However, we could not provide assurance on reported indicators originating from CIHI's Discharge Abstract/Hospital Morbidity Database due to a lack of documentation of CIHI quality assurance processes at the national level. Since the data in the Discharge Abstract/Hospital

Morbidity database originates from hospital patient records which are extracted and submitted to CIHI by individual hospitals, we decided to examine the controls over this process at the IWK Health Centre. Our objective was to review the controls and quality assurance processes in place at the entity level over data collected and submitted to CIHI.

- 8.39** [Edit checks on CIHI data](#) - The IWK is required to send abstracted data to CIHI monthly. Our testing of the IWK's various edit checks over the abstraction process revealed that improvements are required. The IWK's coding software permits patient files to be processed even if certain mandatory fields are left empty. This deficiency in the software increases the potential for the IWK to send incomplete health information to CIHI.
- 8.40** All abstracted data is edited by the Health Centre before and after submission to CIHI. The editing of health information involves running various computerized tests on the abstracted data both at the Health Centre and CIHI level. The IWK is responsible to amend all abstracted information identified by CIHI to be incorrect. The Health Centre does not reconcile data corrections to original CIHI edit reports. As a result, the IWK cannot be sure that all errors are corrected before data is submitted to CIHI for final processing.

Recommendation 8.6

[We recommend that the Health Centre, in conjunction with the facility's supplier of abstraction software, make necessary changes to assure that all mandatory fields must be completed before data can be submitted to CIHI. Also, all error reports received from CIHI should be retained and a process implemented to ensure all corrections are made.](#)

- 8.41** The Department of Health and its counterparts in other provinces have recently become aware of problems in the comparability of CIHI data among jurisdictions due primarily to system changes at CIHI. This has impacted the availability of benchmarking data for the IWK, District Health Authorities and acute care facilities in other provinces. The provincial Departments of Health and CIHI are working towards finding a solution to the identified problems.

Systems for the Collection of Radiology Billing Information

- 8.42** During the current year, we conducted a separate audit of payments to physicians (see Chapter 10 of this Report) and noted that radiology and pathology claims by physicians are billed differently from traditional fee-for-service claims. Most physicians paid under a fee-for-service payment scheme submit a separate claim for each patient. Radiology and pathology billings consist of paper reports showing totals by procedure only with no patient specific information.
- 8.43** During our audit of the Health Centre, we examined procedures surrounding radiology billings. IWK radiologists are compensated on an alternate funding

basis. Under this method of compensation, physicians are paid a contract amount by Atlantic Blue Cross Care (ABCC - contracted by DOH to process and pay physician fee-for-service claims and alternate funding payments). These physicians must still submit shadow billing information to ABCC. The shadow billing information allows the Province to monitor activity levels and the cost effectiveness of alternate funding arrangements by illustrating what a physician would have been paid under the fee-for-service system.

- 8.44** Although responsibility for the accuracy of the shadow billing information rests with the physician group, the information is taken from the Health Centre's Meditech system. During the course of our audit, we performed verification procedures on three radiology claims. We found one claim was overstated because one procedure had been recorded twice. Our verification shows that the current method of capturing data for shadow billing can misstate monthly radiology activity levels. This would not impact the amount paid to the radiologists at the Health Centre but would affect the accuracy of the statistical information.

Recommendation 8.7

We recommend that the Health Centre ensure the Meditech system, which is used to support radiologists' submissions to the Department of Health, accurately reflects the numbers of diagnostic procedures performed.

External Audit

- 8.45** The Health Centre's annual financial statements are audited by a public accounting firm. We reviewed the auditor's working papers for the year ended March 31, 2002. There were no significant findings to report from that audit.
- 8.46** The auditor was also engaged by the Foundation Board to provide an audit opinion on the IWK's use of Foundation grants each year. This type of audit enhances the Health Centre's accountability to the Foundation for funds received. In 2001, the Health Centre decided to pay costs associated with annual audits for its key volunteer organizations which further enhances accountability for funds.
- 8.47** **Foundation/ Health Centre relationship** - The IWK Grace Health Centre Charitable Foundation, the Halifax Grace Maternity Hospital Foundation and the IWK Hospital for Children Foundation (referred to collectively as the Foundation) raise funds and provide grants to the Health Centre. These grants may be for a specific purpose or more general in nature. In 2000, the Foundation made changes to its bylaws to ensure it was no longer controlled by the Health Centre. Without these changes, the Foundation's financial statements would have had to be consolidated with those of the Health Centre to comply with generally accepted accounting principles. The Foundation and the IWK remain related parties. The IWK financial statements should include certain disclosures including a description of the

relationship between the Health Centre and the Foundation and any transactions between the parties during a given fiscal year to demonstrate transparency and accountability for funds. Currently, the Centre's financial statements include insufficient information about the Foundation.

- 8.48** We researched practices in other jurisdictions across Canada to determine how hospital foundations were treated for financial statement purposes. The most common accounting for foundations involves related party disclosure in the financial statements. Hospitals in two provinces disclose foundation assets, revenues and expenses in the notes to the hospital financial statements. Such disclosure exceeds standard related party requirements. In Nova Scotia, approximately half of the District Health Authorities and Provincial Health Care Centres have related party disclosure of foundations. The remaining districts do not disclose the relationship to foundations in the financial statements.

Recommendation 8.8

We recommend that the IWK disclose its related party relationship with the Foundation, including transactions between the two entities during the year, in the notes to the Health Centre's financial statements.

- 8.49** [Disaster recovery plan](#) - Discussions with the Health Centre's information technology staff and review of external auditor's documents show that the IWK does not possess a formalized disaster recovery plan. This information management deficiency is currently being addressed. The Health Centre's information technology staff are in the process of developing a formalized recovery plan.

Internal Audit

- 8.50** The Health Centre has an internal auditor. The IWK Health Centre and the Cape Breton Health Care Complex are the only health care organizations in the Province that possess internal audit functions. Internal audit's mission at the Health Centre is "to provide... assurance that operations are functioning with due regard to economy, efficiency, and effectiveness, and to ensure that controls are in place to protect the assets of the Health Centre." In addition to producing reports at the conclusion of audits, the internal auditor reports monthly to the Vice-President of Operations and Support Services, and meets with the Chair of the Board's Audit Committee annually to discuss the internal audit work conducted throughout the year. The objectivity of the internal audit function is somewhat impaired because the Vice-President of Operations and Support Services, who is responsible for many of the areas audited, approves the upcoming year's audits. We believe it would be better for the internal auditor to report directly to the CEO, and Health Centre management agree.

- 8.51** Internal audits are selected on the basis of an analysis of the Health Centre's risk of loss. A review of IWK internal audit files and schedules show that the internal audit function is providing management with valuable control assurance in the areas audited which include travel expense claims, a personal loan to a physician, accounts receivable collection, cash collections and controls over computer equipment. However, there is no strategic direction for internal audit. Management recognizes that longer-term planning for internal audit is required.

Accreditation Review

- 8.52** The Canadian Council on Health Services Accreditation (CCHSA) conducts an accreditation review on the IWK Health Centre every three years. The IWK received an unqualified accreditation in 2002 which is the highest level of accreditation. However, the Report to the Health Centre specified four risk areas as listed in Exhibit 8.1.
- 8.53** One of the risk areas noted related to the manner in which drugs are distributed in the Health Centre. There are basically two drug distribution systems in use in Canadian hospitals – a unit dose system where all drugs are obtained from a pharmacist as required, and a ward stock system where hospital wards maintain a stock of many drugs which are dispensed by nurses upon receipt of a prescription from a physician. The ward stock system has a higher risk of medication errors due to such factors as lack of pharmacist review of patient charts for drug interactions prior to dispensing drugs to patients, and the potential for non-pharmacist staff on the wards to select the wrong drug or dosage. We discussed this finding with pharmacists at the Department of Health and reviewed a published report on pharmacy issues in Canadian hospitals which included comparative statistics (*2001/2002 Annual Report: Hospital Pharmacy in Canada Survey - Medication Incidents*, Eli Lilly Canada Inc.).
- 8.54** Although some medications at the Centre are distributed on a unit dose basis, the Health Centre uses ward stock to a greater extent than its counterparts and therefore has a higher risk of medication errors. Health Centre staff informed us they plan to move to centralized IV admixture (CIVA) - where intravenous medications are mixed in the pharmacy - in 2004-05, with the move to unit dose for solid dosage forms in 2005-10. Ideally, a unit dose system would require staffing the pharmacy on a twenty-four hour a day basis so that a pharmacist would always be available to issue medication. The pharmacy is currently staffed 76 hours per week. The Health Centre plans to move to 105 hours per week, which would still require the maintenance of some ward stock.

Recommendation 8.9

We recommend that the Health Centre analyze the risks, costs and benefits associated with drug distribution systems and consider whether it would be appropriate to move to a unit dose system on a more timely basis

Procurement

- 8.55** **Background** - The Purchasing Department of the IWK Grace is responsible for the purchase of capital items, goods and services for the effective and economical operation of the hospital.
- 8.56** The Department has established relationships with several buying groups in an effort to reduce costs. It is a member of a National Medical Supplies Buying Group, a member of a Food Buying Group and a member of the Provincial Drug Distribution Plan. These groups follow a tendering process to ensure that the IWK achieves competitive and advantageous pricing on the products supplied
- 8.57** **Compliance** - The government's procurement policy for the hospital sector requires sole sourced, alternative procurement transactions or tenders awarded to other than the lowest bidder to be supported by a report called the *Non Public Tender Report*. The Report is expected to be maintained by the entity for audit purposes. Our testing has indicated that this Report is not completed by the IWK Health Centre. Our audit testing also revealed that in 2 of 15 (13%) of our sample items tested, there was no public advertisement for items that should be tendered under the policy for the hospital sector.
- 8.58** **Internal policy** - The Health Centre's written internal policies have not been updated since 1997, are not clearly defined and do not comply with current government requirements for the Academic, Schools, Hospitals (ASH) Sector. Dollar value thresholds for the invitational and public tender processes have not been clarified. The policy seems to focus solely on capital acquisitions rather than goods and services. As well, the policy provides no guidelines regarding the processes required for paying contracted employees. As a result, individuals are not aware of the current purchasing requirements. Our testing indicated that one Health Centre department used its own discretion when determining whether to tender construction contracts.

Recommendation 8.10

We recommend that the Health Centre update its internal procurement policies to comply with the Government's requirements for the ASH sector and clarify internal instructions to ensure compliance with policies.

- 8.59** **Documentation** - Evidence from sample testing indicates that 5 of 57 (9%) of purchase orders were created by the Purchasing Department without formal approval of the purchase requisition by the purchasing manager. In addition, the system does not generate a log of price changes. As a result, changes to negotiated prices can be processed by individual buyers without the knowledge or approval of the purchasing manager.

Recommendation 8.11

We recommend

- formal approval of all purchase requisitions by the purchasing manager; and
 - production and review of price change exception reports to ensure that all price changes have been approved.
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Pharmacy Inventory Controls

8.60 **Overview** - At the time of our 1993 audit, the pharmacy department did not have a perpetual inventory system. A system was subsequently implemented. Currently the pharmacy department has 36 employees including a director and 17.5 staff pharmacists (full-time equivalents).

8.61 **Segregation of duties** - The Health Centre operates a computerized perpetual inventory system for pharmacy inventory. We reviewed controls over certain aspects of the system including the risk of undetected loss of drugs before they are entered into the inventory system. We found some control weaknesses which management attributed to the small numbers of pharmacy staff. Adjustments to reconcile the perpetual inventory are not reviewed by senior financial management. In many cases, physical access to the goods and recording of the goods in the system is performed by the same individual. IWK staff informed us that appropriate segregation of duties is not practical given the low numbers of staff, perishable inventory and the need to maintain the primary emphasis on patient care. Staff also noted that workload activities and individual responsibilities will change when a unit dose system is implemented (see paragraph 8.54 above).

Recommendation 8.12

We recommend the Health Centre

- review the segregation of duties among staff with pharmacy inventory responsibilities with a view towards improving internal controls;
 - ensure that there is appropriate segregation of incompatible duties such as receipt of goods and maintenance of accounting records; and
 - ensure that senior financial management reviews adjustments to perpetual inventory.
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Economy and Efficiency: Follow Up to 1993 Audit

8.62 During our audit of the children's facility in 1993, we reviewed utilization of resources in the following areas: length of stay; diagnostic imaging; surgical wait lists; rental of office space to physicians; and the patient information system. Our 1993 recommendations for improvement were followed up during this audit.

- 8.63** [Setting targets and monitoring performance](#) - As part of this audit, we examined the Health Centre's monitoring of whether resources are utilized with due regard for economy and efficiency and whether there are systems in place to provide adequate information to support such monitoring.
- 8.64** The Health Centre produces quarterly report cards for each program area which include various indicators, including length of stay (LOS). These report cards compare LOS to the prior year. The IWK does not have established targets or benchmarks for LOS. There is no comparison outside the Health Centre for the women's portion of the facility.
- 8.65** The Health Centre participates in a group - Pediatrics Decision Support Network - which produces an annual report comparing LOS for various case mix groups at six Canadian pediatric facilities (including IWK). Staff at the IWK informed us they follow up areas where the IWK has the highest LOS. This is an informal process which is not well documented. We acknowledge that there are difficulties when comparing LOS between facilities. However, it is still important to try and find benchmarks against which to measure one's progress and to formally follow up and document areas where the Health Centre's LOS is higher.
- 8.66** The Canadian Institute for Health Information (CIHI) has established guidelines for health care facilities which state the time required for particular diagnostic imaging procedures. Staff at the IWK informed us they use their own estimate of exam times for certain procedures because CIHI times are based on an adult population and are not always applicable to pediatrics. The monthly reports produced in diagnostic imaging do not compare the actual exam time to either CIHI guidelines or the IWK's own suggested times.
- 8.67** The Health Centre has an internal standard of a 72 hour turnaround from the time of a visit to when a report is received in the physician's office. In the past, the IWK's standard was 48 hours but this was increased in 2000 due to budget reductions.

Recommendation 8.13

[We recommend that the Health Centre continue to work with other facilities across Canada and organizations such as the Department of Health and the Canadian Institute for Health Information to further develop targets, monitor performance and make comparisons between facilities.](#)

- 8.68** [Operating room bookings/surgical wait lists](#) - The system for booking operating rooms has improved since our last audit. Physicians are required to submit information on patients waiting for surgical procedures to the IWK to ensure surgical wait lists are complete. The Health Centre uses a computerized system to accumulate wait list information and schedules operating rooms three to six months in advance based on an OR Booking Policy.

- 8.69** There are no established targets for surgical wait lists or comparisons to similar facilities across Canada. The OR Committees review a quarterly wait list report and information on wait lists by doctor is available if required. Based on this review, the Committee may decide to reallocate time between physicians or disciplines to try and better manage surgical wait lists.
- 8.70** The Canadian Institute for Health Information (CIHI) produced a report titled *Health Care in Canada 2002* which noted the difficulties hospitals experience in getting good information on wait times. Clearly, wait times are an issue which hospitals and Departments of Health across Canada need to continue to address.
- 8.71** **Patient information system** - During our 1993 audit, we noted that private patients, seen in physicians' offices, were not always registered on the hospital's patient information system. Staff at the Health Centre informed us that all patients are now registered. Various reports are produced by the system and forwarded to staff to verify that all patients are recorded. These reports help ensure the accuracy of the system.
- 8.72** **Rental of office space to physicians** - Most of the physicians who work with the Health Centre have signed alternate funding contracts with the Department of Health. These contracts require the Health Centre to provide office space at no cost to the physicians. There are 25 obstetricians/gynecologists who are paid on a fee-for-service basis. This group of physicians has an arrangement with the Health Centre whereby they do not have to pay rental fees for office space at the IWK. There are also six doctors from other specialties who are paid under fee-for-service arrangements and are required to pay a nominal rent for office space. Monthly rental fees are below market prices for office space with approximately \$5,000 in total annual revenues from all physician office rental at the Health Centre.

CONCLUSION

- 8.73** The IWK Health Centre's Board and management have established reasonable systems for planning, monitoring and controlling operations. We have made recommendations for improvement in certain areas and will follow up on implementation in three years. Our recommendations include the need for cost-savings initiatives identified during the business planning process to be more clearly reflected in operational plans. We also recommend improvements to the process for monitoring results of such initiatives.
- 8.74** Economic and efficient management of a complex health services organization like the IWK Health Centre requires careful setting of targets, and monitoring of the level of achievement to determine required improvements. Although the Health Centre has made progress in this area, particularly in comparing itself with similar facilities, it is essential that the Centre continue to work with its peers and the Department of Health to further develop related standards (such as acceptable wait times) and monitoring practices in all areas of the Centre's operations.

**Extract from Canadian Council on Health Services Accreditation's
May 2002 Accreditation Report (page 11)**

Exhibit 8.1

Current Risk Areas

Encourage early implementation of master plan to relieve space and functional issues, particularly in mental health care area. There is a lack of exercise facilities for adolescents and the sight lines from nursing station limit staff's ability to monitor patient activity.

Drug distribution system still based totally on ward stock, with intravenous infusions being mixed on the nursing units; inappropriate storage of some high-risk drugs such as KCL. This was discussed with leadership and there is a good program to manage risk with the current system. It is likely that the centre will move to this system during the next expansion and this is strongly supported.

Staff and patient identification (many staff not wearing name tags, none available for patients)

Improvements to the way ethical issues are handled could be made in some cases. Although most teams praised the structures and processes, the neuro-developmental team felt that it was too slow because access to the appropriate individuals was sometimes difficult.

IWK HEALTH CENTRE'S RESPONSE

Senior staff of the IWK Health Centre have reviewed the 2003 Audit report and are generally supportive of the findings and recommendations made in the report. We are pleased by the thoroughness of the Auditor General's report and look forward to making further improvement in processes noted.

The following comments are made specific to Section 7 "Principal Observations from this Audit"

- we agree with your assessment of the use of the Carver Model of Board Governance and in particular the Board's deep commitment to governance.
- we are pleased by your acknowledgment that the Health Centre has a well established process for business planning.
- we acknowledge the need to develop a more comprehensive documentation of operational plans to achieve savings and are committed to initiate this on a go forward business planning basis.
- the Health Centre's final fiscal year position as of March 31, 2003 was reconciled with additional Department of Health funding. The IWK Health Centre began the 2003/04 fiscal year with no accumulated operating deficit.
- we welcomed the acknowledgment by the Auditor General Report that our most recent accreditation (2002) was unqualified. With reference to the concerns over the system for drug distribution, we have had further discussion with the Department of Health and submitted a service proposal for consideration as part of the 2004/05 business planning process.
- we agree with the observation that a note to the Health Centre's financial statements could improve the understanding of the use of Foundation funds to support the activities of the Health Centre.
- we are pleased by the acknowledgment that we have and continue to make progress in areas of performance improvement and in particular our work with the facilities across the country.