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# Niagara Health System

**Special Report: Expenditure Controls, Cash Management and Budget Process**

**March 2009**

Audit.Tax.Consulting.Financial Advisory.

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# Executive Summary

## Introduction

- As instructed by Niagara Health System ("NHS") management, Deloitte reviewed the expenditure controls, cash flow management and budget and performance operations for NHS from February 6th to March 6th 2009.

- NHS is experiencing financial risk and despite prudent financial management is experiencing a deficit of over $17.9M for this fiscal year.

- This project provides an objective assessment of the controls that are effective, appropriate and in compliance with the procedures as documented by NHS and best practices within the health industry.

- Business risks residing within the expenditure controls, cash flow management and budget and performance reporting processes were determined through discussions and interviews with both management and staff from the Finance Department, Materials Management and Program Directors.  A sample of "one" was randomly selected for testing.

- Testing was focused on the design effectiveness of process controls, not full operating effectiveness which requires larger sample sizes and effort. We ensured controls were designed to prevent, detect and correct errors as well as reduce the likelihood of an undesirable risk event, to an acceptable level.

- Compliance was assessed based on departmental policies. Furthermore, control issues and best practices were identified by cross referencing existing processes and controls to Deloitte's Risk and Control Database.  The best practices identified in this report are provided for the consideration of management to enhance the controls within each process.

- The audit procedures performed have been outlined in Appendix I.

# Executive Summary

## Scope – Controls Over Expenditures

- A review of the procedures for approval of an expenditure and the policy on signature authority;

- A review of purchase order guidelines and bid procedures;

- A review of practices regarding unbudgeted expenditures;

- A review of practices, policies and procedures on inventory control, including inventory plans, inventory reports and inventory counts;

- A review of guidelines on direct purchases under a certain dollar value (petty cash);

- A review of the practices, policies, procedures with respect to travel and entertainment;

- A review of the practices, policies, and procedures with respect to employee overtime and sick time taken; and

- A review of governance and oversight responsibilities with respect to approving non-union remuneration.

# Executive Summary

## Scope – Cash Flow Management

- An assessment of practices utilized for daily cash flow monitoring;

- A review of accounts receivable with respect to billing practices, aging analysis, collections practices affecting cash flow (high level and risk based review given extensive nature of billings);

- An examination of Accounts Payable with respect to cash flow, including payment practices (utilization of discounts) and supplier evaluations to ensure best pricing is selected;

- A review of investment practices and policies in accordance with Board of Trustee directives, including bridge financing and interest cost minimization; and

- An evaluation of practices with respect to capital expenditure approval and impact on cash.

## Scope - Budget and Performance Reporting

- A review of the budgeting process. For example, the proper tracking of expenses and measurement against each budget line item;

- A review of the practices for variance analysis and lines of communication to senior management, committees, and Board of Trustees; and

- A review of practices with respect to communications with department managers and monitoring activities thereon, for example frequency of committee and management meetings.

# Executive Summary

- ## Summary Recommendation Matrix

    – Deloitte's recommendations are ranked according to the following priority legend:

    – Item is **high priority** and should be given immediate attention due to the existence of either a significant control risk or an operational improvement opportunity.

    – Item is **medium priority** and should be addressed in the near term.

    – Item is **low priority** and not critical but should be addressed to either improve internal controls or process efficiency.

# Executive Summary

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## Summary Ratings per Process area

During our review of NHS's processes for Controls over Expenditures, Cash Flow Management and Budget & Performance Reporting, we noted minor control weaknesses. The weaknesses identified should be addressed in the near term in order for NHS to effectively execute its processes and meet its objectives.  In order for an "A" rating to be achieved NHS would need to implement workflow automation to achieve efficiencies as well as implement the recommendations suggested throughout this report to be able to demonstrate operating at a best practice level.

The following scale depicts our overall conclusion for this review:

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A        B        C        D        E        F
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● **Controls over expenditures**

▲ **Cash Flow Management**

◆ **Budget & Performance Reporting**

- A  Operating at a Best Practices Level

- B  Minor Process Control or Efficiency Weaknesses Identified

- C  Moderate Process Control or Efficiency Weaknesses Identified

- D  Significant Process Control or Efficiency Weaknesses Identified Impairing the Effectiveness of the Process

- E  Significant Control Weaknesses Identified, Impairing the Overall Effectiveness of the Department or Location

- F  Significant Control Weaknesses Identified, Impairing the Overall Effectiveness of the Organization

# Executive Summary

- ## Summary Conclusion of Findings

  – During our review of NHS's processes for Controls over Expenditures, Cash Flow Management, Budget and Performance Reporting we observed some effective policies, procedures and management oversight. However, we also noted *minor control weaknesses and opportunities for efficiencies*. These weaknesses and opportunities identified for improvement should be addressed in the near term in order for NHS to effectively execute its processes and meet its objectives.

  – *Controls over Expenditures* – our review indicates that overall controls have been designed effectively with the exception of minor control weaknesses noted with respect to formalizing current processes into written policies. Also, further efficiency improvements should be investigated to automate the current manual processes that exists for replenishing inventory stock levels from Stores, scoring bids, non-union remuneration, approving overtime and travel and entertainment.

  – *Cash Flow Management* – our review indicates minor control weaknesses with respect to formalizing current processes into written policies; regular reviews of employees' access levels and permissions and data entry errors by admissions staff.

  – *Budget and Performance Reporting* – our review indicates effective monitoring and communication controls of budget performance are in place for all programs within NHS. In terms of best practice, management should consider implementing zero based and activity based budgeting in the future in all departments only if efficiency gains can be gained as the healthcare industry is moving towards this type of budgeting model.

# Executive Summary

- ## Design Effectiveness – Controls Over Expenditures

  - Approval limits for purchases have been defined in the Board of Trustees Policy for Approvals document and the Signing Authorities Policy.

  - Resource Planning Committee Senior Team meets every 2 weeks to review financial issues, variances and approval for requests for unbudgeted resources (i.e. capital and operating) according to signing policy.

  - A designated individual at the purchasing department is authorized to perform the purchasing function for capital budget items after approval is received from the appropriate signing authority.

  - For non-capital budget purchases, the purchasing function is decentralized although Materials Management maintains centralized control.

  - A committee of 5 to 7 individuals is formed to discuss product options and the needs and requirements of the end user.

  - Potential suppliers/vendors are shortlisted based on product requirements and cost. A review of the suppliers/vendors is conducted by designated purchasing staff to ensure and verify compliance with ethical requirements.

  - The Policy for Unbudgeted Requests outlines the requirements and approval process for unbudgeted requests.

  - Departments complete the Request for Unbudgeted Resources form and submits to the Director of the Program or Senior Manager of the service for approval. Requests are forwarded to the Resource Planning Committee for approval every 2 weeks.

# Executive Summary

- ## Design Effectiveness – Controls Over Expenditures (cont'd)

  - An Inventory Control Policy and Materials Management Year-end Inventory Process have been documented and approved by Senior Management.  Inventory levels are based on minimum and maximum levels for each inventory item as configured in Meditech.

  - Cycle and annual counts are performed on a regular basis at Stores while Pharmacy performs inventory counts on an annual basis.

  - A copy of the approved petty cash document is forwarded to Accounts Payable. Accounts Payable processes a cheque for the petty cash to be issued as indicated on the warrant document.

  - A threshold of 187.5 hours for sick time has been determined by management, configured in Meditech and closely monitored by the responsible person in the Occupational Health and Safety department.

  - NHS has developed the Salary Administration Policy that governs the maintenance of a sound salary administration for non-union positions.

  - The Senior Consulting Manager for Human Resources conducts a salary survey analysis using data obtained from the Ontario Hospital Association with the job description capsule and payment information from regional surveys.

  - Payment information for job roles common to each hospital are matched to determine variances that exist between the rates and payments by NHS. Minimum and maximum pay bands for job roles are determined.

  - The Senior Management Committee reviews the payroll information for approval. Non-union annual economic increase is approved at Board of Trustees.

  - The salary manual is signed off by the Chief Human Resources Officer and communicated to the payroll department for entry into Meditech.

# Executive Summary

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## Improvement Opportunities– Controls Over Expenditures

• *Policies and Procedures:*

- Approval limits for purchases have been defined in the Board of Trustees Policy for Approvals document and the Signing Authorities Policy. The policies are formalized although best practice suggests that policies should be updated and reviewed on an annual basis.

- The Board of Trustee Approvals, Signing Authorities, Regional Purchasing Overview, and Acceptance of Gifts and Gratuities policies are formalized although best practice suggests that policies should be updated and reviewed on an annual basis.

- The Purchase Order Guidelines policies are effective and relevant although it was noted that they are in draft format. Best practice suggests that policies should be updated and reviewed on an annual basis.

- An informal Petty Cash policy exists which should be formalized, updated and reviewed on an annual basis to be aligned with best practice standards.

• *Staff Awareness:*

- A formalized and documented Inventory Policy exists, although Materials Management staff were not aware of the policy as validated through the walkthrough process.

**Summary Recommendations:** NHS should update and review policies on an annual basis for The Board of Trustee Approvals, Signing Authorities, Regional Purchasing Overview and Acceptance of Gifts and Gratuities and Purchase Order Guidelines. The Petty Cash Policy should be formalized and the Inventory Policy should be communicated to the Materials Management staff.

# Executive Summary

## Improvement Opportunities– Controls Over Expenditures (cont'd)

- *Systems*:
  - An electronic system has not been implemented to capture inventory levels to enable point-of-use data capture to assist in the development of accurate inventory plans for Stores.
  - Stock counts on the wards for replenishment are manual and are not independently verified.
  - The process for analyzing and scoring bids are performed manually by uploading data onto spreadsheets.
  - Opportunity exists to automate approval process for unbudgeted requests.
  - Although the reports are used to monitor inventory levels, it was noted that data on the reports may not be accurate especially reports that originate from manual counts and updated in Meditech.
  - With respect to travel and entertainment reimbursement requests and approvals of requests, these forms are currently automated in Excel and posted on SharePoint. Totals are calculated automatically. Best practice suggests automation of the process to include workflows.
  - It was noted that there is no automation with respect to approval process for employee overtime and employee sick time.

**Summary Recommendations: NHS should consider automating its current manual processes for expenditure controls.**

# Executive Summary

- ## Design Effectiveness – Cash Flow Management

  - Cash Flow projections are developed and monitored by NHS' Director of Finance and Decision Support Services, and the Local Health Integration Network on a periodic basis using the Monthly Cash Flow Summary Report.

  - Cash forecasting spreadsheets generated are reconciled to projected amounts and cash received from the ministry. In addition, the Resource and Planning Committee develops and approves financial resource allocations through the review of financial, statistical and utilization data.

  - The policy for adjustments and write offs on patient accounts noted in the Accounts Receivable Policy governs billing adjustments and/or corrections to patient accounts.

  - Monthly cut-off schedules have been documented and configured in the Meditech system to ensure consistent cutoff for Accounts Receivable.

  - Monthly reports are run in Meditech to identify aged or delinquent accounts.  Investigations are performed by Accounts Receivable staff to determine the cause of non-payment.

  - Internal Collections investigates and pursues all non-payments for patient accounts.

  - Canadian Collection agencies and International Collection agencies are used to follow up on delinquent patient accounts.

  - Invoices from suppliers matching the items delivered are entered into the purchasing module of Meditech and feeds into the Accounts Payable module in Meditech. The Accounts Payable supervisor creates the payment schedule for paying vendors.

  - Monthly exception reports are run to determine unpaid suppliers/vendors in order to ensure payment problems with suppliers/vendors do not occur.

  - Cutoff schedules have been determined by Management for the Accounts Payable process. Returned Purchase Orders are entered into Meditech and processed on the day of return.

# Executive Summary

- ## Design Effectiveness – Cash Flow Management (cont'd)

    – The Accounts Payable supervisor reviews weekly exception reports prior to cheque runs for credit note edits performed to ensure they are appropriate.

    – Status of bank accounts is reviewed by the Director of Finance and Decision Support on a daily basis. Information obtained determines the timing and amount to be used for bridge financing in order to minimize interest costs.

    – The Accounts Payable supervisor monitors investments on a monthly basis and reconciles to the general ledger and bank statements. These documents are reviewed by the Director of Finance and Decision Support Services.

    – Financing arrangements (e.g. term sheets and bridge financing arrangements) are approved by signing officers and approved by Resource and Audit Committee and Board of Trustees.

    – The Capital Purchases Policy and the Capital Equipment Budget govern the purchase of capital budget items.

    – The Contract Specialist at the Purchasing department of NHS is responsible for monitoring capital item purchases.

    – Physicians and staff do not make direct contacts with vendors with the exception of foundations for which the Capital Equipment Budget Process permits contact to be made with the foundation in order to assist with the completion of the capital equipment request form if there are designated funds available to assist with a purchase.

    – Capital expenditures are ranked by importance by the Programs (directors, managers, physicians) in conjunction with the Finance Department, and then final site ranking is completed by the Site Integrated Leadership Committee. Final approval for purchases is provided by the Resource and Planning Committee.

# Executive Summary

## Improvement Opportunities– Cash Flow Management (cont'd)

- *Policies and Procedures:*
  - The Accounts Receivables Policy (Adjustments and Write offs on Patient Accounts Procedures), should be updated and reviewed on an annual basis to be aligned with best practice standards.
  - The current investments policy should be formalized into a written policy and updated and reviewed on an annual basis to be aligned with best practice standards.
  - The definitions of Capital Purchase in the Capital Purchases Policy and the Capital Equipment Budget process documents are inconsistent. However, individuals during walkthroughs were aware that the $2000 capital purchase amount is the dollar value that should be adhered to and it is also reflected in the submission forms.

- *Training:*
  - It was noted that data entry errors or omissions at the point of admissions result in workflow efficiency issues for the billing clerks.

- *Access Control:*
  - Access permissions for a staff were not modified as required to reflect new roles and responsibilities.

- *Accounts Payable:*
  - NHS has not implemented Electronic Funds Transfer.
  - Currently four business days are devoted to the investigation of accrual reports.

**Summary Recommendations: NHS should update and review policies and procedures for Accounts Receivable on an annual basis. Training should be provided to staff to reduce errors and improve workflow efficiencies.   Access permissions of staff should be regularly reviewed. Electronic Funds Transfer should be implemented to improve efficiencies for Accounts Payable**.

# Executive Summary

- ## Design Effectiveness – Budgeting and Performance Reporting

  - The Ministry of Health and Long Term Care provides a two year budget target to NHS.

  - NHS's budgeting is performed via historical/trending analysis, with adjustments made for the Health Improvement Plan and the Hospital Accountability Plan Submission initiatives.

  - Finance staff meets with every program during budget process to review budget staffing, revenues and expenses based on activity. Any issues are identified during budget process for discussion and approval to RPC for budget adjustment. Budgets are adjusted for funded activity increases and ensured budget neutral (e.g. PCOP, wait time, priority programs – dialysis, pacemakers).

  - A capital contingency amount is budgeted each fiscal year from which contingency purchases are approved by RPC.

  - Program directors meet with their internal department managers to determine their cost budget needs and reallocations prior to meeting with the assigned financial consultants.

  - Manager of Clinical Efficiency and Scheduling reviews clinical staffing schedules with programs to identify opportunities for scheduling efficiency. Identified opportunities or pressures are brought to RPC for discussion/approval.

  - Request for Unbudgeted Resources process allows programs to present current budget pressures based on activity to request approval for budget adjustment at Resource Planning Committee meeting.

  - Budget amounts are established at the beginning of the year. Unused budget allocations cannot be forwarded to the following year.

  - Budget timelines for the operating budget and capital budget have been established by NHS and responsible parties for each aspect have been identified.

# Executive Summary

- ## Design Effectiveness – Budgeting and Performance Reporting (cont'd)

  - Internal financial consultants have been assigned to each program to monitor actual versus budget for their programs and to investigate variances on a monthly basis.

  - In addition, Vice Presidents, Directors and Managers receive monthly cost centre reports from Finance to assist them in the monitoring process.

  - The Finance Director attends the monthly management meetings every month to discuss the budget with the departments. Initiatives are implemented to monitor expenses.

  - Financial consultants for each portfolio perform variance analyses on a monthly basis to compare budget versus actual with year-to-date actuals.  A threshold of ±5% has been set and variances greater than these are identified by the internal financial consultants for follow-up. The scheduling specialist is consulted if scheduling issues are identified.

  - Department managers receive a cost-centre report from the Finance department on a monthly basis with details of variances that have to be accounted for to the Finance and Audit Committee if required.

  - NHS conducts bi-weekly Resource and Planning Committee meetings of Senior Management where financial, resource and utilization issues and variances are discussed and analyzed for further discussion for potential saving opportunities or budget pressures and back-to-budget recovery plan strategies are discussed.

  - Directors present status reports on program budget variances and status of saving opportunities on a scheduled basis throughout the year to the Resource and Planning Committee.  Discussion is held on recovery plan strategies to mitigate any budget slippage.

  - A focus group meets quarterly to review the initiatives to determine operating effectiveness and to increase diligence in the final quarter with respect to purchasing and budget overruns.

# Executive Summary

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- ## Improvement Opportunities – Budgeting and Performance Reporting

-*Practices with respect to communications with department managers:*
Data warehousing functionality is not used by NHS in communicating the budget to department managers;
A balanced scorecard approach is not currently used by NHS.  Information is provided but on separate reports;
The current process is labour intensive as program directors have to manually review financial reports.

-*Practices with respect to monitoring activities:*
To control the potential for increased spending in the last months of the fiscal year for any unused budget allocation, additional controls are put in place to monitor discretionary expenditures approvals by the Resource and Planning Committee.

**Summary Recommendations:**

- **Best practice and industry trend suggests a move within the healthcare industry towards an activity based budgeting model. Management should consider implementing zero based and activity based budgeting for all departments in the future if efficiency gains can be achieved.**

- **Management should continue moving toward an automated monitoring process, such as the upcoming BUDMAN module, that will allow for a more timely and efficient reporting dashboard to expedite follow up and recovery by program directors, as well as compare to historical spend, key metrics and industry benchmarks.**

# Assessment of Controls Over Expenditures

# Assessment of Controls Over Expenditures

## Conclusion

Based on our review of NHS's processes for Controls over Expenditures we noted minor control weaknesses. These weaknesses identified should be addressed in the near term in order for NHS to effectively execute its processes and meet their objectives.

The following scale depicts our overall conclusion for this review:

| A | B | C | D | E | F |

- A  Operating at a Best Practices Level

- B  Minor Process Control or Efficiency Weaknesses Identified

- C  Moderate Process Control or Efficiency Weaknesses Identified

- D  Significant Process Control or Efficiency Weaknesses Identified Impairing the Effectiveness of the Process

- E  Significant Control Weaknesses Identified, Impairing the Overall Effectiveness of the Department or Location

- F  Significant Control Weaknesses Identified, Impairing the Overall Effectiveness of the Organization

# Assessment of Controls Over Expenditures

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| **Control Activity** | Procedures for approval of an expenditure and the policy on signature authority |
|---|---|

## Design Effectiveness

- Approval limits for purchases have been defined in the Board of Trustees Policy for Approvals document and the Signing Authorities Policy. Approval limits appear to be appropriate. The Accounts Payable Supervisor looks for signing authority for manual invoices with no purchase order.

- Signing Authorities have been identified for categories of purchases of minor equipment, capital projects capital equipment, and operating expenditures for both purchase orders and contracts.

- Purchasing verifies signing authorities before creating purchase orders.

- Resource Planning Committee Senior Team meets every 2 weeks to review financial issues, variances and approval for requests for unbudgeted resources (i.e. Capital and operating) according to signing policy.

## Improvement Opportunities

- The Board of Trustee Approvals, Signing Authorities, Regional Purchasing Overview and Acceptance of Gifts and Gratuities policies are effective and relevant although best practice suggests that policies should be updated and reviewed on an annual basis.

- Testing identified that the current approval process is manual.

| **Recommendations** | • *High Priority:* Management should review and update policies and procedures on an annual basis to be aligned with best practice standards.<br>• *Low Priority:* NHS should investigate opportunities to implement automated workflows in order to build in efficiencies around the approval process and to ensure approval limits are enforced. |
|---|---|
| **Management Response** | • *Management Agrees:* Policies in drafts were pending senior management approval are now approved and are with Corporate Education for formal posting.<br>• Automation of current manual processes will be considered when there is an improvement in the financial situation of NHS. |

# Assessment of Controls Over Expenditures

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| Control Activity | Purchase order guidelines |
|---|---|

## Design Effectiveness

- Policies and procedures that govern the selection of suppliers have been defined and documented.
- A designated individual at the purchasing department is authorized to perform the purchasing function for capital budget items after approval is received from the appropriate signing authority.
- For non-capital budget purchases, the purchasing function is decentralized although Materials Management maintains centralized control. Departments are allowed to purchase items directly from approved vendors/suppliers via Electronic Data Interchange.
- For EDI purchases, departments enter required items electronically, the purchasing department audits the requests and creates an EDI to suppliers.
- Vendors/suppliers fax acknowledgement notes to Materials Management for such purchases.

## Improvement Opportunities

- The following policies are effective and relevant although it was noted that they are in draft format. Best practice suggests that policies should be updated and reviewed on an annual basis.
    - o Procurement of a New Product Policy and Procedure documents;
    - o Approval Requirements of Procurement Policy and Procedure documents;
    - o Conflict of Interest Policy;
    - o Ethical Practices Policy;
    - o Mission Statement/Objectives Policy;
    - o Product Trial and Evaluation Policy and Procedure;
    - o Tendering Process – Request for Information (RFI), Request for Quotation (RFQ) Request for Proposal (RFP) Policy; and
    - o EDI Policy.

| Recommendations | • **_High Priority:_** Management should formalize the policies that are in draft format as well as review and update the policies on an annual basis to be aligned with best practice standards. |
|---|---|
| Management Response | • **_Management Agrees:_** Policies in drafts were pending senior management approval. They have now been approved and formally posted. |

# Assessment of Controls Over Expenditures

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| **Control Activity** | Purchasing bid procedures |
|---|---|

## Design Effectiveness

- A committee of 5 to 7 individuals is formed to discuss product options and the needs and requirements of the end user. Members are required to sign off on declaration forms to acknowledge that they have read and understood the policy and are not in a conflict of interest situation.
- Potential suppliers/vendors are shortlisted based on product requirements and cost. A review of the suppliers/vendors is conducted by designated purchasing staff to ensure and verify compliance with ethical requirements.
- All contacts with potential suppliers/vendors are made through the Regional Director of Materials Management or a designated staff member for all contracts except corporate contracts.
- The product and trial evaluation process is coordinated and managed by the Purchasing department. Key stakeholders are contacted as required and a purchase order is created.

## Improvement Opportunities

- Through interviews and discussions, it was noted that the process for analyzing and scoring bids are performed manually by uploading data onto spreadsheets.

| **Recommendations** | • *Low Priority:* NHS should investigate the implementation of automated tools or workflows to be integrated with the purchasing module in Meditech, in order to build in efficiencies around the scoring process for bids as the Health Improvement Plan anticipates an increase in the volume of capital projects. |
|---|---|
| **Management Response** | • *Management Agrees:* Given the current financial situation of NHS, this recommendation will be considered in future when there is an improvement in the financial situation. |

# Assessment of Controls Over Expenditures

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| Control Activity | Practices regarding Unbudgeted Expenditures |
|---|---|

## Design Effectiveness

- The Policy for Unbudgeted Requests outlines the requirements and approval process for unbudgeted requests such as operating or staffing issues, capital equipment, information and communications technology, renovations and medical staff remuneration.
- Departments complete the Request for Unbudgeted Resources form and submit to the Director of the Program or Senior Manager of the service for approval. Requests are forwarded to the Resource Planning Committee for approval every 2 weeks.
- Expenses are coded appropriately within expense accounts where budget variances exist. Variances and expense allocations with each program are monitored for inappropriate expense coding and allocation.
- Significant reports used for the monitoring of unbudgeted expenditures include: NHS Hospital Accountability Plan Submission Savings Monitoring Report, NHS Variance Report and NHS Summary of Major Variances.

## Improvement Opportunities

- Practices regarding unbudgeted expenditures currently have some manual processes.

| Recommendations | • *Low Priority:* NHS should investigate Meditech's capability to automate the process for unbudgeted expenditures with workflows. |
|---|---|
| Management Response | • *Management Agrees:* Further consideration will be given to this recommendation when the financial situation of NHS improves. |

# Assessment of Controls Over Expenditures

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| Control Activity | Practices policies and procedures on inventory control |
|---|---|

## Design Effectiveness

- An Inventory Control Policy and Materials Management Year-end Inventory Process have been documented and approved by Senior Management.
- The receiving, storage, handling and distribution of medical and surgical inventories are the responsibility of the Materials Management Department staff. Items/goods received are entered into Meditech and matched with purchase order information, the waybill and packing slip.
- Discrepancies noted are recorded in Meditech for further investigation and suppliers/vendors are contacted for a credit note if required.
- Store departments at all sites maintain a computer inventory control system in Meditech that provides data of all inventory items.
- NHS participated in the evaluation of a business case for an integrated supply chain operation in 2007 as part of the Integrated Supply Chain Project initiative in order to implement more controls over expenditures.

## Improvement Opportunities

- It was identified during walkthroughs and testing that the Materials Management staff are not aware that an Inventory Policy exists.

| Recommendations | • **High Priority:** Management should communicate policies to all materials management staff in order to increase awareness of existing policies. |
|---|---|
| **Management Response** | • **Management Agrees:** Management has documented, approved and posted a formal Inventory Policy. Management will also communicate the formalized policy to staff. |

# Assessment of Controls Over Expenditures

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| Control Activity | Practices policies and procedures on inventory plan |
| --- | --- |

## Design Effectiveness

- Inventory levels are based on minimum and maximum levels for each inventory item as configured in Meditech.
- Stock Status Reports are reviewed by the Stores Supervisor and Inventory Technician on a regular basis to determine the days on hand and quantity on order.
- Purchase orders are created and forwarded to suppliers/vendors if required.
- Inventory aging reports are reviewed regularly or as required by the Stores Supervisor to determine the stock activity on the items. Items are transferred to another department as required and charged directly to the department.

## Improvement Opportunities

- The process used to determine inventory levels at departments is not automated to include the point-of-use data capture functionality similar to the Acu-Dose RX system used for Pharmacy. As such, inventory plans for Stores are determined by the stock status report which may not be accurate.

| Recommendations | • *Medium Priority:* Management should implement strategies for improving automation throughout the supply chain for Stores. The current process should be improved to include point-of-use data capture like there is for the pharmacy items, in order to introduce a greater percentage of accuracy when inventory plans are made . |
| --- | --- |
| Management Response | • *Management Agrees:* NHS has investigated bar code scanner for cart optimization and supply replenishment; this will be implemented pending FOHSCI implementation across all member hospitals. Conversion will commence in September 2009. Also, NHS-WHS is a pilot site for the OHA/Ont. Buys Peri-Operative Supply Chain initiative therefore implementation will occur as soon as IT contract finalized. |

# Assessment of Controls Over Expenditures

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| Control Activity | Practices policies and procedures on inventory reports |
| --- | --- |

## Design Effectiveness

- Materials Management uses the following significant reports in Meditech to monitor inventory levels:

  o Receiving reports to verify goods/items received;

  o Materials Management expediting reports to monitor items with missed delivery dates from vendors;

  o Inventory aging reports to determine the appropriate action to be taken on items with low activities;

  o Transfer stock reports to monitor items transferred to other departments;

  o Stock status report determine the days on hand and quantity on order. Purchase orders are created for items to be purchased if required; and

  o Material Management Purchase Order reports to determine returned purchase orders.

## Improvement Opportunities

- Although the reports are used to monitor inventory levels, it was noted that data on the reports may not be accurate especially reports that originate from manual counts and updated in Meditech.

| Recommendations | • *Medium Priority:* Management should investigate the implementation of a bar-coding or a Radio Frequency Identification System in order to ensure data accuracy and efficiency are built around the inventory reporting and reconciliation system. |
| --- | --- |
| Management Response | • *Management Agrees:* Bar code scanner implementation has been approved and is pending FOHSCI's Central warehouse. The reconciliation of inventory adjustment are expressed by a low dollar amount and therefore considered minimal. |

# Assessment of Controls Over Expenditures

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| Control Activity | Practices policies and procedures on inventory counts |
| --- | --- |

## Design Effectiveness

- Cycle and annual counts are performed on a regular basis at Stores while Pharmacy performs inventory counts on an annual basis.

- The Physical Inventory worksheet by location is used for inventory count. Information obtained is uploaded into Meditech and updates the Stock Status report.

- The schedule for annual physical counts is determined by the Regional Logistics Manager.

- Representatives from the Finance Department are present at the annual inventory counts. External auditors attend at their discretion. Items are randomly selected by the Finance representatives and counted to validate original counts performed.

- Variances arising from physical counts are recounted and source documents are reviewed prior to the adjustment of inventory counts in Meditech.

## Improvement Opportunities

- The stock replenishment from Stores by the wards is performed manually. Stores attendants are assigned to specific departments for the physical count of items in order to determine the quantity of items required for replenishment. The counts are not independently verified.

| Recommendations | • **Medium Priority:** Management should implement a process to validate the accuracy of stock levels counted on the wards by the Stores Attendants. Management should also perform a fraud-risk analysis to determine the potential for shrinkage and potential controls to mitigate such risks. |
| --- | --- |
| Management Response | • **Management Agrees:** Inventory adjustments are considered minimal as previously stated. Different area of responsibilities will be assigned to individuals during inventory counts. Internal audit function is being formalized and will perform a risk assessment in this area although currently any risk of fraud and shrinkage is minimal. |

# Assessment of Controls Over Expenditures

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| Control Activity | Guidelines on direct purchases under a certain dollar value (petty cash) |
|---|---|

## Design Effectiveness

- Petty cash requests are submitted to Department Managers and forwarded to Finance for final approval.
- A copy of the approved petty cash document is forwarded to Accounts Payable. Accounts Payable processes a cheque for the petty cash to be issued as indicated on the warrant document.
- Managers complete an expense report and attach petty cash receipts. Accounts Payable verifies submitted receipts to ensure the documentation is correct prior to the release of the cheque.
- Petty cash is audited annually by finance. General ledger discrepancies are noted and investigated.

## Improvement Opportunities

- The Petty Cash policy is an informal guideline. Best practice suggests that policies should be formalized, updated and reviewed on an annual basis.
- It was also noted that the petty cash process has not been automated.
- Procurement cards are not used.

| Recommendations | • **High Priority:** Management should formalize the Petty Cash Policy and update and review the policy on an annul basis to be aligned with best practice standards.<br>• **Low Priority:** Management should consider the usage of a procurement card or an automated system for department limited value purchase order for small dollar purchases in order to introduce efficiency into the current process. |
|---|---|
| Management Response | • **Management Agrees:** Procurement cards are used but only by senior staff members. NHS will review the use of procurement cards. Management will also consider process automation for petty cash when the financial situation of NHS improves. |

# Assessment of Controls Over Expenditures

**Deloitte.**

| Control Activity | Practices, policies and procedures with respect to travel and entertainment |
|---|---|

## Design Effectiveness

- The Expense Reimbursement Policy provides guidelines for expenses applicable to all programs and services of Niagara Health System. The policy applies to all types of accounts managed by NHS.

- Management requires all expenses for travel to be submitted within one month of the completion of the trip. Expenses submitted more than three months after being incurred may not be reimbursed.

- All expenses are to be reported on the expense form with the applicable GST portions itemized with the original receipts.

- Expenses are to be completed by the claimant on expense forms in an electronic format.

- Reasonable expenses of Senior Management are reimbursed for the occasional entertainment of business contacts and colleagues. Expenses are described in detail when submitting the expense report.

## Improvement Opportunities

- With respect to travel and entertainment reimbursement requests and approvals of requests, these forms are currently automated in Excel and posted on SharePoint. Totals are calculated automatically. Best practice suggests automation of the process to include workflows.

| Recommendations | • *Low Priority:* NHS should consider automating the process to include workflows for completing the authorized forms, reimbursement and approvals. |
|---|---|

| Management Response | • *Management Agrees:* NHS will investigate opportunities for automating the current process to include workflows when there is an improvement in its current financial situation. |
|---|---|

# Assessment of Controls Over Expenditures

**Deloitte.**

| Control Activity | Practices, policies and procedures with respect to employee overtime |
|---|---|

## Design Effectiveness

- Overtime for NHS is governed by collective agreements. The agreements provide the wages, terms and conditions of employment working conditions of unionized NHS employees.

- The overtime authorization form is completed by the claimant, authorized by the charge nurse when applicable with final approval for payment indicated by the managers signature on the form.

- Overtime forms are forwarded to payroll and times are entered and processed in Meditech.

- Overtime is monitored by Accounting and Budget services. Monthly overtime analyses are performed and presented to the Resource and Planning Committee on a regular basis.

- The scheduling supervisor conducts overtime audits on a regular basis, any issues are used for educational opportunity and any incorrect interpretations are corrected through payroll.

- The top 10 departments that contribute to high overtime hours provide strategies to the Resource and Planning Committee on the action plans they will undertake to reduce overtime hours.

## Improvement Opportunities

- It was noted that there is no automation with respect to employee overtime requests and approvals process.

| Recommendations | • **Low Priority:** NHS should consider automating the process to include workflows with respect to overtime requests and approvals that are forwarded to payroll. In addition, NHS should consider integrating the overtime time entry to scheduling in order to identify and investigate variances in a timely manner. |
|---|---|
| Management Response | • *Management Agrees:* The most effective way to automate process for overtime requests and approvals would be through a computerized scheduling program. NHS is investigating automation of a scheduling system and business case analysis. |

# Assessment of Controls Over Expenditures

**Deloitte.**

| Control Activity | Practices, policies and procedures with respect to employee sick time |

## Design Effectiveness

- The Attendance Support Program Policy and the Attendance Support Program Procedure govern employee sick time.

- Department managers receive the Timecard Verification by Expensed Department Reports for each pay period from payroll for their review and signoff. Time that has not been accurately recorded reflects on the hours paid by payroll for each employee and are further investigated.

- A threshold of 187.5 hours for sick time has been determined by management, configured in Meditech and closely monitored by the responsible person in the Occupational Health and Safety department. Employees are notified accordingly when the threshold gets closer.

- The responsible person in the Occupational Health and Safety group receives emails from department managers for further investigation if required.

## Improvement Opportunities

It was noted that there is no automation with respect to employee sick time. Department managers are able to detect variances upon receipt and review of reports such as the Timecard Verification report, Custom Manager Payroll Menu reports and Cost Centre Variance analysis.

**Recommendations**

- *Low Priority:* NHS should consider automating the process to include workflows with respect to sick time and should consider integrating the sick time entry to scheduling in order to identify and investigate variances in a timely manner.

**Management Response**

- *Management Agrees:* The most efficient way to automate the process for sick time would be through a computerized scheduling program. NHS is investigating automation of scheduling system and business case analysis.

# Assessment of Controls Over Expenditures

**Deloitte.**

| Control Activity | Governance and oversight responsibilities with respect to approving non-union remuneration |
| --- | --- |

## Design Effectiveness

- NHS has developed the Salary Administration Policy that governs the maintenance of a sound salary administration for non-union positions.

- The Senior Consulting Manager for Human Resources conducts a salary survey analysis using data obtained from the Ontario Hospital Association with the job description capsule and payment information from regional surveys.

- Payment information for jobs roles common to each hospital are matched to determine variances that exist between the rates and payments by NHS. Minimum and maximum pay bands for job roles are determined.

- The Senior Management Committee reviews the payroll information for approval. Non-union annual economic increase is approved at Board of Trustees.

- The salary manual is signed off by the Chief Human Resources Officer and communicated to the payroll department for entry into Meditech.

## Improvement Opportunities

- It was noted that spreadsheets used for the process are manually generated.

| Recommendations | • *Low Priority:* NHS should consider investigating and implementing enterprise resource planning systems that incorporate salary position and management, position budgeting and position management in order to build efficiencies around the process. |
| --- | --- |

| Management Response | • *Management Agrees:* NHS will investigate opportunities for automating the current process when there is an improvement in its current financial situation. |
| --- | --- |

# Assessment of Cash Flow Management

# Assessment of Cash Flow Management

**Deloitte.**

## Conclusion

Based on our review of NHS's processes for Cash Flow Management we noted minor control weaknesses.  These weaknesses identified should be addressed in the near term in order for NHS to effectively execute its processes and meet their objectives.

The following scale depicts our overall conclusion for this review:

A          B          C          D          E          F

- A   Operating at a Best Practices Level

- B   Minor Process Control or Efficiency Weaknesses Identified

- C   Moderate Process Control or Efficiency Weaknesses Identified

- D   Significant Process Control or Efficiency Weaknesses Identified Impairing the Effectiveness of the Process

- E   Significant Control Weaknesses Identified, Impairing the Overall Effectiveness of the Department or Location

- F   Significant Control Weaknesses Identified, Impairing the Overall Effectiveness of the Organization

# Assessment of Cash Flow Management

**Deloitte.**

| **Control Activity** | Practices utilized for daily cash flow monitoring |
|---|---|

## Design Effectiveness

- Cash Flow projections are developed and monitored by NHS' Director of Finance and Decision Support Services, and the Local Health Integration Network on a periodic basis using the Monthly Cash Flow Summary Report.

- Cash flow projections are matched against the cash flow forecast based on historical records and the Accounts Payable report. Revenue and expenses within the period are reconciled to the budget.

- Cash forecasting spreadsheets generated are reconciled to projected amounts and cash received from the ministry. In addition, the Resource and Planning Committee develops and approves financial resource allocations through the review of financial, statistical and utilization data.

- Management benchmarks cash flow against the budget on a consistent basis.

## Improvement Opportunities

- Data uploads onto the spreadsheet are performed manually and may be subject to human error.

| **Recommendations** | • *Low Priority:* NHS should investigate automating the process for data uploads onto the spreadsheet. |
|---|---|
| **Management Response** | • *Management Agrees:* Data entry errors are currently minimal. Any data entry errors would be caught when balancing cash flow to source documents (e.g. bank statement, MOHLTC cash flow payments etc). NHS will investigate opportunities for automating the process when its financial situation improves. |

# Assessment of Cash Flow Management

**Deloitte.**

| Control Activity | Accounts Receivable with respect to billing practices |
|---|---|

## Design Effectiveness

- The policy for adjustments and write offs on patient accounts noted in the Accounts Receivable Policy governs billing adjustments and/or corrections to patient accounts.
- Billing rates and dictionary related parameters received from the Ministry of Health and Workplace Safety and Insurance Board are set up in the Billing and Accounts Receivable system in Meditech to ensure billing matches with patient services provided.
- Charge rates for treatments that are not covered on the lists provided are determined from prices charged for similar treatments in other hospitals within Ontario as well as the applicable interprovincial billing rates.

## Improvement Opportunities

- The Accounts Receivables Policy (Adjustments and Write offs on Patient Accounts Procedures) is effective and relevant although best practice suggests that policies should be updated and reviewed on an annual basis.
- Roles and responsibilities of one staff member had changed but access permissions were not modified to reflect the individual's new roles and responsibilities.
- Errors may occur as billing rates are entered into Meditech due to lack of automation.

| Recommendations | • **High Priority:** Management should review and update The Accounts Receivables Policy (Adjustments and Write offs on Patient Accounts Procedures) on an annual basis to be aligned with best practice standards. Employee access should be reviewed quarterly in order to ensure they remain appropriate. In addition, management should conduct an independent review of billing rates entered into Meditech and investigate the system's ability to automatically upload billing rates provided by the Ministry and Workplace Insurance Board . |
|---|---|
| Management Response | • **Management Agrees:** Employee access is changed immediately when employees change positions. Overall reviews of employee access to ensure there have been no oversights will now be done on a more frequent basis, rather than the current annual basis. An investigation will be conducted through NHS' software supplier as well as peer hospitals to explore the feasibility of automating the process for uploading billing rates. Reviews will be conducted periodically by management to spot check the accuracy of the billing rates entered into the system. However, any keying errors are uncovered very quickly since OHIP & WSIB will pay at the correct rate regardless of what is submitted, and a discrepancy in the payment amount & correct the error immediately will be seen immediately. |

# Assessment of Cash Flow Management

**Deloitte.**

| Control Activity | Accounts Receivable with respect to aging analysis |
|---|---|

### Design Effectiveness

- Monthly cut-off schedules have been documented and configured in the Meditech system to ensure consistent cutoff for Accounts Receivable.

- Monthly reports are run in Meditech by the responsible Accounts Receivable staff to identify aged or delinquent accounts.

- Investigations are performed by Accounts Receivable staff to determine the cause of non-payment. Examples of the causes of aged accounts include changes in patients' addresses, the absence of patients' guarantor information, no address entries for out of province patients for their home province , wrong information provided to the patients, not updating OHIP version codes in the system or non-payments by patients.

- Accounts Receivable including internal collections staff follow up on aged accounts. If required external collections agencies are used to pursue payments from patients.

### Improvement Opportunities

- It was noted that data entry errors or omissions at the point of admissions result in workflow issues for the billing clerks. Billing clerks spend 83 hours a month or 11.1 days a month to resolve errors or omissions that impact the billing process as there are mitigating controls in place to detect the errors.  Further investigation revealed two main error categories namely; omissions that are out of the control of registrations staff, and errors that could be attributed to the registrations staff such as:

  o No address entries for out of province patients for their home province;

  o Not updating patient or guarantor addresses in the system;

  o Misquoting rates or providing inaccurate information to patients regarding services that are billed and not billed; and

  o Not updating OHIP version codes in the system.

| Recommendations | • ***Medium Priority:*** Management should collaborate with NHS hospitals to provide training sessions for admissions staff in order to minimize the data entry errors and improve workflow efficiencies. |
|---|---|
| Management Response | • ***Management Agrees:*** A training program for the patient registration clerks focusing on the implications of incomplete data on billing and collection practices is in the development stage. Additional time and resources within the billing office need to be dedicated to this project in order to bring it to the implementation stage. |

# Assessment of Cash Flow Management

**Deloitte.**

| Control Activity | Accounts Receivable with respect to collections practices affecting cash flow |
|---|---|

## Design Effectiveness

- Internal Collections investigates and pursues all non-payments for patient accounts.
- Templates for patient notification letters have been designed and are in use for delinquent accounts.
- Internal collections investigate in house first then turn the account over to external collection agencies if there is no success with collection
- Canadian Collection agencies and International Collection agencies such as OVAG International Collections are used to follow up on delinquent patient accounts and investigation of returned mails for patients with invalid addresses on record after all NHS efforts have been exhausted.
- Internal collections staff review weekly reports for contract accounts to identify irregular payments by patients on contract with NHS with regards to payment by installments. External collection agencies are used if required.
- Additional contact information for clinical purposes including next of kin and person to notify in case of emergency is requested from patients at the point of admission.

## Improvement Opportunities

- Additional payment information should be obtained from patients at the point of admission.

| Recommendations | • **Medium Priority:** Management should implement a process to validate patient contact details to reduce input errors at the point of admissions. Management should investigate obtaining void cheques or visa card numbers from patients at the point of admissions to the extent possible to further mitigate the risk . |
|---|---|
| **Management Response** | • **Management Agrees:** Improvements in validating patient contact details may be realized with further training of registration clerks. As well, software packages to validate address information will be investigated. Consideration can be given to requesting credit card information for patients whose insurance may not cover their entire hospital bill. Although it is questionable how many patients would be willing to provide this information, particularly those at greater risk of not paying their hospital bills upon request. We are obliged to treat patients for medically necessary services regardless of their ability to pay. |

# Assessment of Cash Flow Management

**Deloitte.**

| Control Activity | Accounts Payable with respect to cash flow including payment practices |
|---|---|

## Design Effectiveness

- Accounts Payable reimburses suppliers/vendors for invoices received.
- Payments for unapproved purchase orders are withheld until investigations have been completed and the issue is resolved.
- Invoices from suppliers matching the items delivered are entered into the purchasing module of Meditech and feeds into the Accounts Payable module in Meditech. The Accounts Payable supervisor creates the payment schedule for paying vendors and monitors it to determine variances in excess of the thresholds established for payments. Investigations are performed if required.
- Monthly exception reports are run to determine unpaid suppliers/vendors in order to ensure payment problems with suppliers/vendors do not occur.

## Design Effectiveness (cont'd)

- Duties are properly segregated between item requisition, purchase order creation, receipt of goods and payment of vendors/suppliers.

## Improvement Opportunities

- NHS has not implemented an Electronic Funds Transfer system for the Accounts Payable process.

| Recommendations | • **Low Priority:** Management should implement an Electronic Funds Transfer system and increase the percentage of suppliers that submit their invoices electronically in order to improve upon the efficiency of the current process. |
|---|---|
| **Management Response** | • **Management Agrees:** NHS will relook at the process for compiling and sending payment voucher details to vendors through the Meditech Accounts Payable system when an EFT system is used. As far as having suppliers submit invoices electronically to the Accounts Payable department, due to the volume of invoices received (2,000 per week) NHS does not have the resources to undertake the printing of each invoice, as it would increase printing costs substantially. Currently our software system & processes are not set up to go paperless, so we would still need to print out the hard copy. Previous investigations into this process brought into question whether efficiency gains would be realized by moving to EFT. |

# Assessment of Cash Flow Management

**Deloitte.**

| **Control Activity** | Accounts Payable with respect to cash flow including payment practices, utilization of discounts including supplier evaluations to ensure best pricing is selected (Purchasing) |
|---|---|

## Design Effectiveness

- Cutoff schedules have been determined by Management for the Accounts Payable process. Returned Purchase Orders are entered into Meditech and processed on the day of their return. This ensures goods returned are processed in the appropriate period, and are not paid for.

- The vendor dictionary stores parameters for suppliers and is maintained by one designated Accounts Payable clerk.

- Settlement discounts are included in the dictionary and the information is applied to each supplier on the supplier/vendor master file in Meditech.

- Credit note adjustments can be made by the Accounts Payable clerks if required.

- The Accounts Payable supervisor reviews weekly exception reports prior to cheque runs for credit note edits performed to ensure they are appropriate.

## Design Effectiveness (cont'd)

- NHS has an approved list of suppliers/vendors for purchases.
- Potential suppliers/vendors not on the vendor/supplier master file are shortlisted based on the Request for Proposal and Request for Quotation process for capital budget items.
- Maintenance of the supplier/vendor master file is limited to three designated individuals – Contracts Manager, Contracts Supervisor and Purchasing Analyst to keep it current and up to date.

## Improvement Opportunities

- Accounts Payable dedicates four days for the investigation of accrual reports in order to identify aged items and to ensure suppliers/vendors are paid on time.

| **Recommendations** | • ***Medium Priority:*** Management should decrease the workflow cycle so that the time to investigate accrual reports is kept to fewer than four business days to improve efficiencies. |
|---|---|

| **Management Response** | • ***Management Agrees:*** Efforts will be made to decrease the amount of time spent on investigating accrual reports by meeting with materials management staff regularly to identify root causes of aged accruals and to find strategies to reduce the occurrence in the future. |
|---|---|

# Assessment of Cash Flow Management

**Deloitte.**

| Control Activity | Investment practices and policies in accordance with Board of Trustee directives including bridge financing and interest cost minimization |
|---|---|

## Design Effectiveness

- The Director of Finance and Decision Support Services, and the Accounts Payable Supervisor monitor all NHS investments. Investment statements are made available to Directors in the Audited Financial Statement while mutual fund reports are made available to the Board for follow up if required.
- Status of bank accounts is reviewed by the Director of Finance and Decision Support on a daily basis. Information obtained determines the timing and amount to be used for bridge financing in order to minimize interest costs.
- The Accounts Payable supervisor monitors investments on a monthly basis and reconciles to the general ledger and bank statements. These documents are reviewed by the Director of Finance and Decision Support Services.
- The Director of Finance and Decision Support includes investment reports in the Audit of Financial Statements.
- Financing arrangements (e.g. term sheets and bridge financing arrangements) are approved by signing officers and approved at Resource and Audit Committee and Board of Trustees.

## Improvement Opportunities

- An approved policy for investments does not exist. Currently NHS follows the practices that the hospitals had implemented prior to amalgamation. Best practice suggests that policies should be formalized, updated and reviewed on an annual basis.

| Recommendations | • *Medium Priority:* Management should formalize the current Investments Policy into a written policy which is updated and reviewed on an annual basis to be aligned with best practice standards. |
|---|---|
| Management Response | • *Management Agrees:* NHS is currently reviewing all finance policies and will formalize practices into approved policy. |

# Assessment of Cash Flow Management

**Deloitte.**

| Control Activity | Practices with respect to capital expenditure approval and impact on cash flow |
|---|---|

## Design Effectiveness

- The Capital Purchases Policy and the Capital Equipment Budget govern the purchase of capital budget items.
- The Contract Specialist at the Purchasing department of NHS is responsible for monitoring capital item purchases.
- Physicians and staff do not make direct contacts with vendors with the exception of foundations for which the Capital Equipment Budget Process permits contact to be made with the foundation in order to assist with the completion of the capital equipment request form if there are designated funds available to assist with a purchase.
- Capital expenditures are ranked by importance by the Programs (directors, managers, physicians) in conjunction with the Finance Department, and then final site ranking is completed by Site Integrated Leadership Committee. Final approval for purchases is provided by the Resource and Planning Committee.

## Improvement Opportunities

- The approval process stated in the Capital Purchases Policy and the Capital Equipment Budget Process document are inconsistent. Section 4.4 of the Capital Purchases Policy outlines the approval process and identifies the Vice President of the Patient services for each site as the responsible person for the review, categorization and priority ranking for the request; while the Capital Budget Process document indicates that Programs (Senior Manager, Directors, Managers and Physician Program Leads) meet with Finance to prioritize their equipment list.
- Inconsistencies were noted for the definition of Capital Purchase. The Capital Purchases Policy defines Capital Purchase as a purchase greater than or equal to $1000 while the Capital Equipment Budget process defines capital equipment as equipment, software and furniture with a total unit cost greater than $2000 including the item cost, freight & taxes. It is important to note, that individuals during walkthroughs were aware that the $2000 capital purchase amount is the dollar value that should be adhered to and it is also reflected in the submission forms.

| Recommendations | • **High Priority:** Management should review the Capital Purchases Policy and the Capital Equipment Budget process in order to ensure definitions are consistent and reflect the current and approved processes. |
|---|---|

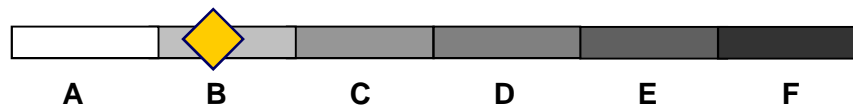| Management Response | • **Management Agrees:** Currently finance policies are being reviewed and the Capital Purchases policy will be updated to agree to the information outlined on the Capital Equipment Budget Process documentation. |
|---|---|

# Assessment of Budget and Performance Reporting

# Assessment of Budget and Performance Reporting

**Deloitte.**

## Conclusion

Based on our review of NHS's processes for Budget and Performance Reporting we noted minor control weaknesses. These weaknesses identified should be addressed in the near term in order for NHS to effectively execute its processes and meet their objectives.

The following scale depicts our overall conclusion for this review:

```
A     B     C     D     E     F
```

- A  Operating at a Best Practices Level

- B  Minor Process Control or Efficiency Weaknesses Identified

- C  Moderate Process Control or Efficiency Weaknesses Identified

- D  Significant Process Control or Efficiency Weaknesses Identified Impairing the Effectiveness of the Process

- E  Significant Control Weaknesses Identified, Impairing the Overall Effectiveness of the Department or Location

- F  Significant Control Weaknesses Identified, Impairing the Overall Effectiveness of the Organization

# Assessment of Budget and Performance Reporting  **Deloitte.**

| Control Activity | Budget Process |
|---|---|

## Design Effectiveness

- The Ministry of Health and Long Term Care provides a 2 year budget target to NHS.
- NHS's budgeting is performed via historical/trending analysis, with adjustments made for the Health Improvement Plan and the Hospital Accountability Plan Submission initiatives.
- A capital contingency amount is budgeted each fiscal year from which contingency purchases are approved by RPC.
- Program directors meet with their internal department managers to determine their cost budget needs and reallocations prior to meeting with the assigned financial consultants.
- Finance staff meets with every program during budget process to review budget staffing, revenues and expenses based on activity. Any issues are identified and brought during budget process for discussion and approval to RPC for budget adjustment. Budgets are adjusted for funded activity increases and ensured budget neutral (e.g. PCOP, wait time, priority programs – dialysis, pacemakers).

## Design Effectiveness (cont'd)

- Request for Unbudgeted Resources process allows programs to present current budget pressures based on activity to request approval for budget adjustment at Resource Planning Committee.
- NHS conducts bi-weekly RPC meetings where variances are discussed and analyzed (cost and activity) for further discussion for potential saving opportunities or budget pressures that need adjustment to budget.
- Manager of Clinical Efficiency and Scheduling reviews clinical staffing schedules with programs to identify opportunities for scheduling efficiency. Identified opportunities or pressures are brought to RPC for discussion/approval.

## Improvement Opportunities

- NHS uses historical financial and activity trend analysis for budgeting as well as identifying opportunities and budget pressures to make budget adjustments. NHS zero bases budgets in selected departments based on thresholds. Best practice and industry trend suggests a move within the healthcare industry towards an activity based budgeting model.

| Recommendations | • *Low Priority:* Management should consider implementing activity based budgeting as best practice and industry trend suggests a move within the healthcare industry to using this form of budgeting. |
|---|---|
| Management Response | • *Management Agrees:* Zero based and activity based budgeting is not feasible for all departments at this time because of the current timelines and structure within NHS. Although NHS does not perform zero based and activity based budgeting for all departments, controls are in place to mitigate budget risk of historical trend analysis (e.g. RPC reporting for budget variances, statistical trends and saving opportunities). |

# Assessment of Budget and Performance Reporting

**Deloitte.**

| Control Activity | Practices with respect to communications with department managers |
|---|---|

## Design Effectiveness

- Budget amounts are established at the beginning of the year. Unused budget allocations cannot be forwarded to the following year.

- Budget timelines for the operating budget and capital budget have been established by NHS and responsible parties for each aspect have been identified.

- Internal Financial consultants have been assigned to each program to monitor actual versus budget for their programs and to investigate variances on a monthly basis.

- A threshold of -5% to +5% has been set and variances greater than these are identified by the internal financial consultants for follow up. Significant variances for actuals that are within the threshold are investigated further by the finance consultants. The scheduling specialist is consulted if scheduling issues are identified.

## Improvement Opportunities

- Walkthroughs revealed that NHS has implemented BUDMAN to facilitate communication with department managers.

- A data warehousing functionality is not used by NHS in communicating the budget to department managers.

- A balanced scorecard approach is not currently used by NHS.

- The current process is labour intensive as program directors have to manually review up to hundreds of pages of financial report.

| Recommendations | • *Low Priority:* Management should investigate the integration capabilities within BUDMAN in order to facilitate the communication process with department managers. Data warehousing functionality should be investigated to produce more timely information . Management should also consider using a balanced scorecard approach for this process. |
|---|---|
| Management Response | • *Management Agrees:* NHS is currently working on next phase in BUDMAN implementation to automate management reports/communication with departments and programs and will contain activity based statistics, through BUDMAN warehousing function. |

# Assessment of Budget and Performance Reporting **Deloitte.**

| Control Activity | Practices with respect to monitoring activities |
|---|---|

## Design Effectiveness

- Financial consultants for each portfolio perform variance analyses on a monthly basis to compare budget versus actual with year-to-date actuals. In addition, Vice Presidents, Directors and Managers receive monthly cost centre reports from Finance to assist them in the monitoring process.
- Department managers receive a cost-centre report from the Finance department on a monthly basis with details of variances that have to be accounted for to the Finance and Audit Committee if required.
- The Finance Director attends the monthly management meetings every month to discuss the budget with the departments. Initiatives are implemented to monitor expenses.
- A focus group meets quarterly to review the initiatives to determine their operating effectiveness and to increase their diligence in the final quarter with respect to purchasing and budget overruns.

## Improvement Opportunities

- To control the potential for increased spending in the last months of the fiscal year, best practice and industry trend suggests a move within the healthcare industry towards an activity based budgeting model.

| Recommendations | • *Low Priority:* Management should consider activity based budgeting and resource allocation throughout the year based on planned and actual service levels as best practice and industry trend suggests a move within the healthcare industry to using this form of budgeting |
|---|---|
| Management Response | • *Management Agrees:* NHS adjusts budgets based on monitoring of historical, statistical and financial trends, and does adjust budgets for material activity changes. Increased vigilance in monitoring through the Resource and Planning Committee and additional controls are put in place for discretionary expenditures approvals to prevent increased spending in the last months of the fiscal year. |

# Assessment of Budget and Performance Reporting

**Deloitte.**

| Control Activity | Practices for variance analysis and lines of communication to senior management |
|---|---|

## Design Effectiveness

- Directors present status reports on program budget variances and status of saving opportunities on a scheduled basis throughout the year to the Resource and Planning Committee.  Discussion is held on recovery plan strategies to mitigate any budget slippage.

- NHS conducts bi-weekly Resource and Planning Committee meetings of Senior Management where financial, resource and utilization issues and variances are discussed and analyzed for further discussion for potential saving opportunities or budget pressures and back-to-budget recovery plan strategies discussed.

## Improvement Opportunities

- Program directors review pages of financial information to track their expense performance against budget. The current manual process presents challenges for timely follow up and recovery. Best practice suggests that the monitoring process should be automated to include dashboards and integrated with the data warehouse functionality within BUDMAN.

**Recommendations**

- ***Medium Priority:*** Management should adopt a monitoring process, such as the upcoming BUDMAN module that will allow for timely follow-up and recovery by  program directors. The monitoring process should be automated to include dashboards for  the Resource and Planning Committee and integrated with the data warehouse functionality within BUDMAN in order to extract variances automatically and track historical  spending, key metrics and industry benchmarks.

**Management Response**

- ***Management Agrees:*** NHS is currently working on next phase in BUDMAN implementation to automate management reports/communication with departments and programs. Dashboard functionality will be investigated.

# Appendix I

## Audit Procedures Performed

# Audit Procedures Performed

Audit Procedures were performed in phases as described below:

- **Phase 1**

  - Roles and responsibilities were defined by the Project Committee;

  - Communication and project management protocols and tools were established;

  - The format and structure of final report was determined;

  - Existing documentation including process maps (to the extent available), policy manuals, job descriptions (past and new to extent available) regarding expenditures, cash flow reports from and to Ministry of Health and Long Term Care and the Local Health Integration Network, minutes from management or board committees (addressing operating deficit, cash flows and advances and budget strategy and process) inventory, budgeting and performance reporting and previous assessment reports on these areas including the Health Care Management consultants reports were obtained and reviewed;

  - An initial meeting was conducted with the project sponsor and the director and managers for expenditures, cash flow management and budget and performance reporting and other key staff to discuss process scope;

  - Initial data request for key process metrics was developed; and

  - The detailed project plan was finalized.

# Audit Procedures Performed (cont'd)

- **Phase 2**

  – Interviews were conducted with staff for expenditures, cash flow management and budget and performance reporting;

  – The current engagement documentation including policies, procedures, methodologies were assessed including tools to understand the controls in place for expenditures, cash flow management and budget and performance reporting;

  – Control issues were identified and cross referenced to a detailed description based on the controls in Deloitte's Risk and Control Database;

  – High level transaction walkthroughs were performed to understand design effectiveness of the processes; and

  – Project review program for expenditures, cash flow management and budget and performance reporting was prepared.

- **Phase 3**

  – Walkthroughs were performed, results were documented and recommendations for expenditure controls, cash flow management and budget and performance reporting were documented;

  – Results from the walkthroughs were evaluated for deficiencies;

  – In areas where operational issues were identified, Deloitte sought to understand the root cause for the issue, i.e. whether it is related to a potential control gap or breakdown or whether it is the result of other structural issues such as resourcing constraints or accountability/reporting issues;

  – Findings were consolidated into an integrated list and resulting recommendations were developed;

  – The degree of risk associated with the item was assessed to determine priority. The significance of the risks and control gaps were considered to determine the priority or severity of the control deficiencies; and

  – Issues and recommendations were reviewed with management for expenditure controls, cash flow management and budget and performance reporting.

# Audit Procedures Performed (cont'd)

**Deloitte.**

- **Phase 4**

  – A draft final report in PowerPoint format to document work performed, observations and recommendations was prepared;

  – Feedback was obtained from the project sponsor and management on the draft report; and

  – Feedback was incorporated into the final report.

# Audit Procedures Performed (cont'd)

**Deloitte.**

- **Interviews:**

Deloitte held interviews with the following individuals:

– Nick Jancsar - Regional Director Hospitality and Laundry

– Bonnie Sipos - Administrative Director Diagnostics/Laboratory/Infection Control

– Jane Cornelius – Manager, Chronic Kidney Disease

– Teresa Struk - Regional Director, Finance and Decision Support

– Sandy O'Neill - Regional Manager, Accounting/Budgets and Internal Control

– Sue Nenadovic - Regional Director, Materials Management

– Kathy Alexander - Manager, Financial Operations & Capital

– Terry McMahon - Vice President, Human Resources

- **Walkthroughs:**

Walkthroughs were performed with the following staff:

– Payroll Supervisor

– Financial Consultants

– Accounts Receivable staff

– Accounts Payable Supervisor

– Materials Management Site Coordinator (Welland Hospital Site, Port Colborne General, Greater Niagara General Site)

– Pharmacy Inventory Technician (St. Catharines)

– Occupational Health & Safety group representative

– Human Resources Compensation and Benefits representative

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