Public Works and Government Services Canada
Audit Services Canada

Travaux publics et Services gouvernementaux Canada
Services de vérification Canada

Internal Audit of Residential Care, Queen Elizabeth II Health Sciences Centre, Camp Hill Veterans Memorial Building Halifax, Nova Scotia

Prepared for

Veterans Affairs Canada
Audit and Evaluation Division

Prepared by

Audit Services Canada

Project: A.000438.001

FINAL: JANUARY, 2010

ASC SVC

Canada

Table of Contents

EXECUTIVE SUMMARY

Introduction

In the approved 2008-2011 Audit and Evaluation Plan, Veterans Affairs Canada (VAC) identified the Residential Care Program at Camp Hill Veterans Memorial Building (CHVMB) for audit. The Chief Audit Executive of VAC engaged Audit Services Canada (ASC) to plan and conduct the audit. CHVMB is a part of the Queen Elizabeth II Health Sciences Centre under the Capital District Health Authority (CDHA) of the Province of Nova Scotia. It is the largest Veterans facility in the Atlantic Region providing, under contract with VAC, long-term beds on a priority access basis to eligible Veterans under VAC's Residential Care Program. This audit focused on VAC's controls to manage CDHA's delivery of the Residential Care Program at CHVMB.

The audit team would like to acknowledge, even though it was outside the scope of the audit, VAC's commitment to providing a high quality of care to Veterans at CHVMB. An illustration of this commitment is the Department's participation as a partner in the Centre for Health Care of the Elderly (CHCE), with the Nova Scotia Senior Secretariat and Department of Health, CDHA, Dalhousie University Faculty of Medicine, Mount Saint Vincent University Centre on Aging, and several Non - Government Organizations with interest in issues related to the care of seniors. The CHCE is a multi-service, interdisciplinary program based primarily in the CHVBM. The researchers from the CHCE are recognized nationally and internationally as leaders in research of frailty and cognitive impairment. The Veteran residents of the CHVMB benefit from this research given the proximity to the Centre and the Department's involvement as a partner.

Objective and Scope

The objective of the audit was to assess the adequacy of VAC's management controls, related to the funding agreements between VAC and CDHA, for the Residential Care Program at CHVMB to provide assurance on VAC's:

- Accountability structure;
- CHVMB VAC Approved Budget 2008-2009 and related financial management processes;
- Policies and procedures to ensure the delivery of the Residential Care Program according to the 1992 Master Agreement and the *Veterans Health Care Regulations* (based on the adequacy of the CHVMB VAC Operating Cost Review 2006-2007); and
- Performance management.

VAC's key management controls related to the Residential Care Program at CHVMB were the annual:

- CHVMB VAC Approved Budget;

- CHVMB VAC Operating Cost Review;
- CHVMB Client Satisfaction Survey; and
- CHVMB Facility Questionnaire.

The internal audit was planned, conducted, and reviewed to provide a high level of assurance, according to the Treasury Board Policy Suite for Internal Audit, on VAC's management controls for the Residential Care Program at CHVMB. The framework developed by the Office of the Comptroller General of Canada (OCG) for Core Management Controls was used as the audit focus.

As noted above the focus of the audit was Veterans Affairs Canada (VAC) management controls as related to the funding agreements between Capital District Health Authority and VAC for services provided at the CHVMB. The audit team did conduct interviews with staff, reviewed management reports, and observed operations at CDHA and CHVMB to obtain knowledge of operations but did not conduct an audit of these organizations.

The present internal audit was conducted by Audit Services Canada, under engagement from Veterans Affairs Canada. The internal auditors assigned to the present internal audit engagement demonstrated the knowledge, skills, expertise, and competencies required to perform their responsibilities.

Background

In the Province of Nova Scotia, VAC negotiated agreements with Provincial Health Authorities to provide long-term care beds in contract facilities throughout the Province. CDHA provided VAC with 175 long-term care beds at CHVMB on a priority access basis.

For CHVMB, the most recent agreement between Veterans Affairs Canada and the Province of Nova Scotia was the 1992 Master Agreement which was an amended version of the original 1978 Camp Hill Transfer Agreement. The 1978 Camp Hill Transfer Agreement included a one-time payment for capital improvements and annual payments to cover the operating costs of priority access beds. For 2008/2009, the CHVMB VAC Approved Budget, for priority access beds, was approximately $22 million.

To help situate the context and the relative materiality of the long-term care program contracted to the Queen Elizabeth II Health Sciences Centre, Camp Hill Veterans Memorial Building, it is useful to note that the $22 million budget represents approximately 6.4 percent of a $344 million budget for residential care. In turn, the $344 million residential care budget represents approximately 10 percent of Veterans Affairs Canada's total budget.

Audit Findings, Observations and Recommendations

Accountability Structure

In the audit team's opinion, the management controls, related to the accountability structure over the funding agreements between VAC and CDHA, were partially adequate for the following reasons:

- Authority, responsibility, and accountability for CHVMB was clear and communicated except for:
    - the responsibility to monitor health care benefits and services purchased by full-time CHVMB residents through the Federal Health Claims Processing System (FHCPS); and
    - the alignment of the VAC Delegations of Authorities documents with the Director of Continuing Care Programs responsibility to review and recommend for authorization by the National Residential Care Funding Committee capital contributions to contract facilities.

- Managers and supervisors acknowledged, understood, and accepted accountability for CHVMB through the annual performance review process. However, the system to formally record their acknowledgment of their roles and responsibilities was incomplete;

- Work descriptions clearly assigned roles and responsibilities for the performance of CHVMB value-for-money work but this work was not performed; and

- Monitoring of policy and program design options was reviewed from a National Program perspective. However, for CHVMB, no report was available to monitor in-year financial performance and no strategy was established to monitor day-to-day operational performance to influence design changes.

Recommendation 1 *(ESSENTIAL)*

The Director General Service Delivery Management should develop a process to identify and monitor health care benefits and services benefits purchased by full-time CHVMB residents through FHCPS to ensure:

- VAC is not paying for equipment, services, and pharmaceuticals that are included in the annual CHVMB VAC Approved Budget or provided through other VAC programs; and

- VAC is mitigating the risk that pharmaceuticals purchased by full-time CHVMB residents are not being recorded in Veteran Nursing Assessments used by the medical staff at CHVMB.

The Director General Service Delivery Management should work with the Regional Director General Atlantic to assign responsibility for this process to the appropriate staff in the Atlantic Regional and/or Halifax District Office.

Recommendation 2 *(ESSENTIAL)*

The Chief Financial Officer should recommend that the Minister amend the Delegation of Authorities Document for capital contributions to contract hospitals, including CHVMB. Capital contributions to contract facilities cannot be funded under the Other Health Purchased Services (OHPS) Vote and the authority for expenditure initiation and verification of contract performance for these transactions should be removed from the Delegation of Authority Document.

Recommendation 3 *(IMPORTANT)*

The Regional Director General Atlantic should review the work descriptions of key positions with supervisory and management responsibilities related to priority access beds at CHVMB. Where necessary, the Regional Director General Atlantic should request that managers update the work descriptions of their employees to reflect the current roles and responsibilities of each position. The incumbent should sign and approve the revised work descriptions to formally acknowledge their understanding of their roles and responsibilities.

CHVMB VAC Approved Budget 2008-2009

In the audit team's opinion, the management controls, related to the funding agreements between VAC and CDHA, for the CHVMB VAC Approved Budget 2008-2009 and related financial management processes were not adequate for the following reasons:

- The schedules and resources needed to achieve VAC's objectives, in the 2007-2008 Program Activity Architecture related to long-term care, were integrated into the CHVMB VAC Approved Budget 2008-2009 but did not include the expected level of activity (performance targets - see Section 2.4) linked to the approved funding for each line object, except for Direct Nursing Care Services;

- No formal process was in place to validate the assumptions and related resource allocations within the CHVMB VAC Approved Budget 2008-2009. The contributing factors to the lack of a formal validation process were:

    - The CORE Program document that provided guidance on service levels to prepare and to validate assumptions in the budget had not been reviewed since 1992-1993;

- Management did not follow the Standardized Budget Approval and Financial Reporting Cycle Process, a mandatory VAC process, that allowed time for critical analysis of the Budget; and

- Management did not validate the assumptions and related resource and cost practices of the Budget. The audit team conducted an illustrative validation process and found that:

    - A different staffing mix for Direct Nursing Care Services at CHVMB could have resulted in cost savings of $258,000 and $2.2 million under different proposed Models of Care. A different staffing mix could also have helped CDHA deal with their recruitment problems as there was and still is a national shortage of Registered Nurses; and

    - Information was available at CDHA that could have been used by VAC to validate the assumptions in the Budget to allocate utility costs. For example, an existing electric meter could have been used to measure the actual electricity consumed at CHVMB instead of estimating the electricity consumed based on CHVMB square footage as a percentage of the total Queen Elizabeth II Health Sciences Centre square footage.

- The CHVMB VAC Approved Budget 2008-2009 was not developed on a timely basis;

- Forecasts of the CHVMB VAC Approved Budget 2008-2009 were not monitored on a regular basis as VAC did not obtain monthly budget to actual reports that were prepared by CDHA . The only budget to actual information available to management was found in the CHVMB VAC Operating Cost Review 2006-2007 and it did not relate to 2008-2009;

- Financial policies and authorities were established and communicated but the CORE Program document did not have standing in VAC as a formal policy or guideline and the Internal Control Manual - Chapter 5 Health Care Facility Review Guidelines was outdated;

- Financial policies and authorities, other than compliance with the 1992 Master Agreement, had not been reviewed as part of the CHVMB VAC Operating Cost Review;

- The Operating Cost Review Guidelines had not been revised to reflect the results of a 2007 national workshop even though there was clear responsibility for this task; and

- Pertinent information was not available to senior management or any oversight body to ensure compliance with the relevant financial management laws, policies, and

authorities. The CHVMB VAC Budget 2008-2009 did not contain information on the relevant laws, policies and authorities that were considered by VAC staff when the Budget was prepared. The CHVMB VAC Operating Cost Review 2006-2007 did monitor compliance with financial management laws, policies, and authorities but did not specify, other than the 1992 Camp Hill Agreement, what laws, policies, and authorities were monitored. In addition, there were insufficient working papers to elaborate on the information provided in the CHVMB VAC Operating Cost Review 2006-2007 Report (see Section 2.3.1).

Recommendation 4 *(ESSENTIAL)*

The Director General Finance should develop specific guidelines for the budget process. The guidelines should provide direction on budget detail, on processes to identify high risk areas for validation, and on performance measures (financial and non-financial) to facilitate in-year monitoring. The budget process should also be applied earlier in the year in order to provide CDHA with an approved CHVMB budget in a timely fashion (e.g. within two months of the beginning of the fiscal year).

Recommendation 5 *(ESSENTIAL)*

The Director Quality Care Atlantic should review the CHVMB VAC Budget and monitor areas that are high risk (including the development of performance measures).

Recommendation 6 *(ESSENTIAL)*

The Director Continuing Care Programs should adopt a policy that provides for the use of Personal Care Workers or Continuing Care Assistants in the mix of staff providing direct nursing care services at CHVMB. Also, the CORE program requires to be updated to reflect this change.

Recommendation 7 *(IMPORTANT)*

The Director Quality Care Atlantic Region should:

- request readings from the electricity meter for CHVMB;
- conduct a cost/benefit analysis of installing a steam meter for CHVMB.

CHVMB VAC Operating Cost Review 2006-2007

In the audit team's opinion, the management controls to ensure stewardship over the funding agreements between VAC and CDHA as assessed through the CHVMB VAC Operating Cost Review 2006-2007 were not adequate for the following reasons:

- The CHVMB VAC Operating Cost Review 2006-2007 was not prepared in accordance with the Operating Cost Review Guidelines as follows: three objectives were excluded from the report with no explanation as required by the Guidelines; the planning and execution guidelines were not followed with no explanation as required by the Guidelines, the work was a year late, and the working papers were insufficient and not appropriate as support for the report; and

- VAC's Operating Cost Review Guidelines did not specify:

    - the requirement for conducting a review or audit of costs submitted by CDHA for CHVMB. The Guidelines indicate that the Operational Cost review should be conducted in accordance with Generally Accepted Auditing Standards of the Canadian Institute of Chartered Accounts which clearly distinguished between audit and review engagements and had specific standards for the conduct of each type of engagement;

    - the relationship between the operating cost review and Section 34 approval of payments made to CHVMB and the extent of verification required to support Section 34 approval; and

    - the types of internal controls assessed to ensure VAC's interests, as the steward of the funding agreements between VAC and CDHA for the provision of priority access beds at CHVMB, were adequately protected.

Recommendation 8 *(CRITICAL)*

The ADM Service Delivery and Commemoration (SDC), in cooperation with the ADM Corporate Services (CS), should ensure that SDC managers who certify (sign) payment authorization under Section 34 of the *Financial Administration Act (FAA)* for payments to CHVMB follow an acceptable authorization process. This process should be clear with respect to how operating cost reviews contribute to the process, including the objective/purpose of operating cost reviews and the type of engagement and level of assurance required.

Recommendation 9 *(CRITICAL)*

The Director General Finance should:

- develop adequate guidance and tools for conducting and documenting operating cost reviews, including detailed procedures for planning, testing, assessing and reporting results that will provide the required level of assurance to meet the payment authorization and verification requirements under sections 33 and 34 of the FAA; taking into consideration relevant Treasury Board policies. If management decides that operating cost reviews are to be conducted with an audit or review level of assurance, then Canadian Institute of Chartered Accountants (CICA) standards are applicable as well;
- ensure that operating cost reviews are completed in a timely manner;
- ensure Head Office Finance is actively involved in monitoring the performance of operating cost reviews in accordance with approved procedures; and
- ensure employees who conduct and supervise operating cost reviews have the adequate training and proficiency to do so.

Performance Management

In the audit team's opinion, the management controls, related to the funding agreements between VAC and CDHA, for performance management were not adequate for the following reasons:

- VAC Atlantic Region did not establish a performance measurement strategy. Performance targets and measures were developed for CHVMB Direct Nursing Care Services, approximately half of VAC's 2008/2009 budget for CHVMB, but were not measured since September 2007. For Food and Nutrition Services, the performance target focused on CHVMB occupancy and not the quality and cost of meals provided to clients. For the remaining budget elements no performance targets or measures were set even though performance data was provided by CDHA. The audit team found additional performance data that CDHA indicated could be made available to VAC upon request. The long-term care client satisfaction survey and the long-term care facility questionnaire provided data related to client satisfaction and quality of service at CHVMB but there were no performance targets in place to evaluate this data; and

- The Director Quality Care Atlantic Region did not actively monitor CHVMB performance on a regular basis.

VAC Internal Audit used the following definitions to classify observations presented in this report to assist management in determining the impact of the observations.

- **Critical** - relates to one or more significant weaknesses for which no adequate compensating controls exist. The weakness results in a high level of risk.
- **Essential** - relates to one or more significant weaknesses for which no adequate compensating controls exist. The weakness results in a moderate level of risk.

- **Important** - relates to one or more significant weaknesses for which some compensating controls exist. The weakness results in a low level of risk.

1. Introduction

This internal audit of the Residential Care Program - Queen Elizabeth II Health Services Centre, Camp Hill Veterans Memorial Building (CHVMB) was identified in the Internal Audit and Evaluation Plan approved for 2008-2011. The Residential Care program in the province of Nova Scotia had not been audited in the previous five years. The Chief Audit Executive of Veterans Affairs engaged Audit Services Canada to plan and conduct this internal audit of the largest contract facility in the Atlantic Region. This report is the result of the engagement.

1.1 Audit Objective

The objectives for the audit of the Residential Care Audit - Queen Elizabeth II Health Sciences Centre, CHVMB are as follows:
Assess the adequacy of management controls related to the funding agreements between Capital District Health Authority and Veterans Affairs Canada (VAC) for services provided at the CHVMB to provide assurance on:

- accountability structures surrounding VAC funding to CDHA;
- key financial management processes related to the Residential Care Program at the CHVMB and the 2008/2009 approved budget with the CDHA;
- policies and procedures in place to ensure that VAC is delivering the Residential Care Program in accordance with The Nova Scotia Master Agreement, the Memorandum of Understanding between VAC and the Camp Hill Veterans Memorial Building and the Veterans Health Care Regulations; and
- performance management.

1.2 Audit Scope and Approach

The internal audit was planned, conducted and reviewed to provide a high level of assurance, in accordance with the Treasury Board Policy Suite for Internal Audit, on controls for the management of the Camp Hill Veterans Memorial Building.

The OCG Framework for Core Management Controls was the internal audit framework for the audit focus that was used to plan and conduct this internal audit. Appendix A presents the 22 core management controls and 61 associated audit criteria that were used in relation to each of the four audit objectives. More specifically, the core management controls and audit criteria comprised:

- Stewardship (16 core controls with 43 criteria);
- Results & Performance (3 core controls with 9 criteria), Accountability Structure (2 core controls with 6 criteria); and
- Policy & Programs (1 core control with 3 criteria).

As suggested in the OCG Framework document, these core management controls and audit criteria were adapted to the context of the Residential Care Program, as delivered at the

Camp Hill Veterans Memorial Building. The adapted audit criteria are presented in relation to each of the internal audit findings within this report.

The audit examined VAC's management control over the third party delivery of Long-Term care priority access beds to eligible Veterans at CDHA. This was not an audit of CDHA or of CHVMB.

The following risks had been identified during the preliminary survey and were considered during the audit:

- Direct Nursing Staffing Mix
- FHCPS Cards - purchase authority and possible double payment for benefits
- Reasonableness of Administrative Overhead fee
- Performance measurement and time reporting Shared Administrative and Residential Services
- Annual Budget Challenge process and monitoring
- Independence and knowledge of reviewer for VAC Operational Cost Review
- Utilization and cost allocation shared support services
- Eligibility of costs under Master Agreement and applicable *Acts and Regulations*

The audit team was unable to obtain access to the following:

- Performance Agreements and Accountability Accords
- CDHA detailed account listing of administrative costs for 2006-2007

Interviews included managers in the following offices:

- VAC Head Office
- VAC Atlantic Regional Office
- VAC Halifax District Office, and
- Queen Elizabeth II, Capital District Health Authority.

The managers in these offices provided numerous authoritative documents that were examined in relation to the core management controls and assessment criteria identified in Appendix A.

VAC Internal Audit staff used the following definitions to classify the observations presented in this report to assist management in determining the impact of the observations. The classification of the recommendations based on risk was not included in the scope of work that Audit Services Canada conducted on behalf of VAC Internal Audit but the audit team agreed that the VAC Internal Audit ranking reflected the relative importance of the recommendations.

- **Critical** - relates to one or more significant weaknesses for which no adequate compensating controls exist. The weakness results in a high level of risk.
- **Essential** - relates to one or more significant weaknesses for which no adequate compensating controls exist. The weakness results in a moderate level of risk.
- **Important** - relates to one or more significant weaknesses for which some compensating controls exist. The weakness results in a low level of risk.

The internal audit was planned and conducted between January and May 2009.
The audit team expresses appreciation for the high level of cooperation and support from managers within VAC and the Capital District Health Authority, as well as VAC's Audit and Evaluation Division.

1.3 Background

1.3.1 History of Residential Care

In the early 1960's the Federal and Provincial Governments were working together to develop a publically funded program to provide hospital services to all Canadians and they found there was an overall shortage of hospital beds in Canada. In 1963 the Glasco Commission recommended that: “Active treatment hospitals operated by the Department of Veterans Affairs, when cleared, be sold and converted into community hospitals under transfer agreements providing preferential admission rights for Veterans with pensionable disabilities.” In 1963, the Federal Cabinet approved a policy that clearly placed responsibility for health care with the provinces. This Cabinet policy resulted in the transfer of departmental health care institutions, including VAC hospitals, to provincial jurisdiction.

1.3.2 Residential Care - Camp Hill Veterans Memorial Building

Veterans Affairs Canada (VAC), as of January 15, 2008 provided 10,700 eligible Veterans access to long-term care beds, under the Residential Care Program, at an annual cost of approximately $340 million. These beds were provided through community facilities (7,400 beds) or in larger contract facilities where VAC has negotiated agreements, with Provincial Governments, for priority access to beds (2,900 beds). In addition, VAC had 400 long-term care beds in Ste. Anne's Hospital, the last remaining VAC owned hospital.

The Residential Care Program is a shared responsibility between VAC Head Office staff, located in Charlottetown, Prince Edward Island, providing functional direction for the national program and staff in the Atlantic Regional Office and the District Office, located in the Halifax Regional Municipality, providing the delivery and day-to-day management of the program in the Atlantic Region.

In the Province of Nova Scotia, VAC has negotiated agreements with Provincial Health Authorities (Provincial Crown Corporations) to provide long-term care beds in facilities throughout the Province. The Capital District Health Authority (CDHA) provides VAC with

175 long-term care beds, on a priority access basis, in the Camp Hill Veterans Memorial Building (CHVMB) of the Queen Elizabeth II Health Sciences Centre located in the Halifax.

The current contract between VAC and the Government of Nova Scotia, and recently with the CDHA, approved by Order In Council, has been in place since 1992. The original contract was part of a 1978 agreement to transfer the Camp Hill Hospital, the former name of CHVMB, from VAC to the Province of Nova Scotia. The transfer agreement included a one-time payment for capital improvements and annual payments for a specified period, to cover the operating costs of priority access beds. The contracting parties were to periodically review the annual funding agreement. The CHVMB VAC Approved Budget 2008-2009 provided to the CDHA, for the priority access beds at the CHVMB, was approximately $22 million.

1.3.3 National Long-Term Care Strategy

In July 2007, the VAC Executive Committee approved the terms of reference for the National Long -Term Care Strategy Project. The Long -Term Care Strategy was intended to build on the 2000 Residential Care Strategy by providing Veterans with more options in the residential care, in-home assistance, and health care programs to meet the care they needed in the location that they preferred.

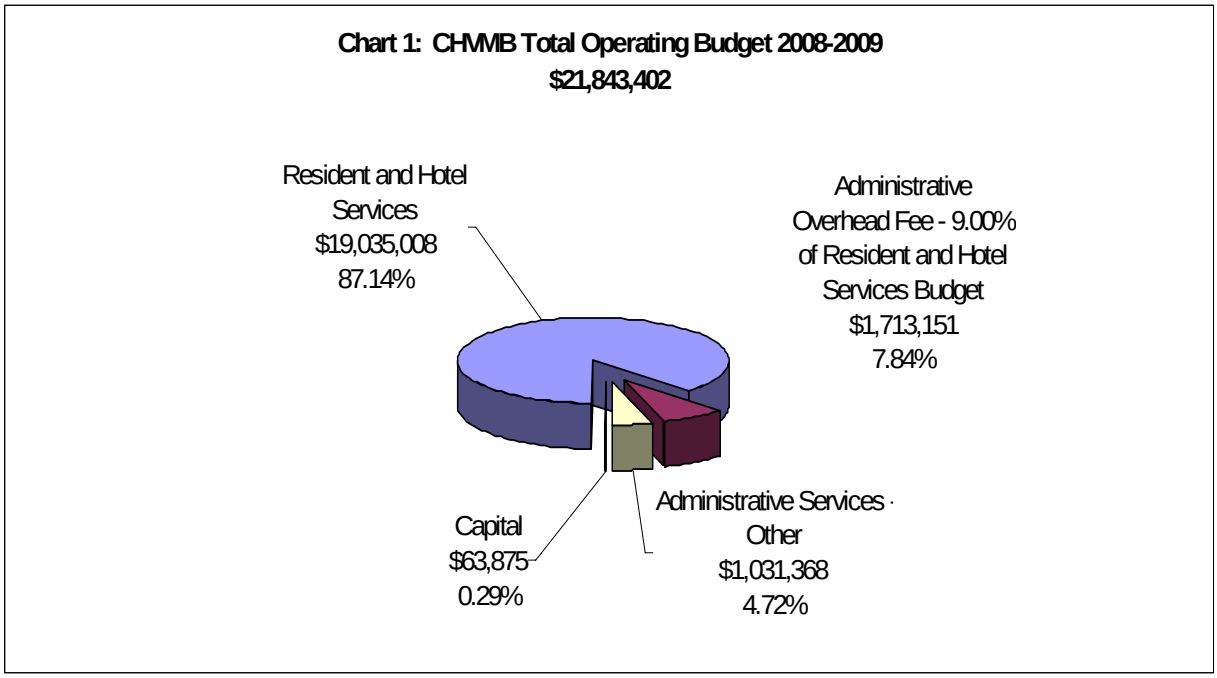
The initial research conducted by the Long-Term Care Strategy Project Team found that providing residential care to Veterans through contract beds on a priority basis had worked well, in the 20-30 years following the transfer of facilities, when provincial beds were scarce and large urban facilities were well equipped to care for Veterans and when provincial beds were used to deliver specialized care to those Veterans who could not access care in a timely fashion. They also found a number of items in the Residential Care Program that needed to be addressed to ensure that Veterans continued to benefit from an effective Long -Term Care Program:

(a) agreements for contract priority beds with Provincial facilities were outdated;
(b) the Department was expecting rising costs due to increasing vacancies in facilities where VAC paid full operating costs or enhanced program funding;
(c) some facilities (including Camp Hill Veterans Memorial Building) no longer complied with provincial LTC building standards and there would be increased demand on the Department for funds to upgrade physical infrastructure; and
(d) the Veterans Independence Program provided eligible Veterans access to beds in community facilities, located nearer to their homes, with a broader selection of care options at a lower cost to the Department.

Management of the Continuing Care Programs Directorate (CCPD) had indicated that no new performance or financial agreements would be established with provincial institutions providing priority access contract beds to eligible Veterans until the completion of the Long-Term Care Strategy. In the interim, CCPD indicated that where funding agreements for

facilities are expired or outdated, the Department would continue to provide funding on the same basis as while the agreement was in effect.

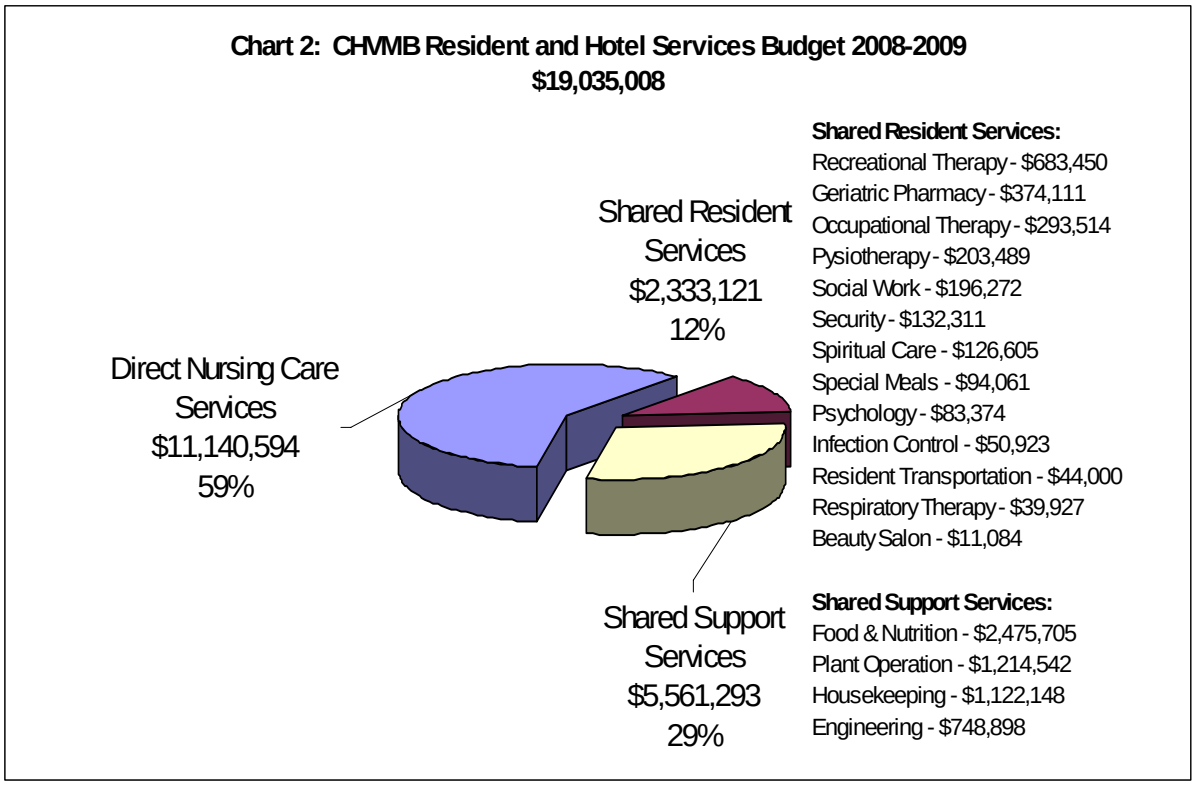
1.3.4 Residential Care Funding - Camp Hill Veterans Memorial Building



The Capital District Health Authority provides residential care services to 175 priority access beds, to eligible VAC clients, in accordance with the CHVMB Total Operating Budget 2008-2009 (see chart 1 above). The chart shows the four major budget components and what percentage of the overall operating budget they constitute.

In chart 2 below, the audit team provides further details on the largest budget component, Resident and Hotel Services.

It should be noted that the CHVMB VAC Approved Budget 2008-2009 was $20,218,099 which included an adjustment of $1,625,303 for Accommodation and Meals Fees charged to Veteran residents under the authority of the Veterans Health Care Regulations. The audit team did not include Accommodation and Meals in this examination as CDHA was responsible for collecting the fees from CHVMB Veteran residents.



Direct Nursing Care Services

As shown in the chart above, the largest portion of the Resident and Hotel Services Budget is related to Direct Nursing Care Services. Over 90 percent of the Direct Nursing Care Budget covers the salaries and benefits of Registered Nurses, Licensed Practical Nurses, and Nursing Orderlies who provide care to CHVMB Veterans. The remaining budget covers the costs of prescribed drugs, medical supplies and linen supplies used in providing care to Veterans.

Shared Support Services

This portion of the Resident and Hotel Services Budget 2008-2009 was an allocation of a portion of the costs, attributable to the operation of the CHVMB, of services that were provided by the CDHA for all of the facilities located in the Queen Elizabeth II Health Sciences Centre. This included Housekeeping ($1.1 million), Food and Nutritional Services ($2.5 million), Plant Operation ($1.2 million) which primarily related to the costs of electricity and heating fuel, and Engineering ($748,898).

Shared Resident Services

This portion of the Resident and Hotel Services Budget 2008-2009 was based on the sharing of an amount for the salaries and benefits and related supplies of services, that were provided

to all patients of the Queen Elizabeth II Health Sciences Centre, that CDHA and VAC agreed was directly attributable to residents of the CHVMB (i.e. physiotherapy, occupational therapy, infection control ,etc.) as shown in Chart 2 above.

Administrative Fee on Resident and Hotel Services

VAC provided CDHA with a fee of $1,713,151 (See Chart 1) which was 9.00% of the Resident and Hotel Budget elements to cover the portion of the total administrative cost incurred by CDHA that were attributable to the operation of the CHVMB.

1.3.5 Key Management Controls

The audit team found there were four management processes related to the funding agreements between CDHA and VAC for services at CHVMB.

- VAC preparation and approval of the 2008-2009 Budget with CDHA for 175 priority access beds at CHVMB.

- The CHVMB VAC Operating Cost Review 2006-2007, conducted by VAC finance staff in the Atlantic Region, that reviewed the reasonableness of the actual costs incurred by CDHA against the approved annual budget.

- The Long-Term care client satisfaction survey of VAC clients residing in large facilities , that was designed to get direct feedback from client groups (including Veterans in contract priority access beds) on the quality of service provided by VAC.

- The Facility Questionnaire, prepared by VAC nursing staff, which examined the level and quality of service of institutional care provided at the CHVMB.

2. Audit Observations, Recommendations & Management Action Plans

2.1 Accountability Structure

In the audit team's opinion, the management controls concerning the accountability structure surrounding VAC funding to CDHA were partially adequate because:

- Authority, responsibility, and accountability were clear and communicated but had not been revised to reflect changes in the responsibility to monitor Veterans treatment benefits purchased through the Federal Health Claims Purchased System (FHCPS) while they were residents of CHVMB and the requirement for the Director of Continuing Care to review and recommend for authorization, by the National Residential Care Funding Committee, capital items funded by VAC for contract facilities including CHVMB;

- Understanding and acceptance of accountability had been formally acknowledged by managers and supervisors through the annual performance review process but the system to formally record employees' and managers' acknowledgment of their roles and responsibility was incomplete. Employees' work descriptions clearly assigned roles and responsibilities for the performance of value for money work on the VAC funding provided to CDHA for the provision of priority access beds at CHVMB but this work was not performed; and

- Monitoring of policy and program design options where reviewed from a National Program perspective but there was no report available to monitor in-year financial performance and no strategy established to develop and monitor operational performance related to the day-to-day operations of CHVMB that would have identified activities which required policy and program design changes.

2.1.1 Authority, Responsibility, and Accountability - Clear and Communicated

Findings

The audit team obtained work descriptions for 11 key positions and found that responsibilities and performance expectations were formally defined and clearly communicated but had not been revised to reflect the changes in responsibilities for certain activities.

Monitoring Treatment Benefits Purchased by Residents of CHVMB for Potential Duplicate Payments

The audit team examined Veterans purchases of treatment benefits (i.e. medical supplies, services and drugs) while they were full-time residents of the CHVMB and compared the purchases to the services and drugs that were funded in the approved CHVMB annual budget to identify potential duplicate payments. VAC determined the eligibility of Veterans to receive treatment benefits under the *Veterans Health Care Regulations* and administered the program

through the Federal Health Claims Processing System (FHCPS), an automated system operated by a third-party contractor.

Nine Veterans had purchased Prescription and Over the Counter Drugs, through FHCPS, while resident at CHVMB (64 transactions - $7,342). The Nursing Assessment was the mechanism by which the Veteran's medical information, including prescribed drugs, was recorded and shared with the medical and nursing staff at CHVMB. The audit team found that 30 transactions ($5,968) were identified and 34 transaction ($1,374) were not identified on the nursing assessments. The dollar impact was not significant, from a duplicate payment perspective but there was an increased risk to Veterans' health, from inappropriately prescribed drugs, if CHVMB medical staff were not aware of the drugs Veterans had obtained through the FHCPS.

There were 11,259 non-drug treatment benefits purchased by full-time CHVMB clients through FHCPS. VAC had intended to provide Veterans resident at CHVMB many of these benefits (e.g. auditory and dental services) through FHCPS and had excluded them in the CHVMB VAC Approved Budget 2008-2009 for priority access beds at CHVMB. The audit team excluded the benefits VAC intended to be provided to Veterans resident at CHVMB through FHCPS from the analysis.

The audit team found that thirteen residents had obtained ostomy supplies, through FHCPS at a cost of $36,576, that should have been provided through the CHVMB budget for direct nursing care services - medical supplies. In addition, eleven residents had purchased new manual wheelchairs ($42,500) and two residents had purchased new electric wheelchairs ($7,400) through FHCPS that should have been provided through the Halifax District Office's re-furbished wheelchairs program, unless there had been a valid medical reason.

There was not a process to identify treatment benefits purchased by Veterans through FHCPS while resident of CHVMB, to obtain the reason for the purchases, and to make a decision on what should be covered by VAC or included as part of the services provided through the funding agreement between VAC and CDHA for priority access beds at CHVMB.

With respect to the purchase of pharmaceuticals, measures need to be put in place to ensure that CHVMB medical staff are made aware of any FHCPS drug purchases by CHVMB residents. Currently, pharmaceuticals purchased by full-time CHVMB residents are not being recorded in Veteran Nursing Assessments used by the medical staff at CHVMB. There are a number of risks and potential consequences from this lack of monitoring of medications, e.g., potential for a drug overdose, contra drug reaction, and/or other serious negative health consequences. Appropriate ongoing monitoring would mitigate these risks.

Summary

Authority, responsibility and accountability were clear and communicated but had not been revised to reflect changes in the responsibility. There were no procedures assigned to the District Director of the Halifax District Office or the Director Quality Care, Atlantic Region to identify and monitor Veterans treatment benefits purchased through FHCPS while they were full-time residents of CHVMB, to ensure that:

- VAC was not paying for equipment or services that were included in the VAC approved annual operating budget provided to CDHA for priority access beds at CHVMB or provided through other VAC programs administered by the VAC Halifax District Office; and

- VAC was mitigating the risk of incorrect prescription of drugs to full time residents, in priority access beds at CHVMB.

Section 34 of the FAA - Approval Capital Contributions

The audit team found that authority was formally delegated and aligned with individual's responsibilities except for the overlap in the authority of the Associate Regional Director General Atlantic Region and the Director of CCPD for the approval, under Section 34 *FAA*, for the funding of capital items to contract facilities.

The Associate Regional Director General (ARDG) Atlantic Region was responsible for the management of the existing agreement between CDHA and VAC for the provision of priority access beds at CHVMB. The ARDG had been delegated authority under Section 34 of the *FAA* for the approval of bi-weekly payments to contract facilities for the provision of priority access beds in accordance with the approved annual budget.

The Director of CCPD was responsible for review of funding proposals from the Regional Residential Care Funding Committee for any capital projects at contract facilities and presenting the funding proposal to the National Residential Care Funding committee for consideration. However, the VAC Delegation of Authority Documents provided both the ARDG Atlantic Region and the Director CCPD with the authority to exercise Section 34 *FAA* authorization for capital items at CHVMB.

The CHVMB VAC Approved Budget 2008-2009 provided CDHA with a Extraordinary One Time Expenditure and Capital Equipment Fund of $63,875 ($1 dollar per bed-day 175 beds X 365 days). This Extraordinary One Time Expenditure and Capital Equipment Fund was approved by the ARDG as part of the CHVMB 2007-2008 Budget.

VAC was using Other Health Purchased Services (OHPS) funding from its operating expenditures vote (Veterans Affairs Canada Vote 1) for capital and renovation projects in contract facilities, including the Extraordinary One Time Expenditure and Capital Fund at CHVMB. Improvement or renovation projects that extend over a number of years are capital in nature and would be funded from an approved VAC Capital Vote. In this case, given that the ownership of assets rest with CHVMB and not VAC, Treasury Board policy states that these capital and renovation projects should not be funded from its operating expenditure vote but as a grant or contribution with CHVMB. However, VAC did not have authority and appropriated funds (Vote 10 Transfer payments) to enter into a grant or contribution agreement with CDHA for capital and renovation projects at the CHVMB.

Summary

The CHVMB VAC Budget for 2008-2009 included an Extraordinary One Time Expenditure and Capital Equipment Fund that was approved under Section 34 of the FAA. The dollar amount was not large ($63,875) but the funding was provided through the OHPS operating expenditures vote and should have, according to Treasury Board Policy, been provided through a grant and contribution vote. The VAC Delegations of Authorities Document should be revised so that authority for expenditure initiation and verification of contract performance for any capital contributions to contract facilities are removed.

2.1.2 Understanding and Acceptance of Accountability

Findings

System to Record Employees' Acknowledgment of Roles and Responsibilities

Ten employees with management control responsibilities related to the VAC funding of CDHA for priority access beds at CHVMB, had completed their 2007-08 annual performance evaluation and the information had been recorded in the VAC "Peoplesoft" system. The audit team was not able to obtain copies of completed performance evaluations and was unable to determine if the performance review included specific discussions and suggested improvements related to the management of the CHVMB. In addition the system to formally record employees' acknowledgment of their roles and responsibilities was incomplete. Eight of ten employees', with management responsibilities related to VAC funding to CDHA for priority access beds at CHVMB, had not formally acknowledged their roles and responsibilities in their work descriptions: four were not dated and signed, three were not signed by the incumbent employee, and one position was not filled at the time of the audit.

Value for Money

The audit team observed that there had not been value for money work performed on the funding provided by VAC to CDHA for the provision of priority access beds at CHVMB. The roles and responsibility for the performance of value for money work were clearly stated in employees' work descriptions but this activity was not included in the CHVMB VAC Operating Cost Review 2006-2007 and was not included as part of the challenge and approval process in the CHVMB VAC Approved Budget 2008-2009.

Summary

Understanding and acceptance of accountability had been formally acknowledged by managers and supervisors through the annual performance review process. Supervisory personnel did meet periodically with employees and managers to review job performance but the audit team was unable to determine if the review included specific discussions or suggestions for improvements in the management of VAC funding to CDHA for priority access beds at CHVMB.

In addition, the system to record employees' formal acknowledgment of their roles and responsibilities was incomplete.

Since 2006-2007, no value for money work had been performed on the funding provided by VAC to CDHA for the provision of priority access beds at CHVMB even though clear roles and responsibility for this function existed in the employees' work descriptions.

2.1.3 Regular and Timely Monitoring of Policy and Program Design Options

Findings

Financial and performance information was monitored by VAC staff in the Atlantic Region and was provided to staff in the Continuing Care Programs Directorate. This information included:

- the CHVMB VAC Operating Cost Review 2006-2007,
- the CHVMB VAC Approved Budget 2008-2009,
- the 2005-2006 Client Satisfaction Survey, and
- the 2007 Facility Questionnaire.

VAC managers and supervisors did not conduct in-year monitoring of financial results (actual versus budget) for the CHVMB. The financial results for 2006-07 were examined as part of the CHVMB VAC Operating Cost Review 2006-2007 that was reported in December 2008. The audit team found that the Review was unplanned, a year late, and the working papers were insufficient and not appropriate as support for the report. (See Section 2.3.1).

There were no performance results, documented and reported on a regular basis, related to the operational economy and efficiency and the audit team found that there was no strategy to monitor performance at CHVMB. (See Section 2.4 for findings on performance measurement).

Senior management had reviewed the results from the 2005-2006 Client Satisfaction Survey of VAC clients residing in large facilities and the 2007 Facility Questionnaire to obtain an understanding of the overall quality of the service and client satisfaction provided to Veterans in priority access beds at CHVMB. The Survey and Questionnaire had not be designed to monitor performance at CHVMB.

VAC Senior Management had reviewed the policies and program design options of the Long-Term Care Program, including the provision of priority access beds in contract facilities, but the reviews were national in scope. In 2000, VAC completed the Residential Care Strategy and in 2008 VAC senior management approved the National Long-Term Care Strategy Implementation Framework which included a Policy Renewal Working Group that was responsible for the review of Long -Term Care policies and program design. The National Long-Term Care Strategy had been partially implemented during the period of the audit.

Summary

Management established processes and monitored the overall quality of the services that were provided to Veterans in CHVMB but there was no report available to monitor in-year financial performance and no strategy established to develop and monitor operational performance. Monitoring of policy and program design options for the Long -Term Care program, including priority access beds in contract facilities had been conducted on a national basis by senior management but there was no information available to monitor policy and program design options for CHVMB on a regular and timely basis.

2.1.4 Recommendations and Management Action Plans

Recommendation 1 *(ESSENTIAL)*
The Director General Service Delivery Management should develop a process to identify and monitor health care benefits and services benefits purchased by full-time CHVMB residents through FHCPS to ensure:

- **VAC is not paying for equipment, services, and pharmaceuticals that are included in the annual CHVMB VAC Approved Budget or provided through other VAC programs; and**

- **VAC is mitigating the risk that pharmaceuticals purchased by full-time CHVMB residents are not being recorded in Veteran Nursing Assessments to be used by the medical staff at CHVMB.**

The Director General Service Delivery Management should work with the Regional Director General Atlantic to assign responsibility for this process to the appropriate staff in the Atlantic Regional and/or Halifax District Office.

Management Response :

Management agrees with this recommendation. The Finance Division is developing guidelines and tools for conducting operational cost reviews to be undertaken by the Region. This will provide reasonable assurance that VAC is not paying for equipment through both the annual CHVMB VAC Approved Budget and FHCPS. Due to the low risk associated with non-drug purchases and the low-dollar value of these purchases, no further measures will be put in place to monitor non-drug purchases. The Department will assume the residual level of risk associated with the proposed solution.

With respect to purchase of pharmaceuticals, measures will be put in place to ensure that CHVMB medical staff is made aware of any FHCPS drug purchases by CHVMB residents.

Supplementary Response from Finance:
To provide reasonable assurances that VAC is not paying for services that may be already included in the facility's approved budget, the DG Finance is developing procedures to be followed in conducting operating cost reviews. The procedures will include detailed instructions to mitigate the above noted risk.

Initial guidelines will be developed by January 31, 2010, for use in 2010/11 budget development process. These will be high-level and allow extreme flexibility at the regional level to adapt to the requirements of each individual facility, but will promote the identification of the services expected to be delivered.

Management Action Plan:

Corrective Action(s) to be taken	OPI (Office of Primary Interest)	Target Date
1. Finance will develop guidelines and tools for conducting operational cost reviews to be undertaken by Atlantic Region.	SDM (In consultation with Finance and Atlantic Region)	March 31, 2010
2. Develop and implement a process that ensures CHVMB medical staff is made aware of any FHCPS drug purchases by CHVMB residents.	SDM (In consultation with Atlantic Region)	November 1, 2009

Recommendation 2 *(ESSENTIAL)*
The Chief Financial Officer should recommend that the Minister amend the Delegation of Authorities Document for capital contributions to contract hospitals including CHVMB. Capital contributions to contract facilities cannot be funded under the Other Health Purchased Services (OHPS) Vote and the authority for expenditure initiation and verification of contract performance for these transactions should be removed from the Delegation of Authorities Document.

Management Response:
Managment agrees with this recommendation.

Management Action Plan:

Corrective Action(s) to be taken	OPI (Office of Primary Interest)	Target Date
The departmental Financial Delegated Authorities instrument will be revised to reflect current appropriations and authorities. a) Recommended changes will be forwarded for approval by b) sign-off expected no later than	CFO	 December 31, 2009 March 31, 2010

Recommendation 3 *(IMPORTANT)*
The Regional Director General Atlantic should review the work descriptions of key positions with supervisory and management responsibilities related to priority access beds at CHVMB. Where necessary, the Regional Director General Atlantic should request that managers update the work descriptions of their employees to reflect the current roles and responsibilities of each position. The incumbent should sign and approve the revised work descriptions to formally acknowledge their understanding of their roles and responsibilities.

Management Response:

Management agrees on the importance of current work descriptions that reflect current roles and responsibilities, and that incumbents fully understand these roles and responsibilities. The Regional Residential Care Specialist (RRCS) is the focal point for long term care finance in the Region. This position has recently been filled following a lengthy recruitment process. Roles and responsibilities for the RRCS have changed substantially over the last two years and the work description will be rewritten in conjunction with four other RRCS positions nationally. Regional and District Office responsibility, including that of management, will be clarified as it relates to management of the contract beds at Camp Hill Veterans Memorial Building.

Management Action Plan:

Corrective Actions to be taken	OPI (Office of Primary Interest)	Target Date
Update current work descriptions: • Regional Residential Care Specialist	RDG, Atlantic Region	April 1, 2010

2.2 CHVMB VAC Approved Budget 2008-2009

In the audit team's opinion, the management controls, concerning key financial management processes related to the Residential Care Program at the Camp Hill Veterans Memorial Building and the 2008/2009 approved budget with CDHA, were not adequate because:

- schedules and resources needed to achieve the Departmental objectives, in the 2007-2008 Program Activity Architecture, related to Long-Term Care were integrated into the CHVMB VAC Approved Budget 2008-2009 but did not include the expected level of activity (performance target See Section 2.4) linked to the approved funding for each line object, except for Direct Nursing Services;

- there was no formal process in place to validate the assumptions and related resource allocations within the CHVMB VAC Approved Budget 2008-2009. Contributing factors to the lack of a formal challenge were:

    - the CORE program document used to prepare and to validate assumptions in the budget had not been reviewed since 1992-1993 and did not provide management with sufficient guidance to prepare the budget,

    - management did not follow the Standardized Budget Approval and Financial Reporting Cycle Process, a mandatory VAC process, that allowed time for critical analysis of the budget, and

    - management did not validate the assumptions and related resource and cost practices of the budget and the audit team conducted an illustrative challenge process and found:

        - a different staffing mix for Direct Nursing Care Services at CHVMB could have resulted in cost savings of $258,000 and $2.2 million under different proposed Models of Care. A different staffing mix could also have helped CDHA deal with their recruitment problems as there was and still is a national shortage of Registered Nurses;

        - information was available at CDHA that could have been used by VAC to validate the assumptions in the budget to allocate utility costs. For example an existing electric meter could have been used to measure the actual electricity consumed at the CHVMB instead of estimating the electricity consumed based on the percentage square footage CHVMB of the total square footage of the Queen Elizabeth II Health Sciences Centre;

- the CHVMB VAC Approved Budget 2008-2009 was not developed at the appropriate level of detail because it did not include activity levels (performance targets See Section 2.4) related to the approved funding for each line object and was not developed on a timely basis as the Standardized Budget Approval and Financial Reporting Cycle Process, a mandatory VAC process, was not followed;

- forecasts of the CHVMB VAC Approved Budget 2008-2009 were not monitored on a regular basis as VAC did not obtain monthly budget to actual reports that were prepared by CDHA and the only budget to actual information available to management was found in the CHVMB VAC Operating Cost Review 2006-2007 and did not relate to 2008-2009;

- there were established and communicated financial policies and authorities but the CORE program document was outdated and did not have standing in VAC as a formal policy or guideline and the Internal Control Manual - Chapter 5 Health Care Facility Review Guidelines was outdated;

- financial policies and authorities, other than compliance with the 1992 Master Agreement, had not been regularly reviewed as part of the CHVMB VAC Operating Cost Review 2006-2007;

- the Operational Cost Review Guidelines had not been revised to reflect the results of a 2007 national workshop even though there was clear responsibility for this task;

- there was no information available for VAC senior management or any oversight body to ensure that the funding agreement, between VAC and CDHA for priority access beds at CHVMB, was compliant with relevant financial management laws, policies and authorities, other than the 1992 Camp Hill Agreement. The CHVMB VAC Budget 2008-2009 did not contain information on the relevant laws, policies and authorities that were considered by VAC staff when the Budget was prepared. The CHVMB VAC Operating Cost Review 2006-2007 did monitor compliance with financial management laws, policies, and authorities but did not specify, other than the 1992 Camp Hill Agreement, what laws, policies, and authorities were included in the Review. In addition, there were insufficient working papers to elaborate on the information provided in the Report (See Section 2.3.1).

2.2.1 Key Management Information Linked to Organizational Objectives

Findings

The CHVMB VAC Approved Budget 2008-2009 had detailed information for 29 line objects (based on CDHA account detail coding) and contained detailed notes which provided additional information on the method used to calculate cost estimates for each budget line. The Budget did not, except for Direct Nursing Care Services, include the expected level of activity (performance target See Section 2.4) linked to the approved funding for each line object.

In addition the CHVMB VAC Approved Budget 2008-2009 was clearly linked to the 2007-2008 Program Activity Architecture (PAA) for Veterans Affairs which contained a strategic outcome to have eligible Veterans and other clients achieve their optimum level of well being through programs and services that support their care, treatment, independence, and re-establishment. This strategic outcome was to be achieved through programs providing health care and re-establishment benefits and services which included sub-activities related to Long -Term Care and Nursing Care.

The *Veterans Health Care Regulations Part III* gives the Department authority to provide Long-Term Care to eligible Veterans in a contract bed and the Budget provides the detailed operating costs incurred to provide 175 contract beds to eligible Veterans.

Summary

The schedules and resources needed to manage the funding agreement between VAC and CDHA for priority access beds at CHVMB were included in the CHVMB VAC Approved Budget 2008-2009 but did not include the expected level of activity (performance targets) linked to the approved funding for each line object, except for Direct Nursing Care Services. In addition the line objects in the budget were clearly linked to Departmental objectives, related to Long-Term Care, found in the 2007-2008 Program Activity Architecture, and to the authority to provide Long-Term Care to eligible Veterans found in the *Veterans Health Care Regulations Part III*.

2.2.2 Budget Challenge

Findings

Guidelines for Preparation

The Director Quality Care Atlantic Region indicated that the 1992/93 CORE program document and the Standardized Budget Approval and Financial Reporting Cycle Process were the only guidelines that had been provided by VAC HO to conduct the 2008-2009 budget preparation process. The CORE program document did not include a requirement for the annual operating budget to be prepared with a level of detail to support the costs calculated.

The CORE program document was prepared in 1992/93 and did provide guidelines on the levels of activities or efforts of services by patient. This program document has not been revised to reflect changes over the last 17 years, including the way institutions provided Long-Term residential care and the types and levels of care Veterans required as they age.

VAC Atlantic Region did not follow the Standardized Budget Approval and Financial Reporting Cycle Process for the CHVMB VAC Approved Budget 2008-2009.

Summary

VAC prepared and communicated guidelines to assist participants in the budget process to prepare the budget. The CORE program document had not been revised since 1992-1993 and did not specify the information and detail to be included in the annual budget.

Guidelines for Critical Analysis

The Standardized Budget Approval and Financial Reporting Cycle Process was a mandatory process approved by Director General Program and Policy Service Division and the Director General Finance.

The Process required contract hospitals to submit budget proposals to VAC for review three months prior to the start of the fiscal year. The CHVMB VAC Budget 2008-2009 proposed by CDHA should have been submitted by January 1, 2008.

The Process also indicated that VAC Atlantic Region staff, in finance and responsible for the oversight of the Long-Term Care Program (e.g. District Director and the Regional Institutional Care Specialist), should have conducted a detailed line-by-line review of the budget and should have approved the budget within two months of its receipt. If VAC Atlantic Region staff had followed the Standardized Budget Approval and Financial Reporting Cycle Process then the CHVMB VAC Approved Budget 2008-2009 should have been reviewed and approved by March 1, 2008. The 2008-2009 Budget was formally approved June 26, 2008.

The Atlantic Regional staff did not follow the Standardized Budget Approval and Financial Reporting Cycle Process because it was not practical as there were 22 contract facilities in Atlantic Canada and there was not enough time to perform each recommended step in the process. In addition, the Regional Institutional Care Specialist position was not filled on an indeterminate basis so the VAC Atlantic Region had insufficient resources to conduct a full budget challenge on the CHVMB budget.

Summary

The mandatory Standardized Budget Approval and Financial Reporting Cycle Process included a budget schedule that allowed time to provide critical analysis of the proposed budget, including validating underlying assumptions underpinning proposed budget amounts. This process was not followed in the preparation and approval of the CHVMB VAC Approved Budget 2008-2009.

Budget Assumptions and Cost Allocations

Atlantic Regional staff did not validate any of the line objects or assumptions in the 2008-2009 Budget but did identify areas of concern in discussions with members of the audit team. The audit team selected three budget line items that had been identified as high risk in the

preliminary survey phase of the audit and reviewed the resource levels and underlying assumptions. The results of this review are provided as illustrative examples.

Direct Nursing Mix

The audit team found that a different staffing mix for direct nursing care services could have led to annual potential cost savings for VAC at the CHVMB and could have helped CDHA deal with recruitment problems due to the national shortage of Registered Nurses. The change in staff mix was based on the proposed Nova Scotia Department of Health staffing model and the CHVMB Model of Care developed by the Director of Veterans Services at CDHA. The Nova Scotia Department of Health model of care did not provide post-acute care and sub-acute care which was significantly different than the standard of care that existed at CHVMB but was included to illustrate the range of possible options to consider.

The audit team estimated potential annual cost savings of between $258,000, based on the Model of Care, and $2.2 million, based on the Nova Scotia Department of Health staffing model. The potential annual cost savings were confirmed with the VAC Director Quality Care Atlantic Region. The CDHA Model of Care proposed the same level of care that was provided to Veterans at CHVMB. The level of care in the Nova Scotia Department of Health was based on a standard level of care for residents of the Province of Nova Scotia.

Utility Allocation

The audit team found information was available at CDHA that could have been used by VAC to validate the assumptions in the Budget to allocate utility costs. A portion of the total cost of electricity and heating fuel for the entire Queen Elizabeth II Health Sciences Centre was allocated to the CHVMB Budget based on the assumption that CHVMB's percentage of the total internal square-footage of the Queen Elizabeth II Health Sciences Centre was a reasonable basis to estimate the actual utility costs related to the operation of CHVMB.

Meters that measure the actual energy consumed would provide a more accurate method to allocate utility costs to the operations of CHVMB. There was an electric meter at CDHA Physical Plant that measured the actual electricity consumed at CHVMB. CDHA had installed a meter, in the Physical Plant, to measure the actual steam provided to an adjacent high school and used the meter reading to bill the high school (School Board) for the heat services provided. VAC could ask CDHA if a steam meter could be installed to measure actual steam provided to CHVMB and if the cost to install the meter could be estimated.

In addition, the audit team reviewed the reasonableness of the allocation formula that was currently used to estimate heating fuel costs. The audit team found there were two Physical Plants at the Queen Elizabeth II Health Sciences Centre and that the

Halifax Infirmary Campus, where CHVMB was located, was serviced by one of the Physical Plants. An alternative basis of estimating the heating fuel costs related to the operation of CHVMB could have been calculated using the total costs of fuel consumed at the Physical Plant at the Halifax Infirmary Campus allocated on the square footage of CHVMB as a percentage of the internal square-footage of the buildings located at the Halifax Infirmary Campus site. The audit team also observed that some space at CHVMB was not fully utilized and should be reviewed by VAC as part of the budget validation process to determine if it could be turned over to CDHA.

Administrative Overhead Fee

The 1992/93 Core program document included a discussion of the types of costs that contract facilities normally included in their operational overhead (e.g. finance, personnel, insurance etc.). The CORE program indicated that these costs should be examined for reasonableness and that the target rate for the administrative overhead fee should have been 10% of the total for all other Hotel and Residential Services not included in the overhead definition. On July 4, 2005 VAC and CDHA agreed to reduce the Administrative overhead fee from 10% to 9% because previous CHVMB VAC Approved Budgets had contained separate line items for eight administrative services (totaling $ 221,000 in 2008-2009). VAC had insisted that the cost for these eight administrative services should continue to be included in the cost pool for the 10% Administrative fee and removed from the Budget or that the cost of the eight administrative services continue to be included as separate line items in the Budget and the Administrative fee be reduced by 1% to ensure that VAC was not paying twice for the cost of these services.

The audit team examined the reasonableness of the nine percent administrative overhead fee in the CHVMB VAC Approved Budget 2008-2009 for Residential and Hotel Services. The audit team requested a detailed breakdown of the CDHA overhead cost pool(s) including the cost allocation base(s) to determine the reasonableness of the 9.00% administrative fee. The CDHA Health Services Finance Coordinator, responsible for CHVMB, indicated that this information was available in summary form but a detailed listing of these costs could not be provided. Therefore, the audit team was not able to conduct the examination due to the limitation in scope.

Summary

The Director Quality Care Atlantic Region did not validate and document the assumptions and related resource allocations and costing practices used to prepare key elements in the CHVMB VAC Budget 2008-2009. The audit team conducted a review of three high risk budget line items identified in the planning phase of the audit as illustrative examples of a validation process to review the resource levels and underlying assumptions found in the CHVMB VAC Budget 2008-2009 and found:

- that a different staffing mix for direct nursing care services could have resulted in annual potential cost savings of $258,000, based on the Model of Care, and $2.2 million, based on the Nova Scotia Department of Health staffing model, for VAC at the CHVMB and could have helped CDHA deal with recruitment problems due to the national shortage of Registered Nurses;

- information was available at CDHA that could have been used by VAC to validate the assumptions in the Budget to allocate utility costs. For example an existing electric meter could have been used to measure the actual electricity consumed at the CHVMB instead of estimating the electricity consumed based on the percentage square footage CHVMB of the total square footage of the Queen Elizabeth II Health Sciences Centre.

2.2.3 Budget Detail

Findings

The CHVMB VAC Budget 2008-2009 did not contain information on the expected activity (work levels) that was linked to the financial resources approved for each budgeted line item, other than hours of direct nursing care per client per day that could not be monitored after 2007 (See Section 2.4 for performance measurement observations). In addition, managers did not have the budgeted activity target for each budget line object that would have allowed them to conduct in-year monitoring and to determine if the budgeted resources were sufficient to provide the expected level of activity.

Summary

VAC Atlantic Region did not follow the Standardized Budget Approval and Financial Reporting Cycle Process to prepare the 2008-2009 CHVMB Annual Operating Budget. The budget was not at an appropriate level of detail, because it did not contain budgeted activity levels (performance targets), for each management level at VAC and CDHA to have monitored in-year activity and to have made the necessary corrections.

2.2.4 Forecasting

Findings

Reporting of Actual to Budget

VAC did not conduct in-year monitoring of budget to actual results. The actual results for CHVMB, 2006-2007 fiscal year, were examined as part of the CHVMB operational cost review that was conducted after the CDHA had completed an external audit of its financial statement in May 2007. The CHVMB VAC Operating Cost Review 2006-2007 was finalized by VAC, in

December 2008, nineteen months after the completion of the external audit of the contract facility.

During the exit meeting with Atlantic staff the audit team was informed that the CHVMB 2007-2008 operational costs review field work had been completed and the draft Report was being reviewed.

CDHA produced monthly "budget to actual" reports for each responsibility centre at the CHVMB. The "budget to actual" report presented the actual costs incurred for each responsibility centre against the monthly budget by individual line object. The Atlantic Regional Office staff had not requested the CDHA "budget to actual" monthly reports.

The CDHA had adjusted the CHVMB VAC Approved Budget 2008-2009 to include accruals for salary increases. The salary accrual was required because CDHA operated on an accrual accounting basis and recognized expenses in the period when they were incurred. VAC provided funding to CDHA based on actual cash expense incurred and provided a funding adjustment for salary increases when paid by CDHA.

Variance Analysis

The Manager Financial Services Atlantic indicated that the CHVMB VAC Operating Cost Review 2006-2007 included procedures to identify significant variances for each budget line object. The CHVMB VAC Operating Cost Review 2006-2007 did not have working papers which document these procedures and a definition of what constituted a significant variance (See Section 2.3.2). The information was 19 months old and would not have been useful to explain budget variances.

Summary

Forecasts of the CHVMB VAC Budget 2008-2009 were not monitored on a regular basis as VAC did not obtain monthly budget to actual reports that were prepared by CDHA and the only budget to actual information available to management was found in the CHVMB VAC Operating Cost Review 2006-2007 and this information did not relate to the 2008-2009 fiscal year.

2.2.5 Financial Management Policies and Authorities

Findings

VAC Atlantic Region used the following key financial management policies and authorities related to funding to CDHA for priority access beds at CHVMB:

- Veterans Programs Policy Manual Volume Two Chapter 4 Long-Term Care (revised 2006)
- *Veterans Health Care Regulations* (Amendments published in Canada Gazette)
- CORE program documents (1992/93)

- Internal Control Manual - Chapter 5 Health Care Facility Reviews (revised in 1991)
- Standardized Budget and Financial Reporting Cycle Process
- Approval Process for Funding Proposals from Contract Facilities (Revised 2006)
- Treasury Board Policies available on the intranet.

VAC staff that had responsibility for the preparation of the CHVMB operational cost review and the annual operating budget indicated that policies and authorities were available and up to date, except for the Internal Control Manual - Chapter 5 Health Care Facility Reviews. They also indicated that the CORE program document did not have standing in VAC as a formal policy or guideline and had not been revised since 1992-1993.

Summary

The CORE program document did not have standing in VAC as a formal policy or guideline, had not been maintained and was dated. The Internal Control Manual - Chapter 5 Health Care Facility Reviews was dated and had not been maintained. The financial policies and authorities were known and understood by VAC personnel responsible for conducting the CHVMB operational cost review and preparing the CHVMB annual operating budget and were effectively communicated through manuals and TBS Intranet Site.

2.2.6 Regular Review of Financial Management Policies and Authorities

Findings

The CHVMB VAC Budget 2008-2009 did not contain information on the relevant financial management policies and authorities that were considered by VAC staff when the Budget was prepared. The Audit team found the Operating Cost Review Guidelines had an objective to ensure that funds provided by Veterans Affairs Canada were being used in accordance with the terms and conditions of the agreement (Transfer Agreement, Memorandum of Understanding, etc.) and the facility had complied with the specific laws and health care regulations governing the care of Veterans.

The operational cost review report did indicate that the funds were utilized in accordance with the terms and conditions of the Camp Hill Agreement (another name used by VAC for the 1992 Master Agreement) but did not indicate if the funds were utilized in accordance with the specific laws and health care regulations governing the care of Veterans.

Summary

Financial policies and authorities, other than compliance with the 1992 Master Agreement, related to the funding to CDHA for priority access beds at CHVMB had not been regularly reviewed as part of the CHVMB VAC Operating Cost Review 2006-2007.

2.2.7 Monitoring Compliance with Laws, Policies, and Authorities

Findings

The Director Corporate Services and the Manager Finance Atlantic Region were responsible for ensuring that the contract hospitals/Long-Term care facilities comply with their individual agreements, with their individual approved annual budgets, and with the provisions of the *FAA* with respect to the requirements of audit of advance payments but did not specify compliance, in contract hospitals/Long-Term care facilities, with other financial policies and authorities.

The Chief of Corporate Internal Control was responsible for defining functional specifications and criteria for ongoing quality assurance and financial risk management assessments of grants and contributions and operating expenses to assess compliance with legislated Acts and Regulations, Central Agency/Department financial policies, Generally Accepted Accounting Principles (GAAP), and new directions for financial management in government.

The CHVMB VAC Budget 2008-2009 did not contain information on the relevant laws, policies and authorities that were considered by VAC staff when the Budget was prepared. The CHVMB VAC Operating Cost Review 2006-2007 indicated that funds, paid by VAC to CDHA for fiscal year 2006-2007, were utilized in accordance with the terms and conditions of the Camp Hill Agreement and did not indicate if CDHA had complied with specific laws and health care regulations governing the care of Veterans. There were no working papers supporting the Report (See Section 2.3.2) so VAC senior management or any oversight bodies did not have the information to ensure that the funding agreement, between VAC and CDHA for priority access beds at CHVMB, was compliant with relevant financial management laws, policies and authorities.

Summary

VAC did monitor compliance with financial management laws, policies, and authorities, related to the funding of CDHA to provide priority access beds at CHVMB through the CHVMB VAC Operating Cost Review 2006-2007. The review did not have sufficient working papers to document which laws, policies, and authorities, other than the 1992 Camp Hill Agreement, had been examined so there was insufficient information available to management or any oversight bodies to exercise their responsibility to monitor compliance.

2.2.8 Recommendations and Management Action Plans

Recommendation 4 (*ESSENTIAL)*
The Director General Finance should develop specific guidelines for the budget process. The guidelines should provide direction on budget detail, on processes to identify high risk areas for validation, and on performance measures (financial and non-financial) to facilitate in-year monitoring. The budget process should also be applied earlier in the

year in order to provide CDHA with an approved CHVMB budget in a timely fashion (e.g. within two months of the beginning of the fiscal year).

Management Response:

Management agrees with this recommendation. There are two components to this recommendation:

1) To develop guidelines for the establishment of operating budgets with contracted health care facilities, which would guide managers in discussions with facilities as to type and definition of services, costing, performance indicators, metrics, etc. for in-year monitoring. (Continuing Care Programs and Finance jointly)

2) To clarify and document the approval process for incremental funding. (Finance)

Management Action Plan:

Corrective Actions to be taken	OPI (Office of Primary Interest)	Target Date
1a) The work to develop the budget development process will be contracted but will not be completed in 2009/10. The expected completion date is September 30, 2010. This will provide fairly detailed guidance to Regions as to negotiating budgets that would cover all the components required.	DG Finance in cooperation with Director, Continuing Care Programs	September 30, 2010
1b) Initial guidelines will be developed for use in 2010/11 budget development process. These will be high-level and allow extreme flexibility at the regional level to adapt to the requirements of each individual facility, but will promote the identification of the services expected to be delivered.	DG Finance in cooperation with Director, Continuing Care Programs	January 31, 2010
2) Review and revise "Funding Approval Process" which would include identifying and clarifying criteria for approval of incremental funds and level of approval required.	DG Finance	November 30, 2009

Recommendation 5 *(ESSENTIAL)*
The Director Quality Care Atlantic should review the CHVMB VAC Budget and monitor areas that are high risk (including the development of performance measures.)

Management Response

Management agrees with the need to identify areas of high risk that should be challenged during the budget cycle to ensure that VAC is receiving the services for which it provides funding.

Management agrees with the importance of performance/workload measurement. Activity levels can be used to support financial levels if provided by the facility in a manner that can be translated into useful information and on a timely basis, particularly for shared resident and support services.

Management Action Plan:

Corrective Actions to be taken	OPI (Office of Primary Interest)	Target Date
Develop criteria to determine what constitutes an area of risk for various disciplines.	Director Quality Care Atlantic	October 31, 2009
Identify risk areas.	Director Quality Care Atlantic	November 15, 2009
Meet with Financial Analyst, CDHA, to determine the most appropriate allocation methods.	Director Quality Care Atlantic	November 30, 2009
Discuss correct protocols for equipment purchases, renovations, maintenance, etc. with CDHA official(s).	Director Quality Care Atlantic	January 31, 2010
In conjunction with the Quality Assurance Program, determine appropriate workload measurement indicators and guidelines for contract facilities. Request facilities to provide detail on a monthly (or quarterly) basis to support VAC funding levels. Activity levels will link into the variance analysis process.	Director Quality Care Atlantic	April 1, 2010

Recommendation 6 (*ESSENTIAL*)
The Director Continuing Care Programs should adopt a policy that provides for the use of Personal Care Workers or Continuing Care Assistants in the mix of staff providing direct nursing care services at CHVMB. Also, the CORE program document requires to be updated to reflect this change.

Management Response:

In August 2008, VAC approved a National Long Term Care Strategy. As an element of the Strategy, the Continuing Care Programs Directorate (CCPD) has adopted principles that

support the Department accepting and moving towards the use of provincial standards for admission and care of Veterans in LTC contract bed facilities. These standards of care include changes to the mix of staff providing direct care services. In accordance with the Strategy and a move to provincial standards, a revised staffing model for CHVMB allowing for flexibility in the staffing complement and mix was approved in June 2009. This change will also facilitate CHVMB caring for Veterans where there are difficulties acquiring the services of certain types of professional health care staff. For specialized programs requiring a different staff mix, CCPD will continue to utilize its outcome criteria and funding approval mechanisms.

CCPD will undertake a review of the CORE Program document (provides guidance on service levels to prepare and validate assumptions in the Budget) to determine its relevance in the context of today's long-term care environment.

Management Action Plan:

Corrective Actions to be taken	OPI (Office of Primary Interest)	Target Date
1) Adopt a policy that provides for the use of personal care workers.	CCPD	Completed
2a) Review the CORE Program document to assess its relevance in today's LTC environment.	CCPD	October 31, 2009
2b) Update CORE Program document if determined relevant.	CCPD	January 31, 2010

Recommendation 7 *(IMPORTANT)*
The Director Quality Care Atlantic Region should:

- **request readings from the electricity meter for CHVMB;**
- **conduct a cost/benefit analysis of installing a steam meter for CHVMB.**

Management Response:

Management agrees that additional information and processes should be implemented at CHVMB and between VAC and CDHA to ensure VAC is receiving the services for which it funds, ie. Utility meters.

Management Action Plan:

Corrective Actions to be taken	OPI (Office of Primary Interest)	Target Date
Review areas where meters can be used to measure utility utilization specific to CHVMB. Work with CDHA to ensure direct costs can be applied rather than square footage allocation which is not reflective of actual usage.	Director Quality Care Atlantic Region	January 31, 2010

2.3 CHVMB VAC Operating Cost Review 2006-2007

In the audit team's opinion, the CHVMB VAC Operating Cost Review 2006-2007 conducted by VAC, was not adequate as a key management control to ensure stewardship over the funding agreements between VAC and CDHA for CHVMB for the following reasons:

- The CHVMB VAC Operating Cost Review 2006-2007 was not prepared in accordance with the Operational Cost Review Guidelines as:

  • the Review did not include three reporting requirements and the reviewer did not document the reasons for these exclusions; and

  • the Review did not apply the planning and executing Guidelines and did not provide an explanation for the exclusion in their report or working papers.

- Because the Operational Cost review was not prepared in accordance with the Guidelines the work was unplanned, a year late, and the working papers were insufficient and not appropriate as support for the report.

- VAC's Operating Cost Review Guidelines did not specify:

  - the requirements that a reviewer should have considered when conducting an audit or review of the 2006-2007 costs submitted by CDHA for CHVMB. The Guidelines indicate that the Operational Cost review should be conducted in accordance with Generally Accepted Auditing Standards of the Canadian Institute of Chartered Accounts which clearly distinguished between audit and review engagements and had specific standards for the conduct of each type of engagement;

  - the extent of verification required to support Section 34 approval of adjustment payments to be made to CHVMB; and

  - the types of internal controls to have been assessed to ensure that the Department's interests, as the steward of the funding agreement between VAC and CDHA for the provision of priority access beds at CHVMB, were adequately protected.

2.3.1 Operating Cost Review Conducted in Accordance with Guidelines

Findings

Reporting

As per the Guidelines, the CHVMB VAC Operating Cost Review 2006-2007 included:

- the scope and the period covered by the review;
- the review objectives, background, and approach;
- an opinion that the funds provided to CDHA by VAC for CHVMB were used in accordance with the terms and conditions of the 1992 Master Agreement;
- an opinion that CDHA used financial and other administrative procedures with adequate internal controls for CHVMB to protect VAC's interests;
- an opinion that the financial information for CHVMB included in CDHA's reports and financial statements was presented fairly in accordance with generally accepted accounting principles;
- an opinion that the basis for determining VAC's costs were fair and reasonable;
- a summary of the review results and observations along with pertinent calculations;
- a calculation of the amount due to CDHA as a result of the review;
- the final balances for the various costs/accounts applicable to VAC; and
- the problem areas deemed to be of importance.

However, the Report did not include:

- a calculation of the per diem rate for CHVMB applicable to VAC;
- an opinion as to whether the per diem rate and/or the CDHA cost submission to VAC for CHVMB were fair, reasonable, and in accordance with the 1992 Master Agreement; and
- an opinion as to whether CDHA complied with the specific laws and health care regulations governing the care of Veterans at CHVMB.

VAC Finance Division Atlantic Region did not document the reasons why they did not follow the Guidelines and why they excluded these items in their report or working papers.

Planning and Executing

VAC Atlantic Regional Office Finance Division did not apply the planning and executing Guidelines and did not provide an explanation for the exclusion in their report or working papers. They did not obtain a cost submission from CDHA, prepare a review plan, or follow generally accepted standards. As a result, their work was unplanned, a year late, and their working papers were insufficient and not appropriate as support for their report. When asked, VAC Atlantic Regional Office Finance Division could not explain what was done or provide additional information.

Summary

The CHVMB VAC Operating Cost Review 2006-2007 was not prepared in accordance with the Operational Cost Review Guidelines as it did not include three reporting requirements and the reviewer did not document the reasons for these exclusions as required in the Guidelines and the reviewer inaccurately concluded on one of the objectives in the Operational Cost review report. In addition, the Review did not apply the planning and executing Guidelines and did not

provide an explanation for the exclusion in their report or working papers. As a result, their work was unplanned, a year late, and their working papers were insufficient and not appropriate as support for their report.

2.3.2 Operating Cost Review Guidelines

Findings

Standards and Updates

VAC's Operating Cost Review Guidelines in the Internal Control Manual Chapter 5 did not specify the requirements that a reviewer should have considered when conducting an audit or review of the 2006-2007 costs submitted by CDHA for CHVMB. The Operating Cost Review Guidelines made references that this examination should have been performed according to generally accepted auditing standards of the Canadian Institute of Chartered Accountants. The generally accepted auditing standards clearly distinguished between audit and review examinations and had specific standards for the conduct of each type of engagement but these key elements were not specified or included in the Guidelines.

The absence of a clear understanding or consensus as to what type of examinations the Operating Cost Reviews are, and as to what their objective is, causes important inconsistencies and leads to a false sense of assurance. Moreover, resolving many of the observations in the present report hinges on addressing this fundamental issue.

If the Operational Cost Review is meant to be an audit, the Guidelines did not specify:

- the type of audit opinion that was being provided (e.g. financial information other than financial statements, compliance with specified agreements, statutes, and regulations, and value-for-money); and
- the language to be used in each type of audit opinion.

If the Operational Cost Review is meant to be a review, the Guidelines did not specify:

- that procedures were limited to enquiry, analytical procedures, and discussion to obtain sufficient evidence to assess if information provided is plausible and that performing additional procedures would not change the engagement into an audit; and
- that the language to be used in the conclusion clearly states that "nothing came to our attention that would cause us to believe" and dollar figures are clearly indicated as "unaudited".

The Guidelines did not specify the CDHA internal controls (e.g. CDHA controls over CHVMB transaction processing and reporting, and results monitoring) to be assessed to ensure that the

Department's interests, as the steward of the funding agreement between VAC and CDHA for the provision of priority access beds at CHVMB, were adequately protected.

There had been changes in Treasury Board authorities and updates to the CICA Handbook since VAC's Operating Cost Review Guidelines were established in January 1991. The Guidelines had not been revised to reflect these changes.

The Internal Control Officer, at VAC Head Office, was responsible for the provision of policies, guidelines and functional direction on financial internal controls to financial and program officers. In October 2007, VAC Finance (Head Office) held a four-day internal control workshop with VAC employees who conducted Operating Cost Reviews. VAC Finance (Head Office) presented a framework that outlined the key objectives of a review to ensure compliance with the *Financial Administration Act* and policy requirements. The results of this workshop were summarized in a two-page document but were not reflected in a revision to the Guidelines.

Section 34 - *Financial Administration Act (FAA)*

Section 34 authorization is a multi-step performance certification made up of 24 signatures for the semi-monthly cash advances and one signature for the payment of an adjustment for additional costs incurred. Near the beginning of the fiscal year VAC prepared the budgets for provincially operated contract health care facilities to cover the costs associated with providing priority-access beds to Veterans on behalf of VAC. When VAC approved the annual budget for CHVMB, the Atlantic Director Quality Care sent a memo to the Atlantic Manager Financial Services indicating semi-monthly payments to have been made to CDHA. The Atlantic Manager Financial Services prepared a payment document for each semi-monthly payment that was approved, under Section 34 of the FAA, by the Atlantic Associate Regional Director General. The cumulative value of the semi-monthly equal payments was equal to the approved annual budget amount.

The facilities were supposed to provide cost submissions (statements of actual costs for the period) to VAC as the basis for the reviews (as per the Guidelines). If the Operating Cost Review found that actual costs were different from the approved budgets, VAC prepared an adjustment to the payments made to the contract health care facilities. If VAC owed additional funds to the contract facility, an invoice was prepared and approved under Section 34 of the *FAA*.

Pursuant to Section 34 of the *FAA*, all payments and settlements must be verified. Therefore, VAC was required to have established procedures which documented the extent of verification required to certify that the following had been complied with:

- the work had been performed, the goods supplied or the services rendered or in the case of other payments, the payee was entitled to or eligible for the payment;

- the relevant contract or agreement terms and conditions had been met including price, quantity and quality (if in exceptional circumstances, the price was not specified by the contract, that it was reasonable);
- the transaction was accurate and the financial coding had been provided; and
- all relevant statutes, regulations, orders in council and Treasury Board policies had been complied with.

VAC's Operating Cost Review Guidelines did not specify the extent of verification required to support the Section 34 approval of the adjustment payments made to CHVMB.

Reliance on External Auditor

Section 4.4 of VAC's Operating Cost Review Guidelines recommend that "a conclusion on the internal controls could usually be arrived at by examining the external audit opinion contained in the audited financial statements since the external auditors assessed the internal controls as part of their year-end audit of these statements". However, the Guidelines did not specify the internal controls (e.g. CDHA controls over CHVMB transaction processing and reporting, and results monitoring) that a reviewer should assess. In addition, the recommendation in the Guidelines that "a conclusion on internal controls could usually be arrived at by examining the external audit opinion" is misleading. The reviewer should identify and assess the relevant internal controls related to the activities at CHVMB that are funded by VAC.

Moreover, Section 6930 of the CICA Handbook (Reliance on Another Auditor) required VAC to notify the external auditors of a health care facility of its intention to rely on their work. VAC would have needed to determine the extent to which it could have relied on the work of external auditors of health care facilitates (if at all) given that the scope and materiality of the engagements may be very different (a financial statement audit of health care facility versus an assurance engagement relating to the internal controls of a health care facility relevant to a funding agreement).

Summary

The Operational Cost Review Guidelines were not revised to reflect relevant changes in Treasury Board authorities and the CICA Handbook assurance recommendation sections. The Guidelines recommended that the examination should have been performed according to generally accepted auditing standards of the Canadian Institute of Chartered Accounts but key elements were not specified or included.

The Guidelines did not specify the extent of verification to have been conducted in the CHVMB VAC Operating Cost Review 2006-2007 required to support Section 34 approval of adjustment payments to be made to CHVMB as the result of the Review.

The Guidelines did not specify the type internal controls (e.g. CDHA internal controls over CHVMB transaction processing and reporting, and results monitoring) to have been assessed

to ensure that the Department's interests, as the steward of the funding agreement between VAC and CDHA for the provision of priority access beds at CHVMB, were adequately protected. The reviewer would not have been able to determine if the internal control work performed by the CDHA external auditor, to support the 2006-2007 CDHA financial statement audit opinion, was adequate to protect the Department's interests. The reviewer would have had to identify the internal controls to assess and to examine the external auditors working papers to understand the scope and extent of internal control testing.

2.3.3 Recommendations and Management Action Plans

Recommendation 8 *(CRITICAL)*
The ADM Service Delivery and Commemoration (SDC), in cooperation with the ADM Corporate Services (CS), should ensure that SDC managers who certify (sign) payment authorization under Section 34 of the *Financial Administration Act (FAA)* for payments to CHVMB follow an acceptable authorization process. This process should be clear with respect to how operating cost reviews contribute to the process, including the objective/purpose of operating cost reviews and the type of engagement and level of assurance required.

Management Response:

Management agrees with this recommendation.

Supplementary Response from Finance:
Managers who certify performance under S34 of the FAA are dependent upon the outcome of operating cost reviews which are the basis of the account verification process for these costs. This process, for payments to health care facilities, is dependent upon VAC and each facility having a mutually clear understanding of the services being purchased/provided and the costing criteria to be used for the payment of those services. The development of guidelines for account verification and S34 FAA certification (operating cost reviews) will be informed by the budget process from R4.

The complexity of the account verification process will guide the determination of the type of engagement and level of assurance required.

Management Action Plan:

Corrective Actions to be taken	OPI (Office of Primary Interest)	Target Date
Development of a business process specific to section 34 for LTC payments at contract institutions to be drafted.	ADM, SDC	January 31, 2010
Distribution, implementation and monitoring of procedures.	ADM, SDC	September 20, 2010

Recommendation 9 (*CRITICAL)*
The Director General Finance should:

- **develop adequate guidance and tools for conducting and documenting operating cost reviews, including detailed procedures for planning, testing, assessing and reporting results that will provide the required level of assurance to meet the payment authorization and verification requirements under sections 33 and 34 of the FAA; taking into consideration relevant Treasury Board policies. If management decides that operating cost reviews are to be conducted with an audit or review level of assurance, then Canadian Institute of Chartered Accountants (CICA) standards are applicable as well;**
- **ensure that operating cost reviews are completed in a timely manner;**
- **ensure Head Office Finance is actively involved in monitoring the performance of operating cost reviews in accordance with approved procedures; and**
- **ensure employees who conduct and supervise operating cost reviews have the adequate training and proficiency to do so.**

Management Response:

Guidance and tools for conducting and documenting operating cost reviews is, in other words, the process for account verification and S34 FAA certification of payments. This process, for payments to health care facilities, is dependent upon VAC and each facility having a mutually clear understanding of the services being purchased/provided and the costing criteria to be used for the payment of those services. The development of guidelines for account verification and S34 FAA certification (operating cost reviews) will be informed by the budget process from R4. Guidelines for Section 33 officers already exist, but will be reviewed to ensure that there are no considerations unique to these payments that would require a different approach by the Section 33 officer.

The account verification guidelines will include recommended time lines.

Corporate Internal Control will carry out the Quality Assurance function (monitoring performance of operating cost reviews).

The complexity of the account verification process will guide the determination of the technical skills required to perform the verification process, but appropriate skill levels will be determined and resources assigned accordingly.

Management Action Plan:

Corrective Actions to be taken	OPI (Office of Primary Interest)	Target Date
a) The work to develop the budget development process will be contracted but will not be completed in 2009/10. The expected completion date is September 30, 2010. This will provide fairly detailed guidance to Regions as to negotiating budgets that would cover all the components required.	DG Finance in cooperation with DG Service Delivery Management	March 31, 2010
b) Initial guidelines will be developed for use in 2010/11 budget development process. These will be high-level and allow extreme flexibility at the regional level to adapt to the requirements of each individual facility, but will promote the identification of the services expected to be delivered.	DG Finance in cooperation with DG Service Delivery Management	March 31, 2011

2.4 Performance Management

In the audit team's opinion, the management controls, related to the funding agreements between VAC and CDHA, for performance management were not adequate for the following reasons:

- VAC Atlantic Region did not establish a performance measurement strategy. Performance targets and measures were developed for CHVMB Direct Nursing Care Services, approximately half of VAC's 2008/2009 budget for CHVMB, but were not measured since September 2007. For Food and Nutrition Services, the performance target focused on CHVMB occupancy and not the quality and cost of meals provided to clients. For the remaining budget elements, no performance targets or measures were set even though performance data was provided by CDHA. The audit team found additional performance data that CDHA indicated could be made available to VAC upon request. The long-term care client satisfaction survey and the long-term care facility questionnaire provided data related to client satisfaction and quality of service at CHVMB but there were no performance targets in place to evaluate this data; and

- The Director Quality Care Atlantic Region did not actively monitor CHVMB performance on a regular basis.

2.4.1 Performance Management Strategy

Findings

CHVMB VAC Approved Budget 2008-2009

The VAC Atlantic Regional staff established two performance targets in the CHVMB VAC Approved Budget 2008-2009. Under Direct Nursing Care Services, the performance target was the "hours of direct nursing care services per patient per day" for each of the five units of CHVMB. For Food and Nutrition Services, the performance target was 63,875 meal days based on a 100% occupancy rate at CHVMB. The VAC Atlantic Regional staff did not set any additional performance targets or measures for other budget elements.

Direct Nursing Care Services were $11,140,594 and equivalent to 51% of the CHVMB VAC Approved Budget 2008-2009. This represents a significant portion of the overall budget. The Director Quality Care Atlantic Region measured performance (hours of direct nursing care services per patient per day) using data from CDHA's workload measurement system. However, CDHA discontinued the use of this system in September 2007. Since then, the Director Quality Care Atlantic Region has not requested any replacement data from CDHA to measure the performance of Direct Nursing Care Services.
The Director Quality Care Atlantic Region based the performance targets on the information in 1992/1993 CORE program document adjusted to reflect current operations. However, these

targets did not reflect the current provincial staffing model or the proposed CHVMB model of care.

The performance target for Food and Nutrition Services (63,875 meal days) was measured based on actual CHVMB occupancy for the year. However, this was not an effective performance target as it did not measure the quality or cost of the meals actually provided or relate to client care.

The Director Quality Care Atlantic Region also calculated the "cost per bed day" sometimes referred to as the "per diem" based on the CHVMB VAC Approved Budget 2008-2009 ($341). It was used as a broad indicator of performance relative to the "cost per bed day" of other long-term care facilities under contract with VAC. The "cost per bed day" was not a useful performance indicator as it was based on budgeted amounts that were not validated by VAC to ensure due regard for economy, efficiency, and effectiveness (see Section 2.2 - CHVMB VAC Approved Budget 2008-2009).

Performance Data

CDHA provided the VAC Atlantic Regional staff with CHVMB performance data related to the budget (physiotherapy, occupational therapy, recreational therapy, social work, food and nutrition, and admission services) on a quarterly basis (with the exception of recreation therapy data which was provided upon request). CDHA also provided the CHVMB "indicator reports" on a quarterly basis. These reports provided performance measures related to the quality of service at CHVMB (e.g. # of skin breakouts, # of falls, # of medication errors, etc.) based on CDHA performance targets. The Director Quality Care Atlantic Region did not use this performance data to establish VAC performance targets and measures. Additional CHVMB performance data was available through the CDHA Statistical Information Centre and through CDHA Unit Managers but was not requested by the VAC Atlantic Regional staff. For example, the audit team found that the Geriatric Pharmacy had workload measurement data for CHVMB from their workload measurement system and CHVMB drug-utilization data.

Client Satisfaction Survey and Facility Questionnaire

VAC used the long-term care client satisfaction survey and the long-term care facility questionnaire to obtain a "general understanding of level of client satisfaction" and to obtain "an overall impression of the facility". In the Atlantic Region, the client satisfaction survey for CHVMB, was carried out by VAC Halifax District Office and the facility questionnaire was carried out by a VAC Nursing Officer. The client satisfaction survey was conducted annually but the facility questionnaire had not been completed since June 2007. These tools provided the VAC Director Quality Care Atlantic Region with data related to client satisfaction and quality of service at CHVMB. However, there were no performance targets and measures in place to evaluate this data.

Summary

The VAC Atlantic Regional staff had not established a performance measurement strategy. CDHA discontinued the use of their workload measurement system in September 2007 so the performance of Direct Nursing Care Services could not be measured. The performance target for Food and Nutrition Services focused on CHVMB occupancy instead of the quality and cost of meals provided to clients. The Director Quality Care Atlantic Region did not set any performance targets or measures for the remaining budget elements, even though performance data was provided by CDHA or could be made available upon request. The long-term care client satisfaction survey and the long-term care facility questionnaire provided the VAC Atlantic Regional staff with data related to client satisfaction and quality of service at CHVMB but there were no established performance targets in place to measure the data against.

2.4.2 Performance Monitoring

Findings

The Director Quality Care Atlantic Region, in support of the VAC National Director of Continuing Care Programs, was responsible for ensuring that value-for-money was received from CHVMB. The Atlantic Region staff did not develop a performance management strategy and did not actively monitor CHVMB performance in-year. The Director Quality Care Atlantic Region identified areas for investigation based on knowledge of CHVMB operations and on the operating cost reviews of CHVMB conducted by VAC Atlantic Region Finance staff.

On a monthly basis, CDHA monitored actual costs against budgeted costs and prepared a variance analysis based on their internal budget for CHVMB. However, VAC Atlantic Regional staff did not request this information to monitor CHVMB performance.

In July 2006, the VAC Audit and Evaluation Division completed an audit and evaluation of the Residential Care Program in the Ontario Region. However, during the period of this audit, they had not conducted an evaluation of the Residential Care Program at CHVMB.

Summary

The Director Quality Care Atlantic Region did not actively monitor CHVMB performance on a regular basis. The Director did identify areas for investigation based on knowledge of CHVMB operations and items identified as the result of the CHVMB VAC Operating Cost Review 2006-2007 conducted by VAC Atlantic Region Finance staff.

2.4.3 Performance Results Linked to Management & Staff Evaluations

Findings

Scope Limitation

The audit team was unable to access management and staff evaluations. Due to this limitation in scope, the audit team did not have sufficient information to conclude whether CHVMB performance results were linked to management and staff evaluations.

3. Distribution

Deputy Minister
Departmental Audit Committee Members
Chief of Staff to the Minister
Senior Assistant Deputy Minister, Policy, Programs and Partnerships Branch
Assistant Deputy Minister, Service Delivery and Commemoration Branch
Assistant Deputy Minister, Corporate Services Branch
Regional Director General, Atlantic
Director General, Departmental Secretariat and Policy Coordination
Director General, Communications Division
Director General, Human Resources Division
Director General, Finance Division
Director General, Policy and Research
Director, Health Care Programs
Deputy Coordinator, Access to Information and Privacy
General Counsel, Legal Services
Office of the Comptroller General
Principal, Office of the Auditor General
Program Analyst, Treasury Board of Canada Secretariat

Appendix A

AUDIT OBJECTIVES, RELEVANT CORE MANAGEMENT CONTROLS, AND AUDIT CRITERIA

The internal audit was planned, conducted, and reviewed to provide a high level of assurance, according to the Treasury Board Policy Suite for Internal Audit, on VAC's management controls for the Residential Care Program at CHVMB. The framework developed by the Office of the Comptroller General of Canada (OCG) for Core Management Controls was used as the audit focus. This framework summarized the core management controls that could reasonably be expected to be in place in all federal departments and agencies and also identified audit criteria that could be used to assess these controls. The following are the relevant Core Management Controls and Audit Criteria that were selected from the OCG framework for each audit objective.

Audit Objective 1(a):

1. Assess the adequacy of management controls related to the funding agreements between Capital District Health Authority and Veterans Affairs Canada for services provided at the Camp Hill Veterans Memorial Building to provide assurance:

    a) on the accountability structure surrounding VAC funding to CDHA **(Section 2.1)**;

Core Management Controls	Audit Criteria
Accountability Structure:	
AC-1. Authority, responsibility and accountability are clear and communicated.	a Responsibilities and performance expectations to which managers and supervisors are held accountable are formally defined and clearly communicated. Work descriptions and/or performance agreements should exist for this purpose and be up-to-date. b Employees' duties and control responsibilities are clearly defined. c Authority is formally delegated and delegated authority is aligned with individuals' responsibilities.

AC-2. Employees formally acknowledge their understanding and acceptance of their accountability.	a Regular performance discussions and/or employees periodic review of work descriptions ensure clear understanding of responsibilities and accountabilities. b A system is in place to formally acknowledge understanding and acceptance of accountabilities. c Supervisory personnel meet periodically with employees to review job performance and suggestions for improvement.
Policy and Programs:	
PP-3. Monitoring of policy and program design options occurs in a regular and timely manner.	a Monitoring is conducted on a regular basis and performance and financial results are documented and reported to the required management level. b Program evaluation activities are used to identify policy and program strengths, weaknesses and impacts (intended and unintended) as well as alternative ways of designing policies, programs and initiatives. c Senior management (decision-makers) are involved in a regular review of the results from consultation, research and analysis.

Audit Objective 1(b):

1. Assess the adequacy of management controls related to the Funding Agreements between Capital District Health Authority and Veterans Affairs Canada for services provided at the Camp Hill Veterans Memorial Building to provide assurance:
   b) on key financial management processes related to the Residential Care Program at the Camp Hill Veterans Memorial Building and the 2008/2009 approved budget with the CDHA **(Section 2.2)**;

Core Management Controls	Audit Criteria
Stewardship, Planning and Budgeting:	
ST-1. The activities, schedules and resources needed to achieve objectives have been integrated into the budget.	a A clear budget schedule is prepared and provided to key participants in advance of the budget process. b The line items of the budget can be clearly linked with organizational objectives.
ST-2. A formal process is in place to challenge the assumptions and related resource allocations within the budget.	a) Guidelines to assist with the preparation of the budget have been prepared and communicated to participants of the budget process. b) Guidelines include a requirement by participants to prepare support to budget submissions such as appropriate costing information, cost allocations, comparisons to historical amounts, projections going forward, underlying assumptions, etc. c) The budget schedule includes time to provide critical analysis of the proposed budget, including challenging underlying assumptions underpinning proposed budgets amounts. d) Assumptions and related resource allocations and costing practices used to prepare the budget are challenged and decisions resulting from this challenge process are documented.

ST-3. A timely budget is developed at the appropriate level of detail.	a The budget is established in advance of the operating period or shortly thereafter (not more than 2 months after commencement) b The budget can be disaggregated such that individuals with budget authority and responsibility are clearly aware of their budget amount. c Budgets are at an appropriate level of detail for each management level.
ST-4. Forecasts are monitored on a regular basis.	a Reporting of actual results compared to budgeted amounts is available on a periodic basis to permit individuals with budget authority and responsibility to monitor their budget and forecast progress against organizational objectives and facilitate decision-making such as reallocation of resources. b Individuals with budget authority and responsibility are involved with decisions to change budget allocations. c Significant variances from budget are identified and explained.
Stewardship, Financial Management Policies:	
ST-5. Financial management policies and authorities are established and communicated.	a Financial management policies are maintained by the organization or reliance on Treasury Board policies are referenced. b Effective communication of financial management policies is carried out (e.g., policies available on organization's intranet, published policies or reference to TB policies via email or other correspondence). c Financial policies and authorities are known and understood by personnel.

ST-6. Financial management policies and authorities are reviewed regularly and revised, as required.	a There is capacity and capability to identify, respect, enforce and monitor adherence to central agency policies. b Responsibility for review and revision to financial management policies and authorities is clear and communicated via work descriptions, organization charts, division or branch mandates, etc. This responsibility is known, understood, and applied accordingly. c Evidence of regular review and/or revision exists (e.g., recently revised policies, decision memoranda noting policies considered and resulting decision to revise or not). d The required authority level approves policy and authority revisions.
ST-7. Compliance with financial management laws, policies and authorities is monitored regularly.	a Responsibility for monitoring of compliance with financial management laws, policies and authorities is clear and communicated via work descriptions, organization charts, division or branch mandates, etc. This responsibility is applied accordingly. This monitoring is documented and reported to management. b Senior management monitors the resulting reporting of compliance. c Reporting to the oversight body includes a clear statement that compliance has been maintained or breaches noted.

Audit Objective 1(c):

1. Assess the adequacy of management controls related to the Funding Agreements between Capital District Health Authority and Veterans Affairs Canada for services provided at the Camp Hill Veterans Memorial Building to provide assurance:
   c) on policies and procedures in place to ensure that VAC is delivering the Residential Care Program in accordance with The Nova Scotia Master Agreement, the Memorandum of Understanding between VAC and the Camp Hill Veterans Memorial Building and the Veterans Health Care Regulations;

In order to satisfy this audit objective, ASC will assess the adequacy of the 2006/2007 Operational Review conducted by VAC to ensure the following key management controls exist and are verified as part of the Operational Review **(Section 2.3)**:

Core Management Controls	Audit Criteria
Stewardship, Reporting:	
ST-22. Management has established processes to identify, solicit, evaluate and manage third party contracts.	a The processes in place adhere to relevant legislative and regulatory requirements and TBS policies, and are in line with the organization's values, ethics and codes of conduct. b The processes are understood and are complied with. c For services delivered by third parties, management has implemented a program to monitor their activities.
Stewardship, Transaction Processing:	
ST-10. Transactions are coded and recorded accurately and in a timely manner to support accurate and timely information processing.	a Financial transactions are coded and processed in an efficient and timely manner, including for example: "clearing accounts are not more than one month in arrears; “A/R and A/P aged reports are monitored; "payments and receipts are processed within 5 business days; and "sub-ledgers are reconciled monthly. b Controls are in place to ensure accuracy of transaction coding and processing (e.g., batch totals, reconciliations, supervisory review, management approval, etc.)

ST-11. Appropriate system application controls exist.	a	Logical access controls exist to ensure access to systems, data and programs, is restricted to authorized users, e.g., systems require users to logon using unique user name and password.
	b	Procedures exist and are applied in order to keep authentication and access mechanisms effective.
ST-12. Records and information are maintained in accordance with laws and regulations.	a	Accounting records and information are maintained in accordance with generally accepted accounting principles as well as government laws and regulations.
	b	Responsibility for monitoring the management of information is clearly assigned.
ST-13. There is appropriate segregation of duties.	a	Individuals responsible for initiation of (*FAA* section 32 - commitment) and/or approval for payment for (*FAA* section 34) transactions must not be the same individual responsible for payment (*FAA* section 33 - requisition).
	b	Incompatible functions must not be combined.
Stewardship, Monitoring:		
ST-14. Assets and records are periodically verified.	a	The requirement to compare assets and records is documented.
	b	Responsibility to compare assets and records is known and understood, and is applied.
	c	Comparisons are reviewed by a superior and discrepancies are followed up on a timely basis.
ST-15. Reviews are conducted to analyze, compare and explain financial variances between actual and plan.	a	The requirement to compare and explain variances is documented.
	b	Responsibility to compare and explain variance is known and understood and applied accordingly.
	c	Management reviews variance reporting prepared.
ST-16. Management compares results achieved against expectations, on a periodic basis.	a	Evidence of management review exists (e.g., sign off).
	b	Management review is on-going and is timely.

ST-17. Management reallocates resources to facilitate the achievement of objectives/results.	a Management review results in decision-making that impacts on the delivery of the program. b Reallocation of resources is supported.

Audit Objective 1(d):

- Assess the adequacy of management controls related to the Funding Agreements between Capital District Health Authority and Veterans Affairs Canada for services provided at the Camp Hill Veterans Memorial Building to provide assurance:
  d) on performance management **(Section 2.4)**.

Core Management Controls	Audit Criteria
RP-2. Management has identified appropriate performance measures linked to planned results.	a Planned results are achievable and measurable. b Performance measurement strategies are in place and are applied for new or renewed policies, programs or initiatives. c Performance measures are reviewed on a periodic basis and updated as required.
RP-3. Management monitors actual performance against planned results and adjusts course as needed.	a Responsibility for monitoring and updating performance measures is clear and communicated. b Management has established a capable and adequate evaluation function that conducts its activities in accordance with TBS policy and sound professional standards. c Results of performance measurement are documented, are reported to required authority levels (according to established reporting requirements) and factor into decision-making. d Active monitoring is demonstrated.
RP-4. Performance results are linked to management and staff evaluations	a Annual staff evaluations (at an appropriate level) include consideration for performance results. b Achievement or not, of performance results directly play a part in the assessment of staff (at an appropriate level).

Appendix B

INTERVIEWS CONDUCTED

The following individuals were interviewed during this engagement:

- Carlos Lourenso, Director, Continuing Care Programs, VAC Head Office
- Krista Locke, Regional Director General, VAC Atlantic
- Helen Jobes, Assistant Regional Director General, VAC Atlantic
- Bill Jobes, Regional Director Corporate Services, VAC Atlantic
- Ginnie Rutledge, Acting Regional Residential Care Specialist, VAC Atlantic
- Simone Thomas, Regional Manager Finance, VAC Atlantic
- Jeanie Keane, Director Quality Care, VAC Atlantic
- Paul Brown, District Director, VAC Halifax District Office
- Laurel Ross, Technical Pharmacy Manager, QEII CDHA
- Anne Hiltz, Director, Pharmacy, QEII CDHA
- Elsie Rolls, Director, Veterans Services, QEII CDHA
- Ian Watchman, Chief Corporate Internal Control, VAC Head Office
- Peter Clark, Legal Services, VAC Head Office
- Don MacRae, Financial Control Unit, Finance Division, VAC Head Office
- Wendy MacKinnon, Acting Associate DG, Finance Division, VAC Head Office
- Shoba Hariharan, Audit and Evaluation Officer, VAC Head Office
- Jim Matheson, Health Services Finance Coordinator, QEII CDHA
- Catherine Doherty, Clinical Pharmacy Manager, QEII CDHA
- Lisa Jessome-McCarthy, Client Service Team Manager, VAC Halifax District Office
- Leigh Anderson, Client Service Manager, VAC Halifax District Office
- Carol Moore, Area Counselor, VAC Halifax District Office
- Marian Stauch-Kennedy, District Office Nurse, VAC Halifax District Office
- Brian Cox, Plant Supervisor, QEII CDHA