

Governance and financial management review of the Yukon Hospital Corporation

October 2023

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Executive summary

The Government of Yukon (YG) has initiated this review to identify opportunities to improve governance, financial management and internal controls within the Yukon Hospital Corporation (YHC) and between the YHC, the YG, and the Department of Health and Social Service (HSS, or "the Department").

The YHC is established under the Hospital Act (RSY 2022, c.111), operates at an arms-length from government and reports to a Board of Directors. It is responsible for managing delivery and operations of hospital facilities and hospital-based care in the Yukon. The YHC works with HSS and is primarily funded by the Government of Yukon (YG). YG funding for YHC is approved by Management Board (MB) based on requests made by HSS on behalf of the YHC. Development of budget requests to MB are led by the Strategic Finance, Corporate Services Division of HSS who work to find a balance between meeting the needs of the YHC and balancing other Department-wide financial pressures.

Impacts of the COVID-19 pandemic

The YHC had been experiencing increasing operational demands and financial pressures in the years leading up to, and then exacerbated by, the COVID-19 pandemic. During this period, the YHC was provided supplemental COVID funding which provided the necessary funds to continue to operate and meet the demands on services; however, this funding ended in FY23.

Recent use of capital funding for operational expenses

The YHC received capital funding to establish a Mental Wellness Unit (MWU) in FY23. Recently, the YHC utilized \$7.3M from this capital funding for operational purposes despite being outlined in the funding agreement that it was exclusively for the purpose of undertaking and completing the new MWU. HSS noted that they were not notified and did not provide approval for the transfer of capital funds to meet operational needs. We did not observe any formal written notification from the YHC to HSS that capital funds were used to meet operating expenses at the time of its occurrence. This use of capital funds for operating purposes was also noted in the 2023 audited financial statements. As this situation gave rise to this report it has not been noted as a finding. This report focuses on identifying root causes and making recommendations related to enhanced governance, controls, and communication that will help prevent this from happening in the future.

Implementing a new health authority

The YG seeks to transform the future of the health system in the territory by building a new health delivery organization, Health & Wellness Yukon (H&WY), which will take the role of a territorial health authority governed by the HSS. This organization will include the YHC as well as other service delivery areas, increasing both the budget and the risks to be managed. Recommendations within are made with this transformation in mind, both in the opportunity to design new controls and frameworks, as well as the increased need to proactively manage risk.

Findings and recommendations

There are several root causes that led the YHC to utilize capital funds for operations in FY23. First, the external operating environment, including a strong inflationary environment and resulting impacts to costs. This was coupled with the lack of a clearly defined escalation protocol or accountability framework which impacted both the YG and the YHC's ability to have a coordinated approach to manage these increasing cost pressures and the resulting deficit. While the deficit was discussed, neither the discussion nor decisions related to the matter were documented. Interviews with stakeholders revealed there was a lack of understanding on the implications of the budget shortfall and how it would be mitigated.

The recommendations in this report focus on addressing the root causes which are within the control of the YG and the YHC. While the parties cannot influence the challenging macroeconomic environment, they can work together to improve the transparency and efficiency of the governance and financial management processes as they work towards improving the health outcomes for the citizens of the Yukon.

The findings and recommendations are outlined with greater supporting detail throughout the report but are summarized in the table below. They have been organized into three thematic areas:

- Governance
- Planning, budgeting, and forecasting, and
- Internal controls.

Findings	Recommendations
Governance	
1. The multiple agreements used to fund O&M create confusion with the breakdown of sub-categories which are not aligned to reporting or delivery requirements.	1-1. The Yukon Government should consider providing all funding for O&M expenses under one core funding agreement to reduce confusion and unnecessary administration.
	1-2. The core funding agreement should also include escalation procedures if the YHC is approaching a cashflow shortage where it may be unable to meet financial commitments. Escalation protocols should include timelines in which government would need to know in advance to effectively work together with the YHC to come up with a solution.
	<p>1-3. The YG and the YHC should implement an accountability framework tied to the core funding package. This could build on the YHC's balanced scorecard reporting including associated metrics such as volumes or target wait times which are mutually agreed upon by the YHC and the YG and should be included in reporting requirements to the YG.</p> <p>This should be completed by aligning strategic priorities for the YG (for example, identified within Putting People First) and for the YHC (for example, identified within the YHC strategic plan) with clearly identified pillars for success, outcomes, and metrics. This kind of accountability or reporting framework will support government funding being directed towards government priorities, but it will also provide the YHC with support in preparing funding requests or variance packages as there will be a baseline operational standard to report against.</p> <p>For example, the YG could outline volume measurements or service delivery standards within the core funding package to be achieved. External factors outside of the control of the YHC (such as increased demand of services due to an aging population) would allow the YHC to request additional funding with clear impacts identified and would provide the YG with the health outcomes they require.</p> <p>This recommendation could heavily leverage all or parts of the balanced scorecard already created by the YHC and reported to its Board quarterly. The scorecard includes identification of the strategic pillar being measured, defined indicators, target value or outcome, quarterly reporting on results, fiscal year-to-date reporting, and overall result.</p> <p>Leveraging the YHC balanced scorecard as a starting point, some key considerations for broader implementation should include</p>

	<p>alignment with YG priorities, applying a threshold of acceptability to account for the complex nature of operations, and an annual process that supports collaboration between the YG and the YHC to update outcomes and metrics, review trend analysis and target values, and refine escalation procedures if targets are met, unmet, or exceeded.</p> <p>Best practice in reporting would allow for a breakdown by different dimensions to support root cause analysis or lessons learned from successes. For the YHC, this could include, for example, metrics by hospital location, or patient demographics.</p>
2. Although the YHC Executive Team informed the Executive Committee of the Board and HSS of financial pressures, they did not formally raise or seek approval from the Executive Committee or HSS to use capital funds to meet operational needs prior to doing so.	<p>2-1. The Steering Committee for the MWU should make allowances to send a pre-approved delegated participant for members unable to attend meetings to ensure all stakeholder organizations are kept abreast of critical risk and progress reporting on the project. This should be documented in the committee Terms of Reference or project governance documentation.</p> <p>2-2. Any reallocation of funds outside of their intended use should be communicated in writing and the approval should be documented prior to occurrence.</p>
Planning, budgeting, and forecasting	
3. The operational cost baseline is out of date and does not incorporate O&M from all funding agreements, supplementary agreements (COVID funding), and current cost pressures.	3-1. The YHC and the YG should jointly conduct an operational expense baseline exercise. This should be completed with consideration to the accountability framework discussed in recommendation 1-3 to tie operational costs to volumes, outcomes or capacity delivered.
4. Capital maintenance is funded from the core O&M funding envelope. The current \$1M budget for capital maintenance does not tie into the YHC's current capital asset base or Capital Plan.	4-1. The YHC should create a capital maintenance plan and update annually based on forecasted maintenance required and budget planning. The Capital Maintenance Plan should include a governance process should decisions arise related to deferring capital maintenance to fund operations. HSS should consider funding through a separate agreement, restricting funds for intended capital maintenance activities.
Internal controls	
5. Accounting procedures do not account for draw down of capital when used for other purposes.	5-1. The YHC should establish accounting procedures which will accurately represent funds available for capital projects and allow reconciliation between funds received and assets built. For example, introducing a contra-account to reflect capital funds which have been committed to other purposes, such that the overall capital funds available reported in the financial statements reflects the actual funds available for that purpose.

Introduction

The YHC is a corporation responsible for managing delivery and operations of hospital facilities and hospital-based care in the Yukon established by *The Hospital Act* and is governed by appointed members that form the board of trustees. The YHC is comprised of three Yukon Hospitals: Whitehorse General Hospital; Dawson City Community Hospital; and Watson Lake Community Hospital. Although the YHC is an independently established entity, it receives over 80% of its operating funding from the Government of Yukon, through the HSS. HSS is responsible for the administration, oversight, and policy development for healthcare in the Yukon territory, and this contribution to the YHC is subject to reporting requirements outlined in funding agreements between them. Additional capital funding is provided to the YHC through separate, project-based funding agreements.

A current priority capital project for both parties is the building of a Mental Wellness Unit (MWU). This project was approved in 2021 with total project funding (as of March 2023) of \$27.7M for the YHC to complete the project.

The Government of Yukon has initiated this review to identify opportunities to improve governance, financial management and internal controls within the YHC and between the YHC, the YG, and HSS.

Scope and approach

Under direction of the Yukon, EY:

- ▶ Reviewed current state financial management processes, oversight and decision-making mechanisms, controls, and policies.
- ▶ Evaluated and assessed against best practices and common risks and conducted a gap analysis.
- ▶ Defined key finding areas and recommendations for the future state. Recommendations focused on addressing any short-term risks and improving in-scope policies, processes, and controls which align to the future state objectives for the organization. Recommendations considered the role of the YG as well as the YHC.
- ▶ Assessed the capacity of the YHC to address past and current operational shortfalls.

Scope included (for capital project, and operational spending):

- ▶ Financial governance and decision making
- ▶ Planning, budgeting, and forecasting
- ▶ Design of key controls related to financial management
- ▶ Financial reporting (excluding audited financial statements).

The bulk of the review took place in July of 2023 with a focus on controls in place in fiscal 2023. Findings identified within focus on key risk areas and recommendations are geared toward managing any short-term risk and informing future state financial governance process and control design. This report was prepared for the Yukon Government and is advisory in nature, consisting of stakeholder interviews and document review. The intention of this engagement was to identify root causes and assess high-level risk and does not constitute an audit, financial or otherwise, under the standards of the Chartered Professional Accountants of Canada or any other body.

Background and context

The YHC is established under the Hospital Act and is responsible for managing delivery and operations of Government of Yukon (YG). YG funding for YHC is approved by Management Board (MB) based on requests made by HSS on behalf of the YHC. Development of budget requests to MB are led by the Strategic Finance, Corporate Services Division of HSS who work to find a balance between meeting the needs of the YHC and ensuring requests are reasonable given other Department-wide financial pressures.

The communication and collaboration between Strategic Finance, Corporate Services Division of HSS and Finance at YHC is critical to ensure that HSS understands the drivers that are impacting the financial pressures faced by the Corporation. During this review, stakeholders from both HSS and the YHC acknowledged that lack of continuity in HSS staff over the last five to ten years coupled with the absence of a clearly documented, and consistently applied approach to the budgeting and reporting process have led to challenges in working effectively through the process. Both parties also acknowledged that the teams currently in place are working to, and have a significantly improved, the frequency and transparency of communications.

Impacts of the COVID-19 pandemic

The YHC had been experiencing increasing operational demands and financial pressures in the years leading up to, and then exacerbated by, the COVID-19 pandemic. During this period, the YHC was provided with a supplemental funding agreement which provided \$4.3M for “pandemic related funding needs due to COVID”. An amendment was later made on March 17, 2022, to further increase COVID funding by \$1.5M to a total of \$5.8M for fiscal year 2022. The COVID funding agreement does not provide specifics to the pandemic related costs that were being funded, only that it was to assist in managing the impact of increased operating costs impacted by COVID which were typically not funded by the Yukon Government. These funds were used to balance out deficits from costs incurred from base operations. As such, COVID funding provided the necessary funds to continue to operate and meet the demands on services; however, this also meant that the need to address any underlying structural deficit was obscured.

Recent use of capital funding for operational expenses

Recently, the YHC utilized \$7.3M in capital funding received to establish a Mental Wellness Unit for operational purposes, despite being outlined in the funding agreement that it was exclusively for the purpose of undertaking and completing the MWU. In discussions with stakeholders from both the YHC and HSS, it was noted that these capital funds were used for operations as the YHC was facing a deficit and was at risk of not meeting payroll and operations obligations. HSS noted that they were not notified and did not provide approval for the transfer of capital funds to meet operational needs. This use of capital funds for operating purposes was also noted in the 2023 audited financial statements.

As this was a known occurrence which gave rise to this report it has not been noted as a finding. This report focuses on identifying root causes and making recommendations related to enhanced governance, controls, and communication that would help prevent this from happening in the future.

Implementing a new health authority

The YG seeks to transform the future of the health system in the territory by building a new health delivery organization, Health & Wellness Yukon (H&WY), which will take the role of a territorial health authority governed by the HSS. Historically, HSS has had service delivery responsibilities such as continuing care, primary care, and community care. In the future model, the role of HSS will shift to have a much greater emphasis on planning, oversight, accountability, and coordination, shifting current service delivery responsibilities to the health authority. To shift from overseeing a ~\$80M hospital corporation to a ~\$300M health authority effectively, it will be critical that the Department have a clear understanding of the specific functions it will be responsible for, as well as areas where it will need to build additional capacity to deliver those functions.

In planning for the future health authority, accountability will be key. This will include a redefined financial planning framework, coordinated policies and controls that align the two organizations and an accountabilities framework, clearly outlining escalation measures, reporting requirements, and service expectations. The

establishment of a health authority is a health-system wide transformation that provides significant opportunity to learn from current state challenges and proactively manage risks in the new organization.

The recommendations within are drafted with the future health authority in mind, both in the opportunity to design new controls and frameworks, as well as with the increased need to proactively manage risk.

Findings and recommendations

Findings and recommendations have been outlined below and organized into three thematic areas:

- ▶ Governance
- ▶ Planning, budgeting, and forecasting, and
- ▶ Internal controls

Governance

Funding agreements

The YHC receives over 80% of its funding from the Government of Yukon, through HSS. This funding comes in the form of multiple agreements covering operations and maintenance (O&M) and capital projects. YHC's Core Funding Agreement with HSS is the primary vehicle in which it receives funds for O&M. In addition to the Core Funding Agreement, EY noted that additional agreements were established to fund other O&M costs such as ophthalmology, COVID, and Meditech.

The core operational funding agreement states that the "YHC will use the funds provided by the Department in accordance with the Agreement and for the programs, services or operations outlined in this Agreement and its attached Schedules". As part of this agreement, the YHC is required to provide the Department with 1) detailed quarterly financial reports and/or metrics as agreed upon during the 2022/2023 fiscal year; and 2) audits in a manner and form acceptable to the Department.

EY noted that Schedule A of the Core Funding Agreement further breaks down funding for O&M into multiple areas (Orthopedics, Ophthalmology, MRI maintenance) separate from core funding. Further, some O&M expenditures are funded via separate agreements (FIT, MoreOB, Ophthalmology, Security). As this is all O&M and is not a time-bound expense, this separation of O&M costs creates the potential for confusion as it does not align with performance or activity reporting by the YHC. EY noted that the reporting requirements in the Agreement did not include any form of required performance or activity reporting (such as wait times, number of emergency visits, imaging visits, lab visits, surgeries performed, spend by funded category, etc.). Additionally, discussions with stakeholders indicated that there are no clearly articulated service standards associated with core funding.

The YHC and HSS have separate funding agreements for the execution of approved capital projects such as the Mental Wellness Unit. These Agreements identify multiyear funding available for the project and require specific reporting requirements to HSS, different from reporting under the Core Funding Agreement. HSS is in the process of developing an updated Funding Agreement for the MWU project that will provide YHC with the \$27.7M required to complete construction. This Agreement identifies financial and project reporting requirements as well as provides an explicit list of eligible and ineligible expenses.

Governance processes

The budget process requirement for the YG is governed by the Financial Administration Manual (FAM). The FAM outlines the government's financial processes and provides direction to various Departments and Agencies on financial policies and procedures, including HSS. In accordance with the FAM, HSS is responsible for working with the YHC to gather inputs required for preparation and submission of the Main and Supplementary Estimates to the MB. Any transfers approved to move budgeted amounts within or into/out of contribution agreements must also be recorded in writing.

If HSS requires a budget revision, they can do so by preparing an individual MB submission or by requesting funding during one of two variance exercises. Variance exercise reports compare forecasts of annual expenditures, recoveries, and revenues to voted (budgeted) amounts to identify, for Management Board's consideration, potentially significant variances between the budgeted amounts and the projected amounts. Variances usually result from unforeseen changes in volumes or costs, changes to project implementation timelines, changes to mandates or objectives of programs, and new initiatives.

YG funding for YHC is approved by Management Board (MB) based on requests made by HSS on behalf of the YHC. As such, it is critical that HSS work closely with the YHC to rigorously review requests and understand the financial pressures of the Hospital. The CFO, YHC works with the Executive Team to manage budget variance, identify new pressures, and needs as they arise. The Executive Committee of the Board

provides oversight and is informed related to matters of financial audits, budget setting, and cost variances to O&M. EY noted that the Executive Committee was informed that the YHC was in an operating deficit and was informed of the pressures that were the cause, as well as the measures being taken to manage increasing costs.

The YHC has a strategic plan and balanced scorecard with defined metrics in place that are reported on quarterly internally to the YHC leadership team and the Executive Committee of the Board. Each of the key strategic focus areas have indicators and targets for these metrics.



Finding	Impact
1. The multiple agreements used to fund O&M create confusion with the breakdown of sub-categories which are not aligned to reporting or delivery requirements.	<p>Formal agreements should support enhanced governance procedures. Lack of clarity in these agreements does not provide the foundation on which to build reliable, well documented and understood governance procedures.</p> <p>The absence of clearly articulated health outcomes and associated performance reporting results in a system where there is no understanding of the impact that changes in funding have on the health care system and limited escalation procedures in place for both the YG and the YHC to define mutual accountability.</p>

Recommendations

- 1-1. The Yukon Government should consider providing all funding for O&M expenses under one core funding agreement to reduce confusion and unnecessary administration.
- 1-2. The core funding agreement should also include escalation procedures if the YHC is approaching a cashflow shortage where it may be unable to meet financial commitments. Escalation protocols should include timelines in which government would need to know in advance to effectively work together with the YHC to come up with a solution.
- 1-3. The YG and the YHC should implement an accountability framework tied to the core funding package. This could build on the YHC's balanced scorecard reporting including associated metrics such as volumes or target wait times which are mutually agreed upon by the YHC and the YG and should be included in reporting requirements to the YG.

This should be completed by aligning strategic priorities for the YG (for example, identified within Putting People First) and for the YHC (for example, identified within the YHC strategic plan) with clearly identified pillars for success, outcomes, and metrics. This kind of accountability or reporting framework will support government funding being directed towards government priorities, but it will also provide the YHC with support in preparing funding requests or variance packages as there will be a baseline operational standard to report against.

For example, the YG could outline volume measurements or service delivery standards within the core funding package to be achieved. External factors outside of the control of the YHC (such as increased demand of services due to an aging population) would allow the YHC to request additional funding with clear impacts identified and would provide the YG with the health outcomes they require.

This recommendation could heavily leverage all or parts of the balanced scorecard already created by the YHC and reported to its Board quarterly. The scorecard includes identification of the strategic pillar being measured, defined indicators, target value or outcome, quarterly reporting on results, fiscal year-to-date reporting, and overall result.

Leveraging the YHC balanced scorecard as a starting point, some key considerations for broader implementation should include alignment with YG priorities, applying a threshold of acceptability to account for the complex nature of operations, and an annual process that supports collaboration between the YG and the YHC to update outcomes and metrics, review trend analysis and target values, and refine escalation procedures if targets are met, unmet, or exceeded.

Best practice in reporting would allow for a breakdown by different dimensions to support root cause analysis or lessons learned from successes. For the YHC, this could include, for example, metrics by hospital location, or patient demographics.

Governance of the Mental Wellness Unit project

The MWU project (previously called the Secure Medical Unit project) is considered a capital project and is funded through a separate agreement between the YHC and HSS. This agreement specifies that “the funds shall be allocated and used solely for the planning and construction of the Secure Medical Unit.” The agreement also requires the YHC to provide the Department with quarterly progress reporting and other supporting documentation as requested. The project is led by a Project Director who reports to the Project Sponsor. Both are members of the MWU Project Steering Committee.

The Project Steering Committee meets monthly and is comprised of members internal and external to the YHC. A review of the Project Steering Committee minutes show that the Committee is discussing project progress, key milestones, budget performance, risks, issues and recommended solutions and mitigations as set out by the Project Charter. EY noted that although the YG is represented by a member of HSS on the Steering Committee, participation at these monthly meetings is inconsistent.

Overall, the MWU project updates to the Executive Committee of the Board include project progress, key milestones, budget performance, risks, issues, and mitigations. EY noted that these updates included discussions on project cost escalations. In memos regarding the MWU delivered to the Executive Committee, it is noted that project revenue is considered restricted funds; however, it is not acknowledged that these funds in part had been used to cover operational expenses.

Minutes reviewed show that the YHC administration was keeping the Executive Committee of the Board informed related to matters of financial audits, budget setting, and cost variances to O&M. In particular, the Executive Committee was informed that the YHC was in an operating deficit and the pressures causing the deficit, as well as the measures being taken to manage increasing costs. They were also informed regarding discussions with the Government to seek additional funding. Minutes reviewed for the Executive Committee did not include any formal decision or approval to use restricted funds for the MWU to cover operating costs.

Similarly, interviews with key stakeholders revealed that HSS was notified of financial pressures to meeting operational needs, but we did not observe any formal written notification from the YHC to HSS that capital funds were used to meet operating expenses at the time of its occurrence. In summary, while the situation that gave rise to the use of capital funds for operations was communicated across all levels of governance, how the YHC funded this deficit was not explicitly acknowledged, and documentation of the discussion and resulting decisions was not completed.



Finding	Impact
2. Although the YHC Executive Team informed the Executive Committee of the Board and HSS of financial pressures, they did not formally raise or seek approval from the Executive Committee or HSS to use capital funds to meet operational needs prior to doing so.	Non-compliance with funding agreement terms. Increased potential that funds required to execute the capital project in accordance with the schedule or pay vendors as expected will not be available.

Recommendations

- 2-1. The Steering Committee for the MWU should make allowances to send a pre-approved delegated participant for members unable to attend meetings to ensure all stakeholder organizations are kept abreast of critical risk and progress reporting on the project. This should be documented in the committee Terms of Reference or project governance documentation.
- 2-2. Any reallocation of funds outside of their intended use should be communicated in writing and the approval should be documented prior to occurrence.

Planning, budgeting, and forecasting

The planning and budgeting processes are crucial to the economic viability of any organization and is a necessary tool to determine the funds needed to meet objectives, especially as the YHC is a not-for-profit organization and relies on the YG for over 80% of its revenue.

Financial health

We note that the YHC has been under financial strain, which has caused the use of unusual measures to stay financially viable. To pay all creditors, the YHC has traditionally grown their accounts payable (AP) balance toward year-end and settled the accrued payables in the following fiscal year with the next year's funding. In addition, as previously noted, in FY2023 the YHC used restricted capital funds to cover operating costs.

To assess the severity of financial strain, we reviewed the past four years of financial statements, calculated key liquidity ratios, and compared the ratios to other comparable hospital organizations in Canada. We identified the publicly available financial information of five hospital organizations¹ that operate in Ontario which are somewhat comparable to the operations of the YHC. While they are in Ontario, we selected only those hospital organizations which operate outside of major metropolitan areas and are of a comparable size in terms of revenue to the YHC. We recognize there is no perfect benchmark for the YHC, however this analysis provides some directional guidance.

From our review of the YHC's financial statements we noted a very low current ratio (excluding restricted cash) of 0.36 at the end of FY2023. The current ratio indicates the YHC's ability to settle its short-term debts/obligations with its short term, or readily available assets; a ratio below 1.0 indicates a lack of ability to do so, which is anecdotally supported by use of capital funds for operating expenses. The comparable organizations, meanwhile, had a median current ratio (excluding restricted cash) of 1.01.

¹ Grey Bruce Heath Services, Queensway Carleton Hospital, Sault Area Hospital, St. Mary's General Hospital and Orillia Soldiers' Memorial Hospital.

We also benchmarked the YHC's working capital (exclusive of cash) as a percentage of revenue to the comparable Hospitals. The comparable organizations had a range of negative 3.7% to positive 9.7% working capital as a percentage of revenue and a median of 0.55%. We noted the YHC's metric to be negative 26.6%, far outside the comparable range.

It is clear from the analysis that steps need to be taken collaboratively to address the YHC's chronic cash flow and operating shortfall. The current submission in front of MB will address the most pressing need but will not address the financial metrics noted above.

Financial processes

As outlined by the YHC's Corporate Policy Manual (Section F1-10 Budget Development & Approval), and discussions with key staff, the YHC initiates the budgeting process by developing a planning schedule which is issued to all department managers with key dates clearly communicated. Discussions are then held between the Financial Analyst and the department managers to understand underlying assumptions of the budget submitted. The CFO reviews the submissions before they are integrated into the YHC Operating Budget. It was observed that the development of the budget is largely manual and there is a desire to have a more automated process especially as it relates to payroll.

Once complete, the budgets are submitted to the Director - Strategic Finance, HSS for review and the Executive Committee of the Board for review and approval before finalized for submission by HSS to MB for final funding approval.

EY observed that the budgeting and approval processes between HSS and the YHC are continuing to improve and evolve with the current teams in place. However, we did not observe a clearly defined and documented process for the two teams. This includes lack of documented processes for notification to communicate whether requests were approved, timelines for these notifications, escalation procedures, templates for submitting budget requests and variance reports, and approaches for considering and incorporating new O&M costs into core funding calculations.

In discussions with stakeholders from both HSS and the YHC, it was acknowledged that lack of continuity in HSS staff over the last five to ten years coupled with the lack of clearly documented, and consistently applied approach to the budgeting and reporting process has led to challenges in working effectively through the process. Both parties also acknowledged that the teams currently in place are working towards and have developed an improved relationship with more transparent communications where they can better understand each other's pain points and pressures. As part of the ongoing discussions between HSS and YHC, the Director - Strategic Finance, HSS and CFO, YHC currently meet on a bi-weekly basis to ensure open and regular communications on issues as they arise and properly prepare for budgets and supplementary requests as required. Given the inherently high risk of staff turnover, it is even more critical for there to be a more clearly documented process for reporting and communications between the YHC and HSS, and how HSS communicates back to MB.

Historically, budgets submitted by the YHC and HSS to Management Board are subject to a closed-door review. Meeting minutes are subsequently shared to HSS, and the HSS representative or liaison will communicate to the Hospital what was approved and what was not. The YHC indicated, in instances where a budget request was not approved, there has been limited communication as to what specifically was not approved and the rationale for not approving the request. Without a clear accountability framework or outcomes tied to the approved funding, there is lack of clarity or direction for the YHC on where spending should be prioritized when funding provided cannot cover all planned costs.

In reviewing the budget for FY23, EY noted that the YHC Mains submitted for FY23 were given a 3.5% inflationary increase over the FY22 actuals. However, this increase was insufficient to meet the YHC's operating needs. In December 2022, a supplementary submission was approved to provide increased core funding, totaling \$88.2M for FY 2023, up from \$84M to address a shortfall in base funding. There are several causes that contribute to insufficient base funding. These include, but are not limited to the following:

- ▶ As noted earlier, funding for O&M is broken up across several agreements thus creating a fragmented view of the total base costs for the YHC's operations.

- ▶ Inflationary increases are applied to the amounts in the Core Funding Agreement but not to other agreements covering O&M costs.
- ▶ COVID funding was available to meet deficits from base operational costs; however, the structural deficit has deepened year over year without the thorough yearly update.

There was also no observed link between core funding provided and the balanced scorecard metrics targeted and tracked internally. To date, there has been limited discussions on service level targets between the YHC and HSS and as such discussions related to the impact of decreased budgets are being held in isolation without consideration of the direct impact to services across critical areas.

Budget monitoring and forecasting

Department budget monitoring occurs through internal discussions monthly and include key operational metrics, key performance indicators (KPIs) and financial summaries. Quarterly budgeting reports are prepared and presented to the Board including (for example):

- ▶ Corporate services division report
- ▶ Allied health programs division operational report
- ▶ Nursing division operational report
- ▶ People service & culture operational report
- ▶ D-1 Yukon Hospital Corporation Financial Reporting

The above reports each present dashboard type tables to highlight positive and negative variance YTD. At a consolidated level, the YHC Draft Financial Report presents the financial statement budget to actual information and supporting notes for revenue and expense drivers. In situations where the expenses are projected to be more than budgeted, the CFO brings these items to the attention to the Board.

The budget monitoring and forecasting processes within the YHC, despite being manual and time consuming, are reasonable in their approach to managing and mitigating risk. However, the budget leverages the existing approved operational budget as a baseline to build from, resulting in inaccurate budget forecast outputs, and ultimately a year-over-year deficit situation.



Finding

3. The operational cost baseline is out of date and does not incorporate O&M from all funding agreements, supplementary agreements (COVID funding), and current cost pressures.

Impact

The cashflow management approach has become one where all available funds regardless of their intended purpose are used to continue operations due to an ongoing deficit and lack of funding.

The deficit has deepened without the thorough and regular review of operational cost line items. This impact of this has become more significant in a quickly changing economic and healthcare environment post-pandemic.

Recommendation

- 3-1. The YHC and the YG should jointly conduct an operational expense baseline exercise. This should be completed with consideration to the accountability framework discussed in recommendation 1-3 to tie operational costs to volumes, outcomes or capacity delivered.

Capital maintenance planning

The YHC has approximately \$257M in capital assets, largely in buildings; the Net Book Value of assets is \$162M as reported in FY23 and FY24 in the consolidate financial statements. For the YHC, capital assets include the following:

- ▶ Computer, hardware, and systems development
- ▶ Equipment and vehicles
- ▶ Buildings
- ▶ Building improvements, and
- ▶ Land improvements

Capital asset acquisition and significant capital asset investments for capital betterments are typically funded through separate funding agreements; however, costs associated with maintenance of capital are funded out of the Core Funding Agreement used for O&M. During the budgeting process for FY24, the YHC raised the need for increased capital maintenance budget from \$1M to \$2M but these funds were not approved.

Currently capital maintenance is captured under “equipment expenses” which includes equipment maintenance costs. Vehicle maintenance and land and land improvements also appear as separate expense items. The YHC has a Guide to the YHC Capital Asset Management Program; however, it does not clearly define what is currently being captured as capital maintenance.

In determining what inputs are used to budget for capital maintenance, EY did not find evidence of detailed analysis or forecasts tied to the YHC Capital Plan or capital asset base in determining the capital maintenance line item. In examining the historical costs of equipment expenses, EY noted that these amounts totaled \$2.87 in FY23 and \$2.81 in FY22.



Finding

4. Capital maintenance is funded from the core O&M funding envelope. The current \$1M budget for capital maintenance does not tie into the YHC's current capital asset base or Capital Plan.

Impact

Budget plans may not be accurate and reflect the true needs of the YHC. Lack of funds may lead the YHC to defer maintenance activity which in turn may reduce the useful life of the asset and/or require the YHC to incur an even larger cost long term to bring it back to a useful state.

The YHC may need to go into a financial deficit position to fund critical capital maintenance work.

Recommendation

- 4-1. The YHC should create a capital maintenance plan and update annually based on forecasted maintenance required and budget planning. The Capital Maintenance Plan should include a governance process should decisions arise related to deferring capital maintenance to fund operations. HSS should consider funding through a separate agreement, restricting funds for intended capital maintenance activities.

Internal controls

A strong control environment and risk culture supports effective risk management internally as well as supporting the governance and oversight relationship between the YHC and the YG. Effective controls

enhance the ability to manage and prevent risk events and protect the YHC's ability to maintain operations should a risk event occur as well as providing additional confidence to the YG and HSS.

To better understand the current state of internal controls around financial management, we reviewed the YHC's policy and procedures relating to capital funds, operating expenses, and project management. The YHC's governing documents on funds management including, but not limited to, the YHC Capital Asset Management Program, Schedule of Authorities, Corporate Policy Manual (parts of), and Purchasing and Payables flowchart. We reviewed the documented processes and controls in place to identify any potential process and control gaps. No gaps were identified in the review of policies and procedures.

We selected one sample of a capital expenditure and one operating expense and performed an end-to-end walkthrough of those expenses, starting from procurement of goods/services to payment processing. This was completed to understand the process and identify areas where the design or effectiveness of the controls present opportunities for improved risk management. Note that although this walkthrough provides an indication of how a control is designed, it does not provide assurance on how the control operates day after day, which requires extensive audit type testing which was out of scope for our review.

The current process combines manual and system controls. We noted when an invoice is received for greater than an approved purchase order (PO), quantity or value, a system control prevents the invoice from being processed without an update to the PO. Material Management (MM) will receive a pop-up notification that approvals are required, and they are responsible for obtaining these approvals manually, outside of the system with the designated approver. As a compensating control, contract spend for large contracts and POs is tracked by the MM Manager via an excel spreadsheet to ensure that purchases are monitored against the contract value to mitigate the risk of a material overspend.

The samples selected demonstrated that processes were executed as per the documented procedures, controls were observed, and approvals were obtained in accordance with the authority limits.

Review of the Mental Wellness Unit (MWU) project financial controls

We interviewed key stakeholders to identify processes in place for monitoring financial activities associated with capital funds for the MWU Project. From the interviews with stakeholders, we understand that the YHC follows guidance from Section PS4200 (Financial Statement Presentations) for not-for-profit organizations.

As of June 2023, the approved budget for the MWU project was \$29.7M, of which \$27.7M is funded by the YG and \$2M by the Yukon Hospital Foundation (YHF). The YHC has received \$10.5M from the YG and has spent \$3.8M (12.7% of overall project budget) as of June 2023. The remaining funds of \$6.7M is reflected in the Deferred Capital Contribution (DCC) account until it is spent. Once spent, it moves into the Construction-In-Progress (CIP) account.

The balance of funds (also known as the Deferred Capital Contribution amount) sit in the YHC's general bank account together with the YHC's main and supplementary funds used for operations and maintenance.

At the end of FY2023, the YHC was in a \$7.6M deficit. To meet payroll and operational obligations the YHC had to utilize restricted capital funds of \$7.3M, which was noted in the independent auditor's report of the FY2022/23 Financial Statements. There is no formal review or approval process in place for the reallocation of capital funds to fund operations.

Based on analysis of the accounting entries, we noted the movement of capital funds to support operations are not accounted for in the general ledger as a reduction of capital – they are reflected as a reduction of cash on hand in the bank account.



Finding	Impact
5. Accounting procedures do not account for draw down of capital when used for other purposes.	There is a possibility that the implementation / progress of the MWU project is impacted by the unavailability of funds and a heightened risk of increasing deficit further by spending money that is not available.

Recommendation

5-1. The YHC should establish accounting procedures which will accurately represent funds available for capital projects and allow reconciliation between funds received and assets built. For example, introducing a contra-account to reflect capital funds which have been committed to other purposes, such that the overall capital funds available reported in the financial statements reflects the actual funds available for that purpose.

Conclusion

There are several root causes that led the YHC to utilize capital funds for operations in FY23. First, the external operating environment, including a strong inflationary environment resulting in large increases to construction costs rendering old estimates out of date, significant changes to the workforce impacting the cost of labour and requiring the use of contingent labour, and post-pandemic population health needs resulting in a change in service levels or services required.

Second, without an accepted accountability framework and defined escalation procedures in this increasing cost environment there was no clearly understood or defined way to effectively communicate the need for additional funds and what trade-offs the decision considered. This made it challenging for the YG to appropriately fund the YHC.

Third, while the deficit was clearly communicated there was a lack of clear communication on its implications, or put another way, no one asked where the money was going to come from.

The recommendations in this report focus on addressing the root causes which are within the control of the YG and the YHC. While the parties cannot influence the challenging macroeconomic environment, they can work together to improve the transparency and efficiency of the governance and financial management processes as they work towards improving the health outcomes for the citizens of the Yukon.

Appendices

Appendix A – Acronyms

Acronyms	Definition
ADM	Assistant Deputy Minister
AP	Accounts Payable
CIP	Construction In Progress
DCC	Deferred Capital Contribution
FAM	Financial Administrative Manual
H&WY	Health & Wellness Yukon
HSS	Department, Health and Social Services
MB	Management Board
MWU	Mental Wellness Unit
O&M	Operations & Maintenance
YG	Government of Yukon
YHC	Yukon Hospital Corporation
YHF	Yukon Hospital Foundation