INTERNAL AUDIT SPECIAL INVESTIGATION REPORT
Of The
CAREPAY PROCUREMENT PROCESS

June 6, 2016

INTERNAL AUDIT UNIT
CAYMAN ISLANDS GOVERNMENT

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EXECUTIVE SUMMARY

At the request of the Deputy Governor the Internal Audit Unit recently concluded a Special Investigation into the procurement of the CarePay System that was implemented by the Health Services Authority (HSA) and CINICO on May 2, 2012.

The purpose of the review generally was to evaluate the administrative processes that were carried out in the procurement of the CarePay System in order to identify the root causes of the failure in the procurement process such that the former Board Chairman was convicted for offences under the Anti-Corruption Law.

Our review has determined the following in regards to the CarePay procurement process:

- The HSA had a need for a solution to the difficulties being faced in its patient eligibility verification and claims management processing.
- A solution was brought to the attention of the Ministry of Health and the vendor was invited to make a presentation on the System.
- As a portion of the HSA's patient population held private sector insurance policies, the long term plan for effective resolution of the problem, called for an expansion of the System to the private sector health care providers.
- A Technical Committee was formed to explore the possibility of implementing this System.
- The former Chairman of the HSA Board was appointed by the Ministry of Health to be the Chairman of the Technical Committee, separate from his role as Chairman of the Board of the HSA.
- In September 2010 the Chief Officer in the Ministry of Health wrote to the members of the Technical Committee to request that the RFP clarifies that Government did not intend to convey to potential bidders, the potential for any future contracts that would include private insurance/private healthcare providers as a result of a successful bid.
- The Technical Committee issued an RFP and evaluated 3 bids in response to the RFP.
- In December 2010, the CTC awarded the tender to AIS for CI$11,149,540 (US$13,597,000) inclusive of setup costs and transaction fees projected over a 5-year period.
- A contract was signed effective December 21, 2010 between the HSA, CINICO and Advanced Integrated Systems (Cayman) Ltd for the provision of claims administration services for the HSA and CINICO, but did not include the national roll-out to the private sector.

- After experiencing numerous setbacks, including a rescheduling of the initial implementation date of July 2011, the System was fully implemented ('go-live') in May 2012.
- Payments totaling US$1,372,000 were made during the period December 2010 to May 2012, for the System setup.
- Additional payments totaling US$1,800,000 were also made to AIS Cayman for the national roll-out of the System to the private sector, although there was not an approved tender award by the CTC for this aspect of the project.
- The US$1,800,000 was funded by an equity injection for the HSA, which was included the Ministry of Health's 2011/12 budget.
- Due to the late amendment to the 2011/12 budget, the Ownership Agreement from the HSA did not include this request for the equity injection, and a letter from the former Board Chairman to the Minister of Health, in May 2011, appears to be the only basis for the inclusion of this equity injection in the budget.
- The Ministry of Health withdrew US$1,800,000 from the Treasury Department on the basis of AIS Cayman invoices that were billed to the Ministry of Health; letters from the former Board Chairman of the HSA (written on the HSA's letterhead); a copy of the CTC approval for the tender award, and a copy of the contract (which was subsequently determined to be fraudulent).
- The Ministry of Health then paid over the funding for the equity injection to the HSA.
- The HSA receipted the funds and then paid over cheques in the same amount to AIS Cayman, despite the fact that the invoices were billed to the Ministry of Health, as the customer.
- The Carepay System did not yield its anticipated benefits and was denying claims for valid services; incorrectly identifying them as duplicate claims.
- In December 2014 the CarePay System was terminated by AIS.

Our review has identified instances of non-compliance with the established procurement policies and procedures of the Cayman Islands Government which are summarized below:

- A documented business case was not developed to assess value for money prior to embarking on the procurement of the Carepay System;

- An approved capital appropriation was not made in the 2011/12 budget for the procurement of the CarePay System, although we recognize that the 2011/12 budget was approved prior to the identification of this solution.

- There was non-compliance with the CTC tender process requirement to give consideration to extending the tender deadline where valid queries are raised in regards to the Request for Proposal

We have however determined that the **key deficiencies** that resulted in the systemic failure of this procurement were as follows:

- There was an ineffective governance arrangement between the Ministry of Health and the HSA such that the Ministry of Health's Chief Officer, the HSA's CEO and finance officers within both entities did not have complete information on the administration of the CarePay procurement and in particular the full plans in place for the national roll-out to the private sector. Additionally, the absence of a Ministry of Health's representative on the HSA Board is a missing component of the governance framework that would facilitate certainty in the HSA's implementation of policy directives issued by the Ministry and Cabinet.

- The former Board Chairman was appointed by the Minister of Health as the Chairman of the procurement and implementation committee for the project, even though he was still in his appointed role of Chairman of the HSA Board. This facilitated the former Board Chairman's involvement in a number of conflicting roles, including roles that should be undertaken by executive management, whilst also operating in the role of Chairman of the HSA Board of Directors.

- As a multi-agency procurement the governance arrangement that was established for the procurement of the System was inadequate to ensure the effective procurement and implementation of the System, including ensuring all parties performed their assigned roles as agreed.

- A lack of an expected standard of care and professional skepticism in the payment of invoices in totaling CI$1,507,500 by the Health Services Authority. The Ministry of Health funded the HSA for an equity injection on the basis of a request from the former Board Chairman however the HSA finance officers advised that they had no knowledge of this equity funding. The HSA officials, at the instructions of the former Board Chairman paid out the funds to AIS Cayman, without an approved contract of service and despite the fact that the invoices were addressed to the Ministry of Health and not to the HSA.

The following **key recommendations** have therefore been made to prevent such negative outcomes in the future:

- Establish formal communication mechanisms between the Ministry of Health and the HSA, outside of the annual budget and reporting processes. Such communications should set out clear expectations for policy directions and should facilitate effective identification of high-risk issues and notification to the Chief Officer and the Minister on key issues within a timely manner. Communication of pertinent information that affects the management of the HSA should involve the Board as well as the CEO of the HSA.

- The Board Policy that is in place at the HSA, addresses the separation of the role of the Chairman of the Board and board members, from the role of the CEO and executive management. This Board Policy should be complied with at all times.

- All procurements should be conducted in accordance with the CIG's procurement policies and regulations. In the case of multi-agency procurements, the procurement approach and structure should be designed so as to be relevant and appropriate to the nature of the particular procurement being undertaken.

- The HSA and the Ministry of Health should establish documented agreements to govern transactions being undertaken that are outside of the usual purchase and ownership agreements/arrangements so as to ensure that all parties are agreed as to the terms of the arrangements being entered into. Appropriate invoices should then be raised as necessary to support any requests for funds in accordance with the terms of the agreements.

- As the key controllers of the entities financial resources, Chief Financial Officers within entities should be fully aware of key policy decisions that will require financial support. The financial officers were kept out of the loop in this procurement, yet they were the same personnel who were called on to decide how to administer the entities funds. It is therefore vital that these officers are provided with sufficient information so as to assist them to make appropriate decisions in the management of the entities finances.

Subsequent to this procurement, in November 2012, the Framework for Fiscal Responsibility (FFR) was brought into effect as a part of the Public Management & Finance Law. This Framework is based on the following key principles:

- Effective medium-term planning, to ensure that the full impact of fiscal decisions is understood;
- Putting value for money considerations at the heart of the decision making process;
- Effective management of risk; and

- Delivering improved accountability in all public sector operations.

On the key principle of delivering value for money, Section 12 of the Framework states as follows:-

> "*The Cayman Islands Government recognizes that achieving value for money is central to the appropriate use of public funds. Central government and other public sector bodies will therefore ensure that effective processes are in place to provide confidence and ensure suitability, effectiveness, prudence, quality, good value and avoidance of error and other waste.*
>
> *To assure value for money is achieved, the CIG commits to undertaking five key stages as part of the implementation of new projects, namely appraisal and business case; procurement; contract management; delivery; and evaluation*."

We therefore recommend that all procurements are to be undertaken in accordance with the principles outlined in this framework

CONCLUSION

This audit report is being submitted to the Deputy Governor in accordance with the agreed Terms of Reference.

As a result of our audit work, and the information which came to our attention, we did not find any evidence of misconduct or corruption on the part of public servants within the entities reviewed.

We did however identify instances of non-compliance with the PM&FL and established operating procedures, as well as internal control deficiencies. We also determined that there was an absence of the expected standard of care and professional skepticism in the actions of public servants in the processing of payments related to the procurement of the CarePay System.

In regards to the extent of the failure of the procurement process such that it resulted in a criminal conviction, we have determined that this was heavily related to the lack of information between the Ministry of Health and the Health Services Authority regarding the procurement that was being undertaken. For the procurement of the CarePay System; which was so integral to the HSA's strategic objectives, and required such large outlay of government funds, the CEO should have been included to a large extent in the communications between the Minister and the Board Chairman. Additionally, the Chief Officer as the principal source of advice to the Minister should have been privy to all communications on the CarePay procurement as they relate to significant policy decisions to be undertaken under the remit of the Ministry of Health.

During the time of the procurement, the former Board Chairman in addition to operating in the role of Chairman of the Health Services Authority, was also appointed as the Chairman of the procurement committee for the CarePay System. Both the Ministry of Health's and the HSA's personnel, placed a significant level of confidence and trust in the former Chairman of the Board and as such, literally handed the management of the procurement off to him, without scrutiny or oversight. He was therefore relied on heavily, for decisions in regards to the project.

This level of authority together with him also operating as the main liaison/advisor to the Minister of Health as it relates to the CarePay procurement in addition to being the Chairman of the HSA Board, was not in keeping with the principle of segregation of duties, and entrusted a level of influence to the former Board Chairman, which was abused. This not only served to blur the lines of accountability but as a result the only person who fully understood the true circumstances of the project at any point in time, was the former Board Chairman. The Ministry of Health did not have a complete picture of the situation and assumed that the HSA did, whilst the HSA also did not have a complete picture but also thought that the Ministry did.

Based on our assessment it is evident that, the former Board Chairman also operated in the role of advisor to the Minister of Health on the implementation of the RTA/EVS System and its potential for improving the financial circumstances of the HSA. This role was undertaken separately from his capacity as the Board Chairman of the HSA, and the Chairman of the procurement committee. To make matters worse, and to confuse staff even further, the former Board Chairman utilized the letterheads of the Health Services Authority in his written communications, signing as Chairman of the Board even when these correspondences did not relate to his role of Board Chairman.

It is therefore our overall conclusion that the following are the major factors that contributed to the breakdown in the procurement process:

- lack of an effective governance framework between the Ministry of Health and the Health Services Authority that would facilitate the CEO's full awareness of all Ministerial directives that impact the HSA;
- the involvement of the Board Chairman in conflicting roles including the operational duties of the Health Services Authority;
- the view held by the HSA's finance officers regarding prior financial arrangements between the Ministry of Health and the HSA;
- the general absence of information provided to the financial officers within the Ministry of Health and the HSA; and
- the inappropriate administrative structure that was in place for the multi-agency procurement.

The recommendations for improvement have been accepted and as indicated in the management comments, management have committed to improving the deficiencies, in some instances over and above the recommendations that have been raised in this report.

I would also like to thank the public servants who assisted during this review. Their assistance have made it possible for us to put together a coherent report, given all the facets and complexity of this procurement. This audit process has also conveyed the considerable distress that the entire situation has caused for some public servants. And although our report has identified administrative deficiencies with the procurement process that was undertaken, and which public servants have committed to rectifying going forward, it is our overall assessment that the impact of the administrative deficiencies was aggravated by a clear intent to deceive.

Deloris E. Gordon **June 6, 2016**
Director, Internal Audit

BACKGROUND AND INTRODUCTION

In a letter dated December 6, 2010 the Government's Central Tender's Committee (CTC) approved the award of a contract to Advanced Integrated Services (AIS) for the procurement of a National Insurance Verification & Adjudication System at a total cost of CI$11,149,540 including setup costs of US$1,372,000 to the Health Services Authority (the "HSA") through its Board Chairman who was serving in the capacity of the Chairman of the Technical Committee. The total contract sum is based on the projected overall cost over a 5-year period and includes transaction fees of 4% split between CINICO (1.5%) and the HSA (2.5%).

The Request for Proposal (RFP), dated October 6, 2010 sets out the strategic issues and problems faced by the Government's healthcare institutions that were to be remedied with the tender award. The premise of the RFP is that the Government of the Cayman Islands was seeking to implement an electronic real time claims adjudication (RTA) and eligibility verification system (EVS), (referred to as "RTA/EVS") by July 1, 2011. This RTA/EVS System (later called CarePay System) was intended to initially administer claims that are processed between the HSA and CINICO.

At the time the System was being contemplated for implementation, there was general consensus that there were numerous deficiencies within the existing eligibility verification and claims processing arrangements for the HSA. These deficiencies were determined to be as a result of the lack of an effective mechanism to assess patients' benefits eligibility status at the time they present for service, self-paying patients' unwillingness to pay for services after they left the Hospital, as well as the delay in claims submission to insurance companies within the required 180 days.

This problem was resulting in significant claims denial; including from the Government's own health insurance provider – CINICO, resulting in a significant bad debt provision. There was therefore, a need for a real-time assessment of patients' benefits, especially those patients with private sector insurance policies.

The long term plan for effective resolution of the problem, called for an expansion of the System to all private sector health care providers, pharmacies and insurance companies. This expansion was seen as achieving the desired benefit from this strategy, as a portion of the HSA's patient population held insurance policies issued by private sector insurers. The ability to have all health care providers and insurers utilizing the system, as an automated 'clearing house' providing real time access to health insurance benefits, would bring significant efficiencies and cash flow management to the HSA and other health care providers, nationally. It was however very important for the System to be fully implemented and demonstrated to be operating satisfactorily for the HSA and CINICO, before being considered for further expansion to the wider healthcare community.

The RFP that was issued for the CarePay procurement therefore, indicated that despite this long-term vision, there was no implication of future financial or contractual commitment for such expansion resulting from a contract under the RFP.

Three (3) bids were received in response to the RFP. The Technical Committee that was in charge of the project made a recommendation for the tender to be awarded to Advanced Integrated Solution[1] as they "fulfilled all the requirements of the RFP including electronic verification and real time adjudication with over 14 years' experience in the Caribbean."

The RTA/EVS System from AIS was therefore implemented in May 2012, with the anticipation of substantial benefits for the management of healthcare services and improvements to claims processing and revenue collection. Some of the benefits put forward to the CTC in the Evaluation Summary and Tender Award Recommendation (ESTAR) Report, as part of the tender approval process were:

- Real time access to current and complete member eligibility information
- 24 hours access to accurate data including coverage restrictions
- Real time electronic claims verification and adjudication which will significantly reduce the denial of claims
- Collection of accurate patient utilization and demographic data to better track health trends
- Reduction in administrative overhead costs
- Improved efficiency and customer service by removing onerous manual processes which allows for effective reallocation of personnel to better service patients

The ESTAR Report additionally highlighted savings of $2,000,000 from reduction in bad debts plus savings in administrative costs if the AIS System was implemented.

Although the RFP and the approval letter from the CTC referred to the project as National Health Insurance Real Time Adjudication and Eligibility Verification System, the contract that was awarded was only between AIS on the one hand and the Health Services Authority jointly with CINICO on the other hand. The scope of service section in the contract also did not include a national roll-out aspect in the deliverables, nor did it include any references to the wider healthcare providers and insurers within the Cayman Islands.

During the procurement process the former Board Chairman was appointed as the head of the technical evaluation team (the EVS Committee, also referred to as the Technical Committee) to develop the specification and requirements of the proposed system, prepare and issue the

[1] Per the ESTAR Report dated November 29, 2010. Note that this name is different than the name in the CTC's approval letter (referred to as Advanced Integrated Services) and in the draft minutes of the bid opening meeting and signed contract (referred to as Advanced Integrated Systems Limited).

request for proposals, and evaluate bids and make recommendations to the CTC for the award of the contract. A separate Implementation Steering Committee was established for the implementation of the System.

Total payments made for this System, excluding transaction and reimbursable fees were US$3.172M. The additional US$1.8M (over and above the set-up cost of US$1.372) was for the expansion of the System to include a national phase covering all private sector insurance companies, physicians, pharmacies and healthcare providers. As no other contract was approved by the CTC for this additional scope of works, the basis of the payments to AIS was a letter from the former Board Chairman of the HSA, to the Minister of Health.

On 4th February 2016, the former Board Chairman of the Health Services Authority was convicted under the Anti-Corruption Law, for offences of fraud, conflict of interest and breach of trust surrounding the procurement and award of the contract in relation to the CarePay System.

PURPOSE AND OBJECTIVES

The Deputy Governor requested the Internal Audit Unit to review the procurement process that was undertaken for the CarePay System that was implemented in May 2012. A Terms of Reference was agreed on February 23, 2016. The purpose of the review was to gather information in order to identify the root causes of the failure in the procurement process that led to the conviction of the former Board Chairman of the Health Services Authority, and make recommendations for improvement so as to reduce or prevent incidences of such procurement failures in the future.

Specific outcomes of this review were to:

- Assess and document any non-compliance with the Public Management & Finance Law, Financial Regulations, other relevant laws as required, and entities' operating policies and procedures in the procurement of the CarePay System.
- Assess and document internal control deficiencies and risks within the procurement procedures that contributed to failure in the procurement process and concerns of irregularity, corruption and lack of value for money including that the System was not fit for purpose.
- Report any findings of negligence, misconduct, irregularity and corruption within the procurement process as it pertains to the administrative actions taken by public servants within the relevant entities.
- Provide recommendations for corrective actions to create sustainable processes for managing risk and improving the procurement process.

METHODOLOGY

The following was undertaken in carrying out this assignment:

- Meeting with and interviewing key personnel. During these meetings notes were taken which were typed and confirmed with the interviewees. Other interviews and correspondences were also conducted however these were not documented but led to documented requests for further information/clarification as deemed necessary.
- Review of meeting minutes of the Health Services Authority Board, the CINICO Board, and the Technical Committee for the RTA/EVS System, Finance Sub-Committee of the HSA Board, and the CTC.
- Review of payment documents, correspondences (emails, letters), contract, RFP, tender documents, Health Services Authority Law (2010 Revision), CTC Open Tender Process Manual, Public Management & Finance Law and the Financial Regulations (2010 Revisions), Reports of the Office of the Auditor General in particular *Management of Government Procurement* issued July 5, 2011; and *Governance in the Cayman Islands – The Accountability of Statutory Authorities and Government Companies, issued December 2013*
- On May 6, 2016, a draft report was issued to the Chief Officer of the Ministry of Health, the CEO of the Health Services Authority and the CEO of CINICO.
- Follow-up meetings, as well as verbal and written correspondences were held and amendments made on the basis of these discussions in order to prepare this final report.

Our audit conclusion is therefore based on the information that was obtained by us during our audit review. It is highly possible that there is available information that was not brought to our attention. However, in accordance with our standard audit methodology, this report of our findings was presented to the Chief Officers of the three entities that were involved in the procurement process. Their input and comments were solicited and incorporated as a part of the audit review process. Additionally management comments provided to us on the issues raised are included on page 39 of this report.

This assignment was undertaken to evaluate the administrative processes that were carried out in the procurement of the CarePay System.

Except for any findings in regards to our assessment of compliance with relevant laws and regulations as mandated for the execution of Government procurements, this assignment was not intended to formulate any legal judgements or conclusions concerning any information that came to our attention.

THE GOVERNMENT'S PROCUREMENT PROCESS

Part IX of the Financial Regulations outlines the CIG's procurement procedures to be undertaken by all Government entities, statutory authorities and government companies, and includes the requirement to tender procurement contracts above a stipulated value.

Furthermore the Central Tenders Committee (CTC), established to evaluate tenders for public sector procurements above CI$250,000 has developed and issued guidelines in the Open Tender Process Manual to "*assist entities to undertake public procurement in accordance with the Financial Regulations*". The general process outlined in the guidelines is as follows:

- Identify the need to procure, including development of a business case
- Create a tender plan and define the requirements (output, specification, costs, benefits, risks including ensuring that there is an approved budget for the project)
- Prepare and issue tender documents (or request for proposal - RFP), and copy the CTC
- Receive and respond to tender queries
- Receive and open bids - CTC
- Evaluate bids and make recommendation in ESTAR report
- Approve bid award - CTC
- Confirm and sign contract
- Send copy of contract to CTC
- Submit post implementation report to CTC

THE CAREPAY PROCUREMENT PROCESS

In 2009 representatives of AIS Jamaica contacted Janett Flynn of the Ministry of Health, Environment, Youth, Sports & Culture (HEYS&C – referred to as "Ministry of Health") regarding the health claims adjudication system (PAS) that they were trying to introduce to the former General Manager of CINICO. This system was brought to the attention of the Ministry of Health.

In August 2010, a number of personnel were called to a meeting at the Ministry of Health at which a presentation was made on a national health verification system. This presentation was attended by the former Board Chairman, Chief Financial Officer (CFO) and Chief Information Officer (CIO) from the HSA; the former General Manager from CINICO; the Health Insurance Commissioner; and the Minister of Health, Chief Officer, and Senior Policy Advisor for Health from the Ministry of Health.

The CEO's Board report of September 2010, which was submitted to the HSA Board, noted that the presentation "*highlighted the benefits that a national verification system would provide to*

patients and healthcare providers and the health insurance industry". That report further stated that "*this needs to be mandatory for private insurers in order to have private providers accept Insurance*[2]*– as many are now in breach of the law.*"

Subsequent to that meeting a Technical Committee was formed. The minutes of the December 7, 2010 Board Meeting indicated that the Meeting was advised that the Ministry requested the HSA Board Chairman to be the chair of the Technical Committee.

Based on the minutes of the first Technical Committee meeting, held on September 3, 2010, the Committee was to consist "*of representatives from the HSA, CINICO, Ministry of Health and the Health Insurance Commission*" and was "*to explore the possibility of implementing a National Health Insurance Electronic Verification and Adjudication System. The members of the Committee were as follows:*

- *Canover Watson Chairman of the HSA to serve as Chairman of the Committee*
- *Scott Cummings Chairman of CINICO*
- *Heather Boothe CFO of the HSA*
- *Carole Appleyard General Manager of CINICO*
- *Dale Sanders CIO of HSA*
- *Mervyn Connolly Health Insurance Commissioner*
- *Jennifer Ahearn Chief Officer for Ministry of Health*"

"*The mandate of the Committee is to conduct an RFP to identify service providers that can provide a comprehensive solution for health insurance verification and claims adjudication using a Real Time Electronic Verification System ("EVS"). This initiative is intended to be initially implemented jointly by the HSA and CINICO with plans for the offering to be expanded to encompass all health care providers including the commercial insurance companies, the private physicians and the private pharmacies*."

The Technical Committee was therefore responsible for developing the RFP, soliciting tender responses, and making recommendations for the award of the tender. The following implementation schedule was developed for the full implementation of the System:

Key Procurement Task	***Date***
Issue RFP	6-Oct-10
Questions due to the Procurement Officer	20-Oct-10
Closing date for receipt of bid proposals and amendments to bid proposals	5-Nov-10
Vendor presentations	15-20 Nov-10
Evaluation and recommendation	30-Nov-10
Contract approval and execution of contract	15-Dec-10
Implementation begins	2-Jan-11

[2] Report erroneously stated Commission instead of insurance – as clarified by the CEO of the HSA.

Go-Live	1- Jul-11

The implementation was to be undertaken by the Implementation Steering Committee, however we did not see a terms of reference for that Committee.

The ESTAR report with the Committee's recommendation was signed on November 29, 2010. Three Bids were received by the deadline of November 5, 2010. One of them (CBCA) was rejected as it did not include the price. The other two; Advanced Integrated Systems Limited (AIS) and Cap Management Systems (CMS) were evaluated.

The contract was awarded to AIS and signed into effect on December 21, 2010, in accordance with the implementation schedule. The contract was signed jointly by HSA and CINICO - the Chairman of the HSA Board of Directors and the Acting Chief Executive Officer on behalf of the HSA; and the Chairman of the CINICO Board of Directors and the newly appointed CEO on behalf of CINICO. The newly appointed CEO of CINICO was not involved in the selection process as he joined CINICO around the time that the contract was being signed.

Based on the draft minutes of the November 5, 2010 CTC meeting at which the tender was opened, this procurement was however recorded by the CTC, as a procurement of the Health Services Authority.

Once the contract was signed, implementation commenced immediately. Payments on the contract also commenced immediately upon signing of the contract and the first payment - 50% mobilization fee of US$686,000 was paid on December 22, 2010. As implementation continued, progress payments were made as follows:

Amount	Description	Date
US$343,000	25% mid-way through the project	April 2011
US$343,000	final 25%	May 2012

All payments were split equally between the HSA and CINICO.

The implementation of the CarePay System however, was not achieved according to the schedule. There were a number of difficulties, including integration issues with the HSA's Health Information System as well as with the finalization of the HSA-CINICO business rules for adjudication of claims.

The CEO's Board report of October 2013 to the HSA Board stated as follows: "*CarePay is a joint project with CINICO to have real-time adjudication (RTA) of claims so that the full bill would be ready for the patient at check-out. The patient would carry a magnetic striped card. …This card would be swiped at check-out and the claims would be adjudicated based on their eligibility and benefits. …*

Advanced Integrated System's (AIS) software called Patient Access System (PAS) was chosen via an RFP process. …Before CarePay, claims were processed in batches at the end of each day. … These claims were queued, coded with a five (5) day standard delay to give CIHSA time to correct any issues found during the production of the claim. This meant that the patient left not knowing the cost of the service rendered or what will be charged….

CarePay represented the most complicated technical change process undertaken in the Health Services Authority since the implementation of …….The system and its implementation have experienced several problems, much more than what was expected. …

The project's objective was to make the claims processing more efficient and reduce bad debt by allowing the cashier to be able to recover the self-pay portion of the patient's bill during check-out but it has done neither."

The system did not go-live for full implementation until May 2012.

Prior to the full implementation of the CarePay System, the former Board Chairman wrote to the Minister of Health (letter dated May 3, 2011), requesting funding of CI$3.5M (that is CI$2.8M from the Ministry of Health; and CI$0.7M from CINICO/HSA) for the expansion of the System to the private sector. Subsequently, an amount of CI$2,000,000 was then included in the Ministry of Health's 2011/12 budget as an equity injection for capital items to the HSA.

The full scope of services for the national roll-out of the System to the private sector at a total set-up fee of US$2,400,000 was later specified in a letter dated July 5, 2011 from the Board Chairman to the Minister of Health.

Both letters were written on the letterhead of the Health Services Authority, and emailed to the Minister of Health. However, neither the CEO of the HSA nor the Chief Officer in the Ministry of Health was copied in the correspondence. We have noted that the Minister of Health forwarded the May 2011 email to the Chief Officer in the Ministry of Health.

In July 2011 the former Board Chairman submitted an invoice on behalf of AIS Cayman, addressed to the Ministry of Health (FBO Health Services Authority), requesting 50% mobilization fee for the national implementation. The email accompanying the invoice made reference to a letter dated July 5, 2011 that was written on the letterhead of the HSA and signed by him in his capacity as Chairman of the Health Services Authority. The Ministry finance officers processed the payment in August 2011, as a drawdown of the equity injection from the Government's Treasury Department, which was paid over to the HSA.

The HSA on the instructions of the former Board Chairman receipted the payment and prepared a cheque to pay out US$1,200,000 to Advanced Integrated Systems (Cayman).

In May 2012 the former Board Chairman again submitted another invoice to the Ministry of Health requesting interim payment # 2 of US$600,000 for the implementation of the national roll-out. The payment was processed in a similar manner as the first payment, and the cheque for CI$502,000 was paid over to Advanced Integrated Systems.

The total payment for this procurement (not including consulting and transaction fees) is outlined below:

Payment Date	Description	Payment Amount
December 2010	50% Setup costs (Split between HSA and CINICO)	US$686,000
April 2011	25% Setup Costs (Split between HSA and CINICO)	US$343,000
May 2012	Final 25% Setup Costs (Split between HSA and CINICO)	US$343,000
August 2011	Mobilization fee (50%) - National Roll-Out	US$1,200,000
May 2012	25% of implementation fee (interim payment) – National Roll-Out	US$600,000
Total Payments		US$3,172,000

The payments for the national roll-out were made even though there was no approved contract for the national roll-out, being as the CTC approval was only for the provision of service to the HSA and CINICO. The funds for the national roll-out were disbursed to the HSA by the Ministry of Health on the basis of a contract provided by the former Board Chairman that made specific reference to the national roll-out. It was later discovered that this contract provided by the former Board Chairman was fraudulent

In December 2014, the CarePay System was terminated by AIS.

DETAILED FINDINGS AND RECOMMENDATIONS

Our review has noted a number of non-compliances and deficiencies with the procurement process that was undertaken for the CarePay System.

1. *Non- Compliance with the PM&FL – Lack of Business Case for the Procurement:*

Effective planning is essential when conducting complex/major procurements. The first step therefore in such procurements, and as required by the CTC procurement process is to demonstrate in a full business case, the rationale for the procurement to be undertaken. Section 1.1 of the CTC Open tender process manual states "*a business case should be completed and signed off by the Chief Officer, or delegate prior to commencing the tender plan. In order to identify if there is a need to procure, different alternatives should be objectively considered before deciding on the one that gives the best value for money over its complete operating life*."

Additionally a business case would clearly demonstrate the link between the procurement of this System and the achievement of the entity's strategic outcome goals and objectives.

During the review we interviewed the Chief Executive Officer at the Health Services Authority and the Chief Officer in the Ministry of Health, to determine what needs assessment was carried out prior to the commencement of the procurement. We were advised that a formal needs assessment was not conducted. We were informed however, that over the years the HSA has grappled with bad debt, which mostly is as a result of persons not paying their portion of the bills at the time of provision of service, as well as lack of insurance benefits resulting in insurance denials. The lack of real time information to validate patients' insurance (non-CINICO) led to continuous discussions at the HSA on solutions to correct the problem.

This statement has been confirmed by our review of minutes of board meetings which indicated that frequent discussions were held regarding the difficulties faced by HSA with claims processing. At CINICO the Board minutes reflected that the Company was also grappling with verification issues and at the November 23, 2010 Board meeting, the Chairman requested that the CFO "review the savings/costs of the EVAS initiatives" that was being contemplated for joint implementation with the HSA.

We however were unable to obtain any documented analysis and business case to indicate how this problem was to be rectified and what types of solutions were considered prior to the project to implement a RTA/EVS system. Outside of the details documented in the RFP and the ESTAR report, which were prepared after the procurement decision was made no other document was provided to us to support the decision to commit the Government to spending CI$11,149,540 over the projected five-year period.

Although the procurement of this System may at the time, have been considered as adequate to meet the identified need at the HSA, there was no demonstration that this was the only solution, or that this solution would provide the best value for money.

Similarly, outside of the former Board Chairman's letter to the Minister of Health and minutes of Board meetings at which the issue was discussed no other documentation was obtained to justify the decision to commit the Government to an additional CI$3.5M for the rolling-out of the RTA/EVS System to the private sector.

The lack of a documented business case is non-compliance with the Government's procurement process and prevented the entities from demonstrating whether there was value for money in the procurement.

2. *Non- Compliance with the PM&FL - Budget Provision:*

Another key aspect of planning for procurement is the identification of funding for the procurement.

At a cost of US$1,372,000 (set-up costs only – over 5 years the projected overall cost is US$12,805,920 after the inclusion of transaction fees of 4% split between CINICO and HSA). This is a significant outlay for any entity and as such adequate arrangements should be in place to ensure the funding entities would be able to effectively meet this requirement within their budget allocations.

Section 49 of the Financial Regulations defines capital project as "*any item that will be capitalized on the balance sheet in accordance with generally accepted accounting practice and Schedule 3, and includes the construction or purchase of physical assets and the purchase or development of computer hardware or software*."

We noted that the procurement was not identified in the list of Major Capital Expenditure Items as a part of the Ownership Performance Targets in the entities' 2010/11 or 2011/12 Ownership Agreements. When we queried the budget provisions that were made to fund the procurement of the HSA/CINICO CarePay System we were advised that the payments for the procurement were made from the operational budgets as this initiative was approved after the 2010/11 budget was completed. CINICO further advised that once they were aware of the expense the 2010/11 budget forecast to June 30, 2011 was revised to reflect the anticipated capital expenditures.

Both entities however advised that they subsequently capitalized the payments as fixed assets in their accounts.

It was not until the 2012/13 Ownership Agreement that the HSA listed CI$500,000 in major capital expenditure projects, with the description "implementation of Electronic Verification Adjudication System". This was understood however to pertain to the national roll-out phase of the project and not the HSA/CINICO CarePay procurement.

In the 2011/12 budget, although the HSA did not include any appropriation for this project in their Ownership Agreement, the AP&E included a $2,000,000 appropriation for the Ministry of Health, Environment, Youth, Sports & Culture (HEYS&C) under EI 29 for `Repairs and replacement of Assets'.

The establishment of a budget is a vital tool for business planning and decision making. Although the project was paid for, there was no assessment of the opportunity costs of this project, and how it has impacted the achievement of any other policy outcome for the Government.

The lack of a budget for the CarePay procurement, which should have been developed as a part of the business case as noted above, is also in non-compliance with the PM&FL. Without provisions for funding of this project, the entities were unable to demonstrate that the project would be adequately funded without negatively impacting the delivery of other strategic priorities.

3. *Non-Compliance with the CTC Tender Process:*

The Financial Regulations in Section 41 (Part IX) requires that "*tenders submitted for any contract with a value of two hundred and fifty thousand dollars or more shall be evaluated by a Central Tenders Committee*".

To guide public sector entities in their submission of tenders, the CTC developed and disseminated the Open Tender Process Manual. Section 2.5 of the Manual - *Receive & Respond to Tender Queries* - requires that the entity Procurement Officer give consideration to extending the deadline for return of tender submissions if there are valid queries being raised. The Section further states that requests for deadline extensions should be in writing and responses to such requests shall similarly be in writing.

Our review determined that during the one-month period allowed for submission of tender responses there were queries raised in regards to the RFP. Based on an email that was reviewed, dated November 2, 2010 the HSA's Procurement Officer wrote to the former Board Chairman suggesting that a 2-week extension be given to the tender return deadline, owing to outstanding queries not yet answered, and the insufficient time available to provide a response and receive a bid from that prospective bidder.

We did not see a copy of the response that was provided to the potential bidder, however based on the ESTAR report that was submitted to the CTC, the bid submission closing date was November 5, 2010, as was stated in the RFP.

This means no allowance in the bid response deadline was made to accommodate the concerns of the prospective bidder.

Additionally, the same Section of the tender process manual states that the CTC is to be copied on all communication to and from potential bidders (that is including queries raised and responded to).

Our review determined that as required, all questions concerning the RFP were sent via email to the Procurement Officer at the HSA. The HSA's internal procurement procedures require the Procurement Officer to forward the queries to the requesting department for a response. However, in the case of the CarePay procurement we noted that rather than obtaining the feedback and responding directly to the requestors, the queries were forwarded on to the Chairman of the Technical Committee, (through the Board Secretary and copied to the CFO) as the requestor of the service however the response was not returned to the Procurement Officer.

There was no evidence that the CTC was copied on these requests when they were being forwarded on.

When queried on the requirement to copy the CTC on responses to bidders' queries, the CTC Secretary advised that this is required for all procurements. The Secretary did advise however, that in some instances such queries are documented on the ESTAR reports, as well as in the minutes of the CTC meetings, rather than forwarding on all correspondences. The Secretary further advised that where bidders/potential bidders are dis-satisfied with the responsiveness to their queries they have the option to write directly to the CTC Chairman. However the Secretary did not have any records to reflect such correspondences took place as it relates to the procurement for the RTA-EVS System.

Whilst it may have been possible that the procurement team had already determined that the System that was presented to them by AIS would adequately meet their needs, the procurement process that was undertaken was not one of sole source as allowed for under Section 37 (2) of the Financial Regulations (*in the opinion of the chief officer …… only one supplier can provide the supplies, services or assets, the chief officer is not required to offer for public tender such contract*). The procurement process that was embarked on was for public tendering as per Section 37 (1) of the Financial Regulations (*subject to paragraphs (2), (3) and (4), a prescribed entity, statutory authority or government company is required to offer for*

public tender any contract for the purchase of supplies, services and assets over fifty thousand dollars).

As an open tender to be evaluated by the CTC, the procurement should have complied in all respects with the CTC open tender process. The lack of consideration given for bid queries is not in compliance with the CTC's open tender process.

4. *Deficiency in CTC Tender Process - Lack of Records for Declaration of Interests*

Section 4.3 of the CTC Open Tender Process Manual states that prior to the start of the bid opening meeting, the Chairman should confirm if a member of the CTC has a conflict, or where there could be a perceived conflict, of interest with any agenda item. Where such conflict exists the affected member is to be asked to leave the meeting for that agenda item.

The Abbreviation & Definitions Section of the CTC tender process manual however provides the following definition for declaration of interests – "written declaration acknowledging the need to disclose any actual potential or perceived conflict of interest, {including family, personal or business relationships, and employment or financial interests), prior to taking part in a specific tender process. To be signed by all DTC and CTC members and any other public sector employees and private sector individuals utilized by the entity, DTC or CTC during the tender process."

Our review of the draft minutes of the bid opening meeting for the National Health Insurance Electronic Verification & Adjudication System, determined that the CTC Chairman identified conflict of interests for two CTC Members that were also affiliated with the HSA, one was a member of the HSA Board and the other was an employee of the HSA.

The draft minutes however did not reflect any requests for declaration of interests being extended by the CTC Chairman to the former Board Chairman and Board Secretary of the HSA, who were representing the HSA as the tendering entity.

In response to our query the CTC Chairman advised that at every bid opening meeting, members of CTC as well as DTC members in attendance, are required to declare any conflicts of interest and sign a form confirming the absence of any such conflict. He further advised that it has been standard practice for the CTC to complete this form at every bid opening meeting since the time of Mr. Outar's chairmanship. Although the CTC did provide us with the draft minutes as noted above, they were unable to provide us with the final minutes and relevant attachments of the November 2010 bid meeting as evidence that the conflicts of interest forms were signed by both CTC and DTC members (guests) present.

As we were not provided with the relevant documentation we were unable to verify that the intention of the declaration of interests as outlined in the definition section of the manual was applied during the bid opening for the National Health Insurance Electronic Verification & Adjudication System. Given this overriding aim of the CTC it would therefore stand to reason that the CTC should be applying the wider definition of persons as allowed for in the Definitions Sections when seeking conflict of interests' declarations.

We are of the view that if this definition were applied during the bid opening for the National Health Insurance Electronic Verification & Adjudication System, the relationship of the former Board Chairman and the contracted party might have been detected earlier and possibly reduced the extent of the failure of the procurement process.

We also recognize that outside of the CTC process, there is an absence of procedures within the current procurement arrangements undertaken by the CIG to routinely require declaration of interests for all public servants (including DTC members) who are involved in the procurement process.

5. *Inadequate Controls and Due-Diligence In the Payment of Invoices*

The HSA receipted CI$1,507,500 that was received from the Ministry of Health and paid out US$1,200,000 and CI$502,500 to Advanced Integrated Systems.

A review of the invoices for both payments revealed that the invoices were both addressed to the Ministry of Health and not the Health Services Authority. Invoice # 208 however, also stated "FOB of the Health Services Authority".

When queried as to why the invoices were paid, when they were not addressed to the HSA, we were advised by the HSA officials that there have been circumstances where the HSA processed payments on behalf of the Ministry of Health for the contracts/agreements of the Ministry of Health or for projects initiated by the latter.

In response the current and former CFOs in the Ministry of Health advised that the Ministry has never provided funds to the HSA for the purposes of making a payment on its behalf, to a third party. They advised further that there have been circumstances where the HSA has been paid by the Ministry, outside of HSA's approved outputs or executive appropriations, such as occurred for the reimbursement of allowances paid to HSA employees which is ongoing (i.e. reimbursement of acting allowances paid to HSA staff for the posts of Medical Officer of Health and Chief Medical Officer); and for the administration of the Public Health Department for which the budget was held at the Ministry even though the operations were being carried out at the HSA. The Ministry therefore contends that there has been no precedence for the HSA

obtaining funds from the Ministry and paying it out to a third party, as occurred in this instance with AIS.

Our audit further determined that in the 2011/12 Annual Plan and Estimates there was an amount of CI$2,000,000 under EI29 for the Health Services Authority with the description `Repairs and Replacement of Assets'. This budget provision was included in the 2011/12 budget based on a letter of May 3, 2011 that was emailed from the former Board Chairman to the Minister of Health pertaining to the national roll-out of the RTA/EVS System. This apparently was done without the knowledge of the CEO, and the financial officers at the Health Services Authority, as our review of the email to the Minister did not identify any other persons on the email distribution list.

The HSA officials have pointed out that the AP&E describes the appropriation as `Repairs and Replacement of Assets' and not as an appropriation for the EVS/RTA System. We have raised this with the Ministry's finance officers and were advised that this was an error due to the late change to the budget. The former CFO advised that EI29 was previously used as `Repairs and Replacement of Assets' and it is apparent that the description was not adjusted when the budget was being changed.

The former Ministry CFO provided us with a copy of the schedule of `Capital Expenditures for 2011/12 Fiscal Year' which was provided to the Ministry's finance officers in May 2011, by an officer in the Budget Management Unit. Our review of the schedule established that the description on the schedule for the CI$2,000,000 appropriation was `Electronic Verification System'. This schedule therefore seems to indicate that the AP&E erroneously reflected the description of the appropriation.

In August 2011, the Ministry of Health's finance officers received an invoice from Advanced Integrated Systems (Cayman) in the amount of CI$1,200,000 addressed to the Ministry of Health (FBO Health Services Authority). On 8th August 2011, the former Ministry CFO emailed the CFO at the HSA to request a copy of a contract to facilitate the payment. The HSA's CFO advised that contact further update would be provided after contact was made with AIS concerning the invoice. We did not see the response back to the Ministry's CFO. On 15th August 2011, the former Board Chairman emailed the Ministry's former CFO attaching the "agreement with HSA-CINICO and AIS as requested".

In August 2011, the Ministry of Health then processed Executive Transfers statement - batch # EHE-AUG1011-003-EI with the description `H.S.A. 1st Draw Down re Adv. Integrated System (Inv. # 208)' to withdraw CI$1,005,000 on the basis of invoice # 208 from Advanced Integrated Systems (Cayman) that identified the Ministry of Health as the customer.

This amount was paid along with CI$1,166, 176.42 from executive transfer statement - batch # EHE-AUG1112-003 which was for a number of invoices from the HSA claiming payments for various approved appropriations.

The total amount of CI$2,171,176.42 was paid over to the Health Services Authority, drawn on Ministry cheque number 109596, dated August 23, 2011 with the description `50% payment to HSA re: EVS/RTA' and `11/12 Jul 11 Outputs'.

In a similar manner, in May 2012, the Ministry processed Executive Transfers statement – batch # EHE-MAY1112-002-EI with the description Health Service Authority – Electronic Verification & Real Time Adjudication System (Inv. # 120 – AIS) withdrew CI$502,500 on the basis of invoice # 120 from Advanced Integrated Systems (Cayman). This invoice was again billed to the Ministry of Health as the customer. This drawdown was also paid over to the Health Services Authority on the Ministry's cheque number 109777, dated May 18, 2012.

The HSA advised us that in order to drawdown funding from the Ministry of Health the HSA would provide the following documents to the CFO in the Ministry:

- A memo signed by the HSA's CFO, indicating the amount being requested and what budget appropriation it is related to;
- Relevant supporting documents for the amount including invoices, contracts, etc.
- An IRIS invoice to bill the Ministry of Health for the full amount being requested.

The HSA further advised that for previous requests for equity funding, the Ministry of Health would only release funding to the HSA with the appropriate supporting documents. In this instance there were no corresponding invoices from the HSA for the amounts of CI$1,005,000 and CI$502,500 as is the usual procedure when the HSA is requesting their approved equity injections.

We were informed by the former CFO in the Ministry of Health that requests for drawdown of funds from SAGCs may be in the form of invoices, but can also be in the form of a letter requesting this drawdown. The former CFO further advised that regardless of the format of the request for drawdown whether an invoice or a letter the final approval to drawdown is given by the Minister of Health.

He further advised that in the case of the CarePay procurement, the requests to drawdown the funds came in the form of a letter (on the HSA's letterhead) directly from the former Board Chairman, to the Minister of Health. Based on the information provided to us, this communication appears to have been done without the knowledge of the CEO as well as, the financial officers at the HSA.

Additionally we were advised, and based on our review of the payment batches noted that the requests for the Executive Transfers were supported by the relevant Appropriation Statement

for EI29, the AIS invoices, letters from the former Board Chairman of the HSA (written on the HSA's letterhead), copy of the CTC approval for the tender award. The CFO also informed us that the contract that was received from the former Board Chairman also confirmed to him that the arrangement was in relation to the approved appropriation for the HSA. He advised that he commenced a review of the contract but upon realizing that the agreement was with the HSA and not the Ministry, he was satisfied that the invoice was not for the Ministry of Health, seeing as the contract did not relate to the Ministry of Health.

From our review of the Agreement that was included in the email to the Ministry of Health's former CFO, we noted that the first paragraph of the recital is different than the one provided to us by the Procurement Unit at the HSA. This version included references to a first and second phase, whereby the second phase involved the implementation of the System to the local private insurance carriers and private health care providers.

During the conviction of the former Board Chairman, this version of the contract was determined to be fraudulent. It is apparent that due to lack of information, at the time the Ministry of Health made these payouts to the Health Services Authority, the former CFO was unaware that the contract was fraudulent.

The former CFO also advised that as he was not involved in any of the meetings concerning the project, he had no knowledge or background information on the project. Additionally, the former CFO advised that as the Ministry of Health did not have any contractual relationship with AIS Cayman at that time, the contract provided to him was with the HSA and CINICO and with the knowledge that there was an approved appropriation (EI29) for the procurement being undertaken, the decision was taken to make the payments to the HSA instead of paying directly to AIS Cayman.

Subsequent to the payment of the first invoice (US$1.2M) to AIS Cayman, in November 2011 the HSA's finance personnel sought to acquire pertinent supporting contracts from the Ministry of Health to complete their accounting records for the payment. The finance officers advised that such supporting documents were never provided. They have however, advised that it was as a result of this enquiry that they became aware that the funds provided to them was for a drawdown of equity injection. Despite this realization, subsequently in May 2012 the HSA receipted the 2nd drawdown of CI$502,500 and paid it out to Advanced Integrated Systems again, at the request of the former Board Chairman. Based on information from the former CFO of the Ministry of Health, the HSA's management did not consult with the Ministry prior to their release of the two payments to AIS.

Whilst it is unclear why the HSA paid the funds to AIS, given their knowledge that the CarePay System was not demonstrated to be operating sufficiently effective to be ready for the national roll-out, as was the intended arrangement for the long term goal. We have taken note, that the

following factors contributed greatly to the HSA's decision to issue the payments of CI$1,507,500 to AIS Cayman:

- The HSA finance officers' understanding of the prior financial relationship with the Ministry of Health as advised by the HSA's finance officers, whereby the HSA would be asked to make payments on behalf of and be reimbursed by, the Ministry of Health. The officers advised that the standard operating procedure with regards to the Ministry of Health or other related party transactions at that time and currently still being practiced, is that the HSA would receive such funding and re-issue the payment to the contracting party of the Ministry of Health. Although this has been disputed by the Ministry of Health we were not provided any information to form an appropriate conclusion, and as such our report has acknowledged that this view held by the HSA finance officers, may have contributed to the payment decision taken at that time.

- The lack of information and understanding by the Senior Management team at the HSA as well as in the Ministry of Health, as to the actual arrangements in place for the implementation of the national roll-out of the project. The HSA's CEO and finance officers were unaware of the role of the Ministry in the project, whereas the Ministry's Chief Officer and CFO appeared to also have been unaware of the role of the HSA in the project. The only person who appeared to have been fully aware of the various roles was the former Board Chairman. As the Ministry and the HSA's personnel did not have complete information the former Board Chairman appears to have been providing the Minster of Health and the Ministry with a different set of information than was provided to the HSA personnel.

- The authority of the instructions for the payment; the instructions were provided to the HSA's finance officers by the former Board Chairman, who is the head of the HSA. As noted in finding # 6 below, this was a significant contributing factor to the lack of due diligence.

- The fact that the former Board Chairman was also the Chairman of the procurement committee served to create confusion as to the role being acted in when instructions are given, as noted in the finding #6 below. Furthermore, the CEO at the HSA advised that as it related to the CarePay procurement, the former Board Chairman insisted that he was the appointed Chairman and as a result decisions in regards to the procurement were relinquished to him.

- Also a significant contributor, and possibly a justification for the level of confidence in the former Board Chairman, is the fact that prior to assuming the role of Board Chairman, he was the Chairman of the Finance Sub-Committee of the Board. No doubt

therefore he was heavily involved in, and relied on for the financial management and decision making of the HSA.

Nevertheless the CEO and CFO at the HSA have a duty to protect the financial assets of the HSA and in this regard the expected standard of care and professional skepticism was not exercised in the payment of the invoices. The payout of funds without an invoice that is properly addressed to the HSA demonstrating that the debt belonged to the HSA, and the lack of a contract or purchase order matched against that invoice, validating that the service was requested by the HSA, is a breakdown of fundamental accounts payable controls. As noted above, we do acknowledge that in a number of instances information was not shared with the CEO and finance officers by the former Board Chair, and it may have been that these Officials were therefore unaware of the details of the signed contract and the implications for the national roll-out that was being paid for. Nevertheless the controls that were established to safeguard the entities resources were not applied as expected.

We also acknowledge that the Chief Officer and former Chief Financial Officer within the Ministry of Health may not have followed their usual procedures (although they have advised that there were no formal established procedures in place) for the drawing down of funds. The invoices that typically accompanied requests for equity drawdowns were not obtained from the HSA. We are of the view however, that the Ministry of Health's reliance on the existence of an HSA/CINICO Agreement (which was provided by the former Board Chairman, although it was later discovered to be fraudulent), the approved appropriation for the HSA, and the letter from the former Board Chairman (on the HSA's letterhead) were adequate support to facilitate a transfer of funds from the Ministry of Health to the HSA; which is a government entity that continuously receives funding from the Ministry from time to time.

6. *Lack of Clear Reporting Due to Operational Involvement of Board Chairman*

Section 8 of the Health Services Authority Law states that the (*1) Authority shall have a Board of directors which shall be responsible for the policy and general administration of the affairs and business of the Authority. (2) The Board shall be responsible for the financial performance of the Authority including for ensuring that the Authority (a) delivers the outputs..; and (b) achieves the ownership performance*

Section 14 of the same Law states that (*1) The Board shall appoint…a Chief Executive Officer who shall be...(b) the principal executive officer of the Authority entrusted with the day to day management and administration, to the extent of the authority delegated to him by the Board. (2) The Chief Executive Officer shall render his services exclusively to the Authority and shall be answerable to the Board for his acts and decisions.*

Section 47 of the PM&FL also states *(1) The board of a statutory authority or government company shall be responsible for the performance of the authority or company…, including for ensuring that the authority or company -*

(a) delivers the outputs specified in the purchase agreement… and
(b) achieves the ownership performance specified in the ownership agreement.

(2) The board shall be responsible for appointing, and monitoring the performance of a chief officer.

(3) The board shall delegate to the chief officer, on such terms and conditions as it thinks fit, the power to manage the statutory authority or government company.

Effective controls to eliminate fraud and prevent unauthorized payments include the principle of separation of duties; that is ensuring that there are different people involved in various aspects of an organization's business processes; in particular payment processes. As an effective control, this principle is designed to manage conflict of interests and prevent the perpetration of fraud by one individual.

During the procurement of the CarePay System, the Board Chairman operated in the following roles:

- Chairman of the Board of Directors of the Health Services Authority
- Main liaison to the Minster of Health from the HSA
- Chairman of the EVS Technical Committee
- Advisor to the Minister of Health on the procurement of the RTA/EVS System
- Representative at the CTC Bid Opening
- Negotiation of the contracts
- Signatory on the CarePay Contract
- Member of the Implementation Steering Committee
- Submission of invoices on behalf of the vendor
- Directing payments of invoices to the contracted vendor

Based on an email from the former Board Chairman of March 3, 2011, we have determined that despite his role of Chairman of the Board he was further appointed as the Chairman for the implementation of the RTA/EVS system, which was not 'an HSA Board –sponsored initiative". This appointment directly resulted in the conflicting roles undertaken by the former Board Chairman.

From our review it is apparent that the Ministry of Health, CINICO and HSA personnel placed a substantial level of confidence in the former Board Chairman. This assessment is made on the basis of the different roles in which the Chairman was allowed to operate ranging from

development of policy/strategy to performance of executive management duties and decisions including payment decisions, which were taken solely on the `word' of the Board Chairman, without question.

The lack of clear reporting lines and separation of duties, and the involvement of the former Board Chairman in executive management roles, is not in keeping with the principles of good governance and effective internal control frameworks. In addition to eliminating the oversight necessary for management decision-making, this serves to blur the lines of responsibility and accountability, and create ambiguity and confusion for staff.

For example, when the Board Chairman submits an invoice on behalf of the vendor, and then on the other hand responds to queries and issues instructions to the financial officers as to the operational approach to pay that invoice, the staff would be rightly confused as to what role the Chairman is functioning in for the two directives. To consider the scenarios further:

- By submitting the invoice on behalf of the vendor, the Chairman is carrying out the duties of the contracted vendor;
- By responding to queries and issuing payment instructions to the financial officers, the Chairman is performing in the role of executive management;

Given that the substantive role is that of Board Chairman, this is the only role that the staff associate with any actions or directives issued and as such those directives would be acted on as having been issued by the Board Chairman; who is in a position of significant authority in the HSA.

Further based on the authority of the former Board Chairman, even if the staff had concerns regarding any instructions being received from him they may have refrained from raising those in fear of reprisals. This therefore limited any resistance or `push back' that might otherwise have been faced under the usual circumstances. This may also have contributed to the lack of due diligence in the payment of the invoices without proper supporting documents as noted in finding #5 above.

One of the actions that the Ministry of Health could have taken, which might have mitigated such confusion was to terminate/suspend his role as Board Chairman of the HSA when he was appointed to the role of Chairman of the procurement and implementation of the RTA/EVS System.

7. *Deficient Governance Framework*

Good governance is about both:

- **performance**—how an agency uses governance arrangements to contribute to its overall performance and the delivery of goods, services or programmes, and
- **conformance**—how an agency uses governance arrangements to ensure it meets the requirements of the law, regulations, published standards and community expectations of probity, accountability and openness.

This means that, on a daily basis, governance is typically about the way public servants take decisions and implement policies.[3]

As stated in the finding above, within the Cayman Islands Government the PM&FL recognizes the board of a statutory authority or government company as the governing body for the authority or company. The Board of Directors is then responsible for delegating relevant management responsibilities to a CEO.

Generally it is the responsibility of the relevant Minister through the Ministry, and Cabinet to set broad policy outcome goals and directions within which the statutory authorities and government companies (SAGCs) operate. This is after obtaining the SAGCs' input into the policy direction to ensure that the policies are designed to best accommodate the entity's needs.

The Board Chairman is typically responsible for the operations of an SAGC and is the main liaison between a Minister and the Board to facilitate two-way accountability by providing input to and ensuring the achievement of policy directives.

The CEO should typically assist the Board Chairman in this regard and should participate in related discussions as appropriate.[4] In addition a CEO should typically be responsible for leading the implementation of the entity's strategic initiatives, policies and budgets and manage the day-to-day business of the entity.

A Chief Officer's role within Ministries is a key component of effective governance arrangements between Ministries and SAGCS. Their role is to ensure that ministerial policies are achieved effectively by ensuring that:

- All operations comply with relevant and established policies, laws and regulations;
- Flag up risks issues early enough, so that they do not negatively impact the achievement of policy objectives.

[3] Building Better Governance – Australian Public Service Commission
[4] Best Practice Guidelines, Board Resourcing and Development, British Columbia

There are two areas in which governance is of concern as it relates to the CarePay procurement. These are:

i. Governance as it relates to the relationship of the HSA as an SAGC and the Ministry of Health; and
ii. Governance of the CarePay procurement as a multi-agency procurement

Governance Between The Ministry of Health and The HSA

To assure accountability between the relevant Ministry and the SAGC, the PM&FL states that the SAGCs are to prepare annual ownership and purchase agreements (as part of the annual budget process), submit invoices to drawdown on any Government funding (on the basis of outputs produced), and prepare annual reports of performance.

In addition, it is the usual practice for a representative from the Ministry under whose portfolio the SAGC falls, to sit on the board of that SAGC as an ex-officio member of the board. This arrangement obviously was designed to ensure that there is certainty in how the SAGC applies any policy directives issued by the Ministry and Cabinet.

This practice still applies to all SAGCs within the remit of the Ministry of Health, except for the HSA. In the case of the HSA it is understood that this additional line of accountability was removed when the Impact Consultants' 2007 report "Governance Model for Cayman Islands Health Services Authority" was implemented.

The Health Services Authority Law also provides for the Minister to give general directives to the Board; however this can only be done "proactively" (i.e. before an issue is before the Board, but not in response to an issue that arises). As there is no Ministry representative on the Board of the HSA, the main avenue therefore for this to happen outside of the annual budget and reporting process, is through the communications held between the Board Chairman and the Minister of Health.

During the CarePay procurement process it was observed that the Board Chairman communicated frequently with the Minister of Health, based on references to such that were noted in Minutes of Board and Committee meetings, as well as various other written correspondences.

We have observed however that during those communications it is apparent that the CEO of the HSA was not always involved, and in many instances neither was the Chief Officer within the Ministry of Health. While this is expected for confidentiality and privacy purposes and to facilitate free and frank discussions, in the case of the procurement of the CarePay System; which was so integral to the HSA's strategic objectives, and required such large outlay of government funds, the CEO should have been included to a large extent in the communications

between the Minister and the Board Chairman. Additionally, the Chief Officer as the principal source of advice to the Minister should have been privy to all communications on the CarePay procurement as they relate to significant policy decisions to be undertaken under the remit of the Ministry of Health.

As a result of the exclusion of the CEO from the communication process, there was inadequate understanding as to the intent of the procurement, to what extent the HSA was involved and the objectives to be achieved in terms of whether or not there a national phase to the specific procurement being undertaken and the timeline for this.

The lack of information by the CEO of the HSA, contributed to the blurring of the lines of accountability and to the CEO's lack of objections to operational management decisions being taken by the former Board Chairman, particularly seeing as he was appointed as Chairman of the procurement project. Such decisions include consenting to the payment for the CarePay System, which is a capital acquisition as defined by the PM&FL (and as noted in finding # 2 above), to be processed through the operational budget; not having capital budget provisions, as well as refraining from raising concerns when the former Board Chairman provided instructions on payment arrangements for invoices.

The lack of full involvement of the Chief Officer in the Ministry of Health and the Chief Executive Officer of the Health Services Authority in the procurement, so as to ensure its effective implementation in all respects, is a deficiency within the governance arrangements between the two entities and contributed to the poor decision making and outcomes in the procurement of the CarePay System.

Governance of the CarePay Procurement Process – Multi-Agency Procurement

The procurement was approved by the CTC as a procurement of the HSA; however, we have determined that it was a multi-agency procurement that was administered by the former Board Chairman of the HSA, having been appointed as Chairman of the Technical Committee.

We noted that the Board of Directors of the HSA consisted of a member with relevant IT expertise; being the Director of Information Technology (IT) with a local audit firm. In addition the HSA employed a Chief Information Officer. However, the EVS Committee to procure the CarePay System was chaired by the former Board Chairman, whose expertise on the Board as we were made to understand was not in the IT field.

Given that the procurement was also to benefit CINICO, was initiated by the Ministry of Health, and the contract was executed jointly by CINICO and the HSA, it is evident that the procurement was of a wider remit than just the HSA.

Additionally it was our understanding that the HSA normally utilizes its procurement officers when undertaking its own procurements. In the case of the CarePay procurement however, these procurement officers were not as involved to the extent they would be for regular procurements of the HSA. One of the procurement officers advised that she was never formally informed as to the details of the procurement except when she was copied in the email requesting review of the draft RFP, and as required, all questions concerning the RFP were sent via email to that procurement officer. For the CarePay procurement, the Technical Committee consisting of personnel from the HSA, CINICO and the Ministry of Health was responsible for carrying out the procurement process.

Although the procurement was related to multiple agencies it was more or less relegated to the HSA only and the general view appeared to be that it was a procurement of the HSA. We were unable to clearly determine why this occurred however.

As an organization most of the CIG's transactions tend to be conducted on a vertical basis and it may be apparent that there are insufficient cases of multi-agency collaboration for the delivery of outputs, in particular procurements. The result therefore is that the Government does not have an established procedure or framework in place to guide entities in the execution of such multi-agency arrangements. This assignment of the System procurement therefore could be owing to the CIG lacking any procedures or framework to govern multi-agency procurements.

Nevertheless, the lack of multi-agency involvement and the decision to assign the project to the HSA, instead of the Ministry of Health (seeing as it involved two entities under its remit) only resulted in poorly defined governance arrangements and less than optimal outcomes.

With a planned expenditure of US$1,372,000 initially (estimated to be over CI$11M over a 5-year period), and as a complex, high-risk project; considering not only the number of agencies involved but the significant integration and workflow elements required, and the uniqueness of the technology that was planned to be implemented, an effective project management structure, governance process and expertise should have been utilized in the procurement.

The CarePay procurement, is a prime example of a programme that would have been more effectively implemented if the project was coordinated and led centrally from the Ministry of Health. The governance arrangement should have required that the leadership of the project came from the Ministry of Health rather than from the HSA or CINICO and should have ensured that the project team consisted of representatives of all entities but with a focus on expertise for the project rather than the position held. This way the Ministry of Health as the central hub of the decision making, would ensure adequate coordination and management of the project.

Additionally, and as mentioned before (finding #1), adequate planning should have been undertaken prior to commencing the procurement project. Such planning should have included ensuring that adequate budget funding was available, that there would be clarity of roles and

responsibilities, that there would be adequate resources for timely project delivery, that all parties performed their roles as required, and to assure that the project would achieve the expected results.

The lack of an effective governance arrangement for the procurement project contributed to the poor planning, the ambiguities and lack of role clarity, the lack of communication and inadequate information flows, the fraudulent payment of invoices, the delays in implementation and the inability of the implemented System to meet the expectations and needs of the HSA, CINICO and the Ministry of Health.

RECOMMENDATIONS

Based on our audit findings, there were a number of non-compliances and internal control deficiencies identified during the assignment. However, we have determined that the major breakdown that resulted in the failure of the procurement process, related to the weak governance framework that was in place for the management of the HSA as well as over the specific CarePay procurement.

These deficiencies of the governance arrangements, resulted in the HSA officials setting aside their usual established procurement operating procedures, under the understanding that the project was a multi-agency procurement initiated by the Ministry of Health and the initiative of the HSA. In addition, as the project was being lead the former Board Chairman, who had strategic authority for the HSA, and who was appointed by the Ministry of Health as the Chairman of the CarePay procurement, the staff only acted on his instructions.

The following recommendations are therefore being made for improvements in these areas.

Governance Of the HSA

1. There is an established framework in place whereby SAGCs account to the CIG through their boards, as per Section 47 of the PM&FL, which further requires that the CEO is appointed to manage the statutory authorities and government companies. The HSA Law also makes provisions for the separation of roles between the Board Chairman and the CEO. The HSA has also developed Board of Directors Policies to guide the implementation of the Law so as to ensure clarification and clear separation of roles between the Chairman of the Board, board members, and the role of the CEO and executive management. Our recommendation therefore is that these policies should be enforced in all circumstances.

   The Chairman of the Board of the HSA or any other SAGC should not be assigned operational roles for the implementation of policies, such that the assignment could result in conflicts with the roles and duties of senior management within that entity.

2. Establish formal communication mechanisms between the Ministry of Health and the HSA, outside of the annual budget and reporting processes. Such communications should set out clear expectations for policy directions and should facilitate effective identification of high-risk issues and notification to the Chief Officer and the Minister of Health on key impacting issues within a timely manner. Communication of pertinent information that affects the management of the HSA should involve the Board as well as the CEO of the HSA.

Governance of the CarePay Procurement - (Multi-Agency Procurements)

3. All procurements should be conducted in accordance with the CIG's procurement policies and regulations. In the case of multi-agency procurements, the procurement approach and structure should be designed to be relevant and appropriate to the nature of the particular procurement being undertaken, so as to facilitate this compliance.

4. Copies of contracts that are prepared as a result of responses to an RFP should be retained within the relevant entities and should be provided to the financial officers prior to any payments being made for services under that contract. Contracts should also be vetted prior to signing to ensure that they adequately set out vendors' obligation to deliver services so as to achieve the intended specifications that were outlined in the RFP, and for which they were the successful bidder.

Application of Declaration of Interest by the CTC

5. To prevent and/or detect conflicts of interest in the award of Government tenders this clause should be applied to public sector employees and others that are utilized during the tender process as defined in the Open Tender Process Manual.

   Additionally, all public servants involved in the procurement process should be required to sign declaration of interests' forms as a part of the procurement process. To mitigate against persons providing false information during the declaration, negative consequences for false declaration should be established, communicated to all and applied as required.

   Appropriate records should also be retained by the CTC to facilitate management and audit reviews.

Payment Arrangements Between Ministry of Health and the HSA

6. The HSA and the Ministry of Health should establish documented agreements to govern transactions being undertaken that are outside of the usual purchase and ownership agreements/arrangements so as to ensure that all parties are agreed as to the terms of the arrangements being entered into. Appropriate invoices should then be raised as necessary to support any requests for funds in accordance with the terms of the agreements.

7. As the key controllers of the entities' financial resources, Chief Financial Officers within entities should be fully aware of key policy decisions that will require financial support. As was clearly demonstrated in this case, the financial officers were kept out of the loop, yet they were the same personnel who were called on to decide how to administer the

entities funds. It is therefore vital that these officers are provided with sufficient information regarding key policy and strategic initiatives, so as to assist them in making appropriate decisions for the management of their entities' finances.

MANAGEMENT COMMENTS

The Chief Officers of the concerned entities have provided the following comments in response to the issues raised in this report:

Chief Executive Officer, Cayman Islands National Insurance Company (CINICO)

CTC rules may need to change requiring additional information and documented due diligence

- All bidders responding to an RFP should state the penultimate "payee", if they are the successful bidder, which should be included as a part of the ESTAR report that is submitted to the CTC.
- All bidders must disclose every Caymanian connection, affiliation, agency relationship or representative who would be a direct beneficiary party to the contract, more specifically
- Full Discloser (of the primary, secondary company or agency) shareholders, directors, & management.
- Any person who is a part of the selection process would review each set of these required documents received from each bidder, and sign a RFP specific "conflict of interest" statement explicitly stating that they have no conflict of interest with the entity, its members (i.e. shareholders, directors, etc.), their secondary companies, agencies etc. of the responding entities.
- Bidders must disclose all ultimate beneficiary of a potential awarded contract.
- Bidders must identify the relevant agency or authority with which they are licensed, including full contact information for expedition of due diligence by CTC/RFP publishing company.

Chairman Central Tenders Committee

When I assumed Chairmanship of CTC in late 2011 we drafted a policies and procedures manual for CTC. Certain sections of the manual remain in draft pending review by a procurement specialist and may require revision once the Public Sector Procurement Bill becomes law. Section 1.4 "Register of interest and resolving conflicts of interest" expands on the definition to which you refer in the CTC Open Tender Process Manual and reflects current CTC practice in the area.

The introduction to this section reads: "The tendering and procurement of goods is one of the principle areas in which conflicts of interest and corruption occur in the public sector around the world. In jurisdictions of the size of Cayman this is exasperated by the close relationships enjoyed amongst the community." CTC operates with this understanding in mind. Accordingly at every bid opening meeting, members of CTC as well as the DTC in attendance are required to declare any conflicts of interest and sign a form confirming the absence of any such conflict.

Whilst we were unable to provide you with a copy of the conflicts of interest form (that I believe would have been completed at the 15 November 2010 bid opening) I cannot accept, had we been able to do so, that it would have disclosed the conflict that existed between the former board chairman of HSA and the contracted party. His intent was clearly to deceive and it's unrealistic to assume that he would have made a voluntary disclosure of conflict if asked by CTC.

I agree with you that the wider definition of declaration of interests as outlined in the CTC tender process manual is appropriate in the broad concept of public sector procurement. But it cannot be applied and monitored in its entirety by CTC. We do not appoint the members of a DTC and often times will not even know who they are. They may also change during the different stages of the procurement. We will meet certain members of the DTC at the bid opening meeting and we will be informed of the bid evaluation committee members as part of the ESTAR report. Potential conflicts at the DTC level need to be evaluated at the initial tender preparation stage and re-evaluated throughout the procurement process as conflicts that did not exist initially can arise later on (for example once bids are submitted). There must therefore be a process that monitors actual and potential conflicts within the relevant Ministry, Statutory Authority or Government Controlled Company throughout the procurement cycle. Clearly this cannot be delegated to CTC.

I would submit that CTC's current practice (and the practice that existed at the time of the CarePay procurement) is all that can reasonably be expected of CTC. Namely, we monitor and record any conflicts of interest within the membership of CTC itself and we inquire and record details of conflicts of interest of those members of the DTC that come before us.

Chief Officer, Ministry of Health

The Ministry plans to review the governance structure for the HSA, specifically the composition of the Board and the provisions for Ministry directives to the Board, in the upcoming financial year. Quarterly meetings with the Minister/Councillor, the Chief Officer, the Board Chair, and the CEO of the HSA have already been initiated and should help to improve the communication between the Ministry and the HSA until the changes to the Board composition are formalized.

Chief Executive Officer, Health Services Authority (HSA)

The HSA welcomes this review and the auditor's recommendations.

I trust that this review will enable all parties to better understand that the procurement of the CarePay system was a multiagency initiative that was spearheaded by the Minister of Health. The Minister of Health appointed the Chairman of the HSA Board to also be the Chairman of the

technical and evaluation committee for the procurement of a software for HSA, CINICO and ultimately a national ministry initiative.

As a multiagency initiative the administration of the project should have been coordinated by the Ministry in order to prevent the conflicting roles that the former HSA Board chairman was given which may have mitigated his ability to manipulate the business arrangement in his favour. Furthermore, prior to approving the initiative the business case should have been required from the Technical and Evaluation Committee by the Ministry.

The reporting structure of the CEO and the segregation of roles between CEO and Board is already in place however it requires the enforcement and support of the Ministry. During the implementation of the CarePay system, the CEO directed the HSA's CIO to be the contact person for the project, however, the HSA Board Chairman in his capacity as Chairman of the Technical and Evaluation Committee vetoed that directive and exercised his authority to lead the project as the person appointed by the Minister of Health. This was supported by the Minister.

The HSA exercised professional scepticism when they were requested to pay the invoice. Documentation shows that the HSA used due standard of care when there was a request to pay the invoice to AIS by flagging the Ministry that HSA had no knowledge of a contract for the national roll out. The Chairman of the Technical Committee responded to say that the contract was with the Ministry of Health, following which the Ministry of Health took the instruction from the Chairman of the Technical Committee and sent the funds to the HSA which was subsequently payed over to AIS.

The procurement of the CarePay system was conducted by the Technical and Evaluation Committee using the HSA's Procurement policy. The HSA's procurement policy has since been aligned with the CIG procurement policy which requires any communication with potential bidders and a copy of the signed contract to be sent to CTC. However, neither of these steps would have indicated that anything was untoward with the procurement of the CarePay system.

Going forward, Service Level Agreements will be put in place to formalise the transactions that the HSA makes on behalf of the Ministry of Health.

The HSA welcomes formalised communication with the Ministry of Health through regular meetings, a structured agenda and minuted action items. Meetings between the Ministry of Health has been ad hoc over the years despite a number of requests.

APPENDIX 1 – LIST OF INTERVIEWEES/RESPONDENTS

LIST OF PERSONS INTERVIEWED

Lizette Yearwood	Chief Executive Officer, Health Services Authority
Heather Boothe	Chief Financial Officer, Health Services Authority
Lisa Bell	Procurement Officer, Health Services Authority
Salome Trinidad	Financial Controller, Health Services Authority
Carrol Cooper,	Former Chief Financial Officer, Ministry of HEYS&C
Jennifer Ahearn	Chief Officer, Ministry of HEYS&C

ADDITIONAL PERSONS CORRESPONDED/LIAISED WITH

Lonny Tibbetts	Chief Executive Officer, CINICO
Frank Gallippi	Chief Financial Officer, CINICO
Angelee Beersingh	Board Secretary, Health Services Authority
Nicholas Freeland	Chairman, Central Tenders Committee (CTC)
Shanna Saunders	Secretary of the CTC
Nellie Pouchie	Chief Financial Officer, Ministry of Health & Culture