26 February 2008

Hon David Cunliffe
Minister of Health
Parliament Buildings
Wellington

Dear Minister

Your letter 20 February 2008 expresses your view that you are seriously dissatisfied with the performance of the board of the Hawke's Bay District Health Board. You indicate you are considering appointing a Commissioner under s31(1) of the New Zealand Public Health and Disability Act 2000. You have invited the board to respond to four questions outlined in your letter.

Prior to addressing these specific questions I feel it is incumbent on me to respond to the comments in the letter and references elsewhere in the media, which question the integrity of the members of the Hawke's Bay District Health Board.

The Hawke's Bay District Health Board is comprised of an exceptional group of hard working members of the community, who are wholly committed to the improvement of the health of the people living in their region. It has been my privilege to serve with this group of very dedicated people who have represented their community with the utmost diligence. To challenge their integrity is wholly inappropriate.

On another aspect, your letter seems to suggest that there are a "range of concerns", yet you say that your decision will focus on those which in your view are "the most critical" and which form the basis of your "serious dissatisfaction". On advice, I am obliged to ask you whether the other matters forming part of the "range of concerns" will form part of your deliberations when considering this response. If so, the board has not been provided with the detail nor the proper opportunity to respond.

The board's response to your questions is recorded below:

1. **Rapidly deteriorating financial performance.**

   We believe your statement that there is a "rapidly deteriorating" situation does not accurately reflect the current position of the HBDHB. Significant work has been undertaken by both board and management over the past 12 months and the current projected deficit reflects a significant component of uncontrollable cost.

In preparing our 2007/8 District Annual Plan (DAP), it was the board's clear understanding that the Minister expected the Hawke's Bay DHB to operate within budget. This was reinforced in a letter to the board from Minister Hodgson in December 2006.

When reviewing areas of potential cost reduction with management the board rejected proposals to consider reducing patient services. The board wished to comply with the expectations of the Minister and despite management flagging risks in achieving a break even budget the board instructed management to address the deficit risk through efficiency measures that did not involve cuts to services. To date management have been unable to realize the full extent of the efficiencies required.

Provisional budgets forecast that the un-funded MECA settlements, growth in patient transport costs and carry forward of last year's negative result contribute to $9.6million of uncontrollable costs. Efficiency gains reduce the overall deficit forecast to $7.7 million.

The board's funding shortfall is caused by general under-funding and the "adjusters" used in the Ministry of Health's population-based funding method, particularly the rural adjuster which includes patient transport. They have not kept up with inflation and the adjuster does not cover costs. Our concerns relating to these matters have been conveyed to your Ministry regularly.

The board has worked extensively with management to confront this year's budget challenges. Aside from the costs outside our control we are operating within the target range of +/- 1 % of revenue. The board believes that the current criticism regarding financial performance is unwarranted given these circumstances. The board also feels it is unreasonable to determine that there is a "rapidly deteriorating" financial situation when the board is currently planning strategies to manage the identified risk.

I wish to record that the comments attributed to me in the Dominion Post 13 February 2008 are incorrect. The report had been written following a lengthy telephone discussion with the reporter regarding a wide range of health issues. I was not given an opportunity to check the veracity of the article prior to its publication. I believe the reporter genuinely misunderstood my comments, due to the length and complexity of the issues discussed. I regret the confusion arising and any consequent impact on you as Minister. There was no intent to embarrass you or the Government.

Further comment on the DHB's financial performance is detailed in **Attachment "A" Appended** to this letter.

## 2. The Minister's lack of confidence in the Board's integrity

I have already referred above to your example with regard to the board's integrity. We have asked for clarification of other instances where you believe you have been publicly challenged. In your letter 22 February 2008 your example in paragraph 3.1 has also been addressed above.

Paragraph 3.2 of that letter does not provide examples as requested and simply restates the position set out in your 20 February 2008 letter. The board believes your concerns in regard to any public challenge are misplaced.

In regard to the concern you have about board members advancing personal agendas in the media we have also asked for clarification from you but again there has been no response. We believe that this concern is unwarranted.

Over the past six months the board has attempted to engage directly with you or your predecessor to address concerns and to date this engagement has not occurred despite requests. The board was disappointed that you were unavailable to meet with us prior to Christmas but appreciate your busy schedule precluded such a meeting.

**3. Functional relationships between the board and you as minister and the board and management.**

Firstly, the board finds it difficult to understand your concern that there is a dysfunctional relationship with you when you have been in your role for such a brief time. The board has never met with you. I personally have had limited communication with you, that communication I believe has been cordial and without a trace of anything that could be regarded as dysfunctional. The board and myself regret that you feel this way and would welcome engagement with you to address this matter.

Paragraph 4.1 in your letter dated 22 February 2008 states that clinicians have publicly stated their dissatisfaction with the Board's performance. I am aware of only 2 clinicians who have spoken out publicly, one has departed the DHB after his exit interview and the other holds a senior clinical and management position. He had not conveyed his concerns to management or the board previously. This is despite the board meeting with all of the clinical directors every three months. Two out of 120 is a small minority and their views have never been brought to the board's attention. The chair of the clinical staff, John Rose and Peter Foley head of NZMA have both come out publicly stating their membership fully supports the board.

In response to your paragraph 4.2 in your 22 February letter, I am unaware of any board member other than David Davidson making media comment. In his case he was not fully aware of the content of your letter in relation to media comment at the time he was asked by the media for his views.

In order to address the issue of your concern over dysfunctional relationships with management it is necessary to give some background to board and management issues over the recent past. This background, we believe, ought to give you comfort that the board has acted prudently as it is required to do under the governing legislation. The issues raised here highlight the very serious challenges faced by the board in dealing with a complex set of circumstances not of the board's making. The board has at all times acted appropriately seeking advice from its legal advisors and keeping MOH officials fully informed regarding these matters. We are concerned that MOH officials may not have kept you fully briefed on the matters discussed with them.

### 3.1 The board's relationship with the chief executive and management

Ultimate accountability for the actions of all management and service delivery performance lies with the chief executive. The board has been seriously concerned about the ability of the chief executive to achieve the financial targets and service outcomes the board requires. These performance issues are reflected in his performance assessment.

It is important to note that these are matters which have confronted the board and which it has taken positive steps to resolve. In particular, the board has been greatly troubled by competence issues and behavioral aspects. These include adherence to board procurement policy first identified by board members and subsequently referred to the Auditor General. Management breaches of procurement policy and the conflict of interest issues identified as between Peter Hausmann and management have had a profound and disruptive effect on board and management relations.

You will be aware of the secret taping of conversations with staff and board members by a senior manager.

You may also be aware of the deletion of email communication. PWC Forensic Services have subsequently recovered these emails. The delay in obtaining this information has frustrated the DHB Audit committee investigations.

These matters are part of the many ongoing difficulties faced by the board in achieving satisfactory performance from its chief executive and maintaining the credibility of the HBDHB as a publicly accountable entity. The board has had legal advice that these issues would be best addressed with the chief executive once the MOH review had been completed. The issues that have occurred are the substantive underlying cause of the tensions between the board and the chief executive.

There is a process in place to address the board's concerns over the chief executive's performance with ample protection for his interests as part of that process.

The board has a duty in its governance role to address and resolve these matters.

### 3.2 Peter Hausmann's appointment to the board

This appointment was vigorously challenged at the time because of the obvious and difficult conflicts of interest that Peter Hausmann faced in contributing to the board while at the same time operating as the managing director of Healthcare New Zealand Ltd. I asked the Minister and Ministry of Health officials to delay Peter Hausmann's appointment until the community services RFP process had been concluded, to mitigate the management of conflict of interest issue. This request was declined.

### 3.3 Management's handling of the Community Services RFP & Wellcare Contracts

Should the above matters be of concern to the Minister we address each one in turn noting in each case that circumstances were brought upon the board by other parties and not of the board's own making.

The Audit NZ report for year ended 30 June 2007 provides substantial commentary on the serious mis-management and breaches of the board's procurement policy and processes. Refer to section 6.5 in the report.

These breaches were raised with the chief executive by board members in the face of growing public concern around the DHB's contracting process. The board encountered resistance by senior management to fully inform the board. Further, the board later discovered that information provided by management around the process and particularly around the level of involvement of Peter Hausmann was incorrect and misleading.

The board was faced with the obliteration of email correspondence, and incurred cost in recovering that information. The content of this email correspondence has proven pivotal in revealing the extent of Peter Hausmann's personal involvement in constructing the community services RFP documents prior to the RFP's deployment in the public tendering process. It is now known that Peter Hausmann, with senior management's knowledge wrote significant parts of the community services RFP document. This gave Healthcare NZ Ltd a significant advantage over other bidders.

The board only became aware of Peter Hausmann's involvement in drafting the RFP after the board received a protected disclosure.

The board acted in time to cancel the community services RFP process after obtaining and accepting legal advice and discussions with Ministry of Health officials.

The board was not aware of a contract involving the DHB and Wellcare Education Ltd, (a company Peter Hausmann had an undeclared interest in), until one month after the contract had been agreed and signed by the chief executive. Therefore the board had no opportunity to establish a process to manage Peter Hausmann's conflict of interest in the awarding of this contract.

It had however come to the board's attention early in 2006 that the DHB may have been involved in a possible contract with Wellcare, however the DHB's chief executive advised the board that the contract was to be between the Ministry of Social Development and Wellcare and that the DHB would have no financial involvement in it.

The mis-management by senior staff in these circumstances required action by the board. The board took all the appropriate action at its disposal to address these management failings. These actions included obtaining an opinion on the issues by Mary Scholtens QC which was provided to the board in a report dated 30 July 2007.

Obviously the above issues give rise to tensions with staff but the board does not resile from its responsibilities in dealing with these issues and restoring the integrity of its procurement processes. The public interest is paramount in the decisions made on these matters.

## 4. The Audit NZ Report for year ending 30 June 2007

The important point to make in response to this issue is that your focus is on the board and its performance as distinguished from management's performance. The criticisms arising out of the Audit NZ report are of the mismanagement in and around compliance with procurement policy and conflicts. Nothing I have read in your 20 and 22 February letters indicates that the cause of your serious dissatisfaction arises out of management. If I am wrong about this then I would appreciate having the explanation.

**Appended** to this letter marked **"Attachment "B"** is further comment on the Audit NZ 2007 report. It is important to draw your attention to the following passage in the context of this response:

*"Naturally the Board was disappointed that in both rating areas we received the "need improvement" category. For both the "Management Control Environment" and the "Financial Information Systems and Controls", Management has assured the Board that in both areas they expect to receive improved grading in the next audit."*

The progress the board has made already on the Audit NZ recommendations is **Appended** to this letter as **Attachment "C".**

The board accepts the concept of collective responsibility for the performance of the DHB. The actions contemplated by you in appointing a Commissioner will not change the current position vis-à-vis management, because the issues raised in Audit NZ report are directed almost exclusively toward management. The action plan required to address those issues was immediately instigated and endorsed by the board on receipt of the first draft of the report from Audit NZ late in 2007. It was the diligence of the board that resulted in the Auditor General issuing Audit NZ with a specific audit brief to investigate the community services RFP and Wellcare issues.

The board should be credited with taking positive steps to improve the performance of the DHB. To ensure the continuation of this process there is a need to retain the present board. Its accumulated knowledge of these matters, particularly relating to governance and management, will otherwise be lost.

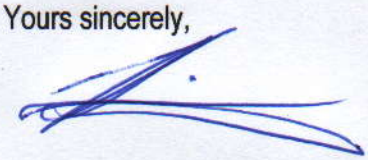
## 5. The Board's Solution

With the information provided, the board believes that, in the interests of the Hawke's Bay community, there is no valid reason to appoint a commissioner to replace the current elected board.

- The Board recommends that a permanent chair be appointed immediately
- That a monitor be engaged to support board and management.

I am prepared to make myself available with my board to discuss any of these matters or provide any further information you require at any time that may be suitable to you.

Yours sincerely,



Kevin Atkinson, Chairman
Hawkes Bay District Health Board

## Attachment "A"

# FINANCIAL PERFORMANCE

It is true Hawke's Bay District Health Board is facing a deficit this year of $8m compared to a break even District Annual Plan. This is primarily driven by:

- The gap in MECA settlements of $4m
- $3.7m largely previous years deficit including ongoing increased growth in patient transport
- Additional costs in 2007/08 include locum costs due to unfilled vacancies of $1.9m

| | *Projection* | *Actuals* | | | | | | 6 months |
|---|---|---|---|---|---|---|---|---|
| | **2008** | **2007** | **2006** | **2005** | **2004** | **2003** | **2002** | **2001** |
| **Revenue** $ms | **375.1** | 363.2 | 323.1 | 296.9 | 259.9 | 194.8 | 182.8 | 62.7 |
| **Net Result** $ms | (6.0) | **9.2** | **(3.9)** | **6.4** | **0.2** | **(6.5)** | **(8.7)** | **(3.2)** |
| Abnormal | 2.0 | 12.1 | | 1.9 | 0.7 | (0.2) | 1.1 | |
| **Operational result** | (8.0) | (2.9) | (3.9) | 4.5 | (0.5) | (6.3) | (9.8) | (3.2) |
| % of income | -2.1% | -0.8% | -1.2% | 1.5% | -0.2% | -3.2% | -5.4% | -5.1% |
| **Break out of Surplus /deficit** ($ms) | | | | | | | | |
| Funding health Services | 2.6 | 2.3 | 3.0 | 5.0 | 1.5 | 0.2 | - | |
| Governance & funding admin | 0.3 | 0.1 | (0.4) | (0.6) | (0.1) | (0.6) | (1.1) | |
| Providing health services | (10.9) | (5.3) | (6.5) | 0.1 | (1.9) | (5.9) | (8.7) | |
| Operational result | **(8.0)** | **(2.9)** | **(3.9)** | **4.5** | **(0.5)** | **(6.3)** | **(9.8)** | **0** |

The table is adjusted for abnormal items and shows the operating result ranges from a deficit of $9.8m in 2002 to a surplus of $4.5m in 2005.

The Providing health services line shows the ongoing battle to manage this result, however in recent years we have been able to get within the target of + or – 1%.

In the early years Hawke's Bay District Health Board was significantly under funded under PBF, but as extra funding came in the DHB got much closer to the break even target. Figures highlight to what extent the Board has gone to try and manage within the fiscal constraints placed on us. FFT, particularly in recent years has been inadequate to cover real cost increases. MECA's have been a leading contributor, and the DHB has instigated a number of savings programmes that have helped to not only get close to balancing the books, but improved processes and therefore efficiency.

Board and Management have also initiated a number of steps to improve the result, although some will have medium to long term benefits. These include:

- Investing in new ways of managing health of older people with the focus on home based support
- Investing in the FACEM ED model to reduce costs within the hospital
- Chronic Disease Programmes such as diabetes etc. in an attempt to manage forthcoming cost increases

Board made it very clear to Management that in 2008/09 they want to see at least a $4m reduction in the deficit with a break even DAP by 2010/11. We are facing $7m of additional costs from MECA agreements (higher than FFT to cover inflation). Management has

undertaken a Sustainability Programme over 3 years to remove $11.5m of costs which will then allow progress of proposed capital developments.

Management has taken a leading role in the development of National Pricing, and in particular the benefits it will have around benchmarking. The Board has fully supported this initiative as well as others that Management have proposed.

## Attachment "B"

## COMMENT ON AUDIT NZ REPORT

Naturally the Board was disappointed that in both rating areas we received the "need improvement" category. For both the "Management Control Environment" and the "Financial Information Systems and Controls", Management has assured the Board that in both areas they expect to receive improved grading in the next audit.

The main areas for Board focus are:

- Conflict of Interests
- Procurement Policy
- Sustainability

The remainder of the items have or are in the process of being resolved which the Board did not consider as major (refer to comments below).

From a **conflict of interest perspective** a new policy is in the process of being developed which will be discussed with staff to ensure everyone is aware of their responsibilities and obligations.

At the time of the audit HBDHB's **Procurement Policy** was work in progress and has since been favourably commented on by the Office of the Auditor General. After a few minor changes it will be consulted on internally over the next month. It is a complete rewrite and covers the total DHB including Planning Funding and Performance. Staff training is a key part of implementation and will be ongoing.

So far as **sustainability** is concerned, Management is preparing a detailed plan over 3 years that will benefit HBDHB by $11.5m. This is focused on the sector's quality framework with particular reference to the Toyota lean approach. The Board expects to have a detailed plan from Management by 30 April 2008 in time for signing off the DAP.

While the "Financial Information Systems and Control" category identifies a number of areas for improvement, Audit NZ had no hesitation in signing off our accounts, there were not matters that Audit NZ deemed serious raised at our personal session with Mark Maloney of Audit NZ. Management explained the large number of items carried over from the previous year were there due to other priorities with the introduction of the Financial Management Information System (FMIS) and the loss of senior staff.

Most issues raised have already been rectified as part of our review work.

**Other matters raised in Section 5 include:**

- SOI - Management is working with Audit NZ to ensure there is adequate consultation before the final document is delivered in May 2008.
- FMIS Board and Management are particularly pleased with the smooth implementation and the improved reporting that has come from this. The

changeover was smooth and the benefits we saw from improved reporting were evident in the month following implementation

- The capitalisation of the Central Hawke's Bay clinic, it was a Board decision not to capitalise an asset it doesn't own. The impact both from a capital and operational perspective is immaterial.

***Matters raised in Section 4***

Section 4.3 non disclosure of each of the dimensions of DHB performance, that is by governance, funder and provider arms.

Hawke's Bay, along with a number of other DHBs has never reported the ongoing impact of the accumulated deficit or surplus in the 3 reporting arms. This impacts Planning Funding and Performance and Health Services and the DHBs provider of health services and the comparison is meaningless. DHBs can alter the result by altering the price paid between the funder and the hospital.

The Ministry of Health have dropped the requirement for more than one balance sheet for the DHB which is sensible and consistent with the OPF. The requirement is a bureaucratic nonsense as the DHB is an organisation funded by Government and the Board is given the responsibility to manage the health status of its population.

Ideally we would like to see the provider arm break even on an annual basis, however given the significant impacts in recent years of MECA settlements over and above FFT, unless the a DHB has extra funds to allocate to cover the gap, a deficit is going to arise.

***Other Matters that could be considered.***

The new audit scoring system is not meant to be shown as a league table, rather to identify the areas the DHB needs to improve. Under the old system Hawke's Bay had a very good record in that it had moved in all areas to a very satisfactory level. The new system must be seen in the context of a longer timeframe than one year, as the auditors get more involved in specific areas at specific DHBs at different times.

Audit NZ and Office of the Auditor General have focused on Hawke's Bay's Procurement Policy and Practices as well as Conflict of Interest. Naturally with such an in-depth review you would expect improvements were required. The DHB has responded very quickly to these, particularly those relating to Procurement. The Conflicts of Interest has been delayed until the results of the enquiry are known.

Under the old system Hawke's Bay District Health Board had a very good record and in a number of areas had moved to the "satisfactory" level.

Financial controls systems- good
Financial Management Information Systems-satisfactory
Financial Management Control Environment-good
Service Performance Information and Systems -satisfactory
Service Performance Management Control Environment - good

The new system must be seen in a longer timeframe than one year, as the auditors get more involved in specific areas at specific DHB's at different times.

As mentioned earlier the large majority of issues raised have been resolved or are in the process of being resolved.

## Attachment "C"

# PROGRESS ON AUDIT NZ ANNUAL REPORT RECOMMENDATIONS;

| Topic | Action Required | Management Comment *(italicised)* | Target |
|---|---|---|---|
| 4.1 Non-disclosure of each of the dimensions of DHB performance, that is, by governance, funder and provider arms | | *The separate reporting of equity for the funder, provider and governance arms in the Annual Report obfuscates the purpose of informing the public about DHB performance. Equity, and balance sheet net deficit/surplus information is held at DHB level, as a single entity, not at the level of its constituent parts.* | June 2008<br><br>No action proposed |
| 4.1 Payment of Board fees | We recommend that the DHB recover the fees overpaid to the Board members. | *Overpayments will be recovered. Procedures and authorisation processes will be implemented.*<br><br>Letter sent to Board members; reconciliation complete for 2006-7 and year to date; Recovery of overpayments and payment of fees due (the majority) is in process. | <br><br>Feb 2008 |
| 4.2 Protected Disclosures Act 2000 | We recommend that training take place for staff. | *HBDHB will raise awareness of the policy and incorporate education sessions into 2008 Training Plan.* | March 2008 |
| 5.1 Disaster Recovery Planning | • Introduce an IT/IS steering Committee that is representative of all IT/IS user groups;<br><br>• Complete the DHB's Business Continuity Plans and ensuring their linkage with the DHB's IT Disaster Recovery Plans. | *IS is establishing a Customer User Group based on a similar group functioning at Hutt Valley DHB as the first step towards addressing steering committee requirements.*<br><br>Clinical User Group Terms of Reference is being developed. Launch of the Clinical User Group is now planned for March 2008.<br><br>*A proposed business continuity plan is currently being reviewed. The draft 'gap analysis' to be presented in to identify any further action required.*<br><br>BCP is the responsibility of the business. A gap analysis of the organisations plan has been completed. The criticality of processes established in this plan will enable IS to prioritise, test and restore information systems.<br><br>*Disaster Recovery is the responsibility of the IS Team who are completing the build of our DR site, the documentation for the testing and recovery of critical information systems. Testing and completion is scheduled.*<br><br>The DR site infrastructure build is complete. Failover test of restore of critical information systems will begin mid-February. | January 2008<br><br>December 2007<br><br>February 2008 |
| 5.2 High number of superusers in the Finance One system. | Review and reduce the number of people who have super-user level access to the financial system restricting such access to only those individuals that are required to perform critical system administration functions | *Work is being undertaken to find alternative ways of giving users access, the distributed nature of systems will require between 6 and 10 superusers to be identified. Target completion date for further reductions:*<br><br>Now reduced to 13, will be reduced to 3 with the introduction of FMIS 11.4 in March | December 2007<br><br>April 2008 |

| | | | |
|---|---|---|---|
| 6.1 Statement of Intent (SOI) | Opportunity to comment on the draft SOI, and in particular the performance measures, at an early stage in the process | *HBDHB agree with the comment and agree to the proposal for early involvement*<br><br>Already taken place | Completed |
| 6.2 Sustainability | Move to a position where the provider arm is "paying its way" in order to enhance the ability of the funder arm to fund services with other providers | Noted. *The Senior Executive Team is working on a plan to find savings in the DHB over a 3 year period. The task has been divided into a number of areas and Senior Executive have been allocated areas and dollar savings. One of the major challenges facing HBDHB is the fact that expectations from the public and Government exceed the PBF funding and the FFT. MECA settlements due to international shortages are well in advance of FFT, and funding these is an ongoing challenge for all DHBs.* | May 2008 |
| 6.3 Conflicts of Interests policy | • Procedures that will ensure that conflicts are identified, recorded, appropriately managed and monitored<br>• Training of board members and staff<br>• Interest register extended to include the management and monitoring of conflicts<br>• Register extended to include all staff and contractors | *HBDHB notes the points as raised. The DHB has improved its processes regarding Conflict of Interest management including policies, procedures and accountabilities. The results from the Independent Review will be taken into account in developing the Policy. This is a National issue and we will be working collectively with DHBs to come up with a workable solution. The expectation is this work will be completed by June 2008.*<br><br>Planning for training as part of the implementation of the new 'procurement toolkit' procedures. | June 2008 |
| 6.4 Procurement Policy | Review the implementation and application of the new Policy and Guidelines during our 2007/08 audit. | *HBDHB has made significant progress developing new policy and procedure that complies with the recommendations and welcomes the proposed 2007-8 review.*<br><br>Policy in final draft | June 2008 |
| 6.5 Review of application of procurement practice | We reviewed the Wellcare contract, .....<br><br>....we were able to form the overall conclusion that the processes used in entering the contract did not comply with either the DHB's Procurement Policies or public sector good practice. Nor was there evidence of formal conflict of interest procedures having been undertaken. | *This was the first time that the Ministry of Social Development and the Hawke's Bay District Health Board had operated to contract together through a single contract and it is acknowledged that key decision points could have been better documented. It should be noted that the provider was selected by the Ministry of Social Development, utilising their processes and Hawke's Bay District Health Board had no input into that selection process. Processes are being amended to formally document the completion of the contract negotiation phase, to give management and the Board confidence that the processes are complete prior to signing contracts. HBDHB feel that some comments do not reflect the nature of the relationship that HBDHB wished to develop with the provider. As the General Manager Planning Funding and Performance reports to the CEO the CEO has delegation under current policy. We have asked the Board for an amendment to the policy to make this clearer. The contract was signed on the 6th March 2007, payment was made on the 21st July 2006 we believe this was a sufficient time to ensure the service was adequately established.*<br>*The CEO had explict delegation up to $2m for service contracts. The MSD/DHB/Wellcare* | Completed |

| | | | |
|---|---|---|---|
| | | *Contract was within these delegations. In response to the statement "Nor was there evidence of formal conflict of interest procedures having been undertaken." The Board (excluding Peter Hausmann) wish it to be noted that they were unaware that a contract with WellCare and the DHB was proposed, until one month after a contract had been agreed and signed. Therefore, the Board had no opportunity to establish a process to manage Peter Hausmann's conflict of interest. The Board believe that this report and the letter from Audit NZ to the Minister should state this clearly. HBDHB therefore does not fully accept the eleven salient points listed and would welcome the opportunity to clarify and explain the context behind the issues raised.* | |
| 6.6 Recognition of Accruals | There should be a process in place to ensure:<br>Accrual journals have adequate supporting documentation and accrual balances reconcile to the underlying detailed listing;<br>Reconciliation should be performed for accruals e.g. the Continuing Medical Education accrual;<br>Prior year accruals which have not been reversed should be reviewed for appropriateness;<br>Accruals should be appropriately reviewed and authorised for accuracy and validity. | *A report has been developed within the financial management information system which itemises the both accrual and correction journals posted in the ledger each month.*<br><br>*This report will be reviewed by the Financial Accountant each month for errors and insufficient narrations, and used to improve the standard of journal narrations.*<br>*Investigation of how to attach journal workpapers to journals in the financial management information system is underway.*<br><br>*Investigation is also under way to identify a consistent methodology for the preparation of the CME accrual. When that is complete, reconciliation to the workpapers prepared by the Doctor's unit will be developed. Short reporting timeframes do not allow for a reasonable journal authorisation process. The review process will be used instead to validate journals* | December 2007<br><br>March 2008<br><br>April 2008. |
| 6.7 Annual leave balances | Reviews annual leave balances for all staff to ensure that balances are not excessive Continued focus on the monitoring and taking appropriate action with respect to excessive balances | *HBDHB will monitor and report accrued leave balances to the CEO (in excess of two years allowance) on a monthly basis. Every quarter the report will be discussed with relevant managers (with the HR advisor) to consider on a case by case basis plans to mitigate the risks, through negotiated leave balance reduction.* | Completed |
| 7.1 Cash receipting | It is recommended that controls over cash/cheques received through the mail be implemented and that there is sufficient segregation of duties between the staff member preparing the banking, opening the mail and inputting the cash/cheque receipts into the General Ledger. | Noted. *Current practice will change to ensure all cash/cheques are entered in a spreadsheet. Banking is separated from debtor management and as such any shortfall would be identifiable within one month. It should be noted that cash receipted is usually below $300 per month* | January 2008<br><br>Completed |
| 7.2 Medical Education leave | We recommend that the DHB estimate the liability relating to the accumulated leave entitlement and recognise this in the 2007/08 financial statements. | *A valuation of the CME leave liability will be prepared for 30 June 2008 to determine materiality.*<br><br>To be actioned as part of interim audit. | June 2008 |

| | | | |
|---|---|---|---|
| 7.3 Accounting for GST on property purchase | The DHB should ensure that GST is claimed on all property purchased for the purpose of provision of health services. Where appropriate, the DHB should seek a refund of GST. | *Comment Agreed. A GST adjustment for the second hand goods credit has been processed. Target completion date 30 November 2007. Transfer of the property to MOH will be for the purchase price plus GST.* | Completed |
| 7.4 Mileage allowances for Board members | The DHB should ensure that withholding tax is deducted from all payments made to board members. | *Board members have been advised* (as part of 4.1)<br><br>Investigation with other DHBs is being undertaken regarding mileage payments | March 2008 |
| 8.0 NZ IFRRS | The DHB's first set of audited financial statements under NZ IFRS will be for the year ending 30 June 2008. | *Noted: All reporting is on plan.*<br><br>*No remedial action required* | Completed |
| 10. Issues outstanding from previous reports | The need to ensure the linkage of IT disaster Recovery to wider business continuity planning and the formal testing of the business continuity and disaster recovery plans. | *See section 5.1* | |
| | The need for the establishment of an Information Systems Steering Committee that comprises all key IS users in the business. | *See section 5.1* | |
| | The strengthening of control with respect to the review of the creditor's masterfile. | *From November 2007 this will normally be reviewed by the accounts receivable clerk who has no accounts payable master file access* | |
| | Timely review of general ledger reconciliations. | *Two checks have been introduced, the reconciliations will be reviewed by the accounts payable/ receivable manager monthly and, an additional quarterly review will be conducted by the financial accountant.* | Completed |
| | Improvement in the control environment with respect to journals. | *The financial accountant will conduct an independent review of journals with effect from December 2007* | Completed |
| | Updating delegations to reflect changes in organisational structure. | *Proposed changes have been approved by the Board and await MOH confirmation* | Completed |
| | Ensuring the regular review of operational policies on a two yearly rolling basis in accordance with Board policy. | *HBDHB has established a committee for ongoing review of policies and procedures who report on the number and status of policies under review. The number of duplicated policies has been significantly reduced and the number of outstanding reviews is notably reduced, this is an ongoing activity on a monthly basis.* | December 2008 |
| | The accounting for the Central Hawke's Bay medical centre lease as an operating lease as opposed to a finance lease. | *Noted.* | |

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| Appendix 2<br><br>Payroll | We recommend a payroll masterfile report be produced prior to the pay run and that an independent review be performed and evidenced by way of signature. | Master file report has been developed in house with a saving of about $7000.00. This will begin to be used in February 2008. | Completed |