Report 11: February 2013

# HEALTH BENEFITS OPERATIONS: ARE THE EXPECTED BENEFITS BEING ACHIEVED?

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OFFICE OF THE
Auditor General
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OFFICE OF THE
Auditor General
of British Columbia

*8 Bastion Square*
*Victoria, British Columbia*
*Canada V8V 1X4*
*Telephone: 250-419-6100*
*Facsimile: 250-387-1230*
*Website: www.bcauditor.com*

The Honourable Bill Barisoff
Speaker of the Legislative Assembly
Province of British Columbia
Parliament Buildings
Victoria, British Columbia
V8V 1X4

Dear Sir:

I have the honour to transmit to the Legislative Assembly of British Columbia my 2012/2013 Report 11: *Health Benefits Operations – Are the Expected Benefits Being Achieved?.*

When the contract between the Ministry of Health and MAXIMUS BC Health Inc., and related companies was signed in 2004, it was one of the first such deals the Province made. This alternative service delivery (ASD) contract to administer health benefits operations was a 10-year deal worth $324 million. To date, the provincial government is reported to have signed 11 large-scale, long-term ASD contracts with private-sector organizations, totaling about $2.4 billion.

My Office conducted this audit to determine whether the Ministry of Health has been monitoring and achieving the expected benefits of the health benefits operations ASD arrangement. We found that some improvements have been made, but the benefits of the arrangement have not been fully achieved. Of particular concern was the delayed replacement of three aging information technology or "legacy" systems. Just one was replaced in accordance with the original plan. The second was replaced six years late, and the third is still outstanding.

Gaps in the ministry's monitoring interfered to varying extents with our ability to assess the achievement of most of the other benefits. We noted that two monitoring tools intended to identify privacy breaches were not implemented as expected, and that the ministry has not verified that the service provider is complying with two key privacy contract terms. This creates a risk that breaches are occurring without the ministry's knowledge.

While this audit focuses on the health benefits operations ASD arrangement, we identified a number of challenges that are likely common to other arrangements.

Given these risks and the significant use of contractors to deliver provincial government services, my Office plans to conduct additional work in this area.

John Doyle, MAcc, FCA
*Auditor General*

Victoria, British Columbia
February 2013

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JOHN DOYLE, MAcc, FCA
*Auditor General*

When the contract between the Ministry of Health and MAXIMUS BC Health Inc. and related companies was signed in 2004, it was one of the first such deals the Province made. This alternative service delivery (ASD) contract to administer health benefits operations was a 10-year deal worth $324 million. To date, the provincial government is reported to have signed 11 large-scale, long-term ASD contracts with private-sector organizations, totaling about $2.4 billion.

My Office conducted this audit to determine whether the Ministry of Health has been monitoring and achieving the expected benefits of the health benefits operations ASD arrangement. As the ministry is ultimately accountable for these services, we did not assess the service provider's performance. Instead, we audited the ministry's oversight of the deal and reviewed related performance information to conclude whether benefits have been achieved. In some cases, gaps in the ministry's monitoring limited our ability to reach a conclusion.

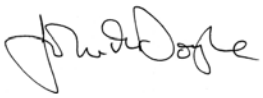
Overall, we found that some improvements have been made, but the benefits of the arrangement have not been fully achieved. Of particular concern was the delayed replacement of three aging information technology or "legacy" systems. Just one was replaced in accordance with the original plan. The second was replaced six years late, and the third is still outstanding. We also noted that two monitoring tools intended to identify privacy breaches were not implemented as expected, and the ministry has not verified that the service provider is complying with two key privacy contract terms. This creates a risk that breaches are occurring without the ministry's knowledge.

While this audit focuses on the health benefits operations ASD arrangement, we identified issues that are likely common to other deals. Obtaining valid performance information, effective use of penalties and other contract terms, and ensuring government has sufficient, appropriate resources to assess success are likely also challenges for other ASD arrangements.

Finally, an important consideration for government when signing these kinds of contracts is that it may lose the capacity to deliver outsourced services on its own. Due to the long-term nature of these deals, there is a risk that knowledge of the services or programs will be lost over time. This may disadvantage government in the negotiations of these contracts and creates a risk that private companies will permanently capture these services.

Given these risks and the significant use of contractors to deliver provincial government services, my Office plans to conduct additional work in this area. Although the scope of this audit was narrow, we have learned a lot about how alternative service delivery arrangements are run by government and will use this information to focus future audits.

I want to particularly acknowledge and thank the dedicated staff of the Business Management Office at the Ministry of Health for their outstanding cooperation during this audit.



John Doyle, MAcc, FCA
*Auditor General of British Columbia*

February 2013

## AUDIT TEAM

Paul Nyquist,
*Director*

Laura Hatt,
*Senior Manager*

Laura Pierce,
*Assistant Manager*

Sarah Riddell,
*Auditor*

## INTRODUCTION

In November 2004, the Ministry of Health signed an alternative service delivery (ASD) contract with MAXIMUS BC Health Inc., and related companies. This contract covered the administration of the Medical Services Plan and PharmaCare programs, and the transformation of related technologies. The expected cost was $324 million over the 10-year contract term. An option to renew for five years was included in the contract.

This contract is one of 11 major ASD contracts signed by the Province. It was of particular public concern when it was announced because of the privacy and labour implications of outsourcing sensitive and critical services to the subsidiary of an American-owned company. The Province announced a number of benefits that the contract was expected to achieve, including some intended to mitigate public concerns (see sidebar).

Our audit focused on assessing whether these benefits are being achieved and how effective of a role the ministry has been playing in monitoring and reporting to help ensure their achievement. We did not conduct a direct audit of the service provider. Instead, we analyzed the ministry's performance information on the achievement of benefits and assessed its validity. We did not audit whether the benefits were the right benefits, or whether corresponding improvements had the intended impact on operations. The reported findings reflect these limitations.

The expected benefits of the Province's ASD contract with MAXIMUS BC Health:

- improved service levels to the public and health care providers;
- transformation of legacy systems;
- maintenance and updates to hardware and software (IT currency);
- transference of financial risk associated with meeting service levels and transforming technology;
- improved privacy and security of personal information; and
- gain sharing and profit sharing.

## KEY FINDINGS

### The arrangement has resulted in some improvements, but the expected benefits have not been fully achieved

We found that improvements have been made, but the expected benefits have not been fully achieved. Furthermore, although the ministry has been partially monitoring the expected benefits, it has not consistently held the service provider accountable for its achievements. And because the ministry has not been obtaining the necessary assurance, it cannot be certain that reported results are accurate and complete.

What we found, by expected benefit:

***Service levels*** – According to service provider reports, four key services to the public and two services to health care providers have improved. For two reasons, however, we were unable to confirm whether service levels have in fact improved as a result of the ASD arrangement: 1) the ministry has not been obtaining the necessary level of assurance over the reported results; and 2) baseline data does not exist for more than half of the service level requirements.

***Transformation of legacy systems*** – The replacement of two of the three legacy systems was significantly delayed. Both were supposed to be replaced by April 2006, but the Medical Services Plan claims system took six years longer than expected, and the enrolment component of the Registration and Premium Billing system is still not completed and may not be complete before the end of the 10-year contract term. Delays caused by ministry-driven initiatives have resulted in approximately $3 million in additional payments to the service provider for lost efficiencies.

***IT currency*** – Because of gaps in the ministry's monitoring, we were unable to determine whether the information technology (IT) currency requirements in the contract are being met. We noted two cases where IT upgrades were delayed. However, this has not been reported to have interfered with the service provider's ability to meet service level targets.

***Transference of financial risk*** – The ministry has been largely effective in transferring the financial risk associated with meeting service level targets and maintaining and updating technology to the service provider. However, we identified two issues. Firstly, the ministry paid $13.6 million to the service provider for operational costs associated with meeting service level targets that were part of the original contract. Of this, $11.6 million was the outcome of a dispute resolved under the dispute resolution terms of the contract and was significantly lower than the initial claim made by the service provider. Secondly, we were unable to conclude whether an additional approximately $8.8 million paid to the service provider was for services included in the contract due to the ambiguity of key contract terms.

***Privacy and security of personal information*** – A significant number of new privacy and security practices have been implemented by the service provider. The ministry has been monitoring most of these practices as well as privacy breaches reported by the service provider. However, they have not implemented key tools to identify privacy breaches themselves, creating a risk that breaches are going undetected by the ministry. Further, the contract specifies that data storage and access should not occur outside of Canada, to mitigate the risk of disclosure under the *USA Patriot Act*. Although the ministry and the service provider have put several controls in place, the ministry does not know if the service provider is fully complying with this contract term.

***Gain-sharing and profit-sharing*** – The ministry has not been monitoring audited financial information from the service provider to ensure profit-sharing is occurring where appropriate.

## The ministry's public reporting does not cover all expected benefits and costs of the ASD arrangement

The ministry has been publicly reporting on service levels but not reporting on any of the other expected benefits of the arrangement. Furthermore, while the ministry has been including the costs of the arrangement in its annual reports, it has not been presenting this cost information along with benefit achievement results or related discussions. This makes it difficult for interested parties to understand what is being achieved and for what cost.

## WE RECOMMEND THAT THE MINISTRY OF HEALTH:

1. Critically assess the viability of proposed solutions and plans to ensure that timelines are realistic and technological solutions will meet business objectives.
2. Ensure all key terms are defined in the contract and establish quantifiable thresholds where appropriate.
3. Monitor and enforce all significant contract terms and deadlines.
4. Obtain assurance over significant results reported by the service provider.
5. Maintain a comprehensive record of decisions to facilitate knowledge transfer and consistent decision-making over the life of the contract.
6. Publicly report results by contract objective with sufficient information to enable readers to understand what is being achieved for what cost.

The Ministry of Health would like to thank the Office of the Auditor General (the Auditor General) for undertaking this performance audit, and providing guidance towards improving our oversight of this Alternative Service Delivery agreement. The government entered into this Alternative Service Delivery agreement to address significant issues with both service delivery to citizens, and aging technology. We are pleased to note that the Auditor General has found that we are making progress in all areas.

This agreement was precedent setting, as it was the first time in Canada that a significant scope of health administration services was transferred from government to a private sector provider. In addition to transitioning staff and infrastructure, the contract also required the service provider to complete a major transformation of the information technologies that support service delivery. In the past eight years significant improvements have been made in both the infrastructure that supports Medical Services Plan and PharmaCare service delivery, and the service received by clients. For example, the service provider has:

- Improved service levels, ensuring that general public telephone inquiries are all answered in less than three minutes;
- Redesigned and upgraded Interactive Voice Recognition technology;
- Implemented new call centre management technology;
- Redesigned business processes to deliver more efficient customer service;
- Instituted annual privacy training programs for all staff, as well as internal audit and quality assurance programs;
- Implemented new document management systems;
- Implemented new tools and processes for measuring and reporting service outcomes; and,
- Upgraded the Medical Services Plan Claims processing systems.

Over the same time period, the Ministry of Health has established and supported new governance, monitoring and reporting processes, and has implemented an audit program specific to this contract, which is focussed on gaining assurance over the service provider's compliance with the contract, government policy and legislation.

This audit was timely as it coincided with the requirement in the agreement for the Ministry of Health to advise the service provider by March 31, 2013 of our future service delivery plans. The audit team ensured we had early advice on its findings

and recommendations which assisted the Ministry of Health in the evaluation of the agreement and in coming to the subsequent decision to negotiate a contract extension. Additionally, the final report will assist the Ministry of Health in setting priorities for management of this Alternative Service Delivery agreement in future years.

## Response to Specific Recommendations:

**1. Critically assess the viability of proposed solutions and plans to ensure that timelines are realistic and technological solutions will meet business objectives**

The Ministry of Health agrees that due diligence is always critical during the procurement of any contract. Lessons learned from this contract will be applied to all new procurement projects.

**2. Ensure all key terms are defined in the contract and establish quantifiable thresholds where appropriate.**

The Ministry of Health agrees that all contract terms should be clearly defined. The Ministry used the opportunity of the recent contract extension to clarify contract terms. Establishing quantifiable thresholds is more complex. We have established thresholds where appropriate (e.g., resource capacity available to manage routine system changes). There are other areas where the ministry believes the public interest is better served with a case-by-case approach rather than a quantified definition.

**3. Monitor and enforce all significant contract terms and deadlines**

The Ministry of Health agrees that terms and deadlines need to be monitored. That is why the Ministry of Health has a dedicated office responsible for overseeing this agreement. It is also important to find a balance between partnership and enforcement as a productive relationship between government and the service provider is important to respond to a changing environment.

**4. Obtain assurance over the accuracy of significant results.**

The Ministry of Health agrees that we need assurance over the accuracy of reported results. The Ministry has a comprehensive audit program specific to this contract and uses external auditors to design the audit and other targeted reviews. The Auditor General has identified potential enhancements that can be made to the scope of our current audits, and the Ministry will immediately incorporate these enhancements into our audit program.

**5. Maintain a comprehensive record of decisions to facilitate knowledge transfer and consistent decision-making over the life of the contract.**

The Ministry of Health agrees with this recommendation and will implement the recommended changes going forward.

**6. Publicly report results by contract objective with sufficient information to enable readers to understand what is being achieved for what cost.**

The Ministry of Health agrees that additional public reporting would be of benefit. The Ministry of Health will review and revise our reporting practices to address the concerns raised by the Auditor General's Office.

# BACKGROUND

## Alternative service delivery in British Columbia

Alternative service delivery (ASD) involves transforming how government operates and delivers services. In British Columbia, the primary objective is to provide cost-effective and efficient delivery of government services through partnering with private organizations. Since 2003, the Province has reported signing 11 large-scale, long-term ASD contracts with private-sector organizations, worth about $2.4 billion total.

## Health Benefits Operations

Health benefits operations refers to the administration of the province's Medical Services Plan (MSP) and PharmaCare programs, and supporting technology.

Under MSP, which funds medical services for British Columbians, all residents must enrol and pay premiums for services covered under the plan. These services range from emergency room visits to trips to a family physician. In addition, MSP pays health care providers, such as physicians, for services they provide. In 2011/12, MSP expenditures totalled approximately $3.8 billion.

The PharmaCare program helps British Columbia residents with the cost of eligible prescription drugs and medical supplies. In 2011/12, PharmaCare expenditures reached just over $1.1 billion.

The ministry reported that the previous health benefits operations arrangement was not working effectively, and sought to modernize the delivery of services by transforming technology and business processes.

## Health benefits operations ASD arrangement

On November 4, 2004, the ministry entered into a 10-year contract with MAXIMUS BC Health Inc., MAXIMUS BC Health Benefits Operations, Inc., MAXIMUS Canada, Inc. and MAXIMUS, Inc. The contract covered the ongoing provision of health benefits operations services and implementation of new technology, and included a five-year option to renew. The government has been referring to this outsourcing approach as an ASD arrangement.

The total expected cost of the contract was $324 million, to be paid in monthly payments over the 10-year contract term. The ministry indicated that $18-$20 million of the total cost of the contract was allocated to the transformation of technology services.

Specifically, health benefits operations includes the following services:

- **MSP Beneficiary Services** – registering residents and keeping their records up to date, determining premium amounts for residents, deciding when residents are eligible for financial assistance, and providing information and support to residents in writing and through a call centre
- **MSP Provider Services** – registering health care practitioners, processing their invoices for services provided to patients through an electronic claims system and providing practitioners with support so they can use the system correctly and efficiently
- **PharmaCare Operations** – registering pharmacists, providing them with automated billing and payment towards the cost of eligible prescription drugs and administering the province's PharmaCare financial assistance program for eligible residents

The contract requires the service provider to meet specific performance expectations or face penalties. The service provider is also expected to bear the risk of cost overruns relative to improving service levels and enhancing technology.

The ministry expected to achieve a number of benefits through this arrangement. Those we assessed in our audit were among the key benefits put forward to the decision makers who approved the contract. They are also consistent with those reported to the public at the outset of the deal.

The key expected benefits are as follows:

- **Improved service levels.** Updated call centre technologies were expected to reduce the time callers had to wait for an answer and make services more accessible.

- **Transformation of legacy systems.** Older mainframe-based systems and software would be replaced with modern technology and software, delivering efficiency gains and the flexibility to quickly and reliably change policy settings and standards.

- **IT currency.** The service provider was expected to update technology and software over the contract term.

- **Transference of financial risk.** The service provider would assume the financial risks associated with meeting service level targets and maintaining and updating technologies.

- **Improved privacy and security of personal information.** Changes in corporate and governance structures, more stringent audit provisions, improved technology and stricter controls were expected to improve data security. The arrangement would also address concerns over personal information being accessed by the U.S. government through the *USA Patriot Act*.

- **Gain-sharing and profit-sharing.** The Province would share in the service provider's financial benefits where this contract delivered extraordinary profits or helped win work with other Canadian clients.

## AUDIT OBJECTIVES AND SCOPE

We carried out this audit to determine whether the Ministry of Health has been:

- monitoring and achieving the expected benefits of the health benefits operations ASD arrangement; and
- publicly reporting on the costs and benefits of the arrangement on a regular basis.

Our audit focused on assessing whether these benefits are being achieved and how effective of a role the ministry has been playing in monitoring and reporting to help ensure their achievement. We did not conduct a direct audit of the service provider. Instead, we analyzed the ministry's performance information on the achievement of benefits and assessed its validity and reliability (see sidebar). We did not audit whether the benefits were the right benefits, or whether corresponding improvements had the intended impact on operations. The reported findings reflect these limitations.

We based our objectives and criteria on the benefits outlined in the ministry's proposal to decision makers for approval of the ar rangement, and on the Public Project Summary. We also considered the province's *Alternative Service Delivery Transparency Policy* and guidance from the *BC Reporting Principles*.

We conducted this work under section 11(8) of the *Auditor General Act* and the standards for assurance engagements established by the Canadian Institute of Chartered Accountants.

To determine whether each benefit has been monitored and achieved, we asked:

- Was the benefit incorporated in the contract? If so, was it consistent with the benefit put forward to the decision makers who approved the contract?
- Has the ministry monitored the achievement of the benefit?
- Has the ministry verified or obtained an independent review of related performance information provided by the service provider?
- Has the benefit been achieved?

## AUDIT CONCLUSION

We concluded that:

- the ministry's arrangement with the service provider has resulted in some improvements, but the expected benefits have not been fully achieved;
- the ministry has been partially monitoring the expected benefits, but it has not been consistently holding the service provider accountable for its achievements; and
- the ministry's public reporting on the arrangement does not cover all expected benefits and costs.

# KEY FINDINGS AND RECOMMENDATIONS

## The arrangement has resulted in some improvements, but the expected benefits have not been fully achieved

By contract year seven, the ministry should be well on its way to achieving the expected benefits of the ASD arrangement. In order to achieve these benefits within the expected timeframe the ministry should also be actively monitoring the performance of the service provider.

Monitoring involves collecting and analyzing information on the service provider's performance and taking any required action to keep the service provider on track. It also involves obtaining assurance over the accuracy and reliability of performance information where appropriate. Assurance over performance information is particularly important where the service provider faces significant financial repercussions for poor performance.

We found that there have been some improvements, but the expected benefits have not been fully achieved. While the ministry has been partially monitoring the expected benefits, it has not consistently been holding the service provider accountable for its achievements.

Among our main findings:

***Service levels*** – The contract established 27 service level requirements (SLRs) that cover a range of MSP and PharmaCare services to the public and health care providers. The service provider must meet these targets or be subject to financial penalties.

The service provider's reports indicate that all SLRs have been met since November 2005, and suggest that four key services to the public and two services to providers have been improved. Prior to that, the ministry levied penalties for not meeting service level requirements.

Although we did not find any evidence to suggest that SLRs are not being met as reported, for two reasons we were unable to conclude whether services to the public and health care providers have improved: 1) the ministry has not been obtaining the required level of assurance over the accuracy of the data underlying the reported SLR results; and 2) baseline data does not exist for more than half of the SLRs. As a result, the ministry cannot be certain that the reported results are both accurate and higher than pre-handover service levels.

***Transformation of legacy systems*** – At the start of the contract, the ministry announced that three major legacy systems would be replaced by April 2006: call centre technology (interactive voice response and document imaging); the MSP claims system; and the Registration and Premium Billing (R and PB) system.

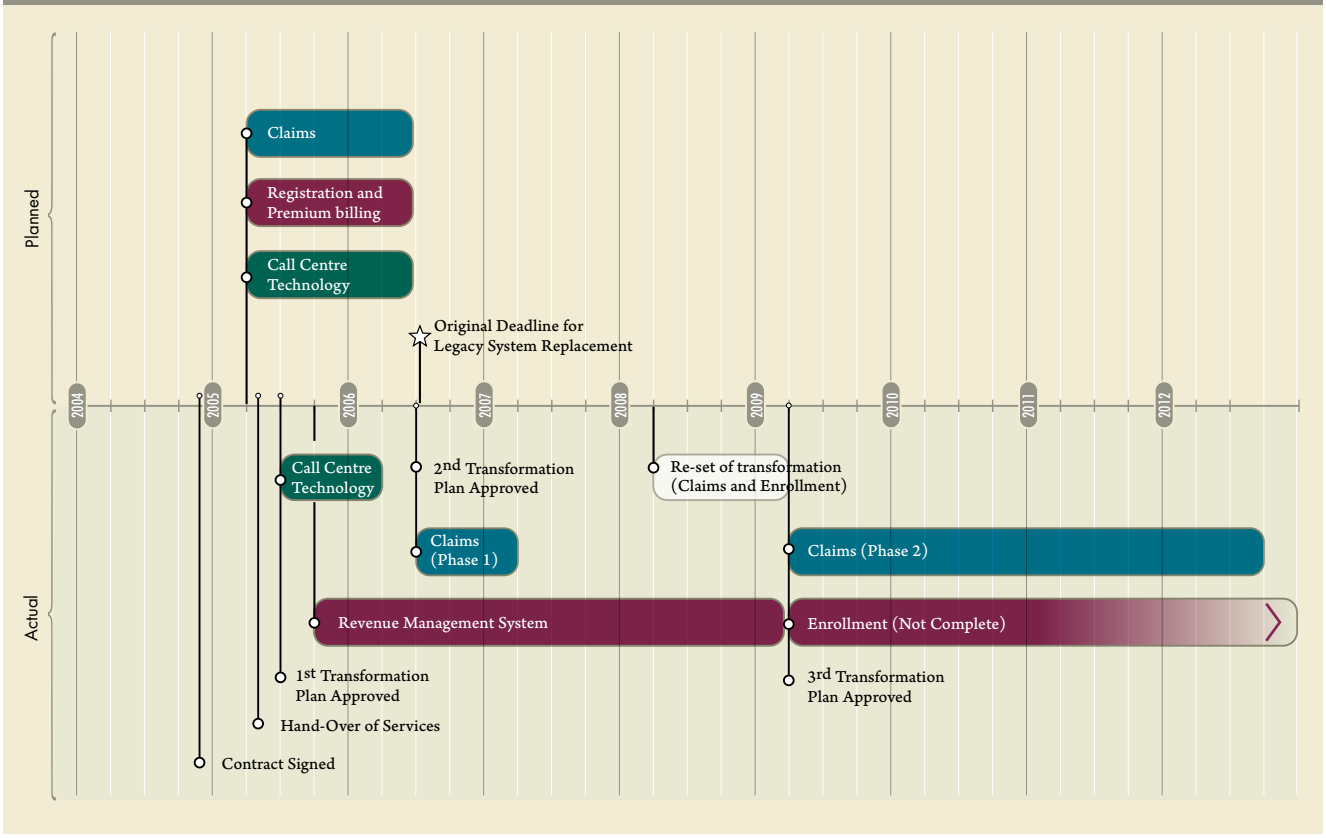
### *Contract renegotiation*

The initial 10 year contract with the service provider ends in March 31, 2015. At the time of our audit, the Ministry of Health was in discussions with the service provider to exercise the five-year renewal option. We were advised that the ministry's intent was to either sign the renewal contract or put the contract out to tender in early 2013. As negotiations were ongoing during the period of our audit, we regularly apprised the ministry of our findings to help inform those negotiations.

Only the call centre technology was replaced on schedule. Replacement of the MSP claims system was completed in 2012, six years later than expected. The R and PB system has only been partially replaced by the Revenue Management System. The MSP enrolment component of the R and PB system was still outstanding at the time of our audit and may not be completed before the end of the contract term in 2015.

Exhibit 1 shows the original timeline for legacy system replacement as reported to the public, the actual dates of implementation, and when major revisions to the Transformation Plan – the plan used to map out the replacement of the legacy systems – were approved.

**Exhibit 1:** Planned and Actual Legacy System Replacement Timeline




There are many reasons for the delays.

The service provider experienced significant challenges in the first year of operations. However, the ministry did not apply penalties for delays in Transformation and allowed the service provider to revise the Transformation Plan. Aside from the timelines, the second version of this plan did not substantially differ from the original 2005 plan.

After 2006, it became clear to the ministry and the service provider that the original technological solutions proposed for both the MSP claims and the R and PB systems

were not viable. The ministry reported that the systems were not able to perform the required business and technical functions without substantial modifications and additional investment. A major revision of transformation was required and a third version of the Transformation Plan was finalized in March 2009.

In addition to these challenges, there were a number of government-led initiatives that impacted transformation (see sidebar). As a result, the ministry paid out an additional $3 million to compensate the service provider for lost efficiencies.

These delays and initiatives may have also had the following impacts.

- The ministry has likely paid higher costs over the course of the contract term because it is more expensive to make changes to legacy systems than to new, flexible systems.

- Because of legacy system limitations, the ministry may have missed out on opportunities to implement policies and controls that would have enabled the achievement of service improvements and savings.

The ministry has monitored progress against the Transformation Plan over the life of the contract. The contract allows the ministry to impose fines when the service provider misses a critical date, but the ministry has chosen not to do this, instead allowing the service provider to revise its plan. The contract does allow for this flexibility.

***IT currency*** – Information technology (IT) currency refers to the maintenance of up-to-date hardware. The ministry did not begin formally monitoring this benefit until 2011.

Until 2011, IT currency was discussed on an ad hoc basis at a committee that included both ministry and service provider representatives so a systematic record of IT currency activities prior to this date is unavailable. As a result, we were unable to determine whether the IT currency requirements have been met for most of the contract.

We did note, though, that IT currency was not maintained as expected by the service provider in the following cases:

- Desktop and laptop computers were not replaced until five years after handover, even though the contract requires them to be replaced every three years.

- PharmaNet hardware updates were also delayed.

The ministry indicated that these shortcomings have not impacted the service provider's ability to meet service levels. However, failing to effectively monitor IT currency over the life of the contract creates a risk that IT currency is not being maintained, resulting in the ministry inheriting out-of-date systems when the contract ends.

## *Transformation Delays*

Shifting provincial government priorities and major new policy initiatives are partly to blame for the delays in legacy system replacement. Some of the projects that had a significant impact on transformation timelines are:

- The Revenue Management System Project, a cross-government initiative to centralize government's billing services, caused one of the biggest delays. The scope and extent of work was more than anticipated and required the use of skilled resources initially assigned to the replacement of legacy systems.

- A lack of an adequate provincial Corporate Authentication Program prevented the service provider from implementing a planned web-based self-service for MSP enrolment.

- Most recently, the new BC Services Card project has delayed the MSP enrolment project because the ministry wants to ensure alignment between the two projects.

- The ministry also reported that the Smoking Cessation Project pulled skilled resources from transformation projects.

***Transference of financial risk*** – In a fixed-price contract, the service provider is expected to assume the risk of cost overruns associated with meeting contract deliverables. We found that the ministry has been largely successful in transferring this risk to the service provider. Nevertheless, we did note the following issues:

- An additional $13.6 million in funding was paid to the service provider for operations, including $11.6 million to keep the service provider economically viable. This $11.6 million was the outcome of a dispute resolved under the dispute resolution terms of the contract, and the total was significantly lower than the initial claim made by the service provider.
- Because of the ambiguity of key contract terms (i.e. "material change" and "material impact"), we were unable to determine whether an additional approximately $8.8 million paid to the service provider was for services already covered in the contract.

Changes to the contract are made through change requests put forward by the ministry or the service provider. To date, the ministry has not formally documented the factors that should be considered when evaluating these requests. Instead, it has been relying on the knowledge and expertise of key staff. In addition, the ministry has not been maintaining detailed records of initially proposed ideas and requests that were rejected. The absence of this documentation creates a risk that subject matter expertise will be lost over the term of the contract as staff retire or change positions – a situation that could lead to the inconsistent and ineffective assessment of change orders in the future.

***Privacy and security of personal information*** – The ministry identified a significant number of individual privacy and security benefits that, if achieved, would result in improved privacy and security. While most of these benefits have been implemented, there are some significant gaps in the ministry's monitoring of privacy and security under this arrangement (see Exhibit 2).

We found that the promised structural and technical safeguards and policies and procedures have been put in place, including segregation of duties, user logs, annual confidentiality oaths for employees and subcontractors, a privacy plan, and detailed privacy and security policies and procedures.

Despite these improvements, we noted that the ministry has not implemented two monitoring tools intended to pro-actively identify privacy breaches. Instead, the ministry has been relying on the service provider to self report breaches. This creates a risk that breaches are not being disclosed to the ministry and resolved appropriately.

The ministry has been monitoring and obtaining assurance over most of the privacy and security practices implemented by the service provider. Nevertheless, there are two significant gaps in the privacy and security audit work commissioned by the ministry. First, the audits do not cover the service provider's subcontractors, which means there is a risk that subcontractors are not complying with the terms outlined in the contract. Second, they do not provide assurance that data access and storage are limited to Canada and that data access is segregated from the service provider's parent companies. As a result, the ministry was unable to demonstrate that these key outcomes intended to mitigate the risk of disclosure under the *USA Patriot Act* have been achieved.

**Exhibit 2:** Privacy Benefits Implemented by the Ministry

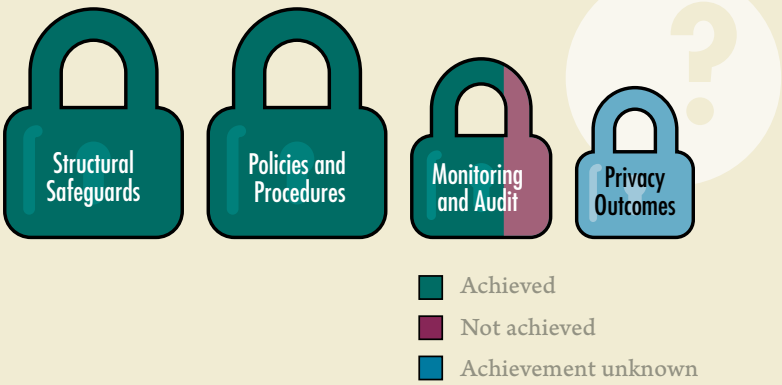



Exhibit 2 shows that all of the promised privacy and security safeguards and policies and procedures have been implemented, but two monitoring tools are outstanding, and the ministry cannot demonstrate that two key privacy outcomes have been achieved.

***Gain-sharing and profit-sharing*** – The service provider is required under the agreement to give the ministry audited copies of its financial statements and the calculations used to determine whether the thresholds for profit-sharing were met. The ministry has not been receiving these documents. Therefore, it cannot be certain whether profit-sharing should have occurred.

**We recommend that the Ministry of Health:**

1. Critically assess the viability of proposed solutions and plans to ensure that timelines are realistic and technological solutions will meet business objectives.

2. Ensure all key terms are defined in the contract and establish quantifiable thresholds where appropriate.

3. Monitor and enforce all significant contract terms and deadlines.

4. Obtain assurance over significant results reported by the service provider.

5. Maintain a comprehensive record of decisions to facilitate knowledge transfer and consistent decision-making over the life of the contract.

## The ministry's public reporting does not cover all expected benefits and costs of the ASD arrangement

The Province has expressed its support for open and accountable government that clearly communicates to the public what it strives to achieve and what it actually achieves.

We therefore expected that public performance reporting on the health benefits operations ASD arrangement would identify and explain the goals of the arrangement and report results in relation to the stated goals. As the contract was fixed price, we also expected that public reports would link financial and performance information, enabling stakeholders and the public to assess whether the objectives were obtained for the stated price.

We found that public reporting on the arrangement did not meet the applicable requirements laid out in the province's *Alternative Service Delivery Transparency Policy* and the *BC Reporting Principles*. While quarterly status reports published by Health Insurance BC provide an update on service level benefits, they do not comment on other key benefits such as legacy system replacement or indicate where costs have increased. Nor do these reports include baseline data, which means the reader cannot tell whether current results represent an improvement over pre-handover levels. Although baseline measures are not a policy requirement, it is good practice to include them.

The ministry publicly reports the annual estimated and actual cost of health benefits operations in its annual report, but it does not explain variances. This makes it impossible for readers to know if increased costs are due to cost overruns or to expanded scope. Furthermore, because performance information and costs of the deal are not reported in a single document, it is not easy for the public and legislators to tell whether the stated benefits have been achieved for the expected cost.

**We recommend that the Ministry of Health:**

6. Publicly report results by contract objective with sufficient information to enable readers to understand what is being achieved for what cost.

# LOOKING AHEAD



**We will follow up** on the status of the implementation of these recommendations and provide our findings in our spring 2014 follow-up report.

Given the significant use of contractors to deliver provincial government services, the Office plans to conduct additional work in this important area of government expenditures.

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OFFICE OF THE
Auditor General
of British Columbia

**Location:**
8 Bastion Square
Victoria, British Columbia
V8V 1X4

**Office Hours:**
Monday to Friday
8:30 am – 4:30 pm

**Telephone:** 250-419-6100
Toll free through Enquiry BC at: 1-800-663-7867
In Vancouver dial 604-660-2421

**Fax:** 250-387-1230

**Email:** bcauditor@bcauditor.com

**Website:**
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