

Background

- 4.001 Health Benefits Limited (HBL) is wholly owned by the Health Funding Authority (HFA). HBL was formerly owned by the Transitional Health Authority (THA) as successor to the original owners – the four Regional Health Authorities.
- 4.002 HBL's main role is to process and pay claims for Government health subsidies, and to provide information and compliance services to its owner and other clients. Claims for payment of subsidies on pharmaceuticals dispensed by about 1,000 community pharmacies are processed at its Wanganui Centre (HBL Wanganui).
- 4.003 The manual system of processing subsidy claims involves pharmacists sending the prescriptions from which they have dispensed medicines to HBL Wanganui for the processing and payment of any subsidy and other associated costs. Pharmacies claim every fortnight. Each year about 35 million pharmaceutical items are processed for subsidy claims.
- 4.004 Staff at HBL Wanganui have to read each prescription and manually enter the details into a computer system. The computer system checks the details and calculates the price of each item and the amount to be paid to the pharmacist.

Our 1997 Investigation

- 4.005 In 1997 several pharmacists complained to the Audit Office about problems they had experienced receiving timely and accurate reimbursement of their claims for pharmaceutical services subsidies from HBL.
- 4.006 We investigated these complaints in August 1997 and found the complaints to be justified. Among other things:
- We found that HBL had a backlog of queries resulting from over 10,000 unpaid claims by pharmacists.
 - HBL said that it would clear the backlog by late-December 1997, but in our view that would be impossible given the average time being taken to resolve each query.

- We saw faults in the way in which HBL was processing repeat prescriptions.
- We indicated that we would carry out a follow-up review at an appropriate time.

4.007 The full report of our investigation was included in our *Fourth Report for 1997*.¹

4.008 HBL's processing problems were in part due to the change to monthly dispensing from three-monthly dispensing of medicines (a policy decision made by the then four Regional Health Authorities) which placed HBL's manual systems under intense pressure. HBL told us that the problems of manual processing we had highlighted would be overcome with the introduction of electronic claiming of pharmaceutical benefits.

What We Looked At This Time

4.009 The purpose of our follow-up review was to find out what had happened about clearing the backlog of queries and settling the outstanding claims.

4.010 We expected to find that:

- HBL and/or the HFA would have settled all 10,300 claims unpaid in 1997 – or a settlement timetable and amount would have been agreed; and
- the great majority of current queries were being actioned within the contracted time of 20 working days (see paragraph 4.021).

Clearing the Backlog of Unpaid Claims

4.011 HBL, the HFA and the THA had known of the problem of the backlog of unpaid claims for some time. For completeness, it is necessary to recount briefly the history of the attempts to resolve the problem.

4.012 In May 1997, the Pharmacy Guild of New Zealand (the Pharmacy Guild) – which represents most community pharmacists – raised the backlog of unpaid claims with the

¹ Parliamentary paper B.29[97d], pages 61-75.

- THA. The THA passed the problem (along with several other related issues the Pharmacy Guild had raised) to HBL to resolve.
- 4.013 HBL told us in August 1997 that the backlog – which then amounted to 10,300 queries – would be cleared by December 1997. However, by February 1998 the backlog had in fact grown to 11,300.
- 4.014 The Pharmacy Guild again expressed concern about the need to resolve the problem and HBL assured it that:
- a large number of initiatives had been taken to improve the processing of claims; and
 - the backlog would largely be cleared by June 1998.
- 4.015 But on 31 July 1998 HBL told the Pharmacy Guild that the backlog of queries still numbered 10,200 and that it would take another six months to clear.
- 4.016 By October 1998 the backlog had increased slightly to 10,700. HBL concluded that it would not be possible to resolve this number of queries and that there would have to be a cash settlement – for which it devised a method (based on a statistical sample) to calculate the amount owed to each pharmacy.
- 4.017 Responsibility for negotiating the settlement with the Pharmacy Guild rests with the HFA because it has the direct contractual relationship with pharmacists.
- 4.018 The HFA and HBL worked on a proposed settlement over the next three months and the HFA put a proposal to the Pharmacy Guild on Christmas Eve 1998 – requesting it to respond by 22 January 1999. The Pharmacy Guild responded by that deadline, although it had reservations about the terms of the settlement.
- 4.019 Substantive meetings between the Pharmacy Guild and the HFA did not take place until May 1999 and eventually agreement was reached on the methodology to be applied to establish the amount required to settle the outstanding claims.
- 4.020 The agreement – formalised in a *Memorandum of Understanding* dated 4 June 1999 – records that:

A number of pharmacy reimbursement claims are outstanding (unpaid) following the return to monthly dispensing in May 1996. The parties share a desire to resolve the matter.

Agreement has been reached that the Guild will manage settlement of these reimbursement claims for all pharmacies and advise the HFA on the settlement figure for each pharmacy within a total figure of \$1.25 million (GST exclusive). The settlement is a full and final settlement that includes:

- *the full price for all unpaid claims for the period 1 October 1996 to 30 June 1998;*
- *compensation for any errors in the claims data pertaining to that period;*
- *the interest cost incurred by claimants due to the time that has passed from the date of the claim to the date of settlement.*

Current Situation

4.021 The new Pharmacy Contract between the HFA and pharmacists (signed in October 1998) requires HBL to respond to pharmacists' queries within 20 working days. This requirement came into effect from 1 January 1999. HBL reports indicate that almost all queries are being actioned within 20 days.

4.022 About the time the new Pharmacy Contract was being signed the Board and management of HBL had become increasingly concerned with the performance of the claims payment process. Consequently, the General Manager engaged a management consultant to examine the process. The consultant reported in February 1999, identifying a number of operational deficiencies.

4.023 HBL took steps to remedy those deficiencies, which was achieved through:

- technical improvements to the systems hardware and operating environment to make the hardware more reliable;
- providing staff with productivity reports; and
- introducing a query management system to allow a more systematic approach to handling queries.

- 4.024 The Pharmacy Guild has worked with individual pharmacists to calculate the outstanding amounts due to them. Initially, all but 26 pharmacists agreed to the settlement, and they followed an appeal process. On 2 August 1999 the Pharmacy Guild sent the HFA details of the agreed payments, and on 10 September sent details of the final settlements for the 26. The overall cost of the settlements to the HFA is within the agreed \$1.25 million. The HFA expects to make the payments by the end of September 1999.

Conclusions

- 4.025 As a result of system improvements at HBL Wanganui, nearly all current queries are being processed expeditiously and there is no new backlog of queries and outstanding claims.
- 4.026 The 1997 backlog stemmed directly from the decision of the four Regional Health Authorities to change to monthly dispensing in May 1996. As HBL acknowledges, the change was introduced without it or pharmacists having sufficient time to be prepared for the consequences.
- 4.027 When the difficulties created by the backlog became evident, HBL was slow to realise that it could not resolve the problem. In our view, the near-impossibility of working through such a huge backlog should have been evident to HBL. Instead, HBL gave assurances that it could resolve the problem.
- 4.028 The HFA sought to reach agreement to pay pharmacists for their outstanding claims. An amount estimated as being due to each pharmacist has been calculated. Almost a year since HBL concluded that a cash settlement would be necessary the pharmacists are about to be paid.
- 4.029 It is not clear to us why a settlement has taken so long.

Lessons to be Learned

- 4.030 In our view, two lessons need to be learned from this situation:
- The HFA and HBL need to be more cautious about implementing major policy changes affecting operating

systems. They should first test the proposed changes – carefully assessing all impacts and ensuring that sufficient time is allowed for implementation – before entering into new performance commitments.

- HBL management should assess problem areas more carefully before giving assurances that they can be resolved. Factors to be considered include resource levels, the capacity to fix problems, and alternative means of resolution. In this case HBL was too optimistic – it set deadlines for resolution that it did not meet, and finally had to admit that it was unable to resolve the problem.

4.031 Failure to learn those lessons would put the credibility of both the HFA and HBL at risk.

