


**Management of
Overseas Medical
Services**

May 2012





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EXECUTIVE SUMMARY

1. The costs of providing healthcare are a significant element of Government expenditure and it is important that this is managed to ensure it is provided efficiently, effectively and economically. The Government looks to the Cayman Islands National Insurance Company Ltd. (the Company or CINICO) to deliver a number of different programs for civil servants and residents of the Cayman Islands. The cost of claims incurred under these programs for medical services provided overseas for the fiscal year ending June 30, 2011 was \$29,139,644.
2. The objective of this audit was to determine if the Cayman Islands Government is providing overseas health management services in a cost effective manner. The findings and recommendations in this report are focused on improving the governance arrangements and management practices for the management of overseas medical services. However, a number of the recommendations we make on governance have wider implications and could be valuable to other government entities.
3. With respect to the overall objective of this audit we concluded that overseas medical services were not effectively managed. Due to the lack of documentation available for us to review, we were unable to quantify how much may have been overpaid for these services.
4. During the period covered by our audit work, May 2009 through April 2011, we found the management of overseas medical services was not controlled and administered in a manner that would provide any meaningful information on how well the services were being provided. For example:
 - there was no review or retender of the contract with the main case management company for over five years;
 - a second case management company was engaged to deliver case management services in direct contravention of the exclusive rights held by the original case management company under its contract with CINICO, and without the approval of the Board of Directors;
 - we found limited evidence of effective oversight by CINICO management on the original case management company to ensure that costs were being effectively managed, and no evidence of any oversight by management on the second case management company; and
 - we identified a number of cases which were administered internally by senior management, for which no evidence was available on how they were managed.
5. With respect to wider issues around governance, and direction and oversight of CINICO, we identified a number of issues which created an environment of increased risks in the delivery of cost effective overseas medical services. For example:

- the absence of a strategic plan and risk assessment at CINICO resulted in there being no specific goals and performance measures for overseas health management services and no identification of risks. Without goals and performance measures there was no benchmark against which to evaluate actual performance; and
 - the appointment of Directors to the Board of CINICO for terms of one year, which expire at the same time, creates risks in understanding the business, its strategy and associated risks, but more importantly creates significant risks in enabling the Board to provide effective oversight. For example the engagement of the second case management company occurred when there was effectively no Board in place due to all the members' terms expiring concurrently.
6. We have made a number of recommendations in response to our findings around the management framework at CINICO and the role and responsibilities of the Board of Directors. We believe that the implementation of these recommendations will position CINICO to deliver overseas health management services in a cost effective manner.
 7. Management generally agrees with the audit's findings and recommendations and their detailed response has been included in this report at Appendix 4 indicating that actions have been taken to address some of the concerns raised and the plans in place to address others.

BACKGROUND

8. The Cayman Islands National Insurance Company Ltd. (CINICO) has been in existence since December 18, 2003. It is a wholly owned company of the Government of the Cayman Islands and is administered by a Board of Directors that is accountable to Government for their actions and the performance of the company. As of May 2011, CINICO had seven employees, including the Chief Executive Officer (CEO), Mr. Lonny Tibbetts who commenced employment on December 20th, 2010. Attached, as Appendix 1, is the CINICO organizational chart as of May 2010.
9. The Government has mandated CINICO to deliver a number of different health programs for civil servants and residents.
10. The largest program is health insurance coverage for civil servants and pensioners, and their designated dependants. Government is financially responsible for 100% of the costs associated with this program and pays for coverage through monthly premium payments to CINICO. Incurred claims for overseas medical services under this insurance program were \$15,542,000, for the year ending June 30, 2011
11. Indigents (the term used for individuals that have been deemed poor by the government) receive similar health benefits to the civil servants and the Ministry of Health, Youth, Sports and Culture (the Ministry) pays 100% of the medical costs. CINICO provides the necessary administrative services to ensure indigents receive the required health care. For this work, CINICO receives an administration fee. Incurred claims for overseas medical services under this program amounted to \$9,023,895, for the year ending June 30, 2011.
12. Seamen and Veterans, and their dependants receive the same coverage as civil servants except they are required to pay 10% of the cost of all overseas medical services, with government paying 90%. All overseas medical expenditures for this group are paid by the Ministry and the total incurred overseas claims for the year ending June 30, 2011 was \$3,866,749.
13. CINICO has a separate insurance program for those residents of the Cayman Islands who have low income, an impaired health status and cannot obtain coverage elsewhere, or who are elderly. The program is known as the Standard Health Insurance Contract (SHIC). Members of this group pay for their coverage by monthly premiums. Coverage is limited due to a number of maximum dollar limits in place for certain types of health care and periods of time. Total incurred overseas claims under this insurance program for the fiscal year ending June 30, 2011 was \$707,000.
14. Below are tables which summarize the different health programs, the number of participants and the incurred claims for the last five fiscal years. The total incurred claims for all four programs were \$29,139,644 for the fiscal year ending June 30, 2011.

Table 1: Civil Servants and Pensioners (including statutory authorities and government companies)

Fiscal Year	Participants	Incurred Claim Losses
2006/07	9,317	\$11,479,000
2007/08	10,086	\$12,817,000
2008/09	9,899	\$12,724,000
2009/10	9,854	\$12,069,000
2010/11	10,072	\$15,542,000

Table 2: Indigents

Fiscal Year	Participants	Incurred Claim Losses
2006/07	1,124	\$4,881,251
2007/08	1,179	\$8,730,021
2008/09	1,197	\$7,008,410
2009/10	1,179	\$8,172,592
2010/11	1218	\$9,023,895

Table 3: Seamen and Veterans

Fiscal Year	Participants	Incurred Claim Losses
2006/07		No benefits until 1 July 2007
2007/08	1,225	\$3,782,928
2008/09	1,221	\$3,782,642
2009/10	1,256	\$4,313,129
2010/11	1,325	\$3,866,749

Table 4: Standard Health Insurance Contract (SHIC)

Fiscal Year	Participants	Incurred Claim Losses
2006/07	1,104	\$458,000
2007/08	1,021	\$326,000
2008/09	868	\$482,000
2009/10	976	\$535,000
2010/11	1162	\$707,000

Source: CINICO annual financial reports

- The need for an overseas medical services program is based on the fact that patients cannot always receive the treatment they require on the Islands. A referral for overseas treatment is initiated by the patient's physician in whose opinion the required treatment or care is not available in the Cayman Islands. The physician's request for an overseas referral is sent to the Chief Medical Officer who is an employee of the Cayman Islands Health Services Authority, but is directed by the Ministry of Health, Youth, Sports and Culture. The Chief Medical Officer approves the request if he is of the opinion the recommended treatment is necessary and is not available at a health institution on the Islands.

16. When overseas referrals are approved, a company known as a Case Management Company (CMC) takes control of the case. The CMC, at the time of our audit, had a network of health providers, mostly in Florida, which it could access for specialty care based on the needs of patients. CINICO contracted with the CMC to provide these services. The process begins by the CMC selecting an appropriate health facility for the patient except in those cases where the patient's physician has indicated a preference. The CMC is responsible for scheduling necessary transportation arrangements and overseeing admittance procedures.
17. Under the terms of the contract, the CMC is responsible to mitigate cost. This is done by intervening with the hospital and physicians to avoid unnecessary procedures; pre-certifying procedures where possible; liaising with family members, providing ongoing monitoring and documenting all actions taken in order to create a complete report on each closed file to CINICO.
18. The CMC is also expected to manage overseas cases with the objective of maximizing savings on healthcare provider charges while using best efforts to ensure appropriate and necessary care.

ABOUT THE AUDIT

19. Due to the significance of expenditures for overseas medical services and the significant risks associated with this type of expenditure, the Office of the Auditor General decided there would be merit in reviewing the systems in place to ensure Government received value-for-money for the expenditures.
20. CINICO has contracted with a Case Management Company (CMC) to manage all the cases that are referred for overseas medical treatment. As this is a significant contract, we believed there would be value in reviewing the oversight provided by CINICO to ensure there is compliance with the terms and conditions.
21. We were also interested in reviewing the relationship between government and the CINICO Board of Directors and the role the Board plays in overseeing the operations of the Company. We were particularly interested in any oversight the Board may be providing with respect to the delivery of overseas health management services.
22. Before conducting a performance audit such as this, it is important to identify the audit objective. The objective sets out what is to be accomplished by undertaking the work. In order to conclude on whether or not the objective has been met we audit against criteria that have been identified before the work begins. The criteria represent what we would expect to find as a result of our work in order to conclude positively on the objective. The audit objective and criteria are set out below. We discussed and obtained agreement on the audit objective and criteria with senior officials at CINICO and the Ministry.

AUDIT OBJECTIVE

23. To determine if the Cayman Islands Government is providing overseas health management services in a cost effective manner.

AUDIT CRITERIA

24. The audit criteria were:
 - The Cayman Islands Government has clearly communicated to CINICO its responsibility to insure and administer services for the provision of health care to eligible groups of employees and other recipients, including the use of overseas medical facilities where necessary.
 - CINICO has managed the risks associated with the delivery of overseas health management services to ensure the services are being provided on the most cost effective basis possible.

- CINICO has put in place a management framework, including staff with the appropriate expertise and experience, to ensure overseas health services are being managed and provided on the most cost effective basis possible by:
 - Ensuring that patients are referred to the most cost effective overseas providers that can provide the service;
 - Ensuring that overseas medical procedures are performed by qualified health care professionals and are required and reasonable under the circumstances;
 - Effectively managing costs associated with air ambulance transfers, patient travel and other associated costs;
 - Ensuring fees paid to third party claims managers are in accordance with the contract and reflect best value-for-money;
 - Processing claims payments accurately; and
 - Reviewing contracts with third party providers on a periodic basis and re-tendering when appropriate.
- CINICO develops and analyzes historical information and trends on overseas health management services for effective decision making in the delivery of the most cost effective service possible.
- There are adequate systems and controls in place to ensure that patients are only referred for overseas medical treatment when such treatment cannot be performed in the Cayman Islands and such referrals are only authorized by the Chief Medical Officer or his/her designate.

AUDIT FINDINGS

25. Our audit findings are reported in three categories:

- governance practices at CINICO;
- government direction and oversight; and
- delivery of overseas health management services.

26. Our findings and recommendations related to governance practices at CINICO and government direction and oversight have government wide implications and could be of value to other statutory authorities and government companies. Our findings and recommendations related to overseas health management services are more specific in nature.

AUDIT RESOURCES

27. The following individuals were members of the audit team and conducted this audit:

- Martin Ruben, CGA – Performance Audit Principal, Office of the Auditor General
- Daryl Wilson, FCA– Consultant and former Auditor General, New Brunswick, Canada

28. The audit covered transactions from May 2009 through April 2011.

GOVERNANCE PRACTICES AT CINICO

29. The Board of Directors at CINICO is accountable to the Government of the Cayman Islands for the effective delivery of various health programs, of which overseas health management services is a significant one. We believed it was important to understand how the Board was fulfilling this important responsibility.
30. Good governance practices would see the Board engaged in developing and approving a strategic plan, having a clear understanding of their own role and responsibilities, offering orientation programs to new directors, clearly identifying the role and responsibilities of the CEO, setting annual performance goals for the CEO, approving policies that establish the CEO's authority and ensuring there was an adequate succession plan in place for key CINICO employees, especially the CEO.
31. As a result of our audit work, we found that the Board had shortcomings in all of these governance areas. These shortcomings had a direct impact on the delivery of overseas health management services.

BOARD OF DIRECTORS HAVE NOT APPROVED A STRATEGIC PLAN SINCE 2005

32. The Board of Directors of a public sector organization is responsible for the performance of that organization. The first step in fulfilling this responsibility is the approval of a strategic plan. The strategic plan sets out the direction of the organization for the next three to five years, including goals, objectives and performance targets. The plan also identifies the risks that could negatively impact on goals, objectives and targets being achieved. Without a board approved strategic plan the organization will not be focused on accomplishing what is important and could be vulnerable to risks that have unacceptable consequences. Recognizing that changes occur quickly in today's economy and society a board should review its strategic plan and risk assessments on an annual basis and make adjustments as required.
33. CINICO was created in 2003 and the powers of the company are set out in the "Memorandum of Association of Cayman Islands National Insurance Company Ltd." In reviewing this memorandum it is clear that the directors of CINICO are ultimately responsible for the operations of the Company. Article 75 states, "the Company's business must be managed by the Directors who may exercise all the Company's powers." Section 47 of The Public Management and Finance Law also places ultimate responsibility on the directors by stating, "The board of a statutory authority or government company shall be responsible for the performance of the Authority or Company....." Both the Memorandum of Association and the *Public Management and Finance Law* places the Board of Directors in the position of being ultimately responsible for the

performance of CINICO. This responsibility is fulfilled by setting the strategic direction for the Company and monitoring progress against the plan.

34. The last strategic plan approved by the Board was in 2005. We noted that the Board had scheduled a Strategic Planning Retreat for September 2007, but there was no evidence that this ever took place. There have been no attempts since that time.
35. This is not to say that the Board had been overlooking strategic issues. In fact we have noted that in recent years the Board has been actively involved in a number of key issues.
36. In 2007, there was concern over the Company's equity position and its future viability. At that time the Board was considering various options in dealing with a lack of funding. We also noted that in 2007 the Finance and Audit Committee were examining the causes and risks associated with increasing health costs. In 2008, the Company engaged a consulting firm to provide suggestions on how to improve funding requirements, to evaluate the impact of benefit coverage on medical costs and to examine CINICO's ability to control costs. Quite frequently the Board examined different models to be used in providing overseas health care and on two occasions supported a call for proposals of overseas case management services that could have led to a very different framework than the one used currently.
37. At no time however in the past five years has the Board of Directors been formally engaged in putting a strategy in place that clearly articulates how the mission of the company will be accomplished and an identification of those risks that could stand in the way of success. CINICO's mission is to "provide affordable health care coverage on the most cost effective basis possible, to ensure the wellness of residents of the Cayman Islands". An updated strategic plan should identify the goals, objectives and performance targets that will move the company forward in achieving this mission. Risks that could stand in the way of success are, for example, not having a succession plan for key management positions, being sued for the delivery of inadequate medical care, or not receiving adequate funding from government. The Board may also consider risks that could impact on the reputation of the Company such as allegations of preferential medical treatment or political interference. When risks are identified during a risk assessment process then management would be directed by the board to develop appropriate action plans to eliminate or mitigate the risk(s).
38. The development of a new strategic plan and risk assessment can be a difficult and time consuming process, especially for the first year or two. The process should follow a disciplined approach and encourage input from all directors and senior management staff. Input should also be received from government and other identified stakeholders.
39. With respect to overseas medical services, we noted during our audit that there is lot of historical information and data at CINICO that would assist the board in identifying strategic opportunities. In recent years a number of studies have been undertaken making various observations and recommendations with respect to overseas medical services and these would also be valuable to the Board in developing their strategic plan.

40. It is extremely important that there is good documentation of deliberations and all decisions made during the strategic planning process. The final document should be well organized and easy to understand by all stakeholders. This will be a new process for the current Board at CINICO and we believe the Board should consider engaging a facilitator that has experience in assisting clients with such an undertaking.
41. We have included guidance in Appendix 2 on the various steps in a Strategic Planning process. We thought this would be helpful, especially in understanding how risk assessment ties into the Strategic Plan.

Recommendation #1: The CINICO Board of Directors should undertake a strategic planning and risk assessment process that will result in a three or five year plan leading the organization toward the achievement of its mission.

Recommendation #2: The Board of Directors should consider engaging external professionals to assist in the preparation of a strategic plan and risk assessment.

ROLES AND RESPONSIBILITIES OF CHAIRPERSON AND BOARD MEMBERS NOT ESTABLISHED AND NO ORIENTATION PROGRAM HAS BEEN ESTABLISHED

42. We noted that CINICO does not have documentation that describes the roles and responsibilities of the chairperson and Board members. As well, there have been no orientation sessions, a fundamental requirement to prepare members for their role and responsibilities.
43. There can be a lot of confusion and misunderstanding on the part of new directors as to their roles and responsibilities. This can lead to board members overlooking important duties or in some instances becoming involved in matters that are the responsibility of management.
44. Board responsibilities can vary from organization to organization but there are six core responsibilities that would appear in most organizations, and they are;
 - a. be actively engaged in the development and approval of the Strategic Plan and Risk Assessment;
 - b. hire and evaluate the performance of the CEO;
 - c. receive timely (monthly or quarterly) information to assess actual performance against the goals and objectives in the strategic plan;
 - d. identify and approve policies that establishes the authority of the CEO to make decisions without Board authority;
 - e. have a succession plan for the CEO; and
 - f. approve the Annual Report to the Shareholder. The Annual Report should be seen as the Board's accountability document to the shareholder and stakeholders.
45. A position description for a board member could also include an explanation of the business CINICO is in, the time commitment to be a Board member and the desired qualities and skill sets.

46. It is important that new board members become familiar as quickly as possible with the business that CINICO is in and the expectations of them as board members. This is accomplished with an orientation program. Such a program should cover at least the following topics.
- a. the position description that sets out the roles and responsibilities of a CINICO director;
 - b. the current strategic plan and risk assessment;
 - c. an explanation of the lines of business that CINICO is in;
 - d. applicable legislation and corporate policies; and
 - e. the terms of reference of any board committees.

Recommendation #3: CINICO should prepare position descriptions for the chairperson and a board member that sets out roles and responsibilities, time commitments, and desired qualities and skill sets.

Recommendation #4: CINICO should ensure that a new chairperson and all new board members be given an orientation program that will adequately prepare them to fulfill their respective role.

NO JOB DESCRIPTION FOR CHIEF EXECUTIVE OFFICER AND NO ANNUAL GOALS SET FOR THE POSITION

47. The Board of Directors looks to its Chief Executive Officer and his or her management team to fulfill the goals and objectives set out in the strategic plan. This relationship is established in two ways, first in the Chief Executive Officer job description and secondly with the goals given to the Chief Executive Officer on an annual basis by the Board of Directors. The job description and the expectations for the coming year are the basis of the management framework for an organization. At year end the Board of Directors will hold the Chief Executive Officer accountable for results.
48. At CINICO, we did not see a job description for the Chief Executive Officer position and there does not appear to have been a practice of setting goals for the position at the beginning of the year. For our audit of overseas medical services we were looking for any references that may have been pertinent to our work. We did not see any during the course of our audit.
49. We have noted that since the new CEO was hired in December 2010 the Board has requested the completion of a number of activities, some of which will have a significant impact on how CINICO operates and how overseas health management Services are delivered. The CEO has been asked to:

- develop a network of health providers to deliver overseas medical services;
- bring case management and claims administration in-house; and
- implement a swipe card system for claims administration, including overseas services claims.

50. These expectations are reflected in the minutes of various meetings. No specific deadlines were associated with the activities. Performance is to be evaluated after six months.

Recommendation #5: The Board of Directors should prepare a job description which clearly sets out the role and responsibilities of the Chief Executive Officer.

Recommendation #6: The Board of Directors should establish annual goals and expectations of the Chief Executive Officer and clearly communicate these prior to the start of the fiscal year.

BOARD DOES NOT HAVE ANY POLICIES THAT LIMIT THE AUTHORITY OF MANAGEMENT

51. As mentioned earlier, the Board is ultimately responsible for management of CINICO. This means that the Board must put its mind to how much authority they want to give to the CEO and his or her staff. Without any limitation policies the CEO would have the authority to do anything. This could involve the purchase of goods or services regardless of dollar amount, making purchases without going to tender or obtaining quotes, or entering into contracts without Board authority.

52. When we conducted our audit, we looked for limitation policies that the Board may have set for the CEO. We did not find any. The only limitation that we were made aware of is the requirement under the *Public Management and Finance Law* and Regulations that all Government Companies issue a public tender for the purchase of supplies, services and assets over \$50,000. While this is certainly a requirement that CINICO must follow, this is the only limitation placed on management. We were also made aware of a policies and procedures manual which requires all contracts over \$25,000 to go for Board approval, but there is no evidence that this policy was ever approved by the Board. In our discussions with the Chief Financial Officer, we learned that as a general rule he takes all contracts to the Board for approval, even if they are below the \$25,000 threshold. We saw evidence of this with regards to an IT contract. However this is not a documented policy of the Board.

53. In establishing limitation policies there is a balance between retaining some control over key decisions at the Board level and yet not be too restrictive to impair efficiency and the achievement of goals and performance targets.

Recommendation #7: The Board of Directors should consider the amount of authority to be given to the CEO and approve appropriate policies to reflect this authority.

NO SUCCESSION PLANNING CREATES MAJOR WEAKNESS

54. Another component of a good governance framework is a clear understanding as to who acts in the absence of the CEO. This is a decision to be made by the Board of Directors. Succession planning is one of their responsibilities.
55. Between August 2008 and December 2010, a period of 27 months, CINICO operated without a CEO and only had an acting CEO for the four month period from October, 2008 to January 2009. During the 23 months when there was neither a CEO nor an acting CEO, the two most senior employees at CINICO, reported directly to the Board of Directors. No one person was responsible for the day to day operations at CINICO; there was no one person that the Board could hold accountable for day to day operations. This created a huge risk for the Company.

Recommendation #8: The Board should have in place a succession plan for short and long-term absences of the CEO. The plan should identify only one employee who acts in the CEO's absence.

GOVERNMENT DIRECTION AND OVERSIGHT OF CINICO

56. CINICO's mission is "to provide affordable health care coverage on the most effective basis possible, to ensure the wellness of residents of the Cayman Islands." In our opinion references to "affordable health care", "most cost effective basis possible" and "to ensure the wellness of residents", would have adequately reflected the intention of government.
57. We expected to see Government and CINICO agree on this mission statement and to concur on a regular basis with the long-term goals and objectives to be achieved. We also expected to see the government appoint members to the Board of CINICO in a manner that would enhance governance and lead to improved performance outcomes.
58. As a result of our work we did not see that government had agreed with CINICO's mission. As CINICO did not have a strategic plan there were no long-term goals and objectives. In addition, Government's recent practice of appointing board members for one year terms has not contributed to developing a strong governance framework.

GOVERNMENT AND CINICO HAVE NOT AGREED ON STRATEGIC GOALS AND EXPECTATIONS

59. It is important that the Board of Directors of a public sector organization have a clear understanding as to what is expected of them and their organization. There should be good communication between government and the organization. The key document to provide that communication is the Ownership Agreement between the Cayman Islands Government and CINICO. This document is prepared each year as part of the budget process and sets out the activities to be undertaken by CINICO, expectations for the year, performance targets and contains a section on risk management; that is supposed to describe the key risks of the organization and how they are to be effectively managed.
60. The agreement is signed by the Minister of Health, Environment, Youth, Sports, and Culture on behalf of Cabinet and by the chairman of the Board of CINICO. We found that the Ownership Agreement was very clear in explaining the scope of CINICO's activities. In the Agreement, CINICO is to provide health insurance to civil servants and other designated groups and to administer health benefits for other groups on behalf of government. The Government, on the other hand, agrees to pay a premium for the insurance coverage and a fee for the administrative services.
61. Under Section 50 of the Public Management and Finance Law, each statutory authority and government company has the responsibility to sign the annual ownership agreement with the Government. The legislation requires each agreement to include:

- the strategic goals and objectives for the financial year and the following two financial years; and
 - to include the performance targets for the upcoming year.
62. Our review of the Ownership Agreement for the year ending June 30, 2011 indicated that the ten items listed as Strategic Goals and Objectives could better be described as activities or actions. Some of the items were as follows;
- “Provide health Insurance to Civil Servants_____”;
 - “Administer on behalf of the Ministry_____the provision of health benefits to indigents”;
 - “Undertake the development of a claims administration system as an alternative to the outsourcing of this function”;
 - “To finalize and execute the usage of CINICO’s own provider network”; and
 - “Secure appropriate re-insurance coverage.”
63. Since CINICO has not developed a strategic plan, it is understandable that this section would not have strategic goals and objectives. For explanatory purposes only, we set out below a few goals that would be strategic and could possibly flow from a Strategic Planning process. The reference point for indentifying these goals is in the current CINICO mission statement:
- “to provide affordable health care coverage on the most effective basis possible, to ensure the wellness of residents of the Cayman Islands”
64. Goals around the affordability theme might look something like the following:
- a. Keep annual increases in the cost of health care coverage at or below the rate of inflation.
 - b. Reduce the cost of overseas medical services by 5% in three years.
65. Goals around the wellness theme might look something like this:
- a. Obtain acceptable satisfaction levels from insured persons.
 - b. Obtain acceptable satisfaction levels from physicians with respect to overseas medical services.
66. For CINICO to develop strategic goals and to have agreement with Cabinet would create high level expectations and provide a good framework to measure performance. We note however that it may be difficult to attribute health wellness outcomes to CINICO’s programs because there are many other factors such as healthy and active lifestyles that will impact on an individual’s health condition.

GOVERNMENT INTERVENTION HAS BEEN ON SHORT NOTICE AND WAS NOT STRATEGIC

67. During the budget preparation process for the fiscal year ending June 30, 2011, the Government informed CINICO that they were going to decrease the premiums they were paying for the Civil Servant and Pensioner coverage by 10%. To expect CINICO's management to react and make changes of this nature on short notice is not realistic.
68. Premiums are based on the cost of providing health care. In order to have a reduction in premiums, health benefits must be reduced or the delivery system changed. Meaningful and sustainable changes can only be made when adequate time is provided. To request a decrease of 10% only six weeks before the fiscal year places CINICO in a very difficult situation and does not lead to good decisions. A longer time frame should be provided and good lines of communications set up to ensure that Government is satisfied with the direction being taken by CINICO. All of this could be accomplished if Government wishes were known during the annual strategic planning process.

Recommendation #9: The ownership agreement between the Cayman Islands Government and CINICO should include strategic goals, objectives and performance targets as required by the Public Management and Finance Law.

Recommendation #10: The goals and objectives of government for CINICO should be provided during the annual strategic planning process and adequate time be given to implement necessary actions.

ONE YEAR APPOINTMENTS FOR DIRECTORS IS NOT LONG ENOUGH

69. We noted that since 2009, Directors are appointed for a one year term. We do not see this conducive to good board governance. There is a significant learning curve in understanding what CINICO is responsible for, how it delivers its services and the challenges it faces. It would be very difficult for directors to participate in a strategic manner until they gain a high level of corporate understanding. Good practice requires that Directors be appointed for a minimum three year term.
70. Another issue with the appointment process is that all terms expire at the same time. There is no provision for rotation of directors. Planned rotation is extremely important to provide continuity and corporate knowledge, and to ensure that best practices continue. We noted that in September 2006, Board members were appointed with staggered terms so that one-third of the Board terminated each year. This is a much better practice. We noted that in 2009 of the seven Board members whose terms ended on June 30, only one was appointed to the new Board.

Recommendation #11: Government should review its practice of appointing Board members for one year terms and having all terms expire at the same time. We recommend that directors be appointed for at least three years and a process put in place so that one third of the terms expire each year.

DELIVERY AND OVERSIGHT OF OVERSEAS HEALTH MANAGEMENT SERVICES.

WEAKNESSES IN MANAGEMENT FRAMEWORK LEADS TO THREE DIFFERENT OVERSEAS REFERRAL SYSTEMS.

71. CINICO has had a contract with a Case Management Company (CMC) since 2005 to provide “Worldwide Emergency Services, Overseas Case Management Services and Cost Management Services”. An important undertaking by the CMC is to “maximize savings on healthcare provider charges while using best efforts to ensure appropriate and necessary care is provided to CINICO Customers.”
72. This was an exclusive contract and CINICO was not to engage any other person, company or entity to provide this service, other than if CINICO wanted to conduct the work themselves.
73. During the course of our audit, we were advised that some patients were being referred to a second CMC and in other instances patients were being referred directly to overseas providers (i.e. hospitals, treatment centers and clinics) rather than being under the care of a CMC.

NO AUTHORITY FOR ENGAGEMENT OF SECOND CMC AND NO DOCUMENTATION OF TERMS AND CONDITIONS

74. We were informed by CINICO officials that another CMC was engaged in direct contravention of the exclusive right held by the original CMC. We found no documentation relating to the terms and conditions under which the new CMC was to operate.
75. We were told that the existence of this second case manager was discovered by the Chief Financial Officer at CINICO in May of 2010 who attempted to ascertain the role they were playing from the senior management employee who engaged them. Initially it was understood that there were only a few “one-off” referrals, referrals that the senior management employee deemed appropriate. As time went on it became apparent that a significant number of overseas referrals were being made.
76. This happened at the time when CINICO had neither a full time nor acting CEO, and the term of the Board of Directors expired on June 30, 2010. Without a CEO to report to and no Board of Directors, the Chief Financial Officer had to wait for the confirmation of the new Board at which time he notified the Chair of the Finance/Audit Committee. The external auditors were notified of the situation and they reported on their findings to the Board of Directors on September 28, 2010. We saw evidence that the Board became actively involved in resolving this issue. The second CMC was notified in October 2010 that there services were no longer required.

77. The fact that a second CMC could be engaged without a contract raises a number of concerns. Why was another CMC necessary? Why was another CMC engaged in direct violation of the contract with the original CMC? Why no documentation? Why was the Board of Directors not involved? We were not able to have these questions answered or identify who was responsible as we were not provided with documentation. The senior management employee who was approving the invoices from the second CMC was not employed at CINICO when we performed our work.
78. We note that the absence of a full time or acting CEO created an environment where there was no effective oversight and control. This situation created a high risk that there could be poor management decisions being made.
79. As noted above, we believe that the practice of appointing all Board members for one year terms, with the same termination date created a governance vacuum that delayed the ultimate resolution of this improper and very risky undertaking.

NO AGREEMENT WITH THE CAYMAN ISLANDS HEALTH SERVICES AUTHORITY (CIHSA) FOR THE WORK PERFORMED BY THE CHIEF MEDICAL OFFICER AND REFERRAL OFFICE

80. CINICO looks to the Chief Medical Officer (CMO) or his designate to approve overseas transfers. Such an approval is given if it is medically necessary and the required health care cannot be provided in the Cayman Islands. During the course of our work, we learned that the CMO uses a collaborative approach in making these decisions. Dialogue may take place between the CMO and his designate, the patient's physician and specialists, if necessary. The CMO only signs when all the necessary information has been received.
81. We also learned there are situations where a patient may insist on being referred to a specific overseas provider when the CMO believes the health care can be provided in Grand Cayman. In these situations the patient can appeal to the Risk and Appeals Committee of the CINICO Board of Directors.
82. The CMO and his designate are employees of the Health Services Authority (HSA) but are paid for the services provided as CMO by the Ministry of Health, Environment, Youth, Sports, and Culture. The duties they perform as CMO are over and above their regular duties at the hospital which create a very heavy workload. We were told that emergency cases are handled on a priority basis.
83. The CMO is really the gate keeper for overseas referrals who provides this service on behalf of CINICO. We determined that there is no agreement between CINICO and the CIHSA that sets out CINICO's expectations for this important role. For instance, while the CMO uses a collaborative approach in making decisions, this is not a CINICO requirement. There should be standards as to how quickly CINICO expects approvals to be given. There is also no clear direction given to the CMO as to when approval should be given and when it should not be given. We believe there should be clear criteria developed for this function and that are clearly communicated. Guidance should also be provided for those situations where special requests should be denied and where they should be

referred to the Risks and Appeals Committee. An agreement would also be helpful in establishing how the work required by CINICO is integrated with the other duties performed by the CMO to ensure that professional services are performed as effectively and efficiently as possible.

84. We also found there is no agreement between CINICO and the HSA as to the role played by the Referral Office. The employees in this Office are the primary contact with the CMC(s). They get involved after the CMO approves an overseas transfer. The employees in this Office were not sure of the protocol to follow when they were directed to make referrals to the second CMC.

Recommendation #12: CINICO should have an agreement with the Cayman Islands Health Services Authority that clearly sets out the duties to be performed by the Chief Medical Officer and the Referral Office in HSA.

MANAGEMENT OVERSIGHT OF OVERSEAS MEDICAL SERVICES

85. In the previous section we identified two overseas referral systems that involved CMC's and one where CINICO took direct control of cases that would normally have been assigned to the original CMC. Another referral system had members of the Standard Health Insurance Contract (SHIC) and Indigent patients referred by the CMO to health providers in Jamaica. In these situations the overseas care was being provided under the direction of the patient's local physician.

86. We have prepared an analysis of activity for each system for the 2009 and 2010 calendar years.

Claims Paid In 2009 Calendar Year

	Cases	Amount Paid	Percentage
Original CMC	847	\$ 27,023,501	92%
Overseas with Referral	*	\$ 2,267,475	8%
		\$ 29,290,976	100%

Claims Paid In 2010 Calendar Year

	Cases	Amount Paid	Percentage
Original CMC	662	\$ 21,228,330	71%
Second CMC	96	\$ 4,640,064	15%
CINICO Managed	8	\$ 1,091,968	4%
	766	\$ 26,960,362	90%
Overseas with Referral	*	\$ 2,855,283	10%
		\$ 29,815,645	100%

***Overseas with Referral includes the Jamaican claims and amounts paid for air-line tickets for overseas medical appointments, reimbursement for hotel accommodations and prescriptions**

87. In conducting this audit, we expected to find that management had put in place a framework with the appropriate expertise and experience to ensure that overseas health services were being managed and provided on the most cost effective basis possible. In particular we looked for the following practices:
- patients were being referred to the most cost effective overseas providers that can provide the service;
 - overseas medical procedures were performed by qualified health care professionals and are required and reasonable under the circumstances;
 - fees paid to third party claims managers are in accordance with the contract and reflect best value for money; and
 - contracts with third party providers are reviewed on a periodic basis and retendered when appropriate.
88. With approximately 90% of the overseas health services being delivered by independent third parties) we expected to see regular and rigorous oversight by CINICO management.

OVERSIGHT OF ORIGINAL CMC WAS SPORADIC AND NO DOCUMENTATION OF MEETINGS HELD, ISSUES RAISED OR CONCLUSIONS REACHED WAS AVAILABLE FOR OUR REVIEW

89. The agreement with the original CMC came into effect in June 2005 and was amended in February, 2006. There has been no formal review of the CMC contract and any attempts to retender the contract in the last five years were not successful.
90. In accordance with the 2006 amendment, the CMC was to provide a weekly report to CINICO which showed cost estimates for all open cases. The primary purpose of the report was to give CINICO the ability to “review the large cases”. A large case was assumed to be one in excess of \$25,000. The amendment indicated that “certain large cases will be handled as Special Cases at CINICO’S discretion.” We reviewed one of these weekly reports and noted that the following information was provided: Name of patient, the medical treatment provider, the patient’s medical problem, the estimated cost at time of admission, an estimate of additional costs and actual costs incurred to date.
91. The amendment also indicated that the senior management employee may deem any case (regardless of size) to be a special case and “CINICO may choose to manage these cases directly”. The senior management employee also had the authority under the amendment to become actively involved in negotiating claims with the health providers.
92. As there was no policy in place, it was not clear to us why certain cases were identified as special. It was also not clear why certain large cases would be taken away from the CMC that was contracted to provide the service.

93. Our audit scope was limited to transactions during 2009 and 2010. We were told that during that time period the weekly report from the CMC went to a senior management employee and was the focus of the meetings between the senior management employee and the CMC.
94. When we conducted our work one of the senior management employees was no longer employed at CINICO so we were not able to obtain a direct understanding on how the CMC was held accountable for their case management decisions. We also were not able to review any documentation at CINICO related to the rationale behind the decisions to become directly involved in a case, and we were not able to review case management notes for those situations where CINICO became involved. We were told that if documentation of decisions and case management notes did exist they would be in an electronic format. Since the senior management employee was no longer employed such files were no longer accessible.
95. It was confirmed by both staff at CINICO and the CMC that the only CINICO participant in the meetings with the CMC was a senior management employee. We also learned from the CMC that while weekly meetings were scheduled to review the weekly report of open cases they were often cancelled. We see this as a significant shortcoming in overseeing the contract with the CMC, because for oversight to be effective it should be timely and regular. We were also concerned that during this period there was only one senior employee at CINICO involved in reviewing the weekly report and participating in the meetings. We understand that before the CEO position became vacant the CEO, the senior management employee and Chief Financial Officer participated in the meetings and they were held on a weekly basis. We see value in having a team with different skill sets reviewing the cases and participating in the meetings.
96. Since the key employee in overseeing the overseas medical services was no longer employed and available to us and since there was no documentation to review at CINICO's office, we were not able to conclude on the effectiveness of the oversight of the original CMC.

NO EVIDENCE OF ANY OVERSIGHT OF WORK PERFORMED BY THE SECOND CMC

97. As for the oversight on the services performed by the second CMC we were informed that this occurred on a case by case basis by phone or e-mail. No documentation was made available to us to verify what was being done.

CASE MANAGEMENT OR CLAIMS MANAGEMENT NOTES FOR CASES ADMINISTERED INTERNALLY WERE NOT AVAILABLE FOR AUDIT

98. The same can be said for the cases administered internally at CINICO. No documentation was made available to us. We were told that cases may be managed internally for a number of reasons. For instance a patient may have their own medical doctor who recommends overseas medical treatment outside of the CIHSA. This patient may have gone directly to CINICO and requested a referral. Another instance of direct CINICO involvement is when the senior management employee exercised the rights under the amendment and took full control of a case from the CMC.

99. Whenever a case is administered internally, a significant responsibility shifts from the CMC to CINICO. In such cases CINICO should have personnel with the necessary skills and experience to be satisfied that appropriate medical decisions and oversight is being provided. We see this as an area of considerable risk and one the Board of Directors should address when undertaking their risk assessment as part of the strategic planning process.

NO EVALUATION OF OVERSEAS MEDICAL SERVICES FROM THE VIEWPOINT OF THE PATIENT, THE FAMILY OR THE MEDICAL PROFESSION.

100. In addition to evaluating the direct oversight by CINICO staff of the contract with the original CMC we were also interested in learning of any qualitative evidence gathered by CINICO. We were looking for feedback from the various stakeholders in the overseas medical program such as the patients, their families and the local medical profession. This would provide valuable information, not only in evaluating performance under the contract, but to obtain an insight into whether or not it was contributing “to the wellness of residents in the Cayman Islands.” Similar information on those cases that were administered internally by CINICO would be valuable in determining satisfaction levels.

101. We enquired as to the availability of such information during our audit and were informed that no such surveys were conducted and the information we were looking for was not available.

AUDIT RESULTS REFLECT UNACCEPTABLE OUTCOMES

102. The agreement with the original CMC included a number of care management services which the CMC was to provide including the following:

- directly intervene with the attending hospital and physician to avoid unnecessary hospitalizations and procedures;
- pre-certify hospitalizations and procedures where possible;
- provide on-going monitoring of medical costs;
- liaise with family members of the insured;
- provide a complete report on each closed file to CINICO; and
- forward regular monthly reports to CINICO on both inpatient and outpatient hospital cases.

103. We saw that the fulfillment of these services by the CMC would fulfill the CMC’s undertaking to “maximize savings on healthcare provider charge___and ensure appropriate and necessary care is provided to CINICO customers.” We believed that it would be reasonable to expect similar services to be provided by the second CMC and by CINICO when it took on the responsibility of managing cases internally.

104. We reviewed a sample of overseas medical cases for each of the three referral systems; internal, second CMC and original CMC.

105. Since documentation could not be made available to us for the cases administered internally, there was no evidence to examine. This was a very significant shortcoming. It means that there is no documented rationale to be examined for case management decisions, no documentation to be examined of active case oversight and no documentation to be examined of claims management such as the on-going monitoring of medical costs. It was also a concern as to why CINICO would take on certain cases in the first instance. This possibility was set out in the amendment to the original CMC but there were no criteria provided as to when this might be necessary.
106. We also noted a provision in the Summary Plan Document (SPD) for the Civil Servants and Pensioners Health Plan that would enable CINICO's "Senior Management" to approve the transfer of a patient to an overseas provider, without CMO approval. It was not clear to us why anybody other than the CMO should have this authority. If the intent was to provide a special approval process in the event of an emergency when the CMO or designate is not available, then this should be stated.
107. We audited a random sample of cases referred to the second CMC. Our approach was to review a sufficient number of cases to enable us to draw a conclusion on whether or not CINICO was providing appropriate oversight. We audited the documentation which the CMC had in their files.
108. We examined 16 referrals and found that in a large majority of the cases there was no documented evidence of:
- intervention with hospitals and physicians to avoid hospitalizations and procedures;
 - precertification of procedures;
 - ongoing monitoring of medical costs;
 - liaising with family members; and
 - complete reports on each closed file being sent to CINICO.
109. We also audited a random sample of cases referred to the original CMC. We examined 20 referrals and found similar results. For instance, in many cases we did not see evidence that the CMC had intervened with the hospital and/or physicians to avoid costs.
110. Our review of the two audit samples did not give us the assurance that all the undertakings we expected to see were fulfilled. We believe that had there been appropriate oversight by CINICO during the period of our audit, these issues and others similar to the ones identified in our sample would have been identified by CINICO and appropriate timely action would have been taken. The lack of information available to assess the oversight by CINICO management and the results of our review of the sample cases led us to conclude that overseas medical services were not provided in the most cost effective manner possible and that the original CMC may not have maximized savings required by the contract.

Recommendation #13: Clear guidelines should be put in place to determine when it would be appropriate for CINICO to take responsibility for managing an overseas case.

Recommendation #14: Situations where an overseas referral would take place without the approval of the Chief Medical Officer should be clearly explained.

Recommendation #15: In those situations that CINICO takes responsibility for managing an overseas case all decisions and related rationale should be documented.

Recommendation #16: CINICO should review the system of storing documented evidence to ensure that it is in a format that enables easy access by authorized personnel.

Recommendation #17: CINICO should conduct periodic surveys to permit a qualitative evaluation of the overseas services being provided by the CMC or internally by CINICO staff.

CINICO HAS GOOD OVERSIGHT FOR CASES IN EXCESS OF \$300,000

111. CINICO has a re-insurance policy which limits its financial exposure up to US\$610,000 for cumulative overseas claim costs incurred by an individual during the fiscal year. Under the policy CINICO is to inform the reinsurer of any case that reaches \$300,000 and the reinsurer will become actively involved in monitoring the case. Their objectives are to validate the appropriateness of the medical treatment, the veracity of the amounts that have been billed and an agreement on the future care path.

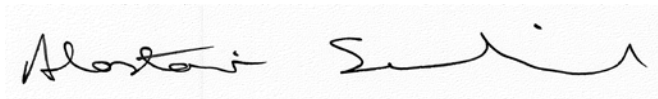
112. We were interested in understanding the disciplined approach followed by the re-insurance company in reviewing these cases. The first step is to look for certain indicators that from experience would indicate this is a high risk case. For instance certain “trigger” diagnoses have the potential to lead to expensive claims. Based on this initial “screening” they may decide to undertake an audit of the case.

113. When a decision is made on an audit, the CMC would be requested to provide all documentation on the case including invoices, rates for various services and the coding, medical notes and case notes. This information would be reviewed by a team of clinical professionals such as physicians, nurses and a pharmacist.

Recommendation #18: We recommend that CINICO review the process and procedures followed by their re-insurance company in auditing overseas medical claims with the aim of indentifying best practices.

CONCLUSION

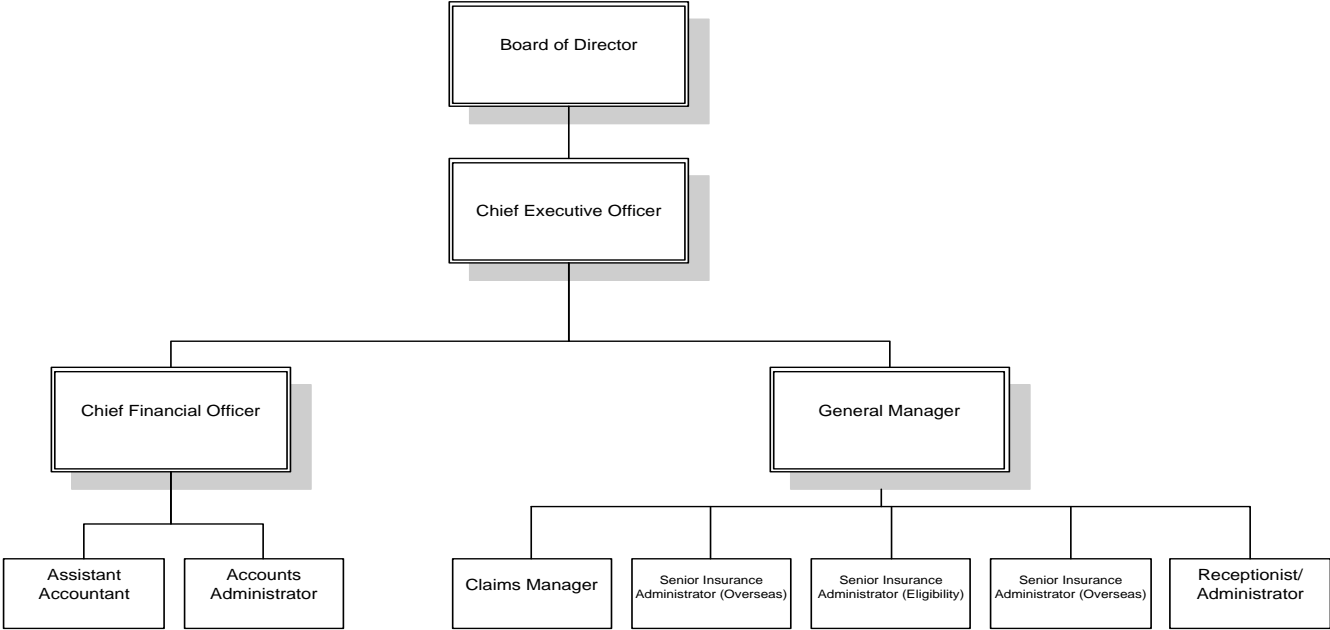
114. Our objective in conducting this audit was to determine if overseas health management services are being provided in a cost effective manner. As a result of our audit work, we concluded that overseas health services were not effectively managed, leading to the likelihood that the Government wasted public resources in providing these services. Due to the limited documentation available for our audit, we were unable to quantify how much Government may have overpaid for these services.
115. During the period covered by our audit, there was no CEO responsible for the day-to-day operations of the Company. This led to a situation where the delivery of overseas health management services was not controlled and administered in a manner that would provide any meaningful information on how well the program was being delivered.
116. We also noted that the absence of a strategic plan and risk assessment at CINICO resulted in there being no specific goals and performance measures for overseas health management services and no identification of risks. Without goals and performance measures there was no benchmark against which to evaluate actual performance.
117. We made a number of recommendations in response to our findings around the management framework at CINICO and the role and responsibilities of the Board of Directors. We believe that the implementation of these recommendations will better position CINICO to deliver overseas health management services in a cost effective manner.



Alastair Swarbrick MA(Hons), CPFA
Auditor General
George Town, Grand Cayman
Cayman Islands

16 May 2012

APPENDIX 1 - CINICO ORGANIZATIONAL CHART - 2010



APPENDIX 2 - STRATEGIC PLANNING AND RISK ASSESSMENT PROCESS

1. The first step in a strategic planning process is to agree on the mission for the organization.

This has been done at CINICO, and the mission is “to provide affordable health care coverage on the most cost effective basis possible, to ensure the wellness of residents of the Cayman Islands.”

2. The next step would be have a clear understanding on what is meant by some of the terms, such as;
 - a. “affordable health care coverage”
 - b. “most cost effective basis possible”, and
 - c. “wellness of residents”

Without a clear understanding of these terms it will be impossible to measure performance and to conclude on whether or not progress is being made.

3. Identify a strategy for the next 3 to 5 years that will have CINICO move in a positive direction towards achieving its mission.
4. This strategy will include goals and objectives to be achieved during the three to five year period.
5. There should be the identification of risks. A risk is any event that could prevent a goal or objective from being accomplished.
 - a. The first step is to identify the various risks.
 - b. The next step is to evaluate each risk as to:
 - i. Likelihood of occurrence, and
 - ii. Impact on the organization if it did occur.
 - c. The final step is to identify the actions to be taken to mitigate or transfer the risk.
6. The final step in the strategic planning process is to identify how performance will be measured and to set out the time frames when the CEO will report to the Board on results (i.e. monthly or quarterly).

APPENDIX 3 - RECOMMENDATIONS

Recommendation	Management Response	Responsibility	Date of planned implementation
1. The CINICO Board of Directors should undertake a strategic planning and risk assessment process that will result in a three or five year plan that will lead the organization towards the achievement of its mission.	<i>See detailed response for all recommendations in the next section of this report.</i>		
2. The Board of Directors should consider engaging external professionals to assist in the preparation of the strategic plan and risk assessment.			
3. CINICO should prepare position descriptions for the chairperson and a Board member that sets out roles and responsibilities, time commitments, and desired qualities and skill sets.			
4. CINICO should ensure that a new chairperson and all new Board members be given an orientation program that will adequately prepare them to fulfill their respective role.			
5. The Board of Directors should prepare a job description which clearly sets out the role and responsibilities of the Chief Executive Officer			
6. The Board of Directors should establish annual goals and expectations of the Chief Executive Officer and			

Recommendation	Management Response	Responsibility	Date of planned implementation
clearly communicate these prior to the start of the fiscal year.			
7. The Board of Directors should consider the amount of authority to be given to the CEO and approve appropriate policies to reflect this authority.			
8. The Board should have in place a succession plan for short and long term absences of the CEO. The plan should identify only one employee who acts in the CEO's absence.			
9. The ownership agreement between the Cayman Islands Government and CINICO should include strategic goals, objectives and performance targets as required by the Public Management and Finance Law.			
10. The goals and objectives of government for CINICO should be provided during the annual strategic planning process and adequate time be given to implement necessary actions.			
11. Government should review its practice of appointing Board members for only one year terms and having all terms expire at the same time. We recommend that terms be for at least three years and a process put in place so that one third of the terms expire each year.			
12. CINICO should have an agreement with the Cayman Islands Health Services Authority that clearly sets out the duties to be performed by the Chief Medical Officer and			

Recommendation	Management Response	Responsibility	Date of planned implementation
the Referral Office in HSA.			
13. Clear guidelines should be put in place to determine when it would be appropriate for CINICO to take responsibility for managing an overseas case			
14. Situations where an overseas referral would take place without the approval of the Chief Medical Officer should be clearly explained			
15. In those situations that CINICO takes responsibility for managing an overseas case all decisions and related rationale should be documented			
16. CINICO should review the system of storing documented evidence to ensure that it is in a format that enables easy access by authorized personnel.			
17. CINICO should conduct periodic surveys to permit a qualitative evaluation of the overseas services being provided by the CMC or internally by CINICO staff.			
18. We recommend that CINICO review the process and procedures followed by their re-insurance company in auditing overseas medical claims with the aim of indentifying best practices.			

APPENDIX 4 – CINICO MANAGEMENT RESPONSE

The following response was received from CINICO by email on 14 May 2012. The comments have been included in their entirety.

GENERAL COMMENTS:

As is evident in CINICO's annual reports and Table 1 in this audit report, overseas costs have been increasing year after year. This is not a phenomenon unique to CINICO, but is a worldwide trend. Medical costs increase on average 10% per annum and there is a constant stream of new and costly medical advances further driving up healthcare costs. In addition, increases are also affected by lifestyle and poor health. Thus a conclusion that the increases in claims costs year over year is only as a result of ineffective oversight of the overseas medical management program, is an incorrect conclusion for the reader of this audit report to make.

We do agree in principle with the audit findings and recommendations, and find them to be very valuable in assisting CINICO in further keeping our costs down. However, it is important to point out a few important steps the company has already taken prior to the issuance of this report which is listed below and further detailed in the attached timeline schedule.

First, claim expenditure accounts for a majority of a premium rate, and considering that a majority of the plans we insure have no member cost sharing and 100% benefits, we feel that our premium rates are very cost competitive. A 100% fully covered plan, with no cost sharing at a very competitive premium rate (current monthly single rate is \$394 per month) is rare to find in the insurance market. If such a plan was priced privately we feel that the rate would be a lot higher than what CINICO is charging. This attests to CINICO's ability to keep costs at a manageable and controllable level. However a cost sharing plan would further assist in keeping overall costs down.

Second, during the years 2008 through 2010, the Company operated without a CEO. Some of the recommendations /observations cited in the audit report (i.e. tendering of overseas care management, direct network contracts and development of a strategic plan) had been on the Company's radar for quite some time prior to the departure of the previous CEO. However, that departure delayed development and implementation of many of the matters falling within the present recommendations. In December 2010 and early 2011 there were major changes in senior management. This included the hiring of a CEO and the decision not to renew the contract of the senior manager who oversaw the claims process. Until CINICO resolved its management issues the development of a formal strategic plan was impractical. Now that CINICO has established stability in its senior management it is better situated to engage in forward looking strategic planning. It should be noted that prior to receiving the auditors recommendations, the development of a strategic plan had been discussed by the Board during the latter part of 2011 and early part of 2012. A market survey of the civil service was authorized as an initial phase of that strategic planning and was completed. With the initial phase now complete, the board anticipates swift movement to develop a strategic plan in conjunction with its various stakeholders. It is expected that the full strategic planning process will be completed at a minimum by December 2012.

Finally, from 2011, the Company has already initiated the following measures to control costs, and improve the delivery and effectiveness of overseas medical services:

- Subsequent to the claim “scrubbing” by our CMC, we have engaged our reinsurance company to conduct expert claim reviews on claims over US\$ 125,000.
- The Chief Medical Officer (CMO) is now included in weekly calls with CINICO, and the CMC to discuss overseas cases, costs and medical outcomes.
- We have successfully completed our overseas case management tender process and are pleased to be affiliated with the case management practices of MMSI (an affiliate of the Mayo Clinic).
- Network access and case management are now provided by two different entities, thus eliminating the conflict of interests of having one entity oversee both functions.
- We are continuously working with our sister company, the Cayman Islands Health Services Authority (CIHSA), in analyzing what is being referred overseas and determining what medical services can be augmented locally (whether via CIHSA or other local providers).
- Along with other stakeholders, we have participated “healthcare cost review” committee led by the Ministry of Health. Recommendations from this committee have been made to Cabinet.
- In May/June 2012 we will be conducting a customer survey on our largest group, the civil service and pensioners. The results of the survey would be used as an input in the development of our strategic plan.

We continue to move ahead in controlling our overall claim costs and improving delivery. Along with implementation of the valuable recommendations in the audit report, in the short term we intend to:

- Hire a local case manager with a medical background (nurse or doctor) who would be instrumental in managing claim costs.
- Enter into direct contracts with local and overseas providers.
- Initiate an RFP for a wrap around network that would give us access to larger discounts and value added services.
- Work with government in developing and designing optional health-care plans.

The findings and recommendations have been discussed with the Chairman of the Board and shared with the full Board via email communication. The Board generally agrees with the findings. At the June 2012 Board of Directors meeting it is anticipated that a plan will be developed to address all findings and recommendations with an aim to implementation.

The findings of this report were also shared with the Ministry of Health, and they advise that they were aware of many of the Auditor General’s comments / concerns , and they have been working closely with the Board of Directors to resolve these issues and move the Company forward as outlined in this response.

In conclusion, management and the Board would like to thank the efforts of the Auditor General and his team. We look forward to implementing the recommendations and improving our operations as a result.

KEY TIMELINES:

Changes in Management/Hiring of a CEO

- CEO resigned August 2008.
- October 2008 – The Board hired an acting CEO from the period October 2008 to February 2009.
- From August 2008 to December 2010, 2 attempts were made in filling the vacant position. On December 2010 a CEO was successfully hired.
- January 2011 the General Manager’s (GM) employment contract was not renewed.
- 2011 discussions to increase the staff complement at CINICO. 2012/13 budget includes a provision for the hiring of a local case manager with medical experience.

Case management Contract and RFP

- March 2006 – The CEO renewed the Case Management contract with the expectation that the contract would be tendered within a year.
- 2007 case management contract tendered (First RFP).
- Later part of 2007 - At the recommendation of the CEO, the Board approved the selection of a new case management company (CMC) which was later approved by the Central Tenders Committee (CTC).
- Early 2008 – Due to concerns on the ownership and financial condition of the selected CMC, the decision is overturned by the Board. (The Office of the Auditor General (OAG) was requested to investigate the ownership issue and financial condition of the selected CMC). The Board decides to maintain its relationship with original CMC until a new tender is undertaken.
- Mid 2008 – Board reviews a plan presented by the GM on in-house case management and provider network. Board required more time to review (May 2008 - Board requested GM and CEO to provide a detailed business plan). Suggestion made by the Board to maintain relationship with original CMC on a month to month for an additional 3 months contingent upon being able to execute in-house case management.
- August 2008 – CEO resigns. GM presents a strategic plan on overseas network contracting. With the exception of a cost benefit analysis – no further business plan developed on in-sourcing case management.
- 2008 - Further discussions ensued with the “in-sourcing” of case management functions (phase 2) which included a plan to in-source claims administration functions (phase 1). The project was named “create your own destiny”. A member of the Board also began to work with management on the ‘in-sourcing of claims”. The Board member passed away in November 2008.
- Complete new Board appointed for the 2009/10 year.
- December 2009 - RFP for Case Manager and Claims administrator discussed along with in-sourcing of claims administration functions. Committee put together.
- July 2010 – responses received (2nd RFP).

- Fall of 2010 – The introduction of the “Electronic Verification Adjudication System” which was to be implemented by July 1, 2011, made the 2nd RFP redundant. Decision made to award the contract for the claims administrations services only of the RFP.
- Fall of 2010 – New RFP (3rd RFP) issued for Case management services only. Due date for RFP responses was December 2010.
- January 2011 to summer 2011 – Evaluation process including on-site visits.
- Summer 2011 – selection of new CMC

CIMA’s concern over CINICO’s capital level

- Due to underfunded premium, from 2005/6 to 2007/8 the Company was operating with capital below CIMA’s capital requirements. The regulatory body was pressuring the company to meet its capital requirements.
- Board direction given to CINICO to ensure that capital requirements are met. Additional administration efforts to allocate limited capital amongst vendors.

Summary Plan Document (SPD) with Civil Service

- 2005 - Back and forth attempts made by the first CEO to obtain sign-off of the SPD with the Government.
- 2006-7 attempts made by the 2nd CEO. Document finalized yet only signed by CINICO.
- 2011 – Significant headway made. All parties in agreement. Currently in legal for review.

Strategic Planning Process

- 2005 initial strategic plan in place.
- 2006/7 – 2nd CEO initiated attempts to revise/update the strategic plan. Due to the company’s undercapitalization, concentration was put on ensuring the company was financially solvent.
- December 2010 – New CEO hired.
- End of 2011 - Discussion of a strategic planning process commences.

Second Case Management Company (CMC)

- May 2010 –The use of a second CMC discovered and reported to Finance Chairman in August 2010 subsequent to reappointment of new Board and to external auditors as part of the year-end 2009/10 audit.
- September 2010 to December 2010 - Board carried out its investigation.
- October 2010 – Board advised H.S.A to only refer patients to original CMC and not to the second CMC.
- October 2010 – Board advised CTC chair of potential breach in CTC rules and invited CTC chair to the Board meeting held in November 2010.
- November 2010 – The Board wrote to the OAG, advising of the occurrence and the steps the Board has put in place.

Contact us

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Complaints

To make a complaint about one of the organisations we audit or about the OAG itself, please contact Garnet Harrison at our address, telephone or fax number or alternatively email: garnet.harrison@oag.gov.ky

Freedom of Information

For freedom of information requests please contact Garnet Harrison at our address, telephone or fax number. Or alternatively email: foi.aud@gov.ky

Media enquiries

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