



ACT AUDITOR-GENERAL'S OFFICE



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Performance Audit Report

Management of Calvary Hospital Agreements

The ACT Auditor-General, Mrs Tu Pham, has today presented a Performance Audit report titled '**Management of Calvary Hospital Agreements**', to the Speaker of the ACT Legislative Assembly.

The Calvary Public Hospital provides health services to the ACT community under a set of agreements (the Agreements) with ACT Health. The Agreements date back to 1971 for the Public Hospital and 1988 for the Private Hospital, and have been varied several times since then. ACT Health provides funding to Calvary Public Hospital - around \$105.4 million in 2007-08 under these Agreements.

Calvary Public and Private Hospitals have an unusual arrangement where both hospitals are owned and managed by a private organisation, Calvary Health Care ACT Limited (CHC). The 1988 Private Hospital Agreements require the operation of the Calvary public and private hospitals to be financially independent of one another, and for the public hospital to not in any way subsidise the private hospital. Cross-charging arrangements currently in place between ACT Health and CHC aim to have the public and private hospitals bear their appropriate share of costs associated with their respective use of staff, facilities and services.

The audit examined the management of, and compliance with, the Agreements, with a focus on the cross charging arrangements. The audit did not address the clinical issues associated with the provision of health services by the Calvary Public Hospital. No issues arose during the audit that suggested the need to address clinical issues.

Key Audit Findings

Nature of Calvary Hospital agreements

- The Agreements reflect a relationship between ACT Health and Calvary Public Hospital which is more akin to that with a public sector body rather than a non-government body.
- The Agreements are complex, not well understood, out of date, and not fully reflective of the relationship between the parties. This results in inefficiencies (for ACT Health and CHC) in managing the contractual relationship.
- There have been significant efforts over the years, mostly by the ACT Government, to improve the contractual arrangements, largely without success. Consolidation of the current Agreements would make management easier. Replacing the set of Agreements with a new, single agreement is necessary in the longer-term.

Management of, and compliance with, Calvary Hospital Agreements

- ACT Health has improved its management of the Agreements in recent years and achieved a reduction in the costs of services. However, ACT Health did not routinely review the

cross-charging financial arrangements to ensure they reflected the recovery of reasonable costs and remained consistent with the Agreements. This has led to a higher risk that the Agreements will not be complied with; and the Territory's financial interests will not be protected.

- ACT Health has not developed a contract management plan to assist in the administration of the Calvary arrangements. It has not documented procedures and practices that have been established over time, and as a result, the current Agreements no longer reflect actual practice.
- There were regular discussions and reports on CHC performance. However, ACT Health did not seek, and CHC did not provide, formal annual reports of CHC's delivery of health services against the agreed targets in the annual Performance Plan for the funding received.
- In providing for a private hospital, the Agreements call for a high degree of separation between the hospitals. This has not been achieved, and the lack of clarity and transparency has contributed to difficulties in managing the Agreements. Separate audited accounts of Calvary private and public hospitals were not provided annually to ACT Health.
- The Agreements define the funding of CHC as being on the basis of cost recovery. However, this has not been implemented effectively, with the risk that the public hospital has subsidised the private hospital.

Management of the cross-charging arrangements

- Under the cross-charging arrangements, the private hospital is required to reimburse the public hospital for the costs associated with its use of staff, facilities, and services in the public hospital. The current CHC reimbursement systems involve complex calculations and the exercise of judgement. This, as well as inadequate controls, increases the risks of incorrect calculations and potential cross-subsidisation of the private hospital.
- Staff of CHC calculated and approved reimbursements to the Calvary Public Hospital. There was no evidence of review of reimbursements by any staff working solely for the public hospital, raising the risk of conflict of interest.
- ACT Health did not know the overall amount of cross-charging, and financial reports provided by CHC to ACT Health did not include this information.
- Audit examined a sample of major cross-charging calculations by CHC for the months of June 2006, July 2007 and October 2007 and found a number of omissions and incorrect charges.
- Audit also reviewed a sample of private hospital patients' records during the period from January 2006 to June 2007 and found that 25 cases were recorded in the Patient Administration System as private hospital patients admitted in the private hospital's Private Recovery (PR) Ward. However, these patients were physically located in the public hospital's Intensive Care Unit (ICU) according to their individual Medical Records. The public hospital subsidised the care of these patients to the benefit of the private hospital.
- Notwithstanding a number of more recent reviews of the cross-charging arrangements by several internal auditors and consultants engaged by ACT Health, many of the recommendations made by these consultants have not been implemented by ACT Health or CHC in a timely manner. CHC disputed claims of under-payments identified in these consultant reports, and subsequent discussions with ACT Health have led to agreed, often lower, amounts being repaid.
- The current charges to the Calvary private hospital for the use of public hospital facilities are low in comparison with the latest available National Hospital Cost Data Collection for private hospitals; suggesting that the costs were not appropriately recovered by ACT Health from Calvary Private Hospital. The current pricing schedule, which was set in February 2004, with annual indexation, is out of date and requires a comprehensive review.

There was scope for improvement by ACT Health and CHC with respect to issues such as timeliness of decision-making process, the control environment, and robust policies and

administrative procedures. Such improvements would minimise the risk of cross-subsidisation and hence loss of public revenue.

In response to deficiencies identified by Audit, CHC is developing new protocols, policies and procedures to improve the control environment and advised that it has reimbursed amounts underpaid due to errors or omissions in calculations identified by Audit.

Recommendations

The audit made twelve recommendations to address the issues raised. ACT Health and Calvary Health Care agreed, or agreed in part, with all recommendations as outlined in the report.

Further Information

For further information, please contact Rod Nicholas, Director, Performance Audits and Corporate Services on 6207 0833. Copies of the report are available from the ACT Auditor-General's Office (Level 4, 11 Moore Street, Canberra City) and from its website, www.audit.act.gov.au.