

Revenue and Receivables Recovery Internal Audit Review
KPMG Advisory Limited
September - October 2012

KPMG Review Summary

Bermuda Hospitals Board's (BHB) Audit and Finance Committee requested an internal audit review be performed due to concerns raised over agreements made with the Government and Commercial Insurers to cap the amount of revenue billable each year, and the resulting impact that this had on the recoverability of receivables and the future strategy of the Bermuda Hospitals Board (BHB).

The scope of the review therefore included the following for both Government and Commercial Insurers:

- Review of existing information including any Memorandum of Understanding (MOU) between the BHB and the Government and/or the Commercial Insurers.
- Review of the completeness and appropriateness of the communication between the Executive, the Board and the Audit and Finance Committee.
- Documentation of the implications on utilization levels of the hospital of both the recovery of revenue and receivables and the future strategy of BHB.
- Recommendations / potential solutions for consideration by the BHB Board and Executive, to reduce the risk of material revenue and receivable write-offs in future financial years for both Government and Commercial Insurers.

Key Findings

The 2011/12 Government subsidy to BHB was negotiated by the Chairman of the BHB Board and the BHB CEO in February 2012. Similarly, BHB negotiated MOU's with several of Bermuda's commercial insurers to cap revenues. Upon review, the Board recognized that given insurance revenue caps and subsidy caps, there was a strong potential for a revenue shortfall, and in September 2012 delegated the CEO and CFO to negotiate with Government to find a new solution. It was expected that the basis of the MOUs would be amended to provide for an appropriate sharing of risk and reward by the BHB and the Commercial Insurers. KPMG determined that BHB needed to develop appropriate governance and effective controls around the negotiation of MOU's with Government and Commercial Insurers.

Summary of KPMG's Recommendations

- Develop a formal scheme of delegation for the negotiation of contracts (e.g. MOU's).
- Secure appropriate detailed financial data to support the decisions on entering contracts.
- Require clearly defined contracts with the Government and Commercial Insurers to reduce any ambiguity around the terms of such agreements.
- Improve Board level oversight inclusive of timely strategy updates, budget and financial forecasts.
- Improve BHB's ability to monitor financial position, and effectively communicate this to the Board and Audit and Finance Committee.
- Improve governance of the Board's relationship with BHB Executives.