

## A Single Processing Site

- 3.033 HBL originally operated from four sites:
- Wanganui, employing approximately 200 people;
  - Christchurch, employing 100 people to process claims from medical practitioners and other health professionals;
  - Auckland, employing 20 people; and
  - its Head Office in Wellington, employing 15 people.
- 3.034 The change to electronic claiming for all of HBL's payment systems meant that HBL would need fewer staff in the future. HBL had originally planned – as stated in its 1998-99 Business Plan – to move all processing to one site in 2000-2001.
- 3.035 However, in November 1998 HBL issued a revised business plan which indicated that the move to a single site would take place in 1998-99. The move was expected to reduce the annual labour costs associated with the processing of pharmaceutical subsidy claims by \$3.2 million. Both the move and the savings were dependent on implementing electronic claiming for all pharmacists.
- 3.036 On 1 December 1998 HBL issued a memorandum to all staff at the Wanganui centre, telling them that:
- the operating functions would be moved to a single site;
  - the location of this site was still to be decided; but
  - by 30 June 1999 most of the 1,000 pharmacies would be claiming electronically.
- 3.037 HBL told us that there was a consultation process with staff on whether there should be a single site and the location of any such site.
- 3.038 In February 1999 HBL issued a further memorandum that named Wellington as the location of the single site. The result would be staff reductions at Wanganui beginning in March 1999 and continuing through to June 1999. By the end of June it was expected that only about 20 staff would be engaged on the processing of pharmaceutical subsidy claims and the site would, in effect, be largely closed as a processing centre.

## Implementing the 2.7 System

- 3.039 The 2.7 system has not yet been fully implemented and the Wanganui centre continues to carry out manual processing. The main reason for the failure to implement the system by 30 June 1999, and therefore to meet the revised 1998-99 Business Plan targets, are described in the following paragraphs. They detail a (concerning) lack of project management by HBL and incorrect reporting at the early stages of the project. Achieving the revised targets was also inhibited by the decision to discourage pharmacists from adopting the 1.5 system and encouraging them to wait for the 2.7 system.
- 3.040 HBL knew in November 1998 that the 2.7 system was the preferred method for electronic claiming. All pharmacists were to be on this system by 30 June 1999, and HBL had predicated its move to a single site on implementation of the 2.7 system. Nevertheless, we could find no project plan prepared in 1998 for implementing the system.
- 3.041 An internal HBL Wellington paper dated 19 December 1998 noted that there had been almost no progress on implementing the 2.7 system. (For example, no dates had been set for testing it.) Concern was also raised that the system may not be compatible with some existing HBL systems. A further internal paper, dated 24 February 1999, noted that a draft plan was being developed for ensuring that pharmacy software was compatible with the 2.7 data requirements, but that *we are well behind in meeting any objective*.
- 3.042 The first recorded project management meeting notes that we found are from an HBL meeting of 12 January 1999. A project plan for implementing the 2.7 system was tabled at this meeting, and showed that the system would be ready for pilot testing on 1 March 1999. The meeting noted in its action plan that, as an interim step, HBL would continue with its programme to convert the remaining eligible pharmacies to electronic claiming using the 1.5 system.

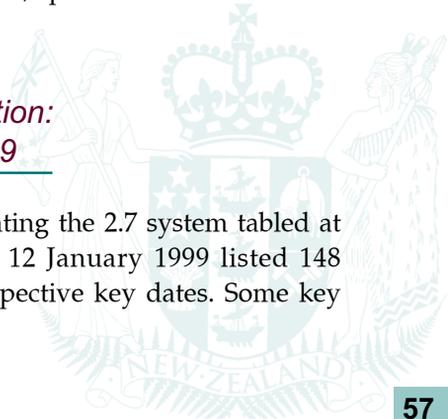
3.043 The project plan for the 2.7 system highlighted a number of risks and how these would be managed, including:

Risk	Management Plan
Software vendors are not making changes and are slow in rolling out their products.	While we do not control this risk we are maintaining a close relationship with the vendors. Weekly contact is planned so early action can be taken on issues.
Lack of agreement by Pharmac, the Pharmacy Guild and the HFA on changes to the Pharmaceutical Schedule to make it programmable.	This is another risk that HBL does not control but is managing closely. Weekly meetings between Pharmac, the Pharmacy Guild and HBL are planned to progress the Schedule.
Implementation of 2.7 delayed beyond April 1999.	2.7 implementation is delayed, the process improvements for manual processing and 1.5 will be vigorously continued.

3.044 However, while these risks were identified, we could find no record that that they had been systematically addressed in the way indicated in the management plan. For example, as noted in paragraph 3.041, by 24 February 1999 HBL still had no system in place for checking to ensure that pharmacy software was compatible with the 2.7 system. With hindsight, it is difficult to see how HBL could have managed these risks given that it had no contractual relationship with all these parties, apart from its service level agreement with the HFA.

***Reporting on Implementation:  
December 1998-April 1999***

3.045 The project plan for implementing the 2.7 system tabled at the internal HBL meeting of 12 January 1999 listed 148 necessary tasks, with their respective key dates. Some key dates included:



- testing of modem-based claims capture system, complete by 29 January 1999.
- testing of electronic *Pharmaceutical Schedule*, complete by 3 February 1999.
- pilot testing of software, to commence 1 March 1999.
- “roll-out” of the 2.7 system, to commence 9 March 1999 and scheduled to take 22 days.

3.046 However, we could find no reports of any kind on the progress in completing these tasks. In our assessment, this lack of reporting may have been because few (if any) of the 148 tasks were actually completed. The project seems to have suffered a breakdown in its management. The system was not ready for pilot testing on 1 March 1999 and (as discussed later) it was to be many months before the project reached this stage.

3.047 That the project was in trouble at this early stage was not the picture that HBL management reported to the HBL Board. HBL management provides monthly reports to its Board and we reviewed the nature of the reporting on the 2.7 system.

3.048 A report to the Board dated 9 December 1998 noted that the 2.7 system would be pilot tested in March 1999. At its January 1999 meeting, the Board asked for an update on the introduction of the 2.7 system. It is clear from a review of correspondence between Board members that they were concerned that HBL must meet the targets set to achieve electronic claiming.

3.049 There was also concern among Board members that HBL management could become distracted by the move to a single site at the expense of concentrating on the need to implement electronic claiming. Unless the 2.7 system was introduced, the move to a single site was not feasible.

3.050 In response to a request from the Board, a paper was presented to the February Board meeting stating that electronic claiming under the 2.7 system would start from 1 March 1999. The report said –

*The strategy is to test each of the pharmacy systems through the last two weeks of February and thereafter to start with a limited number of pharmacies live claiming (approx.10-20). We will use pharmacies to actively test our systems with volume over a two week period and on the basis of our capability, manage a roll out rate of 50 (approx) every two weeks for the first two 6 weeks and then ramp it up to 100 per week (all going well).*

- 3.051 Reference was made to another paper, also presented to the February Board meeting, which contained more detail on the project. That paper, dated 11 February 1999, set out the risks associated with the change to the 2.7 system and how these would be controlled. The dependency on other parties such as software suppliers, Pharmac, and the Pharmacy Guild was noted.
- 3.052 It was proposed to deal with these risks by regular meetings with all parties and ensuring that everyone was keeping to the agreed timetable. If the implementation of the 2.7 system was delayed beyond April 1999, more effort would be made to put pharmacists onto the 1.5 system.
- 3.053 Based on this information from management, the Board minutes for the February 1999 meeting concluded that *the change in the electronic claims process from 1.5 to 2.7 is proceeding and that the 2.7 process is being developed satisfactorily and implemented in the Wellington office.* Given the assurances provided to the Board by HBL management, it would have been difficult for the Board to have reached a different conclusion.
- 3.054 The HBL Board was again informed at its March 1999 meeting, in a paper dated 15 March 1999, that if implementation of the 2.7 system was delayed beyond April 1999, HBL would seek to put more pharmacists onto the 1.5 system. However, in the same month HBL had, in a newsletter to pharmacists, effectively discouraged pharmacists from switching to the 1.5 system.
- 3.055 The project plan submitted to the Board for the 2.7 system indicated that the 2.7 system was to be piloted at three sites, starting on 1 March 1999 and ending on 12 March. The plan also indicated that the 2.7 system would be made available to those pharmacists claiming under the 1.5 system over a 24-day period from 16 March to 14 April.

However, by March little progress had been made in implementing the 2.7 system. The Board was incorrectly informed that the project was still on track when very little work had in fact been completed.

- 3.056 In its quarterly reports to the HFA, what HBL management said about the state of the 2.7 project was also not correct. In its service level agreement with the HFA, HBL is required to report on any significant developments and achievement of agreed targets.
- 3.057 In its report to the HFA in February 1999 covering the quarter October-December 1998, HBL assured the HFA that . . . *the intention is to start electronic claiming using 2.7 from 1 April 1999. The issue holding us back at the moment is to be resolved in the next week.*
- 3.058 The HFA had a number of concerns with that quarterly report and wrote to HBL on 9 March 1999 expressing *extreme concern* with a number of issues, including the failure to meet agreed targets for electronic claiming. The HBL reply, dated 18 March 1999, stated that it still expected to meet the deadline of 30 June 1999 for most pharmacists to be claiming under the 2.7 system. Given the lack of progress with the 2.7 system and the failure to complete the testing of the system, HBL should have known that there was almost no possibility that by 30 June most pharmacists would be claiming under the 2.7 system.
- 3.059 We have also reviewed HBL's quarterly report for the period January-March 1999, which was prepared in April and sent to the HFA under a covering letter dated 1 May 1999. The report noted that HBL was behind in progress towards implementing electronic claiming, but said it was still expected to have 90% of pharmacy claims processed through the 2.7 system by late-July 1999. By the time this report was sent to the HFA it was clear that there was no chance of having most pharmacists claiming electronically by 30 June 1999.

## *A Fresh Start*

- 3.060 In late-March 1999 HBL hired a new project manager, who carried out a strategic review of the project and produced a report dated 14 May 1999. While the report focused on the options for implementing electronic claiming, it also highlighted that the business plan targets would not be met and (consequently) the expected savings in processing would not be realised.
- 3.061 This report was presented to the May 1999 meeting of the HBL Board. It appears that this was the first time that the Board had been fully informed as to the true status of the project, and the lack of progress that had been made since December 1998.
- 3.062 A new data specification was developed and agreed to by the HFA, HBL, Pharmac, and the Pharmacy Guild on 11 June 1999. This data specification (which re-named the system 2.28) included a number of key changes and modifications to the 2.7 specification, allowing a fully electronic and automated claiming system.
- 3.063 Recognising that only the HFA could effectively co-ordinate and manage the various parties involved in this project, the HFA now took the lead in managing stakeholder relationships and in overseeing the project. The HFA appointed one of its staff as the overall project manager and appointed the General Manager of Pharmac as project sponsor. The latter is also the chairperson of the Steering Group.
- 3.064 Clear terms of reference for the project were written. Fundamental management elements of the project were to:
- establish a steering group of officials from HFA, HBL, and Pharmac;
  - establish a formal stakeholders' group comprising those officials plus the Pharmacy Guild; and
  - confirm who was responsible and accountable for each function.

- 3.065 This greater involvement of the HFA in the project also reflected its recognition that there had been a number of situations where the accountabilities between HBL and the HFA were not clear. For example, it was never clear who in the HFA was responsible for making decisions on the implementation of electronic claiming. A number of HFA staff tended to be involved, some of whom had inadequate knowledge or authority to properly represent the HFA's views.
- 3.066 The HFA sought to remedy this problem by ensuring that it had a single point of contact and that this person was of appropriate seniority, with a business focus and a good understanding of the business needs, priorities and financial implications of the project.
- 3.067 HBL also adopted a more rigorous approach to reporting to the HBL Board and improved the documentation of meetings and decisions made.

### The Current Situation

- 3.068 In the period April to August 1999, the HFA and HBL devoted time and effort to meeting with all the various parties involved in electronic claiming and ensuring that there was participation in developing the processes and systems. The project steering group holds fortnightly teleconferences. There are regular (also fortnightly) meetings of the stakeholders to check on progress in implementing the new system and to discuss and resolve issues as they arise.
- 3.069 The key date of 4 October 1999 for the system to have been tested and be ready to receive claims was met. We were informed that planning is proceeding on the basis that those pharmacists currently submitting claims under the 1.5 system will be ready to submit claims under the 2.7 system in March 2000.
- 3.070 Following the successful testing of HBL's part of the 2.7 system the HFA decided that, to make further progress, it needed to contract with the two suppliers of pharmacy software. The objective was to ensure that the suppliers

would meet implementation milestones and conform to the required quality standards for installation and operation of the 2.7 system in pharmacies.

- 3.071 Only one of the two software suppliers agreed a contract with the HFA. In accordance with the contract this supplier:
- first successfully tested the system on a trial batch of pharmaceutical items; and
  - has now piloted the system in eight pharmacies during January and February 2000.
- 3.072 So far the pilot testing has been successful. If the results of the testing for the second claim period demonstrate successful implementation of the system the stakeholder group will decide on whether the system is ready for nation-wide use.
- 3.073 The other software supplier will continue developing its system to meet the same contractual conditions as the first supplier.
- 3.074 As we were finalising the text of this article the Government announced that the Wanganui centre would continue to carry out claims processing.

## Consequences of Not Implementing the 2.7 System by 30 June 1999

- 3.075 Not implementing the 2.7 system, and thus not eliminating manual processing at the Wanganui centre, by 30 June 1999 has had a financial cost. It now seems that achievement of the estimated annual savings of \$3.2 million (see paragraph 3.035) will not eventuate until 2000-2001. Both the HFA and HBL had prepared their budgets on the basis that these savings would be achieved in 1999-2000.
- 3.076 Significant improvements have been made to the manual processing systems at HBL Wanganui, and HBL has said that it has the capacity to continue with manual claiming. However, we note that it takes up to three months to train new processing staff. If significant numbers of key

processing staff were to leave, HBL could face real problems in coping with the volume of manual claims until more pharmacists are able to claim electronically.

### Risks to be Managed

3.077 In completing implementation of the 2.7 system there are four main areas of risk that will need close attention.

#### *Co-ordinating the Parties*

3.078 The 2.7 system involves many parties, all of whom have to agree and synchronise their actions to ensure that the system is successfully implemented. The need for this co-ordination of activities will continue after the system has been implemented. To reduce any future risk of lack of proper co-ordination, the current fortnightly meetings of the key parties need to be continued.

#### *Progress Reporting*

3.079 The Board of HBL now receives regular and detailed reports on the state of the project. However, to reduce any future risk of the Board being given incorrect information on the state of a key project, the Board needs to insist on receiving regular reports on all projects. These reports – which should feature as a fixed item on Board agendas – need to show actual progress compared to planned progress, with detailed explanations given of any delays.

#### *Loss of Experienced Staff*

3.080 The announcement of the closure of HBL Wanganui led to staff seeking employment opportunities elsewhere. The closure has not yet happened, but the priority for many staff will now be to find other work. The need to continue in the meantime with manual processing, together with reduced staff levels and in an environment where staff now know the centre will definitely close, exposes HBL to the risk of again falling behind in processing claims from pharmacists.

3.081 Notwithstanding the improvements to the manual processing systems at HBL Wanganui, until significant numbers of pharmacists are switched to the 2.7 system there is a continuing risk of another backlog of work building up. Should there be significant delays in implementing the 2.7 system, HBL will need a contingency plan to ensure that payments to pharmacists continue to be handled in a timely manner.

## *New System Risks*

3.082 The 2.7 system is a substantial improvement on existing processing systems. However, it presents new risks in terms of accurate data and audit requirements. These risks will need particularly close attention.

## Summary and Conclusions

3.083 During 1998, HBL embarked on a programme of convincing pharmacists to take up a form of electronic claiming known as the 1.5 system. By March 1999, about 300 pharmacists were claiming under this system.

3.084 However, in the latter part of 1998, HBL and the HFA became convinced that a new system known as 2.7 was much superior. The 2.7 system allowed pharmacists to electronically submit fully priced claims for the medicines dispensed. The HFA contracted North Island and some South Island pharmacists to claim under the 2.7 system, once it was operating.

3.085 In 1998, HBL saw significant efficiencies in basing all its processing operations at one site. The original HBL plan was to move to a single site in 2000-2001, by which time all of its electronic claiming systems would be in place. HBL decided to bring forward this consolidation and in February 1999 announced that the Wanganui centre would be closed by 30 June 1999. A key factor permitting the closure of Wanganui was implementation of the 2.7 system.

3.086 However, the announcement of the closure of the Wanganui centre was made without the 2.7 system being fully developed and tested to ensure that it worked.

- 3.087 In the initial stages of the project to implement the 2.7 system unrealistic target dates were given. The dates were not met and HBL management incorrectly reporting the status of the project compounded the problem.
- 3.088 HBL has over-promised and under-delivered on the pharmacy electronic claiming project. However, it was never for HBL to promise that it alone could deliver the implementation of the project. Had there been a clear definition of the project at the outset – and a comprehensive system specification available to pharmacy software suppliers – there would have been a realisation that HBL, as a service provider to the HFA, lacked the authority and mandate to successfully co-ordinate the various parties. This was a task for the HFA.
- 3.089 There are now tight controls over the management of this project, including a system of reporting against key events.
- 3.090 The system has now been successfully piloted in a small number of pharmacies.

### Lessons to be Learned

- 3.091 There are several lessons to be learned from what has happened with the project to implement electronic claiming.
- Where other parties have a key role in ensuring the success of a project, they need to be involved in the project at the outset and (where possible) formal links established with them. Their involvement – and the information made available to them – needs to be at a level where they can have confidence that the project will succeed.
  - The introduction of complex projects, such as pharmacy electronic claiming, needs to be well managed from the beginning, otherwise it is very difficult to make up lost ground. To prevent bad starts on such projects in the

future, there needs to be clear and early specification of system requirements, and strict monitoring of the project plan, the progress achieved, and the reasons for any delays.

- Where one party has an overall responsibility for implementing a project, that party must be represented by one appropriately senior person who understands the needs, priorities, and financial implications of the project.
- Particular care needs to be given to project responsibility and control during times of significant organisational change.

3.092 The events described in this article offer a useful case-study of object lessons for decision makers in considering future similar projects.

