

Dear Colleague,

An e-mail was recently sent out broadly to members of our staff stating a number of concerns. Since the e-mail was directly critical of my approach at several levels, and since it seems to be getting a fairly wide distribution, I thought I would personally send out a quick response. I hope this information is useful to you. Please let me know your reaction to this information.

Let me start with the comments about the KFHP/H Board. We have actually assembled an extremely competent and highly independent Board. Their credentials are attached. We have one of the best qualified and most diverse Boards in America. An assessment that says we have a “rubber stamp” Board, is, I believe, fairly obviously inaccurate.

The person who wrote the e-mail is a young man relatively new to KP whose job involves publications. I suspect he hasn't evaluated very many Boards. We have an excellent Board doing very good work.

The e-mail writer initially raised the very same set of concerns he noted in his current broadcast e-mail directly with our Board last August. As we do in those cases, a full and objective investigation followed, with a report made back to the Board by both our compliance staff and our legal staff. The Board concluded that the charges were theory, not fact. He was then asked to provide any actual facts or evidence that he might have. He did not comply with that request. Instead, he wrote the e-mail that you may have read.

Let me address the other issues included in the e-mail. The KP HealthConnect issues are both inaccurate and wrong. The e-mail described what seemed to be a brief and potentially arbitrary decision making process. That was inaccurate. There were no “day one” decisions by me or anyone else. We actually went through an extensive and very inclusive review of our system options. All the major issues — including the capacity issues he mentioned — were raised and carefully reviewed in that process. Experts were hired. Site visits were made. Credible people — including the KLAS independent system review organization — concluded that EPIC has the best automated medical record, the best billing system, and the best inpatient hospital system available to us. Dozens of other major care systems and medical groups have reached that same conclusion. To say that EPIC was a bad or inferior choice is highly inaccurate. We very much need the EPIC functionality. The billing system alone is crucial to our operational survival, as people actually involved in our billing process know. Our old home-grown CIS system simply did not have that needed functionality.

The author of the e-mail seems to be reading some initial process notes about concerns expressed early in the system selection evaluation process, and he has evidently derived his “bad choice” theory from some mixture of early, incomplete and inadequate information.

Relative to systems outages, the EPIC system rates very highly among competitive systems on reliability scores. The e-mail writer used somewhat problematic outage numbers in his e-mail message. To show the rate of increase, he chose a uniquely and unusually low problem month for outages as his performance comparison base. That's a bit misleading. Our systems availability percentage goal by year end is 99.5 percent. For the last six months, we have been averaging 99.54 percent availability. That's significant progress since roughly a year ago when we were below 98 percent.

In addition, it's important to understand that the outages we have faced have not been due to the Epic system. They have been due to issues like power outages in data centers, configuration issues in old data centers, and deployment of the Citrix® software tools. The outage numbers and their causes are all, by the way, reported to the Accountability Committee of our Board monthly.

As we finish our full KP HealthConnect rollout, the actual overall performance of the full system will prove the point beyond debate of whether or not the system can handle our total volume. I am confident that those results will be entirely satisfactory. All signs are that the careful work we did to guarantee scalability of the system have succeeded.

One other point about EPIC — I have absolutely no personal conflict of interest relative to EPIC. I have no business interest, financial interest, or even personal interest in EPIC or its systems. My prior health plan did use their system in Minnesota because the system worked. That's generally a good test of a system.

The e-mail writer also stated inaccurately that my prior employer, HealthPartners, had implemented the system in only half of their clinics. That is also wrong. The truth is that the system is in all HealthPartners-owned clinics and also in the flagship hospital. It is working well.

The writer expressed some concerns about both Dan Garcia and Cliff Dodd in his e-mail. He had raised those points earlier as well. Contrary to what the e-mail said, the independent Board investigation showed that Cliff Dodd was not, in fact, a principal or Board member of the "Tanning" company when they did our systems evaluation work. Dan Garcia, on the other hand, was the head of the search committee that recruited me to join Kaiser Permanente. He did not "hire me" as the e-mail says, but he was on the committee that recommended that I be hired. It's fairly naïve, however, to say that Dan can't subsequently do his job in compliance because of that prior committee role. Using that theory, any Board member on a search committee would be unable to make future decisions and judgments about people they had voted for in a search process. Since half of our Board was on that search committee, applying that theory would make future governance at KP — or any other Board governed organization — a bit challenging. It's an interesting "conspiracy theory" point, but not particularly useful in the real world of Board functionality and operational governance.

The writer also makes reference to a review of my prior plan done by the Minnesota attorney general. He doesn't mention that the attorney general was also reviewing each

major Minnesota health plan and hospital system and — in the case of my prior plan — the AG offered some critical comments but no actions, no citations, no regulation violations, and no mandatory results of any kind. The full results of that audit were read in detail by our Board, by Medical Group leaders, and by our auditors. It was not, as the e-mail writer suggested, an invisible event “under the radar screen.” I made “no comment” statements to the Minnesota press on that topic because I was no longer the CEO there. The new CEO and I agreed that it would be more appropriate for her to be the spokesperson for that plan.

The memo leads off with a mention of our financial future. Interestingly, that’s the one area where the e-mail may have done us all a service by repeating and broadly communicating a point that I made in my recent “bend the expense trend” memo to all staff. It is true that if we do not “bend the trend,” as I said in my memo, that we will face real financial challenges. To be specific, if we hold to last year’s cost trend, and if we only receive the revenue levels we already know we will get from Medicare and our private payers for 2007 and 2008, the numbers he cited could be real. That’s not secret data that he “uncovered”. The chart he cites comes from a presentation used with the Board and with our Plan and medical leadership. Those trend levels and their potential impact are numbers that have been well discussed. But, the good news is that the data he wrote about in this weekend’s e-mail is already obsolete. He was basing his concerns on an early memo from our CFO written to warn key staff and leadership about the need to reduce our future cost increases. It was a good and useful warning. That cost improvement work is being done. We are showing reduced expense trend levels that are now below that 2005 trend level. Additional hard work is being done. More work has to be done. We need everyone to help “bend the trend”.

As you will remember from my “Bend the Trend” memo, we need a cost trend of roughly six percent — and we need to maintain and enhance our service levels and quality levels while achieving those trend goals. When we achieve those goals, we will be back where we need to be for ongoing financial success.

We need our new products and new systems to get that job done. Our new deductible products are actually doing well financially. We will need to put in place the full set of billing systems needed to support those new products well. KP HealthConnect is the key to that success. Without the EPIC billing systems, our new products would be extremely difficult to administer ... particularly as the enrollment in our new products continues to grow. I suspect if the e-mail writer had understood that key aspect of our strategic plan and our operational reality, he might have had a different perception of our system selections and our success levels.

Overall, the e-mail was an unfortunate combination of partial facts, old data, incomplete data, “conspiracy” thinking, and naiveté. It raised alarms that were extremely inaccurate. So I felt a need to write this note to offer another point of view that had a slightly more complete set of facts and a more complete context. I hope this information helps. I apologize for the length of this note, but a lot of issues were raised that needed to be commented on.

Let me make one final point: We do value employee feedback. We have broadly promoted our employee hotline. We encourage input. In this case, we received input. It was taken very seriously. A full investigation was made and the Board received the results of the investigation. It was a good process, done well. It's the right way to respond.

So please, if you have issues or concerns, use the process.

And let me know if you have any questions or concerns.

Be well.

George