

**Action Plan for the Health Insurance Fund**  
**Draft Final 26 April 2005**

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## **Background**

Macedonia's health care sector consists of three types of institutions: (1) The Ministry of Health, which has the leading role in policy making; (2) the Health Insurance Fund which is responsible for budget formulation, budget execution and expenditure monitoring, and the Health Care Institutions (HCIs) which directly provide health care services within available resources on the basis of contracts specifying the types and volume of health services they are to deliver.

The Health Insurance Fund (HIF) is a major actor in the expenditures of the public sector. In 2005, the budget for public health expenditures was MKD 15.7 Billion, approximately 5 percent of GDP. Of total expenditures, 95 percent were managed by the HIF. The Health Care system in Macedonia represents a high financial risk to the government. Over the past five years, numerous studies confirmed this conclusion. There were successive highly critical SAO Audit Reports, which culminated in the removal of the HIF Director at that time. The World Bank's Country Financial Accountability Assessment identified the HIF as a high fiduciary risk for the Government. A project on HIF Governance confirmed the conclusions reached by the previous studies.

The conclusions from the earlier studies led to the retention of Ernst and Young (EY) to perform an in-depth internal control study of the HIF . This study was financed through a Dutch Trust Fund. Over the course of a year, the EY team produced interim and final reports outlining their conclusions and prepared a draft implementation plan for consideration by the HIF, the Government and the Bank. After careful review, the Bank requested that EY elaborate on a number of specific projects that would yield tangible, early results on which the HIF, the MOH and the MOF could build. This resulted in the EY Discussion Draft *Transitioning Action Plan for the Health care Sector: Short term Addendum to the "Final Report"*, issued in April 2005.

This document summarizes some of the conclusions of the Ernst and Young reports along with additional comments from World Bank's health team and those of other international organizations. Acceptance by the Government of an action plan for HIF

reform is a condition for disbursement of the World Bank's PSMAL program. Acceptance of this document would constitute compliance with that condition.

## ***The Proposed Program***

The EY report identified clearly the major tasks to be done. They can be considered in seven categories:

- Establishing an appropriate policy base for the reforms to the Macedonian health care system;
- Imposing fixed budget ceilings on HCIs;
- Improving controls over HCI budget execution, reporting, reforecasting and the treatment of arrears;
- Establishing a preliminary set of financial and service performance indicators for all HCIs;
- Strengthening internal and external audit;
- Strengthening procurement activities of the HIF; and
- Strengthening the governance structures of the MOH and HIF and improving the accountability of the HIF Board;

Each of these areas will be described in greater detail, along with the proposed action plan to carry them out.

## ***Establishing an Appropriate Policy Base***

The E&Y report identified a number of policy actions to be undertaken by the Ministry of Health. They include the development of a National Health Strategy, the preparation of a Medical Map and revisions to the Beneficiary Package of health care service currently offered to the participants.

These policy changes, reflected in modified or new legislation, are essential. Without them, the government will be ultimately unable to maintain control of the expenditures of the health care system and to allocate effectively financial and staff resources to the areas of greatest need. As a result, the groundwork on these policy reforms should begin immediately—although work on the policy framework should not impede the immediate implementation of other components of the action plan. Each is discussed below.

### **National Health Strategy**

A national health strategy is required to enable the Government to re-focus the health care system to ensure standards of patient care that recognize international norms, that are provided efficiently and that are managed in accordance with sound public

financial management principles. This provides the strategic framework for all of the other reforms, and must be completed on a priority basis.

The MOH has engaged consultants to begin work on a White Paper that will outline the proposed Health Strategy. This would then serve as the basis for consultation with all stakeholders and would result in a government-approved Policy paper on health sector priorities, strategies and reforms to be undertaken over the short –medium term.

#### **Box A: Implementing National Health Strategy**

- Prepare TORs for international health care consultant, select consultant, consultant on site [June 2005]
- Consultant prepares draft white paper on national health strategy acceptable to the Minister of Health and the donors [September 2005]
- Detailed workplan prepared for preparation and approval of the National Health Strategy, acceptable to IBRD [July 2005]
- White Paper prepared and approved by the Government for consultation with stakeholders [December 2005]
- White paper revised on basis of consultation and approved by Minister of Health as the National health Strategy [March 2006]
- Government and Parliament approve National Health Strategy to guide further revisions to the health care system [June 2006]
- MOH and HIF staff briefed on White paper contents and related strategies for future health care reform [December 2006]

### **Medical Map**

Medical maps are a standard international tool for identifying the national consumption of medical services and the available capacity to provide these services. It is a census of all consumption of healthcare services by type and by location, and results in an epidemiological map of demands for health services by disease type and treatment and an inventory of the capacity of the health care system to provide these services, by individual service provider. This is a prerequisite to any rationalization strategies to improve the targeting of health care services and to improve their efficiency and effectiveness. The E&Y report recommends this to be realized based on needs.

### **Box B: Implementing a Medical Map**

- HIF to prepare criteria for contracting the pharmacies  
[ July 2005]
- Prepare TORs for an international consultant and a local firm to assist MOH in the design and preparation of the annual medical map and training MOH staff in the map development methodology  
[July 2005]
- Consultant engaged and on site [October 2005]
- First Draft medical map, satisfactory to IBRD, prepared. [ May 2006]
- Final medical map, satisfactory to IBRD, completed [December 2006]
- Staff trained in MOH and HIF on medical map development and use [January 2007]

### **Beneficiary Package**

The beneficiary package provides the details of the full range of benefits offered by the health care system. It is based on the Health Insurance Law, which provides for a wide range of benefits and payments that are significant cost drivers in the existing system. Significant re-focusing of these benefits is necessary, as is accomplished by the analysis and revision of the benefits package by comparing it to international practice in the region.

#### *Changes in Law*

This revision can be accomplished in stages. E&Y recommended that the first stage should focus on the most significant components of the package in cost and volume terms, using international standards as a base reference. This could then be followed by a more detailed revision to provide for the provision of all approved services, their detailed definition and the resulting legislative modifications (which could be largely carried out in parallel see below).

Revision of the Benefits Package should include:

- a review of the entire Benefits Package using an appropriate EU country as a comparator, linked to a fiscal sustainability analysis and development on quality of care (development of evidence-based medicine, clinical practice guidelines);
- revision of specific sections of the Benefits Package based on this review. Examples of changes that could be made to the Benefits Package include: revision of the positive list of drugs according to cost-effectiveness criteria, introduction of a flat co-payment for all outpatient prescriptions, introduce fee-for-service (paid services) for specific hospital services which are non-catastrophic, revise co-payments for hospital services, delete non-essential services from Benefits package using clinical practice guidelines. This should be seen as possible solution, while the White Paper will precisely determine the directions for defining the Benefits Package.

### Box C: Reforming the Beneficiary Package

- The HIF should implement a process for controlling excluded services and treatment abroad using existing authorities in the HIL and submit regular quarterly reports to the HIF Board and MOH. [ Sep 2005]
- Review of Benefits Package using an appropriate EU country as comparator and in the context of a fiscal sustainability analysis and clinical practice guidelines completed. Areas for changes in the benefits package identified [June 2006]
- Government proposes amendments to the Health Insurance Law and opinion regarding, the Health Insurance Fund Statute and by-laws satisfactory to IBRD [July 2005]
- Parliament approves amendments to Health Insurance Law and gives concordance to HIF Statute [Dec 2005]
- The HIF Board carries out the by-law acts accrued from the Health Insurance Law amendments. March 2006
- Parliament adopt amendments to Health Care Law, bylaws to include changes in Benefits Package [July 2007]
- The HIF SB carries out the by-law acts that include amendments in the Package of Benefits which accrue from the modified HIL. December 2007

#### *Immediate Actions*

There are two initiatives that HIF should implement immediately; both are within existing legislation:

- The first relates to the enforcement of the existing list of drugs for which reimbursement is to be provided by HIF. Under Article 9(8) of the HIL, HIF must only reimburse patients for those drugs on the list of drugs specified by an HIF by-law and approved by the Minister of Health.
- The second relates to enforcement of the *negative list* of treatments. Article 10 provides a list of treatments not covered by HIF. Specifically, in Article 10(14), health care treatment abroad is non-reimbursable except when approved by the HIF in advance. The HIF has encountered problems with patients seeking health care abroad and demanding full reimbursement from the HIF.

The enforcement of existing legal provisions will assist HIF in better control over its expenditures. This will require HIF to develop a set of drug and treatment codes, based on international standards and develop a process where the codes are applied to all treatments and drugs dispensed by the HCIs. Any application for reimbursement would have to be accompanied by the appropriate treatment code, which HIF would

review and approve before payment. HIF should move quickly to impose appropriate controls over this activity, as per its existing legal mandate.

### ***Budget Formulation***

HCI's, as public institutions should operate under contract to the HIF. In principle, the budgets of the HCIs are based on the volume and nature of the services they provide. HCIs submit invoices to the HIF which is supposed to reimburse them accordingly. But in fact, HCIs are paid by the HIF on a basis that is more or less fixed annually. Rather than being tied to invoices, it is tied to the major cost drivers--personnel, supplies, utilities, etc. Allocations to each HCI largely reflect allocations in the years previous. (Private institutions, however, are paid on the basis of services provided.) Spending by the HCIs often exceeds their nominal budget authorizations, as HCIs routinely run up arrears to suppliers. Given the lack of any link between work performed and funding provided, the HIF is unable to monitor HCI performance or translate new priorities into altered allocations of resources. The HCIs are, in effect, operating out of the control of the HIF and without reference to a fixed financial budget or agreed performance measures.

#### **Box D: Budget Formulation**

- HIF, and MOH with MOF assistance will establish a Working Group to advise the HIF Board on financial issues [May 2005]
- HIF agrees with MOF on the process for establishing budget ceilings for the pilot HCIs [May 2005]
- HIF Board approves HIF Budget and the fixed budget ceilings for the seven pilot HCIs [May 2005]
- HIF issues budget circular for all pilot HCIs [May 2005]
- Pilot HCIs prepare and submit budgets to HIF that are within the ceilings set by HIF [Aug 2005]
- HIF Budget staff perform challenge function on all submissions [Sep 2005]
- Final budget proposals approved by HIF and HIF Board<sup>1</sup> [Nov 2005]

To address this problem, the first step will be to implement a system of fixed budget ceilings for the largest HCIs. These budgets would include all categories of HCI expenditures, including salaries. They will explicitly include funding for pharmaceuticals procured by the HIF on behalf of the HCIs. HCIs will be charged accordingly. The introduction of fixed budgets would start with the seven largest HCIs: Clinical Center, Skopje; Skopje Medical Center (outpatient, specialist); Ohrid Orthopedic Center; Bitola; Kumanovo; Tetovo; and Kichevo. For the 2006 budget cycle, these ceilings would be based on the spending levels of the 3 previous years, with minimal adjustments for inflation.

To begin this process, the HIF Board and MOH, with MOF assistance, would establish a Working Group to advise HIF Board on financial issues. The Ministry of health will be represented in this unit.

Starting in 2007, there would be more systematic effort to set the budget ceilings for the seven pilot HCIs. The MOF would set the global HIF budget through the normal budgeting process, based on its review of the HIF forecast of revenues from (1) employer contributions, (2) transfers from the Employment Bureau (on behalf of the unemployed), (3) transfers from the Pension and Disability Fund (on behalf of pensions and other PDF clients), (4) copayments and (5) other sources permitted by law. This forecast of revenues will then determine the corresponding expenditure envelope for HIF. The Budget Committee would then determine the share of this envelope to be allocated to the pilot HCIs. Over time, the allocation of this funding among the seven pilot HCIs will be progressively refined through the use of HCI performance indicators (as discussed below) and detailed reports of actual expenditures, and the development, within the HIF to develop a budget analysis function to review and challenge HCI budget proposals. Fixed budget constraints will also be imposed on the non-pilot HCIs in 2007.

### ***Box E Funding New Mandates***

The new Labor Law includes changes in the benefits packages for sick leave and maternity leave. Both benefits have been subject to abuse. Primary physicians are reportedly issuing sick leave authorizations to individuals without adequate justification. Women who are not in the labor force are filing for maternity leave and declaring fictitious salaries as the basis for compensation. These represent substantial potential claims on the finances of the HIF.

The HIF, working with the MOH, intends to limit such claims by tightening controls on eligibility. To limit sickness claims, HIF will implement the long-postponed reform of primary care. This reform has two components. First, it will separate primary care from secondary care. Second, it will compensate primary care physicians on a performance basis, measured in part according to their restraint in (1) authorizing sickness leaves; (2) issuing prescriptions, and (3) referring patients to secondary care. It is believed that first of these performance criteria will dramatically reduce claims for sickness benefits. The MOH will devise a detailed plan for the implementation of primary care reform by December 2005. The HIF will complete the contracting of primary care providers on a performance basis by January 2006. In case of sick leave, MOH will propose legal regulation for the method of remuneration for the period of sick leave or maternity leave.

### ***Budget Execution and Reporting***

Budget execution is a major component of the EY proposed reforms. Execution control and reporting are closely related, as one depends upon the other. Because the HCIs operate their own bank accounts at present, the traditional controls over commitments exercised by a treasury function are lacking. For this reason, the

monthly reporting by the HCIs to the HIF, although some 6 weeks after the fact, will be an important monitoring tool of the HIF.

### **Control**

Budget controls are an important component of the system internal financial controls. Regarding this, financial controllers should be engaged in the HIF and pilot HCI's. Their functions would be the normal procedures associated with the enforcement of proper budget process procedures, exercise of ex ante budget controls including commitment controls, approval of all expenditures based on proper documentation, authorizing payments and exercising the financial component of the procurement function.

#### **Box F: Implementing Internal Budget Control**

- HIF prepares and issues TORs for financial controllers in pilot HCIs, [June 2005]
- The HIF should review its organization structure to ensure that the budget unit is organized, classified and appropriately staffed with trained financial officers; this should be reflected in amendments to the act of systemization if necessary. [July 2005]

There is insufficient capacity within MOF to provide controllers for all of the HCIs. This function can be discharged by the temporary internal controllers reporting to the HIF and financed by donors. In principle, establishing cooperation with well-trained controller from MF and HIF would also represent a potentially significant enhancement in its financial controls, particularly as the Controller can recommend improvements in the HIF internal budgeting and expenditure control processes, improve forecasting and reforecasting methodologies and oversee the functioning of the controllers in each of the pilot HCIs. The MOF and the HIF have concluded, however, that the MOF's role in the HIF's financial management would be better accomplished through support to the HIF's internal audit function. This is discussed in the section on audit, below.

### **Monitoring**

Budget Monitoring will be an important aspect of HIF operations. In order to achieve complete monitoring of the HIF performance from the MOH, capacity building is necessary in order to perform this function. The HIF Chief Financial Officer, assisted by the existing financial unit will have to be able to monitor the budget execution of the HCIs and advise the Director when signs of over-utilization or other budget issues

arise. The budget execution information will be provided by the HCIs in their monthly budget reports. Training of the HIF financial staff will be required to perform the requisite financial variance analysis, particularly in the identification of the causes of significant variances and the proposing of remedial action where necessary. The MOF Budget department has the budget expertise; the MOF should train the HIF staff that will be performing the budget analysis, challenge and monitoring functions. This could be through inclusion of the staff in a regular budget training course or the scheduling of a special budgeting course for the HIF budget staff and, if sufficient capacity exist, selected budget staff from the pilot HCIs. HIF should identify the staff requiring budget training and arrange for donor-financing for the required training in the current year.

### ***Reporting***

The E&Y report recommendations are consistent with the work of the reporting task force set up during the most recent IMF mission. to define the reporting framework for HCIs to HIF, and for an HIF report to the HIF Board of Directors, MOH and MOF. Details of the task force's framework are provided in Appendix A to this report. E&Y recommended that monthly reporting begin for the pilot HCIs immediately.

The HIF has instituted this monthly report and is now providing the detailed information to the HIF Board within one month of the period being reported. The HIF report must include results of operations segmented by HCI provider categories, as well as details on each HCI's operations. Quarterly reporting follows the same format, and is reported within one month of the end of the quarter. The quarterly reports should show the results for the quarter by individual HCI, with salaries and capital investments performed on behalf of HCIs allocated to that HCI in the report.

Table 1 below describes the details of the phased implementation of the HCI reporting to the HIF and for the HIF reporting to the MOH, the government and the public.

**Table 1. Phased Implementation of HCI Reporting**

| <b>Item \ Date</b> | <b>2005</b>   | <b>2006</b>   | <b>2007</b>  |
|--------------------|---|---|--|
| 7 Pilot HCIs       | Manual reporting to HIF and MOH as per agreed financial formats<br><br>Manual reporting of HCI operational performance measures (from mid year) | Regular monthly reporting to HIF and MOH<br><br>Operational performance measures tracked and reported to HIF                                    | Regular monthly reporting to HIF and MOH<br><br>Operational performance measures tracked and reported to HIF |
| All remaining HCIs |   | Manual reporting to HIF and MOH as per agreed financial formats<br><br>Manual reporting of HCI operational performance measures (from mid year) | Regular monthly reporting to HIF and MOH<br><br>Operational performance measures tracked and reported to HIF |

Accrual accounting supports the reporting of all accrued revenues and expenditures. Where accounting is on a cash basis, the appropriate information on outstanding revenue and expenditure accrual should be reported in supplementary schedules.

HCI staff will require training on the coding and reporting of their transactions on a monthly basis for the HIF. This training should be provided by MOF Budgeting department, on a phased basis to complement the implementation of the fixed budget ceilings for the pilot HCIs and, the following year, for all other HCIs.

In 2006, the HIF will have to deal with the monthly reports of all HCIs, over 100 in total. This means that the manual reporting system currently being performed by HIF for the consolidation and analysis will become infeasible, given the volume of data submitted monthly. HIF should ensure that its Information technology is capable of handling the increased volume of reporting involved.

Additionally, the HIF should investigate the feasibility of requiring the HCIs to fully code all transactions before sending them to their commercial bank for processing. These banks would then process the coded transactions and prepare the detailed monthly and quarterly reports for use by the HCI and the HIF

]Box G provides the detailed steps for the implementation of the reporting system.

### **Box G Implementation of Reporting**

- HIF should develop a formal procedure governing the preparation of the monthly financial report of individual HCIs and the HIF and, after approval by the Board, promulgate it to all HCIs, together with the implementation date.  
[May 2005]
- HIF should assemble the team to prepare the Q1 combined HIF and HCI quarterly report and identify all information and accounting steps necessary to prepare the first combined quarterly report.  
[ May 2005]
- The team should assemble all of the data submitted by the HCIs, reconcile it with HIF records, prepare the Q1 combined HIF-HCI quarterly report and submit it for approval to the HIF Director and Board  
[May 2005]
- The Q1 report should be approved by the Board at its next regular meeting, and then published within 1 week by placing it on the HIF web site  
[June 2005]
- HIF should repeat steps 4 – 5 for all other quarterly reports, with timing offset appropriately for the quarter being reported.  
[ongoing]
- HIF should arrange the training of all HCI staff and for MOH sector for health insurance and monitoring of HIF performance on the recording and reporting of their financial transactions, in accordance with the new reporting instructions.  
[Oct 2005]

### ***Reforecasting***

EY recommended the implementation of quarterly budget reforecasting, based on the monthly reports now being received by the HIF from the seven pilot HCIs. This would begin in the 4<sup>th</sup> quarter of 2005, with regular quarterly reforecasts beginning in 2006. E&Y provided a procedure for analyzing variances between forecast and actual revenues and expenses, transfers from the government and unexpected events (such as adverse Constitutional Court decisions affecting benefits eligibility). (See E&Y Short Term Addendum, Section 2.4) They also defined a set of conditions when reforecasting is mandatory. These include situations in which: (1) the levels of activity in individual HCIs differ significantly from those planned, (2) the financial condition (including levels of commitments) of individual HCIs diverge significantly from those planned. level, or (3) exceptional or unpredictable events need to be considered. HIF should convert these recommendations into budget procedures for implementation in 2005 as shown in Box H.

### **Box H: Steps to Budget Reforecasting**

- The HIF should consult with MOF and agree a reforecasting process acceptable to MOH, MOF, HIF and the Board.  
[ Jun 2005]
- The HIF should implement the reforecasting procedures identified in the E&Y report and require the Chief Financial Officer to perform the first reforecast after the Q2 results have been received and the report prepared.  
[Aug 2005]
- The results of the trial reforecast should be discussed with MOF and MOH, adjusted where necessary, and submitted to the Board as an information item at their next regular Board Meeting  
[Sep 2005]
- Items 2 and 3 are to be repeated on a quarterly basis, with timing adjusted for the quarter in question; FY 2006 reforecasts will be submitted to the Board for approval and implementation  
[Qtr end + 6 weeks]

### **Arrears**

The stock of outstanding arrears is a structural problem that requires a structural solution in order to limit further debt growth. The accommodation of these arrears within the existing budgetary allocations of the HIF will impede needed reforms for improvement by draining away scarce resources for debt repayment.

In some respects, the situation is similar to that faced by the Government as it sets out to put the municipalities on a solid footing. Many of them have arrears to contractors and suppliers. In the municipal case, the Government has inventoried all the claims and attempted to make a distinction between those that have merit and those that do not. Among the valid claims, the Government intends to devise a workout plan, which would divide the burden of the arrears among the municipalities, the creditors, and the Government. The Government rightly insists that municipalities and creditors both bear significant part of the burden. Forcing the municipalities to bear part of the burden will discourage newly elected mayors from running up arrears in the future. By the same token, forcing some of the burden onto creditors will discourage them from extending new credit to financially precarious municipalities. The Government's financial participation is simply intended to ensure that debt stocks are reduced sufficiently to permit the municipalities to financially viable.

In one respect, the case of the HCI is different from that of the municipalities. HCI directors are public employees and therefore subject to administrative—rather than political or financial —sanctions. Nevertheless the same basic principles should be applied. A debt workout should aim at eliminating the stock of existing arrears, while discouraging HCIs and creditors from allowing new arrears to accumulate. The steps required to perform a similar workout of the HCI arrears are shown in Box I.

The proposed system of financial controls and reporting should discourage HCI directors from running up future arrears.<sup>1</sup> Administrative sanctions would also be desirable. It is normal practice to have a series of financial and administrative penalties specified in an administrative law to be levied against individuals violating internal management controls. This is an important component of creating a corruption-free environment in which financial management can take place. At present, this is not possible within the Macedonian justice system. All administrative penalties must be dealt with by the courts. However, Constitutional amendments being prepared will allow for the de-criminalization of administrative violations of all types; at that time, the MOF should consider adding a series of administrative penalties to the Budget law or other financial legislation.

The solution of the problem with the HIF Arrears, among other, should be reached in a direction of finding positive solutions for covering the arrears, using resources collected in the annual budget, gained from HI privatization (pharmacies, spas and other), shares, unpaid contributions for health insurance, budget resources based on health care programs, collection of damage remuneration from Insurance company bankruptcy asset claims and preparation of plan for rationalization of all types of costs and expenditures etc. The outcome policies should also consider the health care programs expenses which are supported by the Government of the Republic of Macedonia and should be appropriately estimated to be covered by the state budget.

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<sup>1</sup> A problem related to arrears results from suppliers who have accounts receivable with the HIF. They have been factoring them to commercial banks, who appear not to discount the accounts too severely. The Banks then pursue the HIF under the Law on Payments, where the courts can order the Treasury to pay legal obligations within 24 hours. Proper monitoring of receivables would eliminate this practice.

### **Box I: Addressing the HIF/HCI Arrears**

- The HIF should prepare TORs for an auditor to examine the financial statements of the pilot HCIs and validate the reported arrears, select an auditor and conduct the audit, based on previous permission from MOH. [Sep 2005]
- Based on the results of that audit, the HIF should determine the need for an audit of all other HCIs to validate reported arrears [Sep 2005]
- The MOH and HIF, together with MOF should establish a task force which will devise a debt workout plan and aimed at liquidating entire stock of arrears. The workout plan should ensure that creditors bear an appropriate proportion of the burden of debt liquidation. [Oct 2005]
- The Government should adopt workout plan, and introduce administrative sanctions. [Oct 2005]

**Deleted:** NEMA POTREBA ZATOA STO OVA E OPFATENO VO PRETHODNIOT STAV !!!!.

### **Reserves**

The E&Y recommended that the HIF establish a compulsory reserve to provide a measure of fiscal flexibility in its operations. This would exist to (1) reimburse the arrears of the HIF and the Health Care Sector and (2) allow for a certain latitude to meet the extraordinary requests for reallocations of funds from the HCIs. EY recommended a level of from 10-15 percent of total budget, deducted at the rate of 1 percent per month from the HIF budget. There are significant risks to creating such a reserve for either purpose. Creating a reserve to pay off arrears implicitly encourages HCIs to run new ones. A debt workout, aimed at eliminating the existing arrears and forestalling the accumulation of new ones, is a better approach. Creating a reserve to meet extraordinary expenses reduces the transparency of the budgeting process. A system of budget re-forecasting, as discussed earlier, would be preferable. The HIF will therefore not establish reserves.

### **HCI Performance Measures**

HCI performance measures are an important component in the management control process. Without these additional non-financial measures the HIF will be unable to assess the relative efficiency and effectiveness of the individual HCIs and make rational resource allocation decisions.

There are many possible health care performance measures in use internationally. In the Macedonian case, the number of measures should kept to a minimum, in order to

allow management of the HCIs and the HIF to learn how to employ performance measurements in budget analysis and performance monitoring.

The three recommended measures address the following areas:

- Admission/readmission rates
- Average length of stay
- Referral rate

In addition, there will be a qualitative satisfaction survey of patients of the individual HCIs that will be conducted on a periodic basis by MOH, using internationally accepted norms and survey techniques.

To have a reliable performance measurement system, a number of factors must be considered: the data must come from a source that can be audited for data integrity and accuracy; there should be a formal system for the collection and reporting that must be capable of being reconciled to another known source; there should be a tracking system to capture and record all changes to the data contained in the system. Initially, not all of these conditions may be met. However, over time, the systems should be capable of meeting normal audit requirements.

#### *Implementation*

The Institute of Public Health, assisted by an international health consultant, should be contracted to: develop the detailed procedures for the collection of the relevant

#### **Box J: HCI Performance Measure Implementation**

- IPH contract to perform performance measurement project [May 2005]
- Development of TORs for a performance measurement consultant and select the successful candidate; candidate on site [May 2005]
- IPH/consultants develop the proposed performance measures, identify sources of information, method of calculation and reporting formats [ Jun 2005 ]
- HIF prepares and issues a Board-approved performance measurement regulation and guidelines for use by the HCIs in reporting their performance [ Aug 2005 ]
- IPH/Consultant develop training package and train staff from the pilot HCIs [Sep 2005]
- Pilot HCIs begin monthly reporting of their performance, beginning in the September monthly report [ Oct 2005]
- IPH/Consultant complete follow up with HCIs, the HIF and the MOH and recommends any changes to reported performance measures [ Nov 2005 ]
- HIF Board, MOH and Bank approve 2006 standards for HCI performance reporting [ Dec 2005]
- Information from key performance indicators for each HCI integrated into regular monthly and quarterly reports [Jan 2006]
- Ten percent of pilot HCI controllable budgets linked to performance indicators in 2007 budget formulation, and thereafter. [ Jul 2006]

operational data; establish how to calculate the relevant indicators using international definitions and categories; and to provide the appropriate training for the HCIs in the implementation of this performance measurement system. Target dates for completion are shown in Box J.

## ***Internal and External Audit***

### *Internal Audit*

The HIF has a nascent internal audit function. It consists of two auditors, with minimal training, established in response to the MOF directives for all budget entities to establish an internal audit function. There is no evidence that this function has been listened to by senior management, or that it has been used in the manner in which it is intended. The E&Y report noted that there is an inspection function that currently exists within the HIF, and that its current operations extended into the responsibilities of the internal audit group. This is not surprising. Given the newness of the IA function, the filling of a void by the inspection unit is understandable.

The EY Short-term Addendum recommended that the first internal audit on procedures take place in July 2006. In order for that to happen, a number of steps must first take place.

### **Box K: Strengthening Internal Audit**

- The HIF Director should consult with the The head, Internal Audit, to review the responsibilities of internal audit unit defined in the HIF Act of Systemization to ensure that all internal audit responsibilities are assigned uniquely to the Internal Audit unit. [May 2005]
- The HIF Director should reallocate 6 additional professional staff and 1 support staff from the existing inspection unit to the internal audit unit (The HIF doesn't have the human resources for this change) [Jun 2005]
- The head of the MOF's internal audit department will designate a member of his staff who will permanently or periodically depending of the needs supervise the quality of HIF Internal Audit Unit work , and will give recommendation for improvement. [June 2005]
- 
- HIF should arrange with MOF to enroll their new auditors in internal audit training provided by MOF Internal Audit Directorate [May 2005]
  
- The Executive should prepare a quarterly report to the HIF Director and the HIF Board on the activities of the internal audit unit, including a summary of all audit report recommendations made in that quarter and the HIF management progress in their implementation. The report should also list all outstanding recommendations that remain outstanding. [ Apr 2006]
- Internal audit completes audit of the HIF implementation of the processes and procedures that were to have been implemented according to the schedule contained in the HIF Action Plan [Jun 2006]
- HIF completes internal audits of 7 pilot HCIs to ascertain compliance with HIF budget directive and management implementation [Oct 2006]

The Internal Audit unit must be strengthened. The HIF should allocate 8 additional auditors from its the existing inspection function. HIF doesn't have human resources to perform this obligation. Its audit mandate should be clarified and approved by the HIF Board. The mandate should include: prepare an annual audit plan in consultation with the HIF management and the HIF Board; follow the international standards for internal auditing required by the Law on Internal Audit; conduct audits on the accuracy and reliability of the financial and operational reports prepared by the HCIs; monitor their compliance with the processes establish for internal control in the HCIs; prepare audit reports to the auditee and the HIF management and Board; and to make its recommendations to management as to how these controls can be strengthened. The Internal Audit function should report to the Board of Directors, rather than the HIF Director.

### *External Audit*

Under its enabling legislation State Audit Office (SAO) is required to audit all entities of public law, including the HCIs. This is conducted through a yearly financial attest and compliance audit, where individual transactions are tested for their validity, existing controls are assessed for their effectiveness and compliance with the laws, regulations and other rules is examined. The SAO has played an important role in identifying internal control weaknesses and violations of procurement and financial procedures over the last four years. It has an in-depth knowledge o the HIF and many of the HCIs.

The SAO audit is a particularly important control in the early days of the implementation of the fixed budget ceilings for the HCIs and the new reporting requirements. It should be requested to assist in assessing the degree of effectiveness of the implementation of the revised budgeting and reporting processes now being implemented within the HIF.

#### **Box L External Audit**

- The Chair of the HIF Board should write the Chief State Auditor informing him of the initiatives underway within the HIF and requesting that the SAO audit the 7 pilot HCIs within the next two audit cycles, and that the remaining HCIs be audited within 3-4 years of their conversion to the fixed budget ceilings in FY 2007.  
[Jun 2005]
- SAO begins to audit pilot HCIs over next two years [Jan 2006]

## **Procurement**

The amended Procurement Law applies equally to all public entities, including HCIs. It is important that the HIF inform the HCIs of their obligations under the law on procurement and to monitor their compliance with its terms and conditions. The E&Y report noted that the Board approves the annual procurement plan and all procurement requests. It recommended an additional procedure- the mandatory submission to the Board's Budget Subcommittee when:

- Procurement requests are not contained in the annual budget plan;
- Procurement requests are in the plan, but vary significantly ( threshold to be determined by the Board) from the planned volume, product features, financial costs, etc);
- Procurement that exceeds a predetermined percentage of the total procurement budget (threshold to be set by the Board)

### *Controls*

Monitoring of the procurement requests would be carried out by the HIF Chief Financial Officer, who will prepare the necessary authorization documentation based on the planned and available funds in the current year budget for consideration of the HIF Director and the Board. Based on the HIF Board consent, HIF Director will issue certificate for available funds for the realization of the particular procurement. In order to implement such a procedure, HIF should impose to the HCI to prepare their budgets in accordance with the Budget Law. In any case, according to the Public Procurement Law, in the period of 30 days, HIF and HCI should deliver whole evidence for the contracts concluded for the performed public procurement to the MOF, Public Procurement Bureau, for publishing on the web page.

The HIF will provide the Board with a summary of procurement activities underway, with justification of changes, as part of its regular quarterly report. The HIF Financial Controller will monitor the execution of the procurement throughout the entire

#### **Box M: Pharmaceutical Procurement**

The international procurement of pharmaceuticals undertaken by the HIF in 2004-2005 achieved a net reduction in prices of about 17%. Virtually all of this was due to increased competition. (Prices on items receiving more than one bid fell by about 30%. Prices on items with only one bidder, on average, did not fall at all. But less than half the items received competitive bids. )

Given the substantial savings yielded by the competitive bids (and the absence of savings on items with only one bidder) there is a strong case for repeating the ICB bidding process when the HIF next replenishes its supplies. The HIF believes, however, that in the case of drugs on the pharmacy list, most of the savings have already been achieved, or will be achieved through direct negotiations that will be conducted over the next few weeks. It also notes that by May 2006, all pharmacies will be privatized and will do their own procurement. Under those conditions, the HIF's role will be limited to reimbursing pharmacies on the basis of an agreed price schedule. The HIF proposes to compare the recently achieved prices obtained under the recent tender internationally and if appropriate use them as reference prices for this schedule.

The HIF does intend to repeat the ICB process for the items on the hospital list. Before doing so, however, the HIF will conduct analyses of this recent experience, including a comparison of prices obtained by the recent tender with those paid within the Region and in Western Europe. It will contact a broad range of potential bidders, determine their reasons for not participating in the recent tender, and revise the tendering process accordingly. In particular, the HIF should reconsider the payment terms it offers in the next tender, as the long lapse between delivery and final payment under the recent competition discouraged firms from bidding.

process. He will recommend sanctions if in cases of violations of procurement regulations. To implement these actions, the financial controller shall prepare all necessary procurement guidelines and recommend the thresholds for Board consideration of requests exceeding planned parameters and the percentage of total procurement budget. [Jun 2005] The financial controller shall monitor the procurement activities and prepare a report on procurement to be appended to the quarterly financial reports from the HCIs that is submitted to the Board.

## **Board of Directors**

The function of the HIF Board is particularly important, given the fact that the HCIs operate outside of the budget and the HIF operates relatively independent of the MOF's budgetary controls. The Board has functioned in a largely passive manner in the past, examining whatever management provided to it and making routine decisions with little consideration of the consequences to the operation of the health care system. This was compounded by the lack of clear health policy direction from MOH, leaving HIF largely on its own to operate the Health Care system as best it could.

The HIF Board must improve its functioning and oversight of HIF operations. There are a number of factors that can contribute to improved Board performance, which will in turn improve the performance, accountability, transparency and efficiency of the HIF and its HCIs across the health care system.

The government should reform the structure and operations of the Board through changes to its legislative base (the Health Insurance Law) that will improve the governance structure and enhance Board accountability for performance. Work has been progressing within the MOH and HIF on this issue for some time now. Details of the proposed legislative changes are contained in Appendix B. It is the right time to amend the HIL and strengthen HIF oversight as shown in Box N.

### **Box N: Restructuring the HIF Board of Directors**

- HIF and MOH prepare a formal amendment to the Health Insurance law to improve HIF operations and governance and submit it to the government for approval [June 2005]
- Parliament should approve the amendments of the HIL and HIF Statute [Oct 2005]
- New HIF Board appointed. [Jan 2006]
- Minutes of HIF Board posted on HIF and MOH web sites [Dec 2005]

## Appendix A      HCI Reporting Framework

Health Institution \_\_\_\_\_

T-1 form

### REPORT on expenditures in the health institution (month) \_\_\_\_\_

| No. | Account | Description   | AOP | Planned annual amount | PAID Monthly amount | Paid by Health Fund | Paid from own resources | Cumulative from 01/01 |
|-----|---------|---|-----|-----------------------|---------------------|---------------------|-------------------------|-----------------------|
| 1   | 2       | 3   |     | 4                     | 5                   | 6                   | 7                       | 8                     |
| 01  |         | Class 4- EXPENDITURES (TOTAL)                             | 00  |                       |                     |                     |                         |                       |
| 02  | 40      | Salaries, wages and allowances (from 2-9)                 | 01  |                       |                     |                     |                         |                       |
|     | 4011    | Net basic salaries  | 02  |                       |                     |                     |                         |                       |
|     | 4012    | Salary bonuses (overtime etc.)                            | 03  |                       |                     |                     |                         |                       |
|     | 4013    | Allowances (food, transport etc.)                         | 04  |                       |                     |                     |                         |                       |
|     | 4015    | Personal income tax                                       | 05  |                       |                     |                     |                         |                       |
|     | 4021    | Pension contributions                                     | 06  |                       |                     |                     |                         |                       |
|     | 4022    | Healthcare contributions                                  | 07  |                       |                     |                     |                         |                       |
|     | 4023    | Employment contributions                                  | 08  |                       |                     |                     |                         |                       |
|     | 403     | Other salary contributions                                | 09  |                       |                     |                     |                         |                       |
| 03  | 420     | Travel costs and per-diems                                | 10  |                       |                     |                     |                         |                       |
| 04  | 421     | Utility services, heating and transport                   | 11  |                       |                     |                     |                         |                       |
|     | 4211    | Utilities   | 12  |                       |                     |                     |                         |                       |
|     | 4212    | Heating   | 13  |                       |                     |                     |                         |                       |
|     | 4213    | Communications  | 14  |                       |                     |                     |                         |                       |
|     | 4214    | Transport   | 15  |                       |                     |                     |                         |                       |
| 05  | 423     | Small inventory, tools                                    | 16  |                       |                     |                     |                         |                       |
|     | 4231    | Administrative materials                                  | 17  |                       |                     |                     |                         |                       |
|     | 4232    | AOP materials   | 18  |                       |                     |                     |                         |                       |
|     | 4233    | Uniforms, shoes and linen                                 | 19  |                       |                     |                     |                         |                       |
|     | 4234    | Food products and beverages                               | 20  |                       |                     |                     |                         |                       |
|     | 4235    | Medicines and medical materials****                       | 21  |                       |                     |                     |                         |                       |
|     | 4236    | Educational materials                                     | 22  |                       |                     |                     |                         |                       |
|     | 4237    | Materials for maintenance and repair                      | 23  |                       |                     |                     |                         |                       |
|     | 4239    | Other materials for specified purposes                    | 24  |                       |                     |                     |                         |                       |
| 06  | 424     | Repairs and regular maintenance                           | 25  |                       |                     |                     |                         |                       |
| 07  | 425     | Contractual services (total)                              | 26  |                       |                     |                     |                         |                       |
|     |         | **from the part-time employees                            | 27  |                       |                     |                     |                         |                       |
| 08  | 426     | Other current expenditures                                | 28  |                       |                     |                     |                         |                       |
| 09  | 45      | Interest payments   | 29  |                       |                     |                     |                         |                       |
| 10  | 481     | Buildings   | 30  |                       |                     |                     |                         |                       |
| 11  | 482     | Other construction facilities                             | 31  |                       |                     |                     |                         |                       |
| 12  | 483     | Purchasing of furniture, equipment, vehicles and machines | 32  |                       |                     |                     |                         |                       |
|     | 4831    | Purchasing of furniture                                   | 33  |                       |                     |                     |                         |                       |
|     | 4832    | Purchasing of equipment                                   | 34  |                       |                     |                     |                         |                       |
|     | 4833    | Purchasing of vehicles                                    | 35  |                       |                     |                     |                         |                       |
|     | 4834    | Purchasing of machines                                    | 36  |                       |                     |                     |                         |                       |
|     | 4835    | Books for library and teaching materials                  | 37  |                       |                     |                     |                         |                       |
| 13  | 485     | Other non- financial resources                            | 38  |                       |                     |                     |                         |                       |
| 14  | 49      | Repayment of principle                                    | 39  |                       |                     |                     |                         |                       |

Accountant  
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Health Institution Director  
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Health Institution \_\_\_\_\_

Annex to **DT-1**

**REPORT**  
**On calculated expenditures from account# 4235 for medicines and medical materials**  
**(month) \_\_\_\_\_**

| No. | Account | Description   | Planned annual amount | Calculated monthly amount | % (5:4) |
|-----|---------|---|-----------------------|---------------------------|---------|
| 1   | 2       | 3   | 4                     | 5                         | 6       |
| 01  | 4235101 | Medicines used for treatment of patients in the health institutions                 |                       |                           |         |
| 02  | 4235102 | Medicines issued in pharmacies with prescription                                    |                       |                           |         |
| 03  | 4235103 | Medicines sold in pharmacies-commercial sale  |                       |                           |         |
| 04  | 423520  | Vaccines  |                       |                           |         |
| 05  | 423530  | Dentist assets  |                       |                           |         |
| 06  | 423540  | Orthopedic materials and implants   |                       |                           |         |
| 07  | 423550  | Sanitary materials  |                       |                           |         |
| 08  | 4235901 | Assets used for dialysis  |                       |                           |         |
| 09  | 4235902 | Laboratory assets   |                       |                           |         |
| 10  | 4235903 | X-ray films   |                       |                           |         |
| 11  | 4235904 | Contrast agents   |                       |                           |         |
| 12  | 4235905 | Catheter with guiding wire  |                       |                           |         |
| 13  | 4235906 | Therapy and rehabilitation assets   |                       |                           |         |
| 14  | 4235907 | Standard infusions and other solutions  |                       |                           |         |
| 15  | 4235909 | Other medical assets  |                       |                           |         |
|     |         | <b>TOTAL</b>  |                       |                           |         |
|     | NOTE:   | Enter only the expenditures <b>paid</b> in this month and not all the expenditures. |                       |                           |         |
|     |         |   |                       |                           |         |
|     |         |   |                       |                           |         |

Accountant  
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Health Institution Director  
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**REPORT**  
**on class 7 revenues COLLECTED in the health institution**  
**(month)\_\_\_\_\_**

| No. | Account      | Description   | AOP | Planned annual amount | Monthly amount | Cumulative | % |
|-----|--------------|---|-----|-----------------------|----------------|------------|---|
| 1   | 2            | 3   |     | 4                     | 5              | 6          | 7 |
| 1   | 7            | Class 7 REVENUES 2+3+4 (TOTAL)                                  | 00  |                       |                |            |   |
| 2   | 7238         | Revenues from the Health Fund                                   | 01  |                       |                |            |   |
| 3   | 7411         | Revenues from the Budget of the RM programs                     | 02  |                       |                |            |   |
| 4   |              | Personal revenues (5,6,7,8,9,10, 11 and 12)                     | 03  |                       |                |            |   |
| 5   | 7213         | Revenues from interests   | 04  |                       |                |            |   |
| 6   | 7232         | Revenues from selling products                                  | 05  |                       |                |            |   |
| 7   | 72381 (part) | Revenues from rendered health services (private, invoices etc.) | 06  |                       |                |            |   |
| 8   | 7239         | Revenues from leasing   | 07  |                       |                |            |   |
| 9   | 7251         | Donations from private companies                                | 08  |                       |                |            |   |
| 10  | 7252         | Donations from natural entities                                 | 09  |                       |                |            |   |
| 11  | 7259         | Other revenues  | 10  |                       |                |            |   |
| 12  | 7311         | Revenues from sale of capital assets                            | 11  |                       |                |            |   |
|     |              |   |     |                       |                |            |   |
|     |              | Balance of all gyro accounts in the banks:                      | 12  |                       |                |            |   |
|     |              | Balance from the end of the previous month*                     |     |                       |                |            |   |
|     |              | Balance from the end of the current month                       |     |                       |                |            |   |

Accountant \_\_\_\_\_

Health Institution Director \_\_\_\_\_

\* Example: In January you should enter the balance from 12/31/2004 and 01/31/2005.

Health Institution \_\_\_\_\_

O-1 form

**REPORT**  
**on total liabilities in the health institution**  
**(month) \_\_\_\_\_**

| No. | Account | Description  | AOP | Amount in denars |
|-----|---------|--|-----|------------------|
| 1   | 2       | 3  | 4   | 5                |
| 1   |         | TOTAL LIABILITIES (2+3+4+5+6+7)  | 00  |                  |
| 2   |         | Liabilities towards suppliers of medicines and medical materials   | 01  |                  |
| 3   |         | Liabilities towards goods suppliers (medicines and medical materials) and services undertaken by the Health Fund | 02  |                  |
| 4   |         | Investment liabilities   | 03  |                  |
| 5   |         | Liabilities towards part-time employees  | 04  |                  |
| 6   |         | Liabilities towards other health institutions  | 05  |                  |
| 7   |         | Other liabilities of the health institutions   | 06  |                  |

**\*\*\* NOTE: Enter data on total liabilities with the balance from the previous year (i.e. previous periods) regardless of the due period of liabilities**

Accountant  
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Health Institution Director  
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**REPORT  
on overdue liabilities of the Health Institution**

| Period    | Liabilities up to 60 days | Liabilities over 60 days | Contested over 60 days | Not contested over 60 days | Total overdue liabilities |
|-----------|---------------------------|--------------------------|------------------------|----------------------------|---------------------------|
| 1         | 2                         | 3                        | 4                      | 5                          | 6=(2+3)                   |
| January   |                           |                          |                        |                            |                           |
| February* |                           |                          |                        |                            |                           |
| March     |                           |                          |                        |                            |                           |
| April     |                           |                          |                        |                            |                           |
| May       |                           |                          |                        |                            |                           |
| June      |                           |                          |                        |                            |                           |
| July      |                           |                          |                        |                            |                           |
| August    |                           |                          |                        |                            |                           |
| September |                           |                          |                        |                            |                           |
| October   |                           |                          |                        |                            |                           |
| November  |                           |                          |                        |                            |                           |
| December  |                           |                          |                        |                            |                           |

**\*NOTE-** Enter the balance on the last day of the month, as well as the balance on last day of the previous months. (Example: for February enter the balance on the last day of the month, as well the balance of liabilities with as of 01/31/2005).

Accountant \_\_\_\_\_

Health Institution Director \_\_\_\_\_

## INSTRUCTIONS FOR FILLING IN THE FORMS

### T-1 FORM

- Column 4- do not fill in;
- Column 5- enter the data for the monthly expenditures in denars;
- Column 6- enter data for **expenditures paid with resources from the Health Fund**;
- Column 7- enter data for **expenditures paid with own resources** of the Health Institution;
- Column 8- enter a cumulative for the period reported (for January it will be the same as column 5, for February will be column 5 + February column 5);
- AOP 00 - **class 4- total expenditures** in the month from the report (total from AOP 01, 10, 11, 16, 25, 26, 28, 29, 30, 31, 32, 38 and 39);
- AOP 01 - **group 40** is a total from the accounts **401, 402, 403**. It is also necessary to fill in the analytical evidence for the salaries paid in that month (example: if the December salary is paid in January it should be entered);
- AOP 10 - Account **420**- enter data on **paid travel costs and per-diems** for that month;
- AOP 16,17, 18, 19, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 37, 38 and 39- enter data for **funds paid** in that month;
- AOP 20 and 21- enter data for **PAID EXPENDITURES** for food, medical materials and medicines **AND NOT THE AMOUNT OF ALL EXPENDITURES** in that month entered in the accounting evidence (Article 17 paragraph 4 from the Rulebook on Accounting for Budgets and Budget Users, Official Gazette 28/03).

### P-1 FORM

- Column 4- do not fill in;
- Column 5- enter data in denars;
- Column 6- cumulative for the month in the report;
- Column 7- do not fill in;
- No.1 – total from No. 2, 3 and 4;
- No.2 – **collected revenues (received funds) from the Health Fund**;
- No.3 – revenues **collected from the Budget of the RM programs** in that month;
- No. 4- **own collected revenues** total of No.5, 6, 7, 8, 9, 10, 11 and 12;
- No. 5- revenues from **interests from banks** and other institutions received in that month;
- No. 6- **revenues from selling medicines and medical materials** (pharmacies);
- No. 7- **revenues from rendering private health services**;
- No. 8- **revenues from leasing**;
- No.9, 10- **revenues from received donations in denars**;
- No. 11- **other collected revenues**;
- No. 12- **revenues from selling capital assets** (buildings, equipment etc.).

\*\*\* The data for the gyro accounts' balances should encompass **all gyro accounts** of the health institution :

- total balance of all gyro accounts from the end of the **previous month** – ex. In the report on January the balance as of 12/31/2004
- total balance of all gyro accounts from the end of **the month in the report** – ex. For January 2005 enter the balance as of 01/31/2005.

### **O-1 FORM**

- Fill in only the column for the month in the report with the amount of all liabilities **with the beginning balance** from the last year regardless of the due period;
- No. 1- **total liabilities**, total of No. 2, 3, 4, 5, 6 and 7;
- No. 2- **liabilities towards suppliers of medicines and medical materials**;
- No. 3- liabilities towards suppliers of medicines and medical materials, services etc. undertaken by the Health Fund through contracts, with the beginning balances (those health institutions which do not have separate analytic method for these liabilities should enter the same data as in No.2);
- No.4 - investment liabilities;
- No.5 – liabilities towards the part-time employees with the beginning balance if available;
- No.6 – other liabilities of the health institution.

### **O-2 FORM**

**Enter only the overdue receivables at the end of the month in the report.**

- Column 2- enter **liabilities up to 60 days**, except for the accounts 401, 402, 403.
- Column 3- enter **liabilities over 60 days**, except for the accounts 401, 402, 403 (total of column 4+5);
- Column 4- enter **contested liabilities over 60 days**;
- Column 5 – enter **not contested liabilities over 60 days**;
- Column 6- enter data for **all overdue liabilities** (total of column 2 and 3).

### **ANNEX TO T1 DT-1**

- Column 4- do not fill in;
- Column 5 – data for **PAID medicines and medical materials** in the month from the report, and **NOT** the amount of expenditures which occurred (the data from No.17 in this form should be equal to the **AOP 21** from the T1 form).

## **Annex B                    Changes in the HIF Board**

Changes in the HIF Board: It was agreed that the following changes would be made in the Health Insurance Law.

- (i)     Number of Board members: It was agreed that the number of Board members would be changed from 13 to 7 (1 representative of the Ministry of Finance, 1 of the Ministry of Health, 2 representatives of employers, 1 representative of patients/insurees, and 2 representatives of the medical profession .
  
- (ii)    Selection Criteria: The current practice of selection by Parliament would be stopped. The representatives of the MOF and MOH would be designated by the respective ministries. These persons should be senior staff members. For MOF, the person need not have a background in health but would be provided with training in health financing issues. The MOH person should have a background in health financing, be fully familiar with the health policies and priorities of the country and have a legal training to make sure that necessary laws and by-laws are being correctly interpreted and followed by HIF. The MOH person will be provided training in the basics of financial management (reading audit reports)
  
- (iii)   The representatives of the medical profession will be designated by representative organizations (the Doctors' Chamber, the Medical Association, etc). and will be suitably familiar with health care financing issues. The representative of employers' will be designated by the largest employers. All submissions by members will require a conflict of interest disclosure (required by all Board members) and will be submitted to MOF and MOH. MOF and MOH will hold rotating chairmanship and vice-chairmanship of the HIF Board and will be granted veto power.

The MOH document also states that a new paragraph will be added on the responsibilities of the HIF Board. We suggest the following (based on a review of Health Insurance Laws of other countries, namely Estonia and Bulgaria).

### The Management Board:

- 1)    approves the development plan of the Health Insurance Fund;
  
- 2)    after hearing the opinion of the Management Board, makes, through the Minister of Social Affairs, a proposal to the Government as regards the improvement of the health of the insured, the prevention of diseases and the establishment of reference prices and

limits applicable to the payment for health services and to the distribution of the medicinal products subject to a discount;

- 3) on the proposal from the Management Board, approves the budget of the Health Insurance Fund in the light of the state budget;
- 4) on the proposal from the Management Board, approves the structure of the Health Insurance Fund;
- 5) on the proposal from the Management Board, approves the internal rules of procedure and the administrative procedures and the database maintenance rules;
- 6) on the proposal from the Management Board, approves the accounting policies and procedures;
- 7) on the proposal from the Management Board, decides on the acquisition, transfer and encumbrance of immovable property and the movable property already registered or to be entered in the register, and the taking of loans;
- 8) designates and removes the Chairman of the Management Board;
- 9) designates and removes the members of the Management Board on its own initiative or on the proposal from the Chairman of the Management Board;
- 10) decides on the conclusion of the contract of service with the Chairman of the Management Board and, on the proposal from the Chairman of the Management Board, the conclusion of contracts of service with the members of the Management Board;
- 11) decides on the filing of financial claims against the members of the Management Board;
- 12) approves, after hearing the opinion of the Chairman of the Management Board, the remuneration and additional remuneration of the members of the Management Board;
- 13) approves the reports submitted by the Management Board and the requirements concerning such reports;
- 14) appoints the auditor of the Health Insurance Fund and determines the amount of the auditor's remuneration after hearing the opinion of the Management Board;
- 15) provides opinions to the Minister of Social Affairs concerning the proposed amendments to the Statutes of the Health Insurance Fund;
- 16) where appropriate, sets up committees and determines their members and functions;

- 17) examines the documents of the Health Insurance Fund and verifies or orders relevant third parties to verify the accuracy of the accounts of the Health Insurance Fund, the existence of property, the conformity of the Fund's activities with the law, the Fund's Statute and the decisions of the Supervisory Board;
- 18) where appropriate, requires the Management Board to present overviews of the activities and the financial situation of the Health Insurance Fund, information on the considerable deterioration of the financial situation of the Fund and on other relevant circumstances concerning the activities of the Fund;
- 19) immediately informs the Government of the considerable deterioration of the financial situation of the Health Insurance Fund and of other relevant circumstances concerning the activities of the Fund;
- 20) on the proposal from the Management Board, approves the bases of entering into contracts with the providers of health services, the criteria of selecting contracting parties and the conditions relating to the availability of health services;
- 21) approves the requirements concerning the establishment of the draft budget of the Health Insurance Fund;
- 22) on the proposal from the Management Board, approves the plan for the monthly breakdown of budgeted expenditure;
- 23) where appropriate, adopts the supplementary budget of the Health Insurance Fund by either increasing or decreasing the income and expenditure of the Health Insurance Fund in a balanced manner;
- 24) decides on the effecting of transactions on the account of appropriations for the next year, if such transactions exceed 25 percent of the respective appropriations for the current year;
- 25) submits to the Government once a year through the Minister of Social Affairs a report on the economic activities of the Health Insurance Fund in accordance with the procedure laid down by the Minister of Finance;
- 26) approves the annual accounts and the annual report;
- 27) organizes a competition for filling the office of the Chairman of the Management Board in accordance with the terms and conditions laid down in this Regulation and, where necessary, designates the acting Chairman of the Management Board;
- 28) determines the general terms and conditions of the contracts of service to be made with the Chairman and the members of the Management Board;

- 29) designates a member of the Management Board to perform the tasks of the Chairman of the Management Board during the period from the removal of the Chairman to the designation of the new Chairman;
- 30) determines the restrictions on the right of representation of the members of the Management Board;
- 31) gives an opinion on the legality of the decisions of the Management Board or the Chairman of the Management Board in cases where a member of the Management Board has informed the Chairman of the Supervisory Board, or in the absence of the latter, the Deputy Chairman of the Supervisory Board that the relevant decision is in contradiction with the law or provisions of this Regulation;
- 32) elects the Deputy Chairman of the Supervisory Board;
- 33) approves the rules of procedure of the Supervisory Board;
- 34) approves the insurer chosen by the Management Board and the terms and conditions of the liability insurance contract to be concluded in favor of the members of the Supervisory and the Management Board;
- 35) approves the regulations concerning the insignia of the Health Insurance Fund;
- 36) approves the annual action plan of the Health Insurance Fund.

Appointment and discharge of Director: The Government's proposal suggests for HIF Board reform suggests that the HIF Director be appointed and discharged by the Government of the Republic of Macedonia based on recommendation from the Ministry of Health.