

HOSPITAL REFORM

**UPDATE ON THE
CORPORATIZATION OF
SAN CARLOS GENERAL
HOSPITAL**

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SAN CARLOS GENERAL HOSPITAL SAN CARLOS CITY, PANGASINAN

A. BACKGROUND

1. Brief History of San Carlos General Hospital

The Philippine Civil Affairs Unit of the United States Army established the San Carlos General Hospital in Jan 24, 1945. Known then as the Civilian Emergency Hospital (CEH), it was created primarily for civilian casualties of the Second World War. In November 01, 1946, its name was changed to San Carlos Maternity and Children's Hospital and placed under the control of the Philippine Bureau of Health. In September 1952, it was christened San Carlos District Hospital (SCDH).

With the devolution of health services in 1992, management of SCDH was transferred from the Department of Health (DOH) to the provincial government of Pangasinan. Nonetheless, it maintained its district hospital status and remained a support health facility to the Pangasinan Provincial Hospital located in Dagupan City.

In 1997, SCDH assumed provincial hospital status when the then Pangasinan Provincial Hospital was re-nationalized and became known as the Region 1 Medical Center. Since then, the SCDH was officially acknowledged as the San Carlos General Hospital (SCGH).

2. The Hospital Situationer

San Carlos General Hospital is a 150-bed tertiary hospital. It has four major service departments, namely: medicine, surgery, obstetrics/gynecology, and pediatrics.

A. Manpower complement

The SCGH has a regular staff complement of 192. Although the SCGH is classified as a tertiary public health facility, its human resource complement still resembles that of a district hospital. The manpower licensing requirement of a 150-bed hospital is 213 while the National Center for Health Facility Development (NCHFD) developmental standards call for at least 321. This shows that the SCGH is deficient in its staffing complement. In order to respond to the growing needs, especially now that the hospital caters to a wider client base and is considered a tertiary health facility, additional staff is required. SCGH has requested additional plantilla positions from the Department of Budget and Management (DBM). Unfortunately, the approval process has taken some time. To solve the problem, SCGH officials proposed hiring casual employees. Remuneration of the latter shall be sourced from the provincial budget. The governor acceded to the request.

B. Hospital budget

Meanwhile, the hospital's budget remained at the same level and was not adjusted to respond to the influx of patients due to the change in status. In the year 2000, SCGH's budget was P46.2 M, an increase of approximately 15% over the P40 M budget of the previous year.

Assuming the hospital has an 80% occupancy rate, this will translate to approximately 43,000 in-patient days a year. If each patient day will cost an average of P800.00 (to cover food, drugs and medicines, linen, accommodation, utilities, supplies and other operating expenses), about P35 million is needed to cover the in-patient services. The present budget is inadequate to finance the hospital operations if the costs for the out-patient department and emergency room are added. It should be noted that this rough estimate does not include the expected increase in the hospital's clientele. When there is insufficient budget, the last item to be funded would be the maintenance of the building and equipment. This is true for SCGH. For example, the x-ray machine, acquired in 1954, has not been replaced and the hospital buildings badly need repair.

Additional money is sourced from the Countrywide Development Funds (CDFs) of the governor, the congressional representatives, and the provincial board members. However, these too have been insufficient to upgrade most of the hospital facility.

3. *Hospital Reforms at SCGH*

Sometime in the mid 90s, a study was made on the operations of SCGH. The assessment essentially proposed the introduction of reforms in some operational areas. SCGH requested the DOH to assist in implementing the proposed reforms since the hospital lacked the resources. In 1999, the DOH requested the Project Management Technical Advisors Team (PMTAT) to help the hospital.

The PMTAT, with the active participation of SCGH's officials and staff, identified three specific areas requiring immediate attention. These are the areas of service delivery, drug management systems, and billing and collection procedures. These areas of interventions were chosen to improve quality of care through an organized and planned action. By undergoing this process, the hospital personnel would, hopefully, acquire a quality-conscious culture. The PMTAT then organized trainings in quality management (e.g. 5 S and TQM) and organized the quality assurance committee. Likewise, a program for the improvement of the drug management system was initiated to provide appropriate and good quality drugs at a lower cost. Trainings in costing and rate-setting methodologies, and billing and collection procedures were also conducted to allow an increase in hospital revenues.

Buckling down to work, the joint team went through a series of planned interventions for patient classification, billing and collection, and the operation of a hospital therapeutic committee. They were able to institute reforms such as re-designing the physical set-up of hospital departments. Visible changes include a cleaner and better hospital environment, separation of the OPD and ER units, and the transfer of the medical records section closer to the OPD and ER units. The 5S of quality assurance was institutionalized with the introduction of the “Best Hospital Department Award”.

With respect to drug management, the hospital’s therapeutic committee was re-activated. The therapeutic committee was able to identify its functions and develop policies for rationale drug use. The committee was also able to produce a hospital drug formulary.

The intervention that created the most impact was the improved billing and collection procedures. The hospital modified and strictly implemented its patient classification system. The hospital was also able to evaluate its billing and collection system and to institute reforms in the process. These changes generated for SCGH a gross income of P10, 623,877, a big jump from 1999’s gross income of only P2, 839,924.

Unfortunately, there have been restrictions on SCGH’s revenue utilization. Based on existing government accounting policies, revenues generated by public institutions should be deposited in the Treasury. Although the hospital has been able to use its income in upgrading some of its equipment, it has been unable to use it for staff incentives and benefits. The provincial government explained that if the SCGH is given benefits, employees in other devolved hospitals in Pangasinan will demand similar treatment.

Nonetheless, in spite of the restrictions on revenue retention, the initial successes prove that, given greater autonomy, devolved hospitals can function effectively and efficiently. The experience of SCGH has influenced the Pangasinan governor to seriously consider transforming its provincial hospital into a government corporation.

At about the same time, the DOH started laying the groundwork for the Health Sector Reform Technical Assistance Project (HSRTAP). The HSRTAP has a program area especially devoted to hospital reforms. In the last quarter of 2000, the HSRTAP hospital reform team took over the functions of PMTAT in SCGH.

B. ON THE ROAD TO CORPORATE RESTRUCTURING

1. SCGH a Success Story

The accomplishments of the San Carlos General Hospital was presented in the National PMTAT Convention held in Bacolod City. It generated interest from other provincial hospitals. Likewise, the Health Secretary showed his interest by meeting with the Pangasinan governor to learn the interventions made in SCGH.

2. How Did It Happen?

There were important ingredients that assured the success of the interventions. First, the LGU leadership, through its governor, was supportive of the hospital improvement project. Not only did he use his influence in facilitating the interventions, but he also met regularly with his hospital staff and with the PMTAT team to enable him to have a firm understanding of the project. This gave him the ability to provide the team with inputs and provide proper direction for the improvement process. This also fostered close camaraderie between the hospital staff and the PMTAT team, thereby allowing smooth project coordination.

Another important factor was the strong leadership in the hospital itself and the cooperation and openness of the hospital's senior and middle management staff. Their sincere attitude in accepting the interventions allowed them to focus their efforts and energies to more important activities. The strong leadership also dissipated the resistance normally brought about by instituting organizational changes.

The approach adopted by PMTAT must also be commended. The Chief of Party and the Deputy Chief of Party at that time were both actively involved in the project, constantly coordinating with the governor and his staff. This was crucial at some points of the project when problems arose. An example was during the implementation of the pooled drug procurement system. The hospitals and LGU (General Services Office) did not follow some crucial steps in the process, causing delays in the bulk bidding of medicines. If the PMTAT leadership and the governor did not address these problems immediately, this would have resulted to a failure of the whole system.

On hindsight, it must also be noted that the MTP (Monitoring, Training and Planning) approach was effective in moving the organization to respond to the project. Monitoring allowed the hospital to determine its status in relation to a specific intervention, similar to the process employed in situational analysis. A hospital staff was assigned to do this.

In the area of drug management, for example, the chairman of the therapeutics committee initially made a status report on the hospital's drug management system. The training component followed and provided new techniques to improve the system. Once this was done, the hospital group drafted an action plan to apply the training lessons. The important aspect of this approach was that the plan had only a one-month time frame. This short time frame allowed the organization to work on realistic targets. The following month, the same process was repeated--accomplishments were reported, trainings conducted and plans developed for another month of activities. This process was repeated for the duration of the project. Eventually, the small steps forward added up into visible impacts on hospital operations.

3. A Step Further

The hospital staff and the LGU soon realized that improvement interventions do not necessarily require a large amount of money. More than that, it was also proven that providing the hospital management autonomy is a strong incentive to stimulate pursuit of organizational improvements. The responsibility of assuring quality care then becomes the hospital's concern rather than passing it on to the LGU leadership. But then it was also realized that projects with unclear funding sources have limitations. Questions arose as to how they will be able to further improve service quality by assuring the availability of medical supplies, drugs, and equipments. How will they provide the facilities for those that would need intensive care? How will they be able hire additional manpower? All of these are difficult to address without adequate funding.

At this point, the PMTAT proposed for the conversion of the hospital into a corporation. Health Secretary Romualdez supported the proposal and helped convince the Pangasinan governor to adopt the corporatization program. This program would fit the needs of the hospital. First, a corporate structure would provide autonomy to the hospital management to run the hospital more efficiently. Second, the board can bring in additional expertise and fresh ideas in operating the hospital. Lastly, the hospital as a corporation can earn and retain its income to fund its improvement projects.

With the governor convinced, the project was then re-focused on converting the hospital into a corporation. It was at about this time that the HSRTAP took over the functions of hospital reforms from the PMTAT.

4. General Steps towards Corporate Restructuring

Normally, when a government corporation is established, a charter is passed calling for the creation of such organization. The government then appoints the board of trustees/ directors and its officers. From here, the corporation is organized, personnel are recruited, and the systems are installed to support the operations of the corporation.

In the case of Pangasinan, there is an existing government agency created by a law, governed and owned by the LGU, with structures and systems designed for a government line agency. Further, the management of personnel is governed by civil service rules and regulations. It can then be seen that for the conversion to take place, a legal basis to corporatize the hospital must first be worked out, a governance structure must be put in place, and personnel issues must be remedied to ensure a smooth transition towards a corporate status.

The HSRTAP initially worked on exploring the legal basis for the conversion of the hospital into a corporation. The Health Finance Development Project's (HFDP) Management and Organizational Options Manual for Devolved Hospitals recommended the drafting of a Sanggunian Resolution to trigger the corporatization process. The resolution, as explained in the Implementation Manual, is a sufficient legal basis to authorize the governor to register the hospital under the Securities and Exchange Commission (SEC). It is in this light that a Sanggunian Resolution was developed and submitted to the LGU for its consideration. This was subsequently passed to their legal counsel and is currently under study.

The next step to convert the hospital is to organize the hospital board. A draft guideline was made and a workshop was conducted to determine the issues related to the hospital board. The guideline is presently being re-written to clarify the issues and to adapt to the needs of the LGU. This shall be presented to concerned LGU officials like the chairman of the health committee, the provincial board, provincial legal counsel and other stakeholders.

While these are being undertaken, the pre-incorporation steps have been initiated. These steps prepare the requirements needed for the transfer of the hospital to the corporation. Once completed, all concerned parties will sign an agreement. This constitutes the final operative act of the transfer.

The three items mentioned above shall be finalized with the help of a legal counsel, to be engaged by HSRTAP.

C. AN UPDATE OF HSRTAP ASSISTANCE – THE PRE-INCORPORATION STEPS

In transforming the management and organizational form of a public hospital from a direct LGU-owned and operated entity to one which is managed by an LGU created corporation (non-stock), seven pre-incorporation steps need to be undertaken:

1. Inventory and Valuation of Assets

The LGU must conduct a comprehensive inventory of all hospital properties that should rightfully be transferred to the Corporatized Government Hospital (CGH). Subject to approval by the Commission on Audit (COA) and acceptance by the SEC, the appraised value of assets to be corporatized, less total liabilities imputable to the concerned hospital unit/s, will establish the government's investment in or contribution to the CGH.

Hospital assets should be listed and described preferably as follows:

- a. Land and Buildings – date of acquisition or construction, fair market value, deed of conveyance, certificate of title, latest real property tax receipts, zonal valuation, etc.

The HSRTAP hospital reform team provided the SCGH staff with a sample inventory form, which the hospital staff used in listing their assets.

SCGH submitted their inventory of Land and Buildings last December 2000 (see Annex A). The list contained the names of the buildings, their respective floor areas, number of floors, general description of each building, year completed, and approximate value of each structure.

These buildings lie in a 46,306 square meter of untitled land. At present, there are private claimants to a portion of the land on which the hospital is located. The hospital is presently working on having the land titled.

The deed of conveyance, latest property tax, and validation by the COA on the value of the properties still need to be done. Likewise, the land title of the hospital should be made available to complete this portion of the pre-incorporation steps.

- b. Motor Vehicles - brand, model, book value, proof of acquisition, certificate of registration, etc.;

San Carlos General Hospital (SCGH) has submitted a list of motor vehicles indicating their date of acquisition, condition, and valuated cost (see Annex B). The proof of acquisition and certificates of registration will be submitted at a later date.

- c. Other properties classified as capital equipment

San Carlos General Hospital submitted their inventory of equipment as of December 2000 (see Annex C). It contains the name of the equipment, their descriptions, date acquired locations and conditions, and their acquisition cost. These equipment have to be assessed in their present condition by the Commission on Audit (COA) to reflect the final value of the equipment to be transferred to the corporation.

d. Supplies and materials

The SCGH was not requested to prepare an inventory of Supplies and Materials since these are used everyday; thus, the inventory may change at the time of actual transfer. This item can be done a few days before the execution of the transfer to ensure accuracy of the inventory.

e. Cash on hand and bank deposit/s

For the same reason as Supplies and Materials, SCGH was not required to submit a report on its Cash. It will be more accurate to have the amounts submitted near the time of transfer

f. Accounts receivable

This generally comprises the list of patients who were issued promissory notes and the receivables from PhilHealth. SCGH can submit its receivables near the time of actual transfer since the listing will change as their clients pay their obligations.

g. Lease contract/s over properties rented by the concerned hospital units/s from third parties

The hospital has not entered into this engagement.

h. Undistributed budgetary allocation under the current General Appropriations Act (GAA) for capital outlay, personal expenses and maintenance and operating expenses, and other properties

This can be submitted immediately prior to the transfer of the assets to the corporation to assure accuracy of the figures.

2. Inventory of Liabilities

In corporatization, the LGU hospital transfers its liabilities to the corporation. These have to be listed and documented for acceptance by the corporation. Liabilities are the following:

- a. Secured Obligations – liabilities secured with real estate mortgage or pledge;
- b. Final judgments with pecuniary awards;
- c. Direct contractual obligations;
- d. Unsecured creditors in the legal order of preference;
- e. Contingent liabilities – third-party claims, guarantees and surety;
- f. Legal or contractual liens, easements and other encumbrances on property.

The LGU hospital has no long-term liability as described in the pre-incorporation steps. However, they have short-term liabilities payable to their hospital supply contractors. These can be immediately paid by the hospital since these purchases were previously planned and budgeted. Nevertheless, at the time of transfer, these payables should be listed for proper endorsement to the corporation.

3. Prepare the Organizational Structure and Statement of Duties and Functions

As a separate juridical personality, the CGH organizational structure should reflect the new working relationships among shareholders/members; directors/trustees; officers; and staff. It will be necessary to draw the new organizational structure showing the names of the offices/divisions/sections and to restate the duties and functions of each unit of the CGH. The LGU should prepare its own expected post-corporatization organizational structure and plantilla of personnel.

The organizational structure and the statement of duties and functions still have to be worked out. Discussions with the governor and the hospital staff have already been initiated on the composition of the Board of Trustees. In Pangasinan, they have an advisory board but this has not been functional lately. This advisory board can act as the transitory board

during the incorporation phase. There have also been discussions regarding the board selection process using the framework detailed by HSRTAP in Part 2 of its Guidelines for the Corporatization of Devolved Hospitals.

A legal Short Term Technical Consultant will be hired to validate the Guidelines and resolve the issues raised by the LGU. Once this is done, a resolution embodying the guideline will be submitted to the Sanggunian for approval. The guidelines will then be implemented by the hospital with guidance from the advisory board.

The hospital has no plan to re-organize its personnel. However, changes in the position titles of the senior management staff have been discussed by the LGU. There was also some discussion about converting the financial unit into a full department in the same level as the administrative, medical, and nursing departments.

The duties and responsibilities of each personnel are recorded in their 201 files under the job description section. These can be reviewed at a later time when the organizational structure has been finalized.

4. Conduct Personnel Audit

The audit of personnel will entail a review of the existing plantilla and the employment circumstances of all affected personnel in the context of a corporate set-up. This is indispensable to avoid any disruption in hospital operations and to avoid any violation of the right to security of tenure.

- a. Employment Status – Hospital employees who voluntarily transfer to the CGH should not suffer a break in government employment. For those who refuse to transfer or will not be needed in the new organization, the LGU may have to provide for their separation/ retirement benefits under R.A. 6656, or re-assign them to another LGU, or order their detail in the CGH. Due regard must be given to the following factors:
 - a.1. status of appointment, whether permanent, temporary, contractual or casual;
 - a.2. civil service eligibility;
 - a.3. performance and merit;
 - a.4. pending administrative or criminal case and other circumstances.
- b. Plantilla of Personnel – The LGU may transfer plantilla items to the CGH, subject to DBM approval. Abolition of positions due to corporatization is not recommended. In fact, the LGU can expect an increase in the number

of positions and personnel in the CGH with the decentralization of administrative and financial services. The following steps are suggested:

- b.1 prepare a list of affected plantilla positions;
- b.2 re-title, re-classify, upgrade positions, and/or create new positions, where necessary;
- b.3 prepare a new list of plantilla positions;
- b.4. change or provide new item numbers from LGU to CGH;
- b.5 prepare individual job descriptions and qualification standards for all positions

The San Carlos General Hospital has provided the HSRTAP Hospital Reforms team with its plantilla positions (see Annex D) and their corresponding salary grades and rates per annum. Re-titling, re-classification, upgrading or creating new positions may only be done once the organizational chart has been finalized and the staff have been assigned to their respective positions. The same pre-requisite holds true for other tasks, such as the listing of new positions, preparation of individual job descriptions, and qualification standards.

5. Prepare Business Transfer Agreement and Legal Conveyances

The business transfer agreement will be the operative act that will implement the legal authority to transfer assets and liabilities from the LGU to the CGH. It will be helpful if the LGU can present to the approving authorities (e.g. DOJ, COA, CSC) the specific measures that will be taken in transferring its operations. The BTA will provide, among others, for:

- a. The transfer of assets and liabilities from the LGU to the CGH;
- b. The value of assets and liabilities to be transferred and the equity or contribution of the LGU in the CGH;
- c. The assumption of liabilities, waiver of warranties and grant of immunity from third party claims by the CGH in favor of the LGU;
- d. The terms and conditions for the transfer, detail, separation or retirement of affected LGU employees;

- e. The capital structure of the CGH, the participation of the LGU in the CGH and the names of the directors/trustees and officers of the CGH;
- f. The closing date for the transfer of business and the conditions thereof and other terms.

A sample Business Transfer Agreement or BTA is currently being drafted. This will be used as a template for the LGU hospitals. This was not completed since the items previously mentioned need to be fulfilled as inputs to the BTA. Furthermore, legal counsel will be required to finalize this document.

6. Prepare Shareholders Agreement

Where other LGUs participate in the capital of the CGH, it may be necessary to have a Shareholders' Agreement, regardless of whether or not the CGH is a stock or non-stock corporation. The Shareholders' Agreement will spell out all the general and special arrangements between the principal LGU and other participating agencies (e.g. DOH and other LGUs) in the management and operation of the CGH, particularly in its Board of Directors/Trustees. The agreement can pre-determine the number of seats to be allocated between the principal LGU and other participating agencies, the voting share of the parties, the requisite number of votes to effect a decision of the Board, the limitations on the powers of conveyance, merger and consolidation, etc. The agreement applies even to non-stock corporations since such corporations also have share capital.

As of this writing, other shareholders for the corporatized government hospital have not been identified. Among the most appropriate shareholders being considered is the city government where the hospital is located, since majority of the hospitals' clients are residents of the city. Unfortunately, initial talks with the city executive showed that they were not receptive to the idea. Advocacy campaigns need to be conducted for this purpose. The issuance of the shareholder's agreement can be done at a later date when the hospital has been fully converted into a corporation.

7. Draft A Business Plan

The preparation of a business plan is not a strict legal requirement and its absence will not affect the validity of corporatization. However, this is important to determine which government hospital should be given

priority in corporatization and to calibrate the capability-enhancing systems that should be put in place in each hospital unit. The business plan should be able to:

- a. Assess the hospital/s' strengths and weaknesses;
- b. Project the financial flows of the CGH;
- c. Identify the subsidy requirements of the CGH;
- d. Propose new systems that will address deficiencies in the existing organization;
- e. Plan for advocacy at different levels and fora;
- f. Map out financing and investment strategies;

D. NEXT STEPS

The first six steps are pre-requisites to incorporation. Since there will be a shift in the hospital's ownership, management, and organizational form these steps will help ensure a smooth transition from the old to the new organization.

On the other hand, the business plan (step # 7) is optional, but it is nonetheless useful for the corporatizing agent to have it at the earliest stage. A methodology to formulate the business plan has been written up and can be offered to the LGUs so they will be able to comply with this step. There may be a need to provide SCGH with a short-term technical consultant to guide them in the process of formulating the Business Plan.

In conclusion, while all the pre-incorporation steps have not been completed, the documents needed are readily available, and can be done at the instant the transfer is to be made. The only hindering step is the availability of the land title which may take some time to secure. The next steps would be to pass the Sanggunian Resolution, form the Board of Trustees, and file for SEC registration. Once this is done, the pre-incorporation steps can already be completed.

Annex A

Inventory of land and building

San Carlos General Hospital

Annex B

List of Motor Vehicles

San Carlos General Hospital

Annex C

List of Equipment

San Carlos General Hospital

Annex D

Inventory of Personnel

San Carlos General Hospital

Annex A

Inventory of Land and Building

Roxas Memorial Provincial Hospital

Annex B

List of Motor Vehicles

Roxas memorial Provincial Hospital

Annex C

List of Equipment

Roxas Memorial Provincial Hospital

Annex D

Inventory of Personnel

Roxas Memorial Provincial Hospital

AIDE MEMOIRE:

Annexes of report on **Update on Corporatization of San Carlos General Hospital** have no electronic copy because these are merely photocopies of various documents gathered from the hospital. These are:

Annex A: Inventory of Land and Building

Annex B: List of Motor Vehicles

Annex C: List of Equipment

Annex D: Inventory of Personnel