

EXECUTIVE SUMMARY

A. Introduction

The Philippine Health Insurance Corporation (PhilHealth) is a government corporation created under Republic Act (R.A.) No. 7875 dated February 7, 1995, as amended by R.A. No. 9241 dated February 10, 2004 and R.A. No. 10606 dated July 23, 2013, otherwise known as the National Health Insurance Act of 2013. Its mandate is to administer the National Health Insurance Program (NHIP), which was established to provide health insurance coverage and ensure affordable, acceptable, available and accessible health care services for all citizens of the Philippines and shall serve as the means for the healthy to help pay for the care of the sick and for those who can afford medical care to subsidize those who cannot.

PhilHealth is attached to the Department of Health (DOH) for policy coordination and guidance. Its President is appointed by the President of the Philippines and acts as the Chief Executive Officer (CEO) responsible for the general conduct of its operations and management functions. The Secretary of Health is the ex-officio Chairperson of the PhilHealth Board while the President is the Vice-Chairperson. Considering that President Duterte has not yet appointed the supposed President of PhilHealth, the Board of Directors elected Dr. Celestina Ma. Jude P. De La Serna, Overseas Filipino Workers Sector Member, as Interim/Officer in Charge (OIC) President and CEO of the Corporation effective April 10, 2017.

As the sole administrator of the NHIP in the country, PhilHealth made significant strides in 2016 towards realizing the vision of "Bawat Pilipino, miyembro, Bawat miyembro, protektado, Kalusugan natin, asegurado". With the seamless transition from the previous health agenda which focuses on ensuring that every Filipino has the opportunity to gain entry into the health care system through the NHIP (population coverage) to the new health agenda which highlights the need to provide wider access to quality health care services across all life stages (benefit coverage), the quest for universal health care – making sure that everyone gets the full benefit of financial risk protection continues.

Along with its key accomplishments, PhilHealth has also implemented organizational reforms with the end goal of serving its members better. It has expanded members' access points to PhilHealth's transactional services and information, strengthened its advocacy efforts in collaboration with other government agencies and partners, build its capacity to generate evidence to support decision making through research and improved its internal business processes by adopting International Organization for Standardization (ISO) standards. As the primary driver of health care reforms in the country, PhilHealth believes that the path to universal health coverage is not easy but achievable because it is their moral imperative to do so – leaving not a single Filipino behind.

PhilHealth had a total personnel complement of 6,212 as at December 31, 2017. The Corporate Operating Budget (COB) for the same year per PhilHealth Board Resolution No. 2230 dated March 8, 2017 was approved by the Department of Budget and Management in the total amount not exceeding P128.778 billion. The CY 2017 COB and budget utilization is summarized in the next page:

	Approved COB	Disbursements	Variance
Personal Services	P5,251,485,000	P4,523,609,108	P727,875,892
MOOE	2,503,907,000	2,060,004,232	443,902,768
Capital Outlay	3,455,722,000	770,796,439	2,684,925,561
Benefit Payments	117,567,000,000	110,490,086,841	7,076,913,159
	P128,778,114,000	P117,844,496,620	P10,933,617,380

B. Scope and Objectives of Audit

The audit covered the examination, on a test basis, of the accounts, transactions and operations of PhilHealth for CY 2017 in accordance with Philippine Financial Reporting Standards (PFRS). It was also aimed at expressing an opinion on the fairness of presentation of PhilHealth's financial position, results of operations and cash flows in accordance with PFRS and determining its compliance with laws, rules and regulations.

C. Financial Highlights

Comparative Financial Position:

Particulars	2017	2016 (As Restated)	Increase (Decrease)
Assets	151,820,634,167	146,580,831,537	5,239,802,630
Liabilities	65,830,598,848	55,897,804,981	9,932,793,867
Equity	85,990,035,319	90,683,026,556	(4,692,991,237)

Results of Operations:

Particulars	2017	2016 (As Restated)	Increase (Decrease)
Income	112,323,184,149	109,661,185,263	2,661,998,886
Personal Services	4,523,609,108	5,583,257,495	(1,059,648,387)
MOOE	2,060,004,232	2,198,762,487	(138,758,255)
Benefit Payments	110,490,086,841	102,130,696,376	8,359,390,465
Net Income	(4,750,516,032)	(251,531,095)	(4,498,984,937)

D. Independent Auditor's Report on the Financial Statements

The auditor rendered an unqualified opinion on the fairness of presentation of the financial statements of PhilHealth with Key Other Matter paragraph for the year ended December 31, 2017 to inform the users of the financial statements on the continued receipt of various benefits and allowances by the officers and employees of the Corporation despite the Notices of Disallowance issued by the auditor due to the absence of the required approval from the Office of the President of the Philippines.

E. Summary of Significant Audit Observations and Recommendations

The significant audit observations and recommendations for CY 2017 are presented below, details of which are discussed in Part II of this Report, to wit:

Financial Audit

1. The existence, accuracy and reliability of Property and Equipment (P&E) net account balance of P2.323 billion as of December 31, 2017 were doubtful due to: a) discrepancy between the accounting records and the Report of Physical Count of Plant, Property and Equipment (RPCPPE) amounting to P65.963 million; and b) inclusion of items amounting to P55.127 million which did not meet the required capitalization threshold of P15,000 contrary to COA Circular Nos. 2016-006 and 2017-004.

We recommended and Management agreed to:

- a. *Direct the Property Units to timely process transfer documents for the transfer of P&E between the different PROs and ensure the timely recording thereof in the books of the respective PROs and Head Office; and*
 - b. *Require accounting personnel concerned to reclassify items recorded under P&E account which did not meet the capitalization threshold of P15,000 to appropriate inventory/expense/retained earnings accounts, henceforth, comply strictly with the provisions of COA Circular Nos. 2016-006 and 2017-004.*
2. Intangible Asset net account balance of P357.131 million as of December 31, 2017 was overstated by P1.987 million due to inadequate provision of depreciation for software with finite life and considered retired and obsolete/outdated; and the accuracy of the account balance could not be ascertained due to non-performance of impairment test on the computer software amounting to P14.323 million contrary to Sections 100 and 108 of PAS 38.

We recommended and Management agreed to:

- a. *Determine if an active market exists for the retired software, if in the affirmative cause the disposal thereof in accordance with existing laws/regulations, and derecognize their carrying amount in the books in accordance with Section 100 of PAS 38; and*
- b. *Formulate policies and procedures in the conduct of impairment test for intangible assets and conduct yearly impairment test pursuant to Section 10 of PAS 36.*

Compliance Audit

3. Non-compliance with some provisions of Republic Act (RA) No. 9184 and its Revised Implementing Rules and Regulations (RIRR) in the procurement of goods and services included: a) non-observance of the maximum period allowed for the procurement activities; b) amounts of Approved Budget for the Contract (ABC) and the Annual Procurement Plan (APP)/Project Procurement Management Plan (PPMP), Purchase Request and other supporting documents not in agreement; c) month-to-month extension of contract; and d) some documents were not submitted to COA within five days after perfection of the contract contrary to Item 3.1.1 of COA Circular No. 2009-001.

We recommended and Management agreed to:

- a. *Strictly observe the provisions of R.A. 9184 and its Revised IRR on the maximum period allowed for each procurement activity to efficiently and effectively carry out the procurement activities;*
 - b. *Explain the differing amounts per ABC/Contract and the supporting documents;*
 - c. *Comply with the provision of Section 4.1 of GPPB Resolution No. 23-2007 on the extension of contracts; and*
 - d. *Submit copy of the contract together with all the all supporting documents to COA five days after perfection.*
4. Some Health Care Institutions (HCIs) were paid with unfavorable difference to PhilHealth in the total amount of P0.526 million due to full reimbursement to ten patients who availed of the Z Benefit Package despite the fact that the member-patients' actual hospital charges plus the maximum amount of professional fees (PF) were lower than the Z Benefit package rate.

We recommended that Management re-evaluate the present guidelines on the implementation of the Z Benefit package and consider the possibility of including a provision that reimbursements should be based on member-patient's actual hospitalization charges plus professional fees or the amount of the Z Benefit package, whichever is lower, in order to protect the interest of PhilHealth and the government.

5. The processing of 26 claims totaling P270,000 took 32 to 53 days, which was not accordance with Item D Part IX of PhilHealth Circular No. 2015-035, requiring that all claims shall be processed by PhilHealth within 30 working days from receipt, provided that all requirements are submitted by the contracted HCI.

We recommended that Management comply with the provisions of PhilHealth Circular No. 2015-035 Item D Part IX on the period of processing claims of HCIs to ensure the smooth and adequate delivery of health services to the PhilHealth members pursuant to its mandate.

6. Four claims in the total amount of P0.950 million were processed and paid to the HCIs despite the absence of data on the delivery of the required mandatory services that should have been appropriately and timely given to the member patients per scheduled protocol contrary to Item A, Part VIII of PhilHealth Circular No. 2015- 035 and "Payment Conditions" of the Contract of Agreement or Memorandum of Agreement (MOA) entered into by PhilHealth with the HCIs for the Z Benefit Accreditation.

We recommended that Management ensure that the payment conditions embodied under PhilHealth Circular No. 2015-035 are fully complied by the HCI and that all required services have been rendered/delivered to the member-patients to protect the interests of PHIC and its members. Require the doctor/evaluator of the HCI to put a check mark on the Checklist for each mandatory service duly rendered/delivered to the member-patient or indicate Not Applicable (NA) and have them affix their signature for the unnecessary services. Deny payment if there is no proof that the required mandatory services were

adequately provided to the member-patient by the contracted HCI in accordance with Item A Part VIII of PhilHealth Circular No. 2015- 035.

7. Seventy two (72) Z-Benefit claims amounting to P11.854 million were without supporting Statement of Accounts (SOAs) or Billing Statements (BSs) issued by the respective HCIs to show the details of the medical procedure/s administered and medicines given to member patients to serve as basis to prove the correctness of the amount claimed. Said practice were not in accordance with the provisions of Section 4 (6) of PD 1445 and COA Circular No. 2012-001 dated June 14, 2012 requiring submission of documents to support payments from government funds.

We recommended and Management agreed to require HCIs to submit the dully accomplished SOA or BS as one of the documents to support the claims for Z Benefit Package reimbursements pursuant to Section 4 (6) of PD 1445 and COA Circular No. 2012-001. Accordingly, said requirement should be embodied in the existing policy of PhilHealth for the guidance of those concerned.

Performance Audit

8. PhilHealth incurred Net Loss in the amount of P4.750 billion in CY2017 (after other income), thus adversely affecting the effective and efficient implementation of its programs and projects as well as the actuarial life of the agency consistent with the vision under RA 10606 (also known as National Health Insurance Act of 2013) for a sustainable system of fund management.

We recommended that Management undertake the following to attain financial sustainability:

- a. *Aim for improved rate in Electronic Payment and Remittance System (EPRS);*
- b. *Formulate a system for the regular updating of members' records especially information on salary/income and their dependents;*
- c. *Reconcile collection database with treasury database to ensure that only those active members religiously paying the membership dues are provided equitable health benefits;*
- d. *Issue billing statements to employers and reconcile differences between billing and remitted amount;*
- e. *Collaborate with POEA to solve the issue of mandatory and regular/consistent payment of PhilHealth premium of OFWs;*
- f. *Work in partnership with other government agencies such as BIR, SSS, GSIS and PSA on membership information or data sharing;*
- g. *Strategize plans and actions to ensure GAA allocation for the PhilHealth premium arrearages of the Government as employer and for funding of Senior Citizens premium contribution;*

- h. *Revisit the policy on All Case Rates (ACR) in order to rationalize the payouts to active members that will ensure their receipt of benefits most responsive to their medical needs and the most cost-effective for PhilHealth;*
- i. *Develop a Corporate Strategic Medium and Long Term Plan to lay down the specific activities leading to the realization of the goal for a self-sustaining corporate body with the ability to deliver the visions of National Health Insurance Act;*
- j. *Initiate early discussions or consultations with stakeholders and concerned government institutions on the future need to change the contribution structure to sustain the fund.*

F. Summary of Total Suspensions, Disallowances, and Charges

As of December 31, 2017, the unsettled audit suspensions, disallowances and charges of PhilHealth amounted to P6.145 billion broken down as follows:

	Beginning Balance	This Period Jan. to Dec. 2017	Ending Balance
Notice of Suspension	10,091,386	5,196,253	15,287,639
Notice of Disallowance	5,082,546,680	1,044,390,987	6,126,937,667
Notice of Charge	0	2,419,649	2,419,649
	5,092,638,066	1,052,006,889	6,144,644,955

G. Status of Implementation of Prior Year’s Audit Recommendations

Out of 26 audit recommendations contained in the CY 2016 Annual Audit Report on PhilHealth, 11 were fully implemented, 11 were partially implemented and 4 were not implemented, details of which are presented in Part III of this Report.