



AUDIT
OFFICE



REPUBLIC
OF CYPRUS

PERFORMANCE AUDIT OF HEALTH INSURANCE ORGANISATION

Executive Summary



**AUDIT OFFICE OF THE REPUBLIC
SPECIAL REPORT no. OAY/01/2022**

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The legal framework for the introduction of a National Health Scheme (NHS) was enacted in 2001 (Law 89(I)/2001). A lot of debate ensued and the final law was approved by Parliament on 16.6.2017. The NHS was phased in in June 2019.

The audit covered the period from June 2019 to December 2021. The main findings are the following:

Provision of health services

In accordance with article 22 of the Law, in-patient health services and certain other medical services should have been introduced on 1.6.2020. Nevertheless they were introduced at a much later stage.

The Health Insurance Organisation (HIO) refuses to re-imburse the Ministry for the expenses incurred regarding patients referred to private hospitals in Cyprus and abroad. The same applies for the cost of drugs procured by the Ministry.

Furthermore HIO does not fully re-imburse the State Health Services Organisation (SHSO) for various health services, such as:

- ◆ Health services at Kyperounta Hospital and Health Centers in remote locations
- ◆ Pharmacies of Polis Hospital and 15 other Centers in remote locations
- ◆ Thalassemia Centre and related clinics in all cities
- ◆ Dialysis clinics in all Hospitals
- ◆ Peadoneurological clinic in Makareio Hospital
- ◆ AIDS clinic
- ◆ Phychiatric clinics in all Hospitals

Agreements between HIO and private hospitals for in-patient health services

a. Agreements made in a non-transparent way with differing rates between the providers.

According to the Law the compensation rates for providers of in-patient health services and the basis of the compensation (DRGs or other basis) have to be set in Regulations so as to be transparent.

The HIO, in contravention of this legal requirement, has drawn up agreements with the providers in private, with arbitrary and subjective criteria and with different unit rates for each provider and at the same time pre-determining the volume of the services for each provider for which the unit rate is guaranteed.

b. Illegal levying of charges on patients for health services provided by hospitals operating under the NHS.

The HIO, in a circular dated 23.7.2020 states that hospitals operating under the NHS may charge patients who are entitled to free medical care for services which are not covered by the NHS. This is in violation of the Law.

c. Payments by HIO which end up going to doctors who have not enrolled with the NHS.

The HIO was, until recently, complicit with doctors outside the NHS providing in-patient services in hospitals operating within the NHS, maintaining that «their services are outside the NHS and will not be compensated». Furthermore the HIO admitted formally and in writing, that in this way monies belonging to the Organisation ended up being paid to doctors outside the NHS. This clearly is illegal. This practice was abandoned recently.

The Audit Office raised the matter repeatedly on 15.7.2020, 30.9.2020 and 30.8.2021 with the Organisation but as no corrective measures were taken it was referred to the Attorney General so as to examine whether any charges can be raised against any official.

HIO receipts and disbursements

The actuarial evaluation by the consultants (MERCER), which was commissioned by the Ministry of Health, was updated in 2013. The evaluation took into consideration certain assumptions and came to conclusions regarding health expenses on a national level.

Regarding the assumptions for the progression of Gross National Product (GNP) and unemployment, the outcome has been better, compared with the two basic scenarios adopted by the consultants, even after taking into account the negative impact of the pandemic in 2020. The problems encountered by HIO cannot, therefore, be attributed to the pandemic.

Actual receipts show an increase of 30% compared to those forecasted in the evaluation, due to an increase in GNP and the fact that the estimates by the consultants were on the low side.

The higher than expected increase in GNP is expected to lead to an increase in the demand for health services (and the disbursements by HIO) but, nonetheless, not to the same level as the increase in the receipts of HIO.

In practice what happened is a dramatic increase in the disbursements, out of proportion with the increase in GNP. The HIO let this state of affairs happen contrary to the Law and creating a budget deficit of €233 m.

	Forecast (MERCER)	Actual
	€m	€m
Receipts	1.020	1.310
Disbursements	<u>990</u>	<u>1.420</u>
	30	(110)
MoH and SHSO expenses	—	<u>(123)</u>
	30	(233)

The Audit Office notes article 48(3) of the Law which states that «expenses of the Organisation cannot exceed its income».

Consequently HIO must make reductions in the budget and the reimbursement rates in order to cover the deficit. The overall reduction must be of the order of 20% but a different level of reduction may be made in each health service category.

In the case that HIO does not take corrective action the Audit Office considers that the state must do this (Council of Ministers and Parliament) during the budget approval procedure.

Deficiencies in the financial management and abuse of funds

General observations

Fraudulent practices, abuses and deficiencies in the financial management are inherent weaknesses in all health insurance systems.

Our Report includes references to the risks faced by NHS which must be addressed through effective preventive and detective measures to combat abusive and fraudulent practices.

As shown hereafter the measures taken by HIO in this respect are lacking.

Personal Doctors for 2020

- ◆ At 31.12.2020 a total of 998.391 persons were registered with 774 Personal Doctors under the NHS.
- ◆ An amount of €84,6 m was paid to the Personal Doctors for their services (€109.342 per person on average). An amount of €1,8 m related to claims for births, €451.740 related to claims for recording the medical history of the patients and €557.889 related to claims for vaccination services.
- ◆ The highest remuneration paid to a Personal Doctor (Pediatrician) was €421.283.
- ◆ 28% of the Personal Doctors had more than 2.000 patients registered with their practice.
- ◆ 11,8% of Personal Doctors are over 70 years old with the highest age being 83 years.

Specialised Doctors for 2020

- ◆ At 31.12.2020 1.514 Specialist Doctors were registered under the NHS.
- ◆ A total amount of €116,8 m was paid out in 2020 to Specialist Doctors for out-patient services (€77.122 per person on average). Four hundred and forty (440) Doctors are registered as legal persons.
- ◆ Sixty seven (67) specialist Doctors were paid in excess of €300.000, 37 of whom were legal persons, one was a doctor working with SHSO and 29 were natural persons. Many doctors did not file a tax return for the years 2018 and 2019 whereas those who did file a return for the years 2017, 2018 and 2019 were found to under declare their income from HIO.
- ◆ Eleven (11) doctors received more than €500.000 in 2020. The highest amount paid was €870.742. Two Gynecologists (husband and wife) were paid a total of €1,4 m for out-patient services alone.

Hospitals

The HIO agreed a different number of units (volume of medical services for which the unit rate is guaranteed) with each hospital and a different unit rate. The annual number of units for each hospital was based on their volume of in-patient services for 2018. We noted that many hospitals had a significant increase in their earnings from these services compared to those prior to the introduction of the NHS.

The top 20 private hospitals, regarding their earnings from the NHS in 2021, had an increase of 46% compared to their earnings in 2018. This without taking into consideration any extra earnings from services outside the NHS (foreign nationals or entitled persons who were unlawfully charged).

Controls over the claims made by service providers

a. Percentage of claims checked

A total of 3% of claims are selected randomly to be checked.

During the period 6/2019 to 10/2021 and amount of 0% to 1,21% of the claims checked were rejected.

During October 2021 a total of 1.339.935 claims were made out of which 40.196 were selected for verification and 248 were rejected. Thus an amount of 0,02% of the claims filed were rejected. The most serious drawback is that there are no penalties in place to prevent fraudulent claims.

b. Internal controls

An effective system of internal controls is of paramount importance in any organization with high inherent risk and prone to fraudulent practices, such as the HIO. We noted that its internal control system is inadequate taking into consideration the volume of the transactions and the amount of the funds administered by the Organisation.

c. Procurement of consumables

We noted that the Tenders Board of the Ministry of Health cancelled an open tender procedure for consumables for one public hospital following a query by the HIO since the expenditure will be re-imbursed by the Organisation. The Audit Office requested comments from the Treasury, as the competent authority for public tenders, and the SHSO regarding the probity of this measure, but no response has yet been received.