



## **Audit Conclusion**

**17/19**

### **Funds spent by selected hospitals for the reimbursement of costs**

The audit was included in the audit plan of the Supreme Audit Office (hereinafter the “SAO”) for 2017 under number 17/19. The audit was headed and the Audit Conclusion drawn up by the SAO member Ing. Jan Stárek.

The purpose of the audit was to verify whether the procurement of material, goods and services by university hospitals (in particular medicinal products and medical devices) is in line with legal regulations and whether it is practical and cost-effective. Further, to examine whether the Ministry of Health and the Ministry of Defence fulfil the role of the founders of the university hospitals.

The audit was carried out on the auditees between June 2017 and February 2018.

The period under review was 2014-2016, in the case of factual context also the previous and subsequent periods.

#### **Auditees:**

Ministry of Health (hereinafter the “MoH”),  
Ministry of Defence (hereinafter the “MoD”),  
Brno University Hospital (hereinafter the “BUH”),  
Motol University Hospital (hereinafter the “MUH”),  
Central Military Hospital – Military University Hospital Prague (hereinafter the “CMH”).

Objections against the audit protocol were filed by the MoD, the BUH, the MUH and the CMH. The objections were dealt with by the heads of audit groups by decisions on the objections. The appeals against the objection decisions lodged by the MoD, the BUH, the MUH and the CMH were settled by resolutions of the Board of the SAO.

**The Board of the SAO** at its X<sup>th</sup> meeting held on 30 July 2018

**approved** by Resolution No. 8/X/2018

**the audit conclusion** in the following wording:

## Key facts

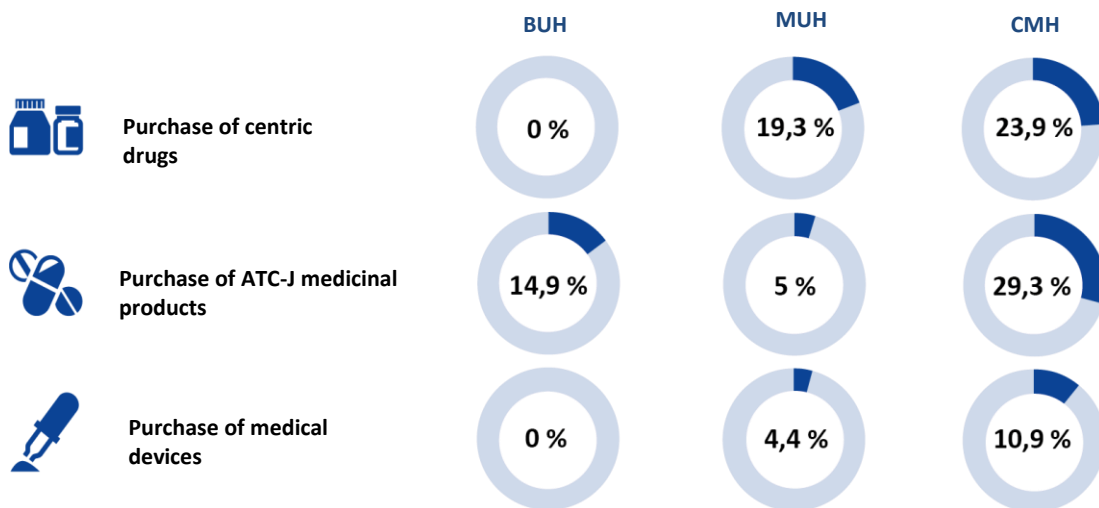
<b>CZK 402.6 million</b>	<b>CZK 1.9 billion</b>	<b>CZK 1.06 billion</b>
Audited volume of property	Audited volume of funds	Audited volume of public contracts

of which →

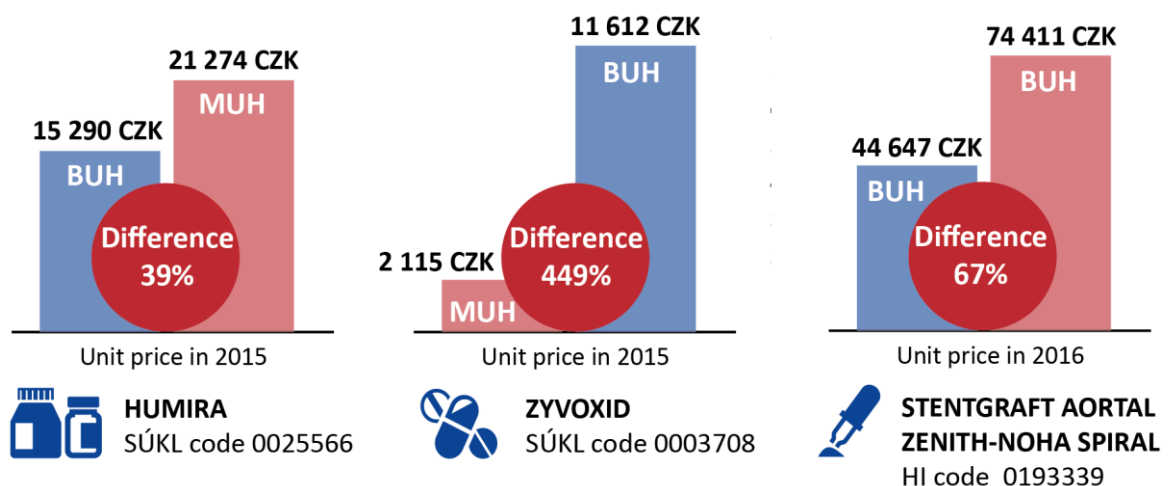
### Comparison of the total costs of audited university hospitals in 2016



### Procurement procedures under the Public Contract Act on an audited sample of selected matching medicinal products and medical devices between 2014 and 2016



### Significant price differences for selected drugs and medical devices on the audited sample



## I. Summary and evaluation

The Ministry of Health and its directly managed public-benefit corporations, the Brno University Hospital and the Motol University Hospital, and the Ministry of Defence with its directly managed public-benefit corporation, the Central Military Hospital – Military University Hospital Prague, were subject to the audit. The audit at the university hospitals (also referred to as the “university hospital”) was focused on the spending of funds to cover the costs of activities, especially the purchase of medicinal products (hereinafter also “pharmaceuticals”) and medical devices and some selected services related to the provision of health services. Audit at the ministries concerned primarily the fulfilment of the role of the founder.

**The SAO, when auditing the university hospitals, found that the procurement of materials and goods had been expedient but not always cost-effective and in line with legislation. In the case of purchasing services, it was in rare cases purposeless and not always cost-effective and in line with legislation. The ministries in some cases failed to comply with the obligations of the founder in accordance with the law.**

**The SAO, when auditing the university hospitals, found the following:**

### **Management of university hospitals**

In the period under review 2014 to 2016, all the university hospitals reported a positive economic result, with the result of their main activities being loss for all the university hospitals. During the same period, the university hospitals reported pharmaceuticals costs<sup>1</sup> in the amount of CZK 10,119,550,787.26 and costs of medical devices<sup>2</sup> in the amount of CZK 5,760,835,833.28.

### **Acquisition of pharmaceuticals and medical devices**

**The SAO sees room for cost reduction in the procurement of pharmaceuticals and medical devices and for a transparent procedure when selecting their suppliers in a larger application of the procurement procedure pursuant to the Public Procurement Act<sup>3</sup>.** University hospitals are the contracting authorities<sup>4</sup> and were obliged to select suppliers according to the estimated value of the public contract in one of the procurement procedure schemes under the Public Contract Act. University hospitals purchased pharmaceuticals in some cases on the basis of procurement procedures or made purchases directly from suppliers. Due to the wide portfolio of used pharmaceuticals and medical devices, the attempt to ensure the vital functions of patients, the existence of a single manufacturer in the market or an unsuccessful tender procedure, it was not always possible for the university hospitals to select a supplier according to the tender procedure. The comparison of the

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<sup>1</sup> Costs are stated without the cost of blood and blood derivatives and medical gases.

<sup>2</sup> Only costs listed in account 501 are shown. Also used in this sense throughout this Audit Conclusion.

<sup>3</sup> Section 21 of Act No. 137/2006 Coll., on Public Contracts, and Section 2(3) and Section 3 of Act No. 134/2016 Coll., on Public Procurement.

<sup>4</sup> Section 2(2)b) of Act No. 137/2006 Coll., on Public Contracts, and Section 4(1)c) of Act No. 134/2016 Coll., on Public Procurement.

share of the executed public contracts in the sample (centric drugs, ATC – J pharmaceuticals<sup>5</sup> and medical devices) for the period 2014-2016 shows that the proportion of supplies outside the tender procedure is considerable, even though all the university hospitals provided reasons for purchasing pharmaceuticals and medical supplies (excluding the BUH) without a tender procedure.

According to the individual university hospitals, out of the total volume of all purchases of medical devices made between 2014 and 2016, purchases made on the basis of a tender procedure pursuant to the Public Contract Act amounted to 0.42 % in the case of the BUH and 24.38 % in the case of the MUH. The CMH did not monitor the data as this obligation is not provided for by law. Similarly, according to the individual university hospitals, out of the total volume of all purchases of pharmaceuticals made between 2014 and 2016, purchases made on the basis of a tender procedure pursuant to the Public Contract Act amounted to 9.94 % in the case of the BUH and 20.61 % in the case of the MUH. The CMH did not monitor the data as this obligation is not provided for by law.

**The SAO, by auditing the audit sample, found that the criteria set for the evaluation of the bids had not been uniform for the university hospitals:**

- The BUH did not compete for any supply of centric drugs and medical supplies.
- The MUH did not set the price and the bonus at the same time as the evaluation criterion so that the final price was the lowest.
- In the opinion of the SAO, the tender procedure carried out by the CMH for medical devices where the evaluation criterion was not only the bid price but also the bonus can be considered transparent. (For details see Section IV, paragraphs 1.1 and 1.5, of this Audit Conclusion.)

**The SAO carried out a comparison of unit purchase prices of the individual university hospitals on an audit sample of the same pharmaceuticals and medical devices and found significant differences in both absolute values and percentages:**

- When comparing the purchases of 16 centric drugs that were purchased in the individual years, the SAO found a percentage difference of up to 39.14 % per pack (SÚKL code 0025566; HUMIRA). Absolute differences in unit prices of these selected pharmaceuticals ranged up to CZK 95,210.72 per pack (SÚKL code<sup>6</sup> 0210201; HARVONI).
- When comparing 19 types of ATC – J pharmaceuticals<sup>7</sup> that were purchased in the individual years, the SAO found a percentage difference of up to 448.93 % per pack (SÚKL code 0003708; ZYVOXID). Absolute differences in unit prices of these selected pharmaceuticals ranged up to CZK 9,496.28 per pack (SÚKL code 0003708; ZYVOXID).
- When comparing 20 types of medical supplies that were acquired in the individual years, the SAO found a percentage difference of up to 110 % per unit (medical device code 0059007; ENDO GIA – 60MM – UNIVERSAL CONTAINER, DUET TRISTAPLE ROTICULATING). Absolute differences in unit purchase prices of these selected medical devices varied up

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<sup>5</sup> Anatomical-therapeutic-chemical classification of pharmaceuticals (ATC) is an international pharmaceuticals classification system, ATC – J – anti-infectives for systemic application.

<sup>6</sup> SÚKL code – the code is a unique identifier of the medicinal product, allocated by the State Institute for Drug Control.

<sup>7</sup> The type, i.e. a drug registered under the SÚKL code, which defines, inter alia, the name of the medicinal product, the name, strength, pharmaceutical form, pack size, active substance and ATC group.

to CZK 35,497.26 per unit (medical device code<sup>8</sup> 0192089; STENTGRAFT AORTAL ZENITH LP, BODY).

Among the university hospitals, in the unit purchase prices of a selected sample of pharmaceuticals and medical devices, there were significant price differences, often even in purchases from the same suppliers. The different prices were affected mainly by discounts from suppliers, the existence of a single manufacturer, the supplier's shortage, acquisition without a tender procedure, direct distribution by a single supplier, changes in reimbursement, or introduction of a generic<sup>9</sup> to the market. **The SAO sees room for lowering costs in the considerable price differences in pharmaceuticals and medical devices.** (For details see Section IV, paragraphs 1.2 and 1.6, of this Audit Conclusion.)

When purchasing pharmaceuticals and medical devices, the university hospitals received bonuses from suppliers. The volume of bonuses received as well as the share in the related costs differed for each university hospital between 2014 and 2016. This share ranged from 0 % to 5.68 % for pharmaceuticals bonuses and from 0.08 % to 18.96 % for medical device bonuses. E.g. in 2016, bonuses for pharmaceuticals and medical devices for the BUH amounted to CZK 225.5 million, CZK 79.3 million for the MUH and CZK 12.4 million for the CMH. **The healthcare bonus system did not have clear rules when purchasing pharmaceuticals and medical devices. The audit revealed that the concept of bonus was not defined by law and was based on the terms of a specific contractual relationship between the university hospital and the supplier. The university hospitals did not proceed uniformly when negotiating bonuses and using the bonus income. The university hospitals generally concluded bonus contracts separately from the main supply relationship. The university hospitals, with reference to trade secrets, did not disclose the bonus contracts in the register of contracts, including the value of the contracted bonuses. The process of handling bonuses at the university hospitals therefore has non-transparent characteristics for these reasons.** (For details see Section IV, paragraphs 1.3 and 1.7, of this Audit Conclusion.)

### **Breach of budgetary discipline**

**The SAO, when auditing the procurement of medical devices and waste disposal services, found that the BUH had breached the budgetary discipline<sup>10</sup> by unjustifiably using funds at least equal to:**

- CZK 8,214,984 including VAT in an above-the-threshold public procurement procedure for a waste disposal contractor because the BUH had not complied with the principle of transparency and had not proceeded in accordance with the law<sup>11</sup>;
- CZK 4,598,344.85 including VAT by failing to execute the tender procedure according to the law<sup>12</sup> with an above-the-threshold public contract for the supply of specialised

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<sup>8</sup> Medical device code – the code is assigned by the General Health Insurance Company of the Czech Republic (VZP) according to the valid methodology, this code is a unique identifier of the relevant medical device and is listed in the VZP – medical device (SCM) codebook or in the medical device/SCM reimbursement catalogue.

<sup>9</sup> A generic contains the same drug in the same amount as the original product, has the same dosage form, e.g. tablets and capsules, and has the same biological efficacy. The type and ratio of used auxiliaries (fillers, binders, dyes etc.) may be different from the original.

<sup>10</sup> The provisions of Section 44(1)a) in conjunction with the provisions of Section 3c) and Section 3e) of Act No. 218/2000 Coll., on Budgetary Rules and on Amendments to Certain Related Acts (Budgetary Rules).

<sup>11</sup> Section 6 and Section 76(1) of Act No. 137/2006 Coll., on Public Contracts.

medical supplies. (For details see Section IV, paragraphs 1.5 and 1.4, of this Audit Conclusion.)

### **Uneconomic use of property**

The SAO, when auditing the legal services, found that the CMH had used its assets inefficiently<sup>13</sup> by not providing conclusive evidence for fifteen invoices for the legal consultations provided, amounting to:

- CZK 819,315.20 including VAT for 2015;
- CZK 236,869.60 including VAT for 2016.

(For details see Section IV, paragraph 1.10, of this Audit Conclusion.)

### **The SAO, when auditing the founders, found out the following:**

**The MoH, unlike the MoD, did not have an elaborated concept of development and solution of fundamental issues for the providers of health services in direct management<sup>14</sup>.**

**The MoH did not act as the founder of the university hospitals in accordance with Act No. 218/2000 Coll.<sup>15</sup>, as it did not monitor and evaluate the economy, effectiveness and efficiency of spending at the university hospitals in 2015 and 2016.**

**The Statute of the CMH was not updated by the Ministry of Defence from 1 January 2016 until 19 September 2017.** (For details see Section IV, paragraph 2.1, of this Audit Conclusion.)

**The SAO identified a risk in the area of providing funds to the audited university hospitals by the founders<sup>16</sup>.** During 2016, the MoH issued, within the meaning of Article 106(2) of the *Treaty on the Functioning of the European Union*, a delegation act on services of general economic interest<sup>17</sup> for investment at the BUH and the MUH. **The MoD did not in any way address the area related to the provision of funds, although the SAO had already alerted it to the risk in this area as part of Audit No. 15/38.** (For details see Section IV, paragraph 2.2, of this Audit Conclusion.)

Unlike the MoD, the MoH regulated the bonus area for directly managed organisations by Order of the Minister No. 3/2013<sup>18</sup>, with only one rule regarding the obligation to draw up written bonus contracts. That order was repealed by Order of the Minister No. 2/2017 of 3 February 2017. The MoH currently adjusted the bonus area by Order of the Minister No.

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<sup>12</sup> Section 13(3) and Section 21 of Act No. 137/2006 Coll., on Public Contracts, and Section 2(3) and Section 24 of Act No. 134/2016 Coll., on Public Procurement.

<sup>13</sup> Section 14(1) of Act No. 219/2000 Coll., on the Property of the Czech Republic and the Representation of the Czech Republic in Legal Relations.

<sup>14</sup> Sections 10(1) and 22 of Act of the Czech National Council No. 2/1969 Coll., on the Establishment of Ministries and Other Central Authorities of the State Administration of the Czech Republic.

<sup>15</sup> The provisions of Section 39(3) of Act No. 218/2000 Coll., on Budgetary Rules and on Amendments to Certain Related Acts (Budgetary Rules).

<sup>16</sup> Article 107(1) of the *Treaty on the Functioning of the European Union*.

<sup>17</sup> A service of general economic interest is a service whose provision in favour of a particular group of citizens or society as a whole is considered necessary by the public authorities for cultural or social reasons.

<sup>18</sup> Order of the Minister No. 3/2013 *Anti-Corruption Strategy of the Ministry of Health of the Czech Republic for directly managed organisations*, this was repealed by Order of the Minister No. 2/2017 of 3 February 2017, ref. No. MZDR 4984/2017.

13/2018<sup>19</sup>, which, in the opinion of the SAO, constituted a response to Audit No. 16/28. (For details see Section IV, paragraph 2.3, of this Audit Conclusion.)

The BUH is the founder of an endowment fund, through which it received, in the period 2014-2016, pecuniary and material gifts totalling CZK 2,539 thousand. **The SAO identified a risk of a non-transparent environment in receiving these sponsorship donations.** (For details see Section IV, paragraph 2.4, of this Audit Conclusion.)

**The SAO recommends, based on the facts ascertained:**

- **The university hospitals should acquire pharmaceuticals and medical devices on the basis of procurement procedures, which is a statutory obligation and is a prerequisite for an economical management of funds and a transparent supplier selection;**
- **The MoH and the MoD should, in the field of healthcare, clearly establish the rules for the receipt, reporting and handling of bonuses from suppliers;**
- **In procurement procedures, the university hospitals should set as a criterion not only the price but also, given the nature and complexity of the object of the public contract, the bonus, if any is to be provided;**
- **The MoH should deal with development strategies and prepare its own concept of the development of directly managed organisations;**
- **The MoH and the BUH should examine the usefulness and the merits of the existence of the BUH endowment fund and consider the reasons for its continued existence;**
- **The MoD should deal with the identified risk in the area of provision of funds to the CMH.**

**Note:** The legal regulations contained in this Audit Conclusion are applied in the version effective for the period under review.

## **II. Information on the audited area**

The **Ministry of Health** is the central body of the state administration, among other things for health services, public health protection, medical research, direct health care providers, pharmaceuticals and medical devices for the prevention, diagnosis and treatment of people. The MoH acts as a founder in relation to public-benefit corporations with all rights and obligations in accordance with Act No. 218/2000 Coll.<sup>20</sup> and Act No. 219/2000 Coll.<sup>21</sup>

The **Ministry of Defence** is the central body of the state administration, in particular for: the defence of the Czech Republic, the management of the Army of the Czech Republic, the administration of military units. The MoD is the founder of the Central Military Hospital – Military University Hospital Prague.

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<sup>19</sup> The Minister of Health in Order No. 3/2018 *Selected principles of transparent management of directly managed organisations of the Ministry of Health in the field of goods and services*, ref. No. MZDR 16781/2018, effective as of 1 September 2018, provided in Article 3 the obligation of subordinate university hospitals to duly justify and document any exception to the procedure for the selection of contractors outside the tender procedure.

<sup>20</sup> Act No. 218/2000 Coll., on Budgetary Rules and on Amendments to Certain Related Acts (Budgetary Rules).

<sup>21</sup> Act No. 219/2000 Coll., on the Property of the Czech Republic and the Representation of the Czech Republic in Legal Relations.

The status of the **university hospital** is, effective from 1 April 2012, regulated by Act No. 372/2011 Coll.<sup>22</sup>, which defines the university hospitals as public-benefit corporations for which the ministry (MoH and MoD) performs the founding function. The university hospitals are engaged in the provision of health services and clinical and practical teaching in the field of medicine, pharmacy and nursing, as well as scientific, research and development activities. They are independent legal entities and, according to Act No. 563/1991 Coll.<sup>23</sup>, they are accounting units. The purpose for which the public-benefit corporations are established and the corresponding subjects of their activities are set out in the deeds of foundation and statutes. A more detailed definition of the tasks of the university hospitals is determined by their statutes, which, including amendments and additions, are approved by the founder. The university hospitals act in legal relationships in their own name and bear the responsibility arising therefrom. The governing body of the university hospitals is the director appointed and dismissed by the Minister.

The university hospitals provide health care in particular in the form of inpatient and outpatient care and systematically develop health services in line with the current available knowledge of the medical science. Act No. 372/2001 Coll.<sup>24</sup> sets out the conditions (including material and technical equipment and staffing) for the granting of the status of a highly specialised care centre. The status of the centre was granted in selected fields also to the audited university hospitals.<sup>25</sup>

The university hospitals manage the property of the state and the rules for its management are laid down in Act No. 219/2000 Coll. Pursuant to Act No. 218/2000 Coll. the university hospitals manage the funds obtained from the main activity and the funds received from the state budget only within the financial relations established by the founder. They also manage other funds obtained, for example, from abroad, budgets of territorial self-governing units, other (economic) activities or as pecuniary gifts from natural or legal persons. The university hospitals can also perform other (economic) activities.<sup>26</sup>

The costs of pharmaceuticals in the period under review were about 26 % for the BUH, about 17 % for the MUH and about 7 % of the total costs for the CMH. The costs of medical devices were about 10 % for the BUH and the MUH and about 15 % of the total costs for the CMH. The costs of pharmaceuticals were higher than the costs of medical devices at the BUH and the MUH; in the case of the CMH this was the other way round, inter alia due to the introduction of electronisation of drug provision. The different costs for pharmaceuticals and medical devices among the university hospitals arise, inter alia, from the different focus of specialised and highly specialised care at the individual hospitals.

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<sup>22</sup> Act No. 372/2011 Coll., on Health Services and Conditions of Their Provision (Act on Health Services).

<sup>23</sup> Act No. 563/1991 Coll., on Accounting.

<sup>24</sup> Section 112 of Act No. 372/2011 Coll., on Health Services and Conditions of Their Provision (Act on Health Services).

<sup>25</sup> A list of centres of highly specialised and comprehensive care and highly specialised centres is published by the MoH in the Bulletin of the Ministry of Health of the Czech Republic.

<sup>26</sup> Sections 53 and 63 of Act No. 218/2000 Coll. and the provisions of Section 5(4) of Decree No. 410/2009 Coll., which implements certain provisions of Act No. 563/1991 Coll., on Accounting, as amended, for certain selected accounting entities.



## Management of university hospitals

**Table 1: Overview of selected economic data of university hospitals**

Indicator	Hospital	Unit	2014	2015	2016
Total costs	BUH	CZK thousands	6,587,570.41	6,873,887.66	7,658,859.58
	MUH		7,486,988.59	7,775,201.10	8,134,270.53
	CMH		2,211,717.27	2,454,898.59	2,550,626.66
Total revenues	BUH	CZK thousands	6,588,113.88	6,881,839.09	7,659,339.53
	MUH		7,488,001.54	7,778,152.72	8,138,421.14
	CMH		2,212,789.31	2,455,903.11	2,551,479.41
Profit	BUH	CZK thousands	543.48	7,951.43	479.946
	MUH		1,012.94	2,951.62	4,150.61
	CMH		1,072.04	1,004.52	852.75
Costs of medicinal products	BUH	CZK thousands	1,655,371.94	1,806,487.17	2,085,461.23
	MUH		1,251,483.94	1,333,835.77	1,477,736.11
	CMH		141,119.58	157,737.61	210,317.45
Cost of medical devices <sup>27</sup>	BUH	CZK thousands	708,273.05	703,494.78	730,820.72
	MUH		808,992.74	829,716.84	894,714.30
	CMH		349,256.99	365,104.47	370,461.96
Bonuses <sup>28</sup> for medicinal products and medical devices	BUH	CZK thousands	226,476.06	209,997.55	225,448.27
	MUH		49,212.92	79,705.04	79,345.73
	CMH		45,015.29	41,186.44	12,363.31

**Source:** profit and loss statements of the individual university hospitals as of 31 December 2014, 31 December 2015 and 31 December 2016, the main ledgers of the hospitals as of 31 December 2014, 31 December 2015 and 31 December 2016, reports submitted by the individual university hospitals on the basis of the SAO's requests.

In the period under review of 2014 to 2016, the BUH, the MUH and the CMH reported a positive after-tax profit. The result of the main activity was loss for all the university hospitals, and the positive overall financial results of the university hospitals were due to a positive economic result from other (economic) activities. The increase in the loss from the main activity is due to, among other things, an increase in the cost of pharmaceuticals.

The share of costs spent on pharmaceuticals on total costs for the period under review of the university hospitals was about 7 % to 26 %. The share of costs spent on medical devices on total costs for the period under review of the university hospitals was about 10 % to 15 %.

The revenues of the university hospitals increased in the period under review. The increase in 2016 compared to 2015 was mainly influenced by the growth of revenues from health insurance companies.

### Selected capacity and performance indicators of the audited university hospitals

The following table shows selected capacity and performance indicators for each university hospital for the period 2014-2016.

<sup>27</sup> The audit examined the costs of medical devices, especially medical supplies. A medical device means a tool, apparatus, device, including software, specified by its manufacturer for specific use for diagnostic or medical purposes and necessary for the proper use of a medical device, material or other object.

<sup>28</sup> The concept of bonus is not legally defined. For the purpose of this text, a bonus is understood as a price advantage provided by a supplier when purchasing a predetermined quantity of the goods over a certain period of time.

**Table 2: Selected capacity and performance indicators of university hospitals for 2014-2016**

		Unit	2014	2015	2016
Average recalculated number of doctors	BUH	doctor	847.96	870.86	903.79
	MUH		888.00	888.00	888.00
	CMH		320.38	330.41	334.78
Number of hospitalised patients	BUH	patient	71,736	71,047	71,367
	MUH		78,760	76,755	79,450
	CMH		25,462	26,028	26,494
Costs per 1 hospitalised patient	BUH	CZK	50,724	50,370	53,824
	MUH		63,853	64,695	62,514
	CMH		57,193	56,757	57,135
Average number of beds	BUH	Unit	1,907.00	1,910.00	1,882.00
	MUH		2,189.00	2,197.00	2,201.92
	CMH		664.00	674.00	677.00
Use of beds	BUH	%	72.30	71.50	71.70
	MUH		81.00	83.00	84.00
	CMH		71.89	67.79	66.21

**Source:** statistical reports of the individual university hospitals for the years 2014, 2015 and 2016 and communications by the university hospitals at the request of the SAO.

The selected capacity and performance indicators show:

- The average recalculated number of doctors at the university hospitals did not decrease in the period between 2014 and 2016.
- The MUH had the highest costs per one hospitalised patient and also the highest number of patients hospitalised in all the years under review, which corresponds to the highest number of beds.
- The use of bed capacity at the MUH was the highest, over 80 %, and increased every year. The lowest use of beds was at the CMH.

### **Profit/loss of university hospitals**

The economic result consists of the result of the main activity and other (economic) activities after taxation.

**Table 3: Profit/loss of university hospitals****(in CZK)**

University hospital		2014	2015	2016
BUH	<b>Profit</b>	<b>543,475.58</b>	<b>7,951,433.13</b>	<b>479,946.11</b>
	Main activity	-8,407,783.09	-1,520,342.22	-12,727,125.57
	Other (economic) activity	8,951,258.67	9,471,775.35	13,207,071.68
MUH	<b>Profit</b>	<b>1,012,942.81</b>	<b>2,951,621.03</b>	<b>4,150,611.35</b>
	Main activity	-39,402,777.52	-44,653,992.61	-40,674,691.40
	Other (economic) activity	40,415,720.33	47,605,613.64	45,363,002.75
CMH	<b>Profit</b>	<b>1,072,043.87</b>	<b>1,004,517.01</b>	<b>852,748.00</b>
	Main activity	-2,157,056.72	-3,034,088.45	-3,288,718.26
	Other (economic) activity	3,229,100.59	4,038,605.46	4,141,466.26

**Source:** financial statements and profit and loss statements of the university hospitals as of 31 December 2014, 31 December 2015 and 31 December 2016.

In the period under review of 2014 to 2016, all the university hospitals reported a positive after-tax profit as of 31 December. The result of the main activity was loss for all the university hospitals, and the positive overall financial results of the university hospitals were due to a positive economic result from other (economic) activities. Other economic activities included catering for external persons, parking, laundry, sales in the public pharmacy and accommodation services. The increase in the loss from the main activity is due to, among other things, an increase in the cost of pharmaceuticals.

### Costs of audited university hospitals

The share of the costs of consumed purchases, services and personnel costs in the total costs for the period 2014 to 2016 broken down by the individual university hospitals is shown in the following table:

**Table 4: Share of consumed purchases, services and personnel costs in total costs**

		Total costs	Of this account groups					
		(Class 5)	50 – Consumed purchases		51 – Services		52 – Personnel costs	
		CZK thousands	CZK thousands	%	CZK thousands	%	CZK thousands	%
BUH	2014	6,587,570.41	3,227,699.32	49.00	262,769.50	3.99	2,591,842.01	39.34
	2015	6,873,887.66	3,383,028.53	49.22	287,132.26	4.18	2,711,834.65	39.45
	2016	7,658,859.58	3,782,971.41	49.39	295,059.86	3.85	3,016,498.10	39.39
MUH	2014	7,486,988.59	3,055,805.69	40.81	675,711.33	9.03	2,915,355.03	38.94
	2015	7,775,201.10	3,206,154.53	41.24	679,927.83	8.74	3,079,257.45	39.60
	2016	8,134,270.53	3,457,113.55	42.50	743,957.36	9.15	3,286,350.03	40.40
CMH	2014	2,211,717.27	815,487.74	36.87	221,462.67	10.01	1,019,782.73	46.11
	2015	2,454,898.59	835,091.87	34.02	282,907.65	11.52	1,103,809.40	44.96
	2016	2,550,626.66	836,864.12	32.81	294,514.42	11.55	1,204,507.31	47.22

**Source:** general ledgers and profit and loss statements of the individual university hospitals as of 31 December 2014, 31 December 2015 and 31 December 2016.

**Note:** Group 50 – *Consumed purchases* includes in particular material consumption (pharmaceuticals, medical devices), energy consumption and goods sold; group 51 – *Services* includes in particular repair and maintenance costs, travel costs, representation costs, other services; group 52 – *Personnel expenses* includes in particular the wage costs and costs of the employer as a result of social insurance and public health insurance.

The total costs of the individual university hospitals increased slightly over the period under review. For the BUH, they amounted to approximately CZK 7 billion, for the MUH about CZK 8 billion and for the CMH approximately CZK 2.5 billion, according to the range of health

services provided by the university hospital in question. For all the audited university hospitals, the largest portion were consumed purchases (32.81 % to 49.39 % of total costs) and personnel costs (38.94 % to 47.22 %) in terms of the share of individual cost items over the period under review. Personnel costs were not subject to audit. The share of service costs in total costs was about 3.85 % to 11.55 %.

### Cost of pharmaceuticals

During the period under review, the university hospitals purchased pharmaceuticals; the share of pharmaceutical costs in total costs is shown in the table below:

**Table 5: Cost of pharmaceuticals in relation to total costs**

		Total costs (Class 5)	Cost of pharmaceuticals*	
		CZK	CZK	%
BUH	2014	6,587,570,407.22	1,655,371,940.00	25.13
	2015	6,873,887,657.55	1,806,487,170.00	26.28
	2016	7,658,859,583.03	2,085,461,230.00	27.23
MUH	2014	7,486,988,592.69	1,251,483,939.18	16.72
	2015	7,775,201,097.39	1,333,835,771.82	17.16
	2016	8,134,270,527.66	1,477,736,106.26	18.17
CMH	2014	2,211,717,268.54	141,119,580.00	6.38
	2015	2,454,898,588.02	157,737,610.00	6.43
	2016	2,550,626,659.83	210,317,440.00**	8.25

**Source:** general ledgers of the individual university hospitals as of 31 December 2014, 31 December 2015 and 31 December 2016 and financial statements as of 31 December 2014, 31 December 2015 and 31 December 2016.

\* Costs of pharmaceuticals are stated without the cost of blood and blood derivatives and medical gases.

\*\* The jump in drug costs of the CMH in 2016 was caused by the initiation of hepatitis C treatment.

The share of costs incurred on pharmaceuticals in the total costs in the period under review at the BUH was about 26 %, at the MUH about 17 % and at the CMH about 7 %.

### Cost of medical devices

The university hospitals purchased medical devices during the period under review; the share of their acquisition costs in the total costs is shown in the following table:

**Table 6: Share of cost of medical devices in total costs**

		Total costs (Class 5)	Cost of medical devices	
		CZK	CZK	%
BUH	2014	6,587,570,407.22	708,273,046.45	10.75
	2015	6,873,887,657.55	703,494,775.10	10.23
	2016	7,658,859,583.03	730,820,716.63	9.54
MUH	2014	7,486,988,592.69	808,992,739.12	10.81
	2015	7,775,201,097.39	829,716,836.53	10.67
	2016	8,134,270,527.66	894,714,299.45	11.00
CMH	2014	2,211,717,268.54	349,256,990.00	15.79
	2015	2,454,898,588.02	365,104,470.00	14.87
	2016	2,550,626,659.83	370,461,960.00	14.52

**Source:** general ledgers of the individual university hospitals as of 31 December 2014, 31 December 2015 and 31 December 2016 and financial statements as of 31 December 2014, 31 December 2015 and 31 December 2016.

The share of costs incurred on medical devices in the total costs in the period under review at the BUH and the MUH was about 10 %, at the CMH about 15 %.

### Other selected costs

The SAO selected for the audit the costs of cleaning, legal and advisory services, and repairs and maintenance of medical technology, on the basis of a financial significance and risk assessment. The following table lists the total amounts of the accounts to which the university hospitals posted these selected services.

**Table 7: Selected costs of university hospitals for the period 2014-2016**

		Total costs (Class 5)	511 – Repairs and maintenance		518 – Other services		549 – Other operating expenses	
		CZK thousands	CZK thousands	%	CZK thousands	%	CZK thousands	%
BUH	2014	6,587,570.41	98,646.05	1.50	157,706.26	2.39	0.00	0.00
	2015	6,873,887.66	109,603.19	1.59	171,548.09	2.50	0.00	0.00
	2016	7,658,859.58	116,182.14	1.52	172,606.17	2.25	0.00	0.00
MUH	2014	7,486,988.59	321,987.36	4.30	344,307.64	4.60	145,223.46	1.94
	2015	7,775,201.10	323,650.41	4.16	343,582.40	4.42	172,643.22	2.22
	2016	8,134,270.53	360,481.61	4.43	366,216.41	4.50	61,206.22	0.75
CMH	2014	2,211,717.27	92,448.78	4.18	125,654.42	5.68	10,159.77	0.46
	2015	2,454,898.59	118,276.76	4.82	159,831.36	6.51	15,499.97	0.63
	2016	2,550,626.66	102,543.91	4.02	187,138.98	7.34	22,222.78	0.87

**Source:** general ledgers of the individual university hospitals as of 31 December 2014, 31 December 2015 and 31 December 2016 and financial statements as of 31 December 2014, 31 December 2015 and 31 December 2016.

The employees of the audited hospitals partially provided the servicing of medical equipment and legal services, in the case of the MUH also cleaning. The university hospitals procured advisory services externally.

### III. Scope of audit

The purpose of the audit was to verify whether the procurement of material, goods and services by university hospitals (in particular pharmaceuticals and medical devices) was in line with legal regulations and whether it was practical and cost-effective. Further, the objective was to examine whether the Ministry of Health and the Ministry of Defence fulfilled the role of the founders of the university hospitals.

**At the audited university hospitals** the audit was focused on comparing selected indicators; the way of securing selected services and choosing their suppliers; purchase of pharmaceuticals and medical devices, including comparison of their unit purchase prices and related bonuses; registration and disposal of pharmaceuticals due to inapplicability. For selected inspected devices, the audit was focused not only on the costs related to their repairs and maintenance, but also on the records of these assets.

**At the ministries** the audit was focused on the performance of the founding functions of the MoH/MoD in relation to the university hospitals; financial relations established by the founder; audit performed by the founder at the university hospitals.

The period under review was 2014-2016.

The audited volume amounted to CZK 2,275,631,308.58, of which:

- the volume of assets amounted to CZK 402,562,688.86,
- the volume of funds amounted to CZK 808,302,270.01,
- the volume of public contracts amounted to CZK 1,064,766,349.71.<sup>29</sup>

## IV. Detailed facts ascertained by the audit

### 1. University hospitals

#### 1.1 Public contracts for the purchase of pharmaceuticals

According to the individual university hospitals, out of the total volume of all purchases of pharmaceuticals made between 2014 and 2016, purchases made on the basis of a tender procedure pursuant to the Public Contract Act amounted to 9.94 % in the case of the BUH and 20.61 % in the case of the MUH. The CMH did not monitor the data as this obligation is not provided for by law.

The SAO, on a selected audit sample of identical pharmaceuticals used by the university hospitals totalling CZK 107,255,260.90 including VAT for the years 2014 to 2016, verified the way they were procured. The audit sample of selected 16 types of centric drugs was in the total value of CZK 94,180,832.88 including VAT. The audit sample of 19 types of selected drugs from the ATC – J group was in the total value of CZK 13,074,428.02 including VAT. The method of their procurement is given in the following table:

**Table 8: Public contracts for pharmaceuticals on the same audit sample**

Name of hospital	Audited items	Audited volume (in CZK)	Supplier selection method	%
BUH*	Centric drugs	32,999,431.70	Tender procedure	0.00
			Other	100.00
	ATC – J	4,913,723.92	Tender procedure	14.94
			Other	85.06
MUH	Centric drugs	34,370,902.07	Tender procedure	19.27
			Other	80.73
	ATC – J	6,609,346.30	Tender procedure	4.96
			Other	95.04
CMH	Centric drugs	26,810,499.11	Tender procedure	23.86
			Other	76.14
	ATC – J	1,551,357.80	Tender procedure	29.31
			Other	70.69

**Source:** annexes to the individual audit protocols of the university hospitals; communications by the audited university hospitals.

\* The audit sample does not include those pharmaceuticals supplied by the transfusion department and the blood bank.

From the audit sample for the period 2014 to 2016, it was found that:

- **centric drugs** were purchased by the university hospitals on the basis of a tender procedure ranging from 0 % to 23.86 %;

<sup>29</sup> The volume of public procurement consists not only of a sample of identical selected medicinal products and medical devices in the period under review, procured at all the university hospitals under a tender procedure, but also of the volume of other public contracts related to pharmaceuticals, medical devices and selected audited services (cleaning, waste disposal, legal and advisory services, repairs and maintenance).

- **pharmaceuticals of the ATC – J group** were purchased by the university hospitals in the range from 4.96 % to 29.31 %.

The following is a list of other ways to select suppliers when purchasing a test sample of pharmaceuticals.

The BUH purchased all the centric drugs from the audit sample without any tender procedure. The BUH bought centric drugs for direct distribution through DTP distribution channels<sup>30</sup>, representing 15.93 % of the audit sample value. In addition, the BUH purchased the supplies of centric drugs as aids in relation to goods under expiration in the amount of 0.79 % of the value of the audit sample. The BUH purchased, without any tender procedure as a direct delivery from the manufacturer, 37.2 % of the value of the audit sample on the grounds that there was no generic product in the market or the BUH purchased the pharmaceuticals without a tender procedure from an exclusive supplier under the exceptional import regime under Section 16 of Act No. 48/1997 Coll.<sup>31</sup> The BUH purchased pharmaceuticals without a tender procedure according to the current market price and the current stock in distribution at 46.08 % of the audit sample value due to BUH dissatisfaction with supplies from the current contractor, due to re-export of the pharmaceuticals abroad or due to a shortage of the product range in the Czech market.

The MUH purchased centric drugs via DTP channels in the amount of 21.15 % of the audit sample value. Based on a tender procedure, it purchased centric drugs in the amount of 47.69 %. The remaining part, i.e. 11.89 %, constitutes direct supplies from the manufacturer.

The CMH purchased centric drugs without a tender procedure and without a contract due to direct distribution by the manufacturer to the pharmacy in the amount of 51.08 % of the value of the audit sample. The CMH purchased centric drugs without a tender procedure and without a contract on the grounds that it was a period between the termination of the contract and the conclusion of a new contract, with a single manufacturer, purchases based on current availability and the most advantageous mark-up of 23.24 %. The remaining portion of 1.82 % is due to the acquisition outside a valid contract by a procurement procedure where the reason was an acute requirement and the supplier did not have the pharmaceuticals in stock or the supplier only supplied a new pharmaceutical form.

The BUH purchased ATC – J pharmaceuticals without a procurement procedure based on direct deliveries from the manufacturer in the amount of 1.90 % of the audit sample due to the absence of a generic in the market in the Czech Republic. The BUH purchased pharmaceuticals without a tender procedure as a one-off delivery according to the current availability and the lowest market price in the amount of 16.91 % of the audit sample value. Additionally, 1.21 % of the audit sample falls on deliveries of the pharmaceuticals as an aid in relation to expiring goods. The BUH purchased pharmaceuticals without a tender procedure according to the current market price, distribution margin and the current stock in distribution or product shortages, or due to BUH dissatisfaction with supplies from the current contractor selected in a proper tender, at 65.04 % of the audit sample value.

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<sup>30</sup> The DTP channel model (*Direct-To-Pharmacy*) constitutes a method of distributing pharmaceuticals ordered directly from the manufacturer and supplied by an exclusive distributor

<sup>31</sup> Act No. 48/1997 Coll., on Public Health Insurance and on Amendment and Supplementation of Certain Related Acts.

The MUH purchased ATC – J group pharmaceuticals via DTP channels in the amount of 10.10 % of the audit sample value. Based on a tender procedure, 81 % of the audit sample value was acquired. Deliveries from a substitute vendor accounted for 1.56 % of the audit sample. The remaining part, i.e. 2.38 %, constitutes direct supplies from the manufacturer.

The CMH purchased ATC – J pharmaceuticals without a tender procedure and without a contract in the amount of 46.19 % of the value of the audit sample on the grounds that it was a period between two contracts, due to an unsuccessful tender, direct purchase from the manufacturer or according to the current availability. The CMH purchased ATC – J pharmaceuticals in the amount of 21 % of the value of the audit sample outside the valid contract due to a drug shortage on the part of the contractual supplier. The acquisition through marketing research of the market amounts to 0.64 %. The remaining portion of 2.86 % is for purchases under the contract.

**On the audit sample, the SAO found that the share of the supplies of centric drugs and ATC – J pharmaceuticals outside any tender procedure was considerable. In the low percentage of tender procedures for centric drugs and pharmaceuticals of the ATC – J group, the SAO sees room for cost reductions. The SAO has assessed this condition as undesirable. The university hospitals as contracting authorities are obliged to comply consistently with the Public Contract Act.**

**On the audit sample, the SAO found that the university hospitals had not proceeded equally when setting criteria for drug purchasing in tender procedures. According to Act No. 137/2006 Coll., the contracting authority was not required to set the lowest price, including bonuses, as the evaluation criterion, but was required to determine the criterion of the evaluation of tenders in light of the nature and complexity of the subject-matter of the public contract so as to express the relationship of usable value and price. The BUH did not use tender procedures for the purchases of centric drugs at all, and the MUH did not set the price and the bonus at the same time as the evaluation criterion so that the final price was the lowest. The tender procedure where the evaluation criterion was not only the bid price but also the bonus can be considered transparent. The CMH did not receive bonuses for pharmaceuticals in 2014 and 2015 and rarely received them at negligible levels in 2016.**

## **1.2 Price differences for pharmaceuticals**

### **Price differences of centric drugs**

On an audit sample of 16 centric drugs that all the university hospitals purchased between 2014 and 2016, the SAO found differences in unit prices for one package in the individual years, which varied from 0 % to 39.14 % in percentage terms and ranged from CZK 0 to CZK 95,210.72 in absolute terms. The observed differences do not take into account the purchases of individual drugs and the amount of quantitative bonuses received from suppliers. All the observed differences are set out in Annex 1 to this Audit Conclusion.

The largest difference in the absolute value or percentage was found for pharmaceuticals under the SÚKL codes:

- 0210201 (HARVONI) was CZK 95,210.72 (i.e. 25 %) in 2015, when the BUH purchased one package for CZK 380,842.88 and the CMH for CZK 476,053.60. This drug was supplied by the exclusive supplier/manufacturer and could not be ordered elsewhere. The reason for



the difference was that the CMH had purchased this drug rarely and the BUH had received a direct discount from the supplier.

- 0210118 (DAKLINZA) was CZK 25,336.29 (i.e. 25 %) in 2016, when the MUH purchased one package for CZK 101,338.91 and the BUH for CZK 126,675.20. The drug was only available from 2015 from the exclusive supplier. The drug was first purchased under the exceptional import regime<sup>32</sup> and after setting the maximum price (SÚKL price regulation) it was purchased at a price reduced by the difference found.
- 0194770 (SOVALDI) was CZK 84,250.76 (i.e. 25 %) in 2015, when the BUH and the MUH purchased one package for CZK 337,003.04 and the CMH for CZK 421,253.80. In 2016, the difference was CZK 69,029.15 (20.48 %), when the CMH purchased one package for CZK 337,003.04 and the MUH and the CMH for CZK 406,032.19. This drug was supplied by the single exclusive supplier/manufacturer and could not be ordered elsewhere. There was no competition in the market, prices were set by the supplier.
- 0025566 (HUMIRA) was CZK 5,984.43 (i.e. 39.14 %) in 2015, when the BUH purchased one package for CZK 15,290 and the MUH for CZK 21,274.43. The reason was that the BUH bought this drug at a discount due to its imminent expiration.
- 027283 (REMICADE) was CZK 2,261 (i.e. 24.33 %) in 2015, when the MUH purchased one package for CZK 9,294.76 and the BUH for CZK 11,555.76. This was due, among other things, to the fact that there were regular supply shortages in the market, so the BUH was buying according to the current stock in distribution, usually on the basis of one-time offers without a public contract.

### **Price differences of ATC – J pharmaceuticals**

On an audit sample of 19 ATC – J pharmaceuticals that all the university hospitals purchased between 2014 and 2016, the SAO found differences in unit prices for one package in the individual years, which varied from 0 % to 448.93 % in percentage terms and ranged from CZK 0 to CZK 9,496.28 in absolute terms. The observed differences do not take into account the purchases of individual drugs and the amount of quantitative bonuses received from suppliers. All the observed differences are set out in Annex 2 to this Audit Conclusion.

The largest difference in the absolute value or percentage was found for pharmaceuticals under the SÚKL codes:

- 0003708 (ZYVOXID) was CZK 9,496.28 (i.e. 448.93 %) in 2015, when the MUH purchased one package for CZK 2,115.30 and the BUH for CZK 11,611.58. In 2016 was CZK 4,982.70 (i.e. 235.56 %), when the MUH purchased one package for CZK 2,115.30 and the CMH for CZK 7,098.00. The CMH purchased this drug in negligible quantities. The drop in prices from 2015 was due to the end of the patent protection of the original product and the entry of generics into the market.
- 0026889 (VFEND) was CZK 6,223.42 (i.e. 83.67 %) in 2016, when the MUH purchased one package for CZK 7,438.43 and the CMH for CZK 13,661.85. The reason for the price cut was the launch of the generic in the second half of 2016.
- 0198417 (ABELCET) was CZK 4,357.99 (i.e. 19.74 %) in 2015, when the CMH purchased one package for CZK 22,074.45 and the BUH for CZK 26,432.44. The reason for the

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<sup>32</sup> Section 16 of Act No. 48/1997 Coll., on Public Health Insurance and on Amendment and Supplementation of Certain Related Acts.

difference was that the BUH purchased this drug without a tender procedure, unlike the CMH.

- 0113453 (PIPERACILIN/TAZOBACTAM) was CZK 1,717.50 (i.e. 446.10 %) in 2015, when the MUH purchased one package for CZK 385.00 and the CMH for CZK 2,102.50. These were purchases from the same supplier within two months without a tender procedure. The CMH purchased from 8 July 2015 on the basis of a tender procedure for CZK 1,154.89 including VAT.
- 0156835 (MEROPENEM KABI) was CZK 2,344.10 (i.e. 245.22 %) in 2015, when the CMH purchased one package for CZK 955.90 and the BUH for CZK 3,300.00. The BUH purchased the drug on an order basis without a tender procedure, unlike the CMH.

**Among the university hospitals, in the unit purchase prices of a selected sample of pharmaceuticals, there were significant price differences, often even in purchases from the same suppliers. The different unit prices of the selected sample of pharmaceuticals were influenced, in particular, by extraordinary discounts from suppliers in the distribution, suppliers' margins, the continuous change in supplier price lists, the existence of a single manufacturer, the contractor's shortage, procurement without a tender procedure, direct distribution by a single supplier and the introduction of a generic product into the market. In the considerable price differences of pharmaceuticals, the SAO sees room for cost reductions, as it was found, for example, when comparing prices for pharmaceuticals of SÚKL code 0198417 (ABELCET) and SÚKL code 0156835 (MEROPENEM KABI), where they had been cheaper when purchased under a tender procedure.**

### 1.3 Bonuses for pharmaceuticals

The following table shows the received bonuses related to drug purchases of the individual university hospitals in the period 2014-2016.

**Table 9: Share of bonuses in the cost of pharmaceuticals in 2014-2016 (in CZK thousands)**

	2014			2015			2016		
	Costs	Bonuses	%	Costs	Bonuses	%	Costs	Bonuses	%
<b>BUH</b>	1,934 865.47	92,212.67	4.77	2,100,988.62	94,443.70	4.50	2,502,788.40	112,533.39	4.50
<b>MUH</b>	1,273,104.74	48,601.50	3.82	1,369,906.43	77,848.92	5.68	1,521,071.72	77,305.07	5.08
<b>CMH</b>	141,119.58	0.00	0.00	157,737.61	0.00	0.00	210,317.45	142.48	0.07

**Source:** general ledgers of the individual university hospitals as of 31 December 2014, 31 December 2015 and 31 December 2016; reports submitted by the university hospitals at the request of the SAO.

**Note:** At the MUH and the CMH, the costs of pharmaceuticals are stated without the cost of blood and blood derivatives and medical gases. For the MUH, costs net of bonuses that have been recognised in expenses are stated.

The share of bonuses for pharmaceuticals in the related costs of pharmaceuticals at the university hospitals ranged from 0 % to 5.68 % in the period 2014-2016.

The total bonuses for pharmaceuticals at the BUH in the period under review amounted to CZK 299,189.76 thousand including VAT, ranging from 4.50 % to 4.77 %.

The total bonuses for pharmaceuticals at the MUH in the period under review amounted to CZK 203,755.49 thousand including VAT, ranging from 3.82 % to 5.68 %.

The total bonuses for pharmaceuticals at the CMH in the period under review amounted to CZK 142.48 thousand including VAT, ranging from 0 % to 0.07 %.

The SAO audit revealed that the concept of bonus was not defined by law and was based on the terms of a specific contractual relationship between the university hospital and the supplier. The bonus is usually negotiated between the supplier and the healthcare provider in writing. The university hospitals did not proceed uniformly when negotiating bonuses and using the bonus income. As a rule, the bonus is not linked to the individual items of the deliveries made but, on the contrary, it is linked to the value or quantity of the total purchase.

The agreement on the manner of reporting separately charged material (“SCM”) and separately charged medicinal products (“SCMP”) is part of the contract between the health insurance company and the healthcare provider. The definition or interpretation of the contractual agreement is a matter for the parties. When paying health care by health insurance companies using one of the forms of flat-rate reimbursement, the reported SCM/SCMP price does not affect its amount. **Receiving, reporting and managing bonuses from healthcare suppliers is not systemic, and their existence is allowed by high-set maximum reimbursements paid by health insurers. The healthcare bonus system did not have clear rules when purchasing pharmaceuticals.**

**The SAO audit found that the BUH and the MUH had not negotiated all the contracts with the bonus providers in writing, thereby failing to comply with the statutory obligation<sup>33</sup> and with Order of the Minister No. 3/2013.** The university hospitals generally concluded bonus contracts separately from the main supply relationship. The university hospitals, with reference to trade secrets, did not disclose the bonus contracts in the register of contracts, including the value of the contracted bonuses. **The process of handling bonuses at the university hospitals therefore has non-transparent characteristics for these reasons.**

The university hospitals posted the bonuses in revenues, the MUH reduced costs by them in some cases. All bonuses were posted by the university hospitals on the basis of corrective tax documents. The received bonuses did not relate to individual items, but the audited university hospitals received them for a predetermined volume of goods purchased.

Obtaining bonuses did not affect the reporting of healthcare provided to individual health insurers, as the university hospitals had negotiated with health insurers payments mostly in the form of flat rate. E.g. in the case of the MUH, it was found that in the years 2014 and 2015 the flat-rate payments had accounted for approximately 99 % of the reimbursements for health services provided by health insurance companies.

The university hospitals did not proceed uniformly in the bonus award procedures so as to ensure a transparent supplier selection. Healthcare providers’ efforts should be to ensure the supply of goods under the most favourable conditions, i.e. in the tender procedure select not only the bid price but also the bonus as the criterion.

In response to Audit Conclusion No. 16/28, the Minister of Health issued Order No. 13/2018<sup>34</sup>, which, in Article 2, imposed on the subordinated university hospitals binding conditions and rules for the treatment of bonuses and their reporting to health insurers.

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<sup>33</sup> Section 17 of Act No. 219/2000 Coll., on the Property of the Czech Republic and the Representation of the Czech Republic in Legal Relations.

<sup>34</sup> Order of the Minister No. 13/2018 *Selected principles of transparent management of directly managed organisations of the Ministry of Health in the field of goods and services*, ref. No. MZDR 16781/2018, effective from 1 September 2018.

Whether the rules are defined unambiguously, sufficiently and effectively can only be verified by an audit at the university hospitals after some time.

#### **1.4 Management of pharmaceuticals and their disposal**

Pharmaceuticals become unusable<sup>35</sup> mainly due to unsatisfactory quality, expired service life, storage or transportation under other than prescribed conditions, obvious damage or non-consumption. Such drugs are intended for disposal.

The SAO found that the disposal of pharmaceuticals at the BUH and the CMH had been provided on a contractual basis by contractors and that the disposal of pharmaceuticals had been carried out by companies that had been authorised to do so. The MUH disposed of useless pharmaceuticals in its own incinerator. In the case of inapplicable pharmaceuticals handed over by individuals to the hospital pharmacy, the university hospitals did not keep any records because this obligation is not stipulated by any legal regulation. The audited hospitals in 2014-2016 did not use the option under Act No. 378/2007 Coll.<sup>36</sup> to apply with the regional office the costs incurred by the hospital pharmacy in connection with the surrender of unusable drugs by natural persons.

The SAO audit found the following:

- The BUH kept records of unusable pharmaceuticals only in weight units;
- The MUH kept records of unusable pharmaceuticals from the hospital pharmacy both in weight units and in crown terms. At the individual departments, the MUH kept these records only in terms of the number of packs, which led to the fact that the MUH did not know their value when disposing of unusable drugs;
- The CMH kept records of unusable pharmaceuticals both in weight units and in crown terms. In the course of 2016, the CMH introduced drug delivery electronisation, with the main contribution being to reduce inventory by about 24 % in specialist departments, minimise drug costs, maximise their usability, and reduce error rates, which can be considered expedient and cost-effective.

**For a cost-effective way to handle unusable pharmaceuticals, it is desirable to keep their records primarily in crown terms.**

**The CMH did not proceed with the tender procedure for the collection and disposal of hazardous waste in accordance with Act No. 137/2006 Coll.<sup>37</sup>** by failing to document that it sent a notice of selection of the most suitable bid to the tenderers within five business days following the contracting authority's decision to select the most suitable bid, by preventing the tenderers concerned from opposing that decision within the statutory time limit, and by subsequently concluding contracts with the successful tenderer, although Act No. 137/2006 Coll. explicitly prohibits the conclusion of a contract with the selected tenderer before the expiry of the opposition period. The CMH did not submit a notice of the result of the tender procedure within 15 days of the conclusion of the contract contrary to Act No. 137/2006 Coll.<sup>38</sup>

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<sup>35</sup> Section 88 of Act No. 378/2007 Coll., on Pharmaceuticals and on Amendments to Certain Related Acts (Act on Pharmaceuticals).

<sup>36</sup> Section 89(2) of Act No. 378/2007 Coll., on Pharmaceuticals and on Amendments to Certain Related Acts (Act on Pharmaceuticals).

<sup>37</sup> Section 81(3), Section 82(1), Section 85(4) and Section 110(4) of Act No. 137/2006 Coll., on Public Contracts.

<sup>38</sup> Section 83(1) of Act No. 137/2006 Coll., on Public Contracts.

The BUH violated the budgetary discipline<sup>39</sup> by unlawfully using funds of at least CZK 8,214,984 including VAT when, in the framework of a tender procedure for an above-the-threshold public contract for a contractor of waste disposal services (including hazardous waste), it evaluated a bid of the successful tenderer other than communicated when opening the envelopes and listed in the protocol on the envelope opening. The BUH did not disqualify the bid of the winning bidder, which contained two different bid prices, and selected it as the most advantageous. The BUH failed to comply with the principle of transparency and did not comply with the law<sup>40</sup>.

### 1.5 Public procurement for the purchase of medical devices

According to the individual university hospitals, out of the total volume of all purchases of medical devices made between 2014 and 2016, purchases made on the basis of a tender procedure pursuant to the Public Contract Act amounted to 0.42 % in the case of the BUH and 24.38 % in the case of the MUH. The CMH did not monitor the data as this obligation is not provided for by law.

The SAO found in the audit that the university hospitals had contracted the purchases of medical devices and that the invoiced prices had corresponded to the contractual prices, except for the CMH in the case of 4 suppliers.

The SAO, on a selected audit sample of identical medical devices used by the university hospitals in the years 2014 to 2016, verified the way they were procured. The audit sample of medical devices contained separately charged material with an acquisition value exceeding CZK 30 thousand per unit (packaging) in the total value of CZK 16,150,346.96 including VAT. The method of their procurement is given in the following table:

**Table 10: Public contracts for medical devices on the same audit sample**

Name of hospital	Audited items	Audited volume (in CZK)	Supplier selection method	%
BUH	Medical devices	3,878,919.49	Tender procedure	0.00
			Other	100.00
MUH	Medical devices	5,144,806.36	Tender procedure	4.38
			Other	95.62
CMH	Medical devices	7,126,621.11	Tender procedure	10.94
			Other	89.06

**Source:** annexes to the individual audit protocols of the university hospitals; communications by the audited university hospitals.

From the audit sample for the period 2014 to 2016, it was found that:

- **medical devices** were purchased by the university hospitals on the basis of a tender procedure ranging from 0 % to 10.94 %.

The following is a list of other ways to select suppliers when purchasing a test sample of medical devices.

The BUH purchased medical devices directly from individual suppliers.

For the MUH, the share of direct purchases of consumables to devices, which is predetermined by the device manufacturer, represented 17.11 % of the audit sample value.

<sup>39</sup> The provisions of Section 44(1)a) in conjunction with the provisions of Section 3c) and Section 3e) of Act No. 218/2000 Coll., on Budgetary Rules and on Amendments to Certain Related Acts (Budgetary Rules).

<sup>40</sup> Section 6 and Section 76(1) of Act No. 137/2006 Coll., on Public Contracts.

The share of purchases based on vital or health indications represented 78.51 % of the audit sample.

The CMH acquired SCM on the basis of framework contracts at 46.08 % of the value of the audit sample. The remaining portion of 42.98 % constitutes purchases based on orders without a prior contractual arrangement.

**The BUH purchased medical devices in all cases of the audit sample without a tender procedure. The CMH and the MUH stated the reasons for the purchase of medical devices without a tender procedure; however, the share of deliveries outside any tender procedure is considerable (the CMH reaches 89.06 % and MUH 95.62 %). The SAO has assessed this as undesirable, stating that there is room for cost reductions at the university hospitals. The university hospitals as contracting authorities are obliged to comply consistently with the Public Contract Act, the compliance with which is a prerequisite for assessing the economical management of state funds and transparent supplier selection.**

**On the audit samples of identical pharmaceuticals and medical devices, the SAO found that the university hospitals had not proceeded equally when setting criteria for medical device purchasing in tender procedures. According to Act No. 137/2006 Coll., the contracting authority was not required to set the lowest price, including bonuses, as the evaluation criterion, but was required to determine the criterion of the evaluation of tenders in light of the nature and complexity of the subject-matter of the public contract so as to express the relationship of usable value and price. The BUH did not use tender procedures for the purchases of medical devices at all, and the MUH did not set the price and the bonus at the same time as the evaluation criterion so that the final price was the lowest. The tender procedures executed by the CMH where the evaluation criterion was not only the bid price but also the bonus can be considered transparent.**

The SAO extended the audit sample to other significant items of medical devices that were not identical for all the university hospitals, in order to verify the procedure of the university hospitals for the procurement procedures pursuant to Act No. 137/2006 Coll.<sup>41</sup> From the expanded audit sample, it was found that the BUH in the years 2014 to 2016, contrary to the provisions of Section 13(3) of Act No. 137/2006 Coll. and Section 24 of Act No. 134/2016 Coll., had not summed up the estimated value of those supplies which it had intended to purchase during the accounting period, and had awarded continuous and repeated public contracts directly to selected suppliers as small orders, although the total value of the supplies concerned had amounted to CZK 115,486,746.31 excluding VAT for the whole period under review. At the same time, the BUH concluded separate business advantage agreements with these suppliers, under which it received bonuses amounting to CZK 52,223,118.52 including VAT in the period under review. The BUH divided the object of the above-the-threshold public contract for repeated supplies of medical supplies, thus reducing the estimated value below the statutory financial limit. The total value of supplies under the contracts was CZK 115,486,746.31 excluding VAT.

**The BUH violated the budgetary discipline<sup>42</sup> by failing to carry out a tender procedure for specialised medical supplies pursuant to Act No. 137/2006 Coll., i.e. Act No. 134/2016 Coll., and concluding contracts for deposit in consignment warehouses directly with selected suppliers, on the basis of which it issued other state funds amounting to at least**

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<sup>41</sup> Act No. 137/2006 Coll., on Public Contracts.

<sup>42</sup> Section 44(1)a) in conjunction with the provisions of Section 3c) and Section 3e) of Act No. 218/2000 Coll.

**CZK 4,598,344.85 including VAT. The BUH procedure, consisting in the individual negotiation of bonuses outside the tender procedure, cannot be assessed as a legal, transparent and non-discriminatory procedure with respect to other market suppliers, or as a procedure in which the BUH demonstrably obtained the most advantageous prices of the supply in the market. The BUH did not proceed economically with the selection of suppliers of specialised medical supplies and paid a total of CZK 137,153,969.87 including VAT without a tender procedure.**

### **1.6 Price differences for medical devices**

On an audit sample of 20 types of medical supplies that all the university hospitals purchased between 2014 and 2016, the SAO found differences in unit prices for one unit in the individual years, which varied from 0 % to 109.95 % in percentage terms and ranged from CZK 0 to CZK 35,497.26 in absolute terms. The observed differences do not take into account the purchases of individual drugs and the amount of quantitative bonuses received from suppliers. All the observed differences are set out in Annex 3 to this Audit Conclusion.

The largest difference in the absolute value or percentage was found for medical supplies under the medical device codes:

- 0192089 (STENTGRAFT AORTAL ZENITH LP, BODY) in 2016 the difference was CZK 35,497.26 (i.e. 42.86 %), where the BUH purchased one unit for CZK 82,826.93 and CZK 118,324.19. The reason was a discount from the supplier.
- 0193339 (STENTGRAFT AORTAL ZENITH-LEG SPIRAL) in 2016 the difference was CZK 29,764.35 (i.e. 66.67 %), where the BUH purchased one unit for CZK 44,646.52 and CZK 74,410.87. The reason was a discount from the supplier.
- 0194014 (ECG INSERTABLE REVEAL LINQ RECORDER) in 2016 the difference was CZK 20,576 (i.e. 34.63 %), where the CMH purchased one unit for CZK 59,414 and the BUH for CZK 79,990. The reason was that the BUH had purchased these medical supplies at the agreed price in the contract, and at the same time the CMH had started to claim VAT deduction in the course of 2016.
- 0059007 (ENDO GIA – 60MM – UNIVERSAL, DUET TRISTAPLE ROTICULATING DISPENSER) in 2015 there was a difference of CZK 6,330.40 (i.e. 110 %), when the BUH purchased one unit for CZK 5,757.50 and the MUH for CZK 12,087.90. In 2014 the difference was CZK 2,591.50 (i.e. 45.01 %), when the BUH purchased one unit for CZK 5,757.50 and the CMH for CZK 8,349.00. The reason for the price difference is that, under the same code 0059007, several types of staplers are kept, but they were listed in the VZP-ZP reimbursement catalogs under the same medical device code, thus with the same maximum reimbursement.

**Among the university hospitals, in the unit purchase prices of a selected sample of medical devices, there were significant price differences, often even in purchases from the same suppliers. The different prices were mainly affected by discounts from suppliers and purchases from a single manufacturer. The SAO sees room for lowering costs in the considerable price differences in medical devices.**

## 1.7 Bonuses for medical devices

**Table 11: Share of bonuses in the cost of medical devices in 2014-2016 (in CZK thousands)**

	2014			2015			2016		
	Costs	Bonuses	%	Costs	Bonuses	%	Costs	Bonuses	%
<b>BUH</b>	708,273.05	134,263.39	18.96	703,494.78	115,553.85	16.43	730,820.72	112,914.88	15.45
<b>MUH</b>	808,992.74	611.42	0.08	829,716.84	1,856.12	0.22	894,714.30	2,040.66	0.23
<b>CMH</b>	349,256.99	45,015.29	12.89	365,104.47	41,186.44	11.28	370,461.96	12,220.83	3.30

**Source:** general ledgers of the individual university hospitals as of 31 December 2014, 31 December 2015 and 31 December 2016; reports submitted by the university hospitals at the request of the SAO.

**Note:** The cost of medical devices does not include the cost of medicinal gas.

The share of bonuses for medical devices in the related costs of medical devices at the university hospitals ranged from 0.08 % to 18.96 % in the period 2014-2016.

The total bonuses for medical devices at the BUH in the period under review amounted to CZK 362,732.12 thousand including VAT, ranging from 15.45 % to 18.96 %. The largest share of the bonus in the cost of medical supplies is at the BUH.

The total bonuses for medical devices at the MUH in the period under review amounted to CZK 4,508.2 thousand including VAT, ranging from 0.08 % to 0.23 %.

The total bonuses for medical devices at the CMH in the period under review amounted to CZK 98,422.56 thousand including VAT, ranging from 3.30 % to 12.89 %.

The SAO audit revealed that the concept of bonus was not defined by law and was based on the terms of a specific contractual relationship between the university hospital and the supplier. The university hospitals did not proceed uniformly when negotiating bonuses and using the bonus income. The bonus was predominantly negotiated between the supplier and the university hospital separately from the contract for the supply of medical devices. **The university hospitals, with reference to trade secrets, did not disclose the bonus contracts in the register of contracts, including the value of the contracted bonuses. The process of handling bonuses at the university hospitals therefore has non-transparent characteristics for these reasons.** The MUH did not negotiate all the contracts with the bonus providers in writing, thereby failing to comply with the statutory obligation and with Order of the Minister No. 3/2013.

The university hospitals posted the bonuses in revenues. All bonuses were posted by the university hospitals on the basis of corrective tax documents. The received bonuses did not relate to individual items, but the university hospitals received them for a predetermined volume of goods purchased, except for bonuses for the audit sample at the BUH. The university hospitals did not record the use of bonuses for a specific purpose in their accounting. No legislation or rules laid down by the founder provided for them.

Obtaining bonuses did not affect the reporting of healthcare provided to individual health insurers, as the university hospitals had negotiated with health insurers payments mostly in the form of flat rate.

**The healthcare bonus system did not have clear rules when purchasing medical devices.**



## 1.8 Register of contracts

The university hospitals after 1 July 2016 did not always proceed with the publication of contracts through the register of contracts pursuant to Act No. 340/2015 Coll.<sup>43</sup> by not indicating the price data or value of the subject-matter of the contracts in the metadata for the concluded bonus contracts.

The SAO further found that in 2016 the CMH had not entered into a contractual relationship in the case of private-law contracts where one of the parties had been a state public-benefit corporation and where the value of their subject-matter had been higher than CZK 50,000 without VAT, and had also failed to fulfil the obligation to publish the contract through the register of contracts:

- in the total amount of CZK 363,641 for the purchase of a defibrillator on 1 September 2016 from the supplier and in the case of the acquisition of an ECG recorder on 9 September 2016 from the supplier;
- in the total amount of CZK 2,298,134.84 in the case of purchase of centric drugs from the supplier.

**The university hospitals did not proceed in publishing contracts through the register of contracts in accordance with Act No. 340/2015 Coll. and the CMH did not disclose all contracts through the register of contracts.**

## 1.9 Cleaning

The university hospitals provided cleaning during the period under review in the form of services provided by the contractor (BUH and CMH) or partly by the contractor and partly also by their own employees (MUH). The BUH charged the cleaning provided by external contractors in one analytical account to account 518 in 2014 in the amount of CZK 71,517.89 thousand, in 2015 in the amount of CZK 74,687.6 thousand, and in 2016 in the amount of CZK 76,150.41 thousand. The MUH charged the cleaning provided by external contractors in one analytical account to account 518 in 2014 in the amount of CZK 116,051.79 thousand, in 2015 in the amount of CZK 118,143.42 thousand, and in 2016 in the amount of CZK 122,618.66 thousand. The CMH charged the cleaning provided by external contractors in one analytical account to account 518 in 2014 in the amount of CZK 36,402.57 thousand, in 2015 in the amount of CZK 37,215.37 thousand, and in 2016 in the amount of CZK 37,817.38 thousand.

**For audited public service contracts, the SAO found that the MUH:**

- **for one tender procedure, it did not send to the *Public Procurement Journal* notification of the result of the negotiated procedure without publication, and thus did not proceed in accordance with Act No. 137/2006 Coll.<sup>44</sup>. However, the contracting authority's procedures did not limit the rights of the tenderers and this formal error did not affect the choice of supplier;**
- **in the next tender procedure, the evaluation committee of the MUH did not find any obvious errors in the bids and did not use the opportunity to ask the tenderer for explanation in accordance with Act No. 137/2006 Coll.<sup>45</sup>, even though the bid contained**

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<sup>43</sup> Act No. 340/2015 Coll., on Special Conditions for the Effectiveness of Certain Contracts, the Disclosure of These Contracts and the Register of Contracts (Act on the Register of Contracts).

<sup>44</sup> Section 83(1) of Act No. 137/2006 Coll., on Public Contracts.

<sup>45</sup> Section 76(3) of Act No. 137/2006 Coll., on Public Contracts.

the total bid prices for four years excluding VAT, which did not correspond to the unit price calculation. Apparent numerical errors in the tender documents did not concern the winning bidder. At the same time, the MUH did not observe the procedure stipulated by Act No. 137/2006 Coll.<sup>46</sup>, because it did not set sub-criteria so as to be relevant to the performance of the public contract and thus be in line with the nature and complexity of the public contract.

The following table shows the average cleaning costs in CZK excluding VAT for 1 m<sup>2</sup> in selected rooms of the university hospitals in the period under review.

**Table 12: Average prices for one cleaning (in CZK without VAT for 1 m<sup>2</sup>)**

Room type	BUH	MUH	CMH
Bed room	0.62	1.13	1.84
Laboratory	0.61	1.19	3.91
Waiting room	0.59	0.52	0.60
Clean linen storage	0.57	0.59	1.78

**Source:** elaborated by the SAO from the documents of the university hospitals, communications by the university hospitals.

The SAO detected differences in unit average cleaning costs of 1 m<sup>2</sup> during the audit in selected hospital premises, the BUH had the lowest unit prices, excluding the cleaning fee for the waiting room. The greatest difference was found by the SAO in the cleaning price of 1 m<sup>2</sup> of laboratories in the amount of CZK 3.30 excluding VAT, where the CMH had the highest and the BUH the lowest price. The unit prices for 1 m<sup>2</sup> of waiting room cleaning were comparable for all the university hospitals. Different prices were influenced by the cleaning method, the type of cover surface and the regime measures.

### 1.10 Legal and advisory services

The university hospitals provided legal services in the period under review externally and through their legal departments; advisory services were provided by contractors.

**Table 13: Cost of legal and advisory services (in CZK thousands)**

		2014	2015	2016
MUH	Legal services	2,511.46	1,707.30	1,024.08
CMH	Legal services	2,678.50	3,249.70	1,522.54
	Advisory services	1,939.29	2,271.73	526.20

**Source:** prepared by the SAO on the basis of the documents of the university hospitals, the main ledgers of the individual university hospitals as of 31 December 2014, 31 December 2015 and 31 December 2016.

**Note:** The BUH did not have a special analytical account set up for the legal and advisory services during the period under review, and these services were charged together with the other services on two analytical accounts. The MUH did not set up a special analytical account for advisory services. Independent management of legal services in the analytical account was not required by any legal regulation.

The audit verified the requirements of the accounting documents, the correctness of their posting, the observance of the contractual prices on the selected audit sample and the related public contracts. The BUH and the MUH in the field of legal and advisory services acted in accordance with legal regulations. **The CMH did not properly reviewed the accuracy of the invoices (checking the price for the services provided, the subject-matter of performance, maturity, the correctness and completeness of the invoice documents) for**

<sup>46</sup> Section 78(4) of Act No. 137/2006 Coll., on Public Contracts.

legal services in the amount of CZK 1,056,184.80 including VAT and for advisory services amounting to CZK 816,750 including VAT in accordance with Act No. 320/2001 Coll.<sup>47</sup>.

The CMH did not use its assets efficiently and economically to carry out the specified activities in accordance with Act No. 219/2000 Coll.<sup>48</sup> as it did not sufficiently evidence the individual items on the invoices for the provision of legal consultations for 2015 in the case of ten invoices amounting to CZK 819,315.20 including VAT and for 2016 in the case of five invoices amounting to CZK 236,869.60 including VAT.

### 1.11 Repair and maintenance of medical equipment

**Table 14: Cost of repair and maintenance of medical equipment (in CZK thousands)**

	2014	2015	2016
BUH	64,719.09	72,917.05	80,013.03
MUH	90,612.55	96,311.39	104,636.06
CMH	36,705.84	41,445.98	38,001.07

**Source:** prepared by the SAO on the basis of the documents of the university hospitals, the main ledgers of the individual university hospitals as of 31 December 2014, 31 December 2015 and 31 December 2016.

On an audit sample of medical equipment with an acquisition cost exceeding CZK 10 million, the SAO examined at each of the university hospitals the use of three devices<sup>49</sup> and the related repair and servicing costs. Within the operating time, the BUH used the machines at 82.41 % to 97.02 %. Within the actual working time, counting the unplanned and planned interruption of the MUH clinical operation, the audited devices were utilised at 92.4 % to 97.4 %. The BUH and the MUH used the audited instruments expediently. The CMH did not monitor the usability of the audited devices, this obligation is not stipulated by any legal regulation.

## 2. Ministries

### 2.1 Performance of founders' functions and inspection

The MoH and the MoD as founders of public-benefit corporations issued the deeds of foundations of the audited hospitals in accordance with the provisions of Section 54(2) of Act No. 219/2000 Coll. and in accordance with the provisions of Section 111(1) of Act No. 372/2011 Coll.

As of 31 May 2016, Annex 4 to the deeds of foundation of the BUH and the MUH constitutes an act of delegation pursuant to the decision on the application of Article 106(2) of the *Treaty on the Functioning of the European Union* to state aid in the form of public service compensation granted to certain undertakings entrusted with the provision of services of general economic interest, as published in the *Official Journal of the EU* on 11 January 2012,

<sup>47</sup> Act No. 320/2001 Coll., on Financial Control in Public Administration and on Amendment to Certain Acts (Act on Financial Control).

<sup>48</sup> Section 14 of Act No. 219/2000 Coll., on the Property of the Czech Republic and the Representation of the Czech Republic in Legal Relations.

<sup>49</sup> BUH: MR Achieva 1.5 T (Nova Dual), including accessories, a PET/MR hybrid scanner and MR Magnetom Impact nuclear magnetic resonance device.

MUH: magnetic resonance, 1.5 T, Magnetom Avanto, CLINAC 2100 C/D linear accelerator, CLINAC 2100 C/D linear accelerator.

CMH: magnetic resonance, serial model 3.0T SIGNA HDx, computer tomograph, serial model AQUILION ONE surgical robot, serial model IS 3000 DA VINCI SI.

by which the MoH authorises the BUH and the MUH to provide services of general economic interest.

The statutes of the university hospitals included a more detailed definition of the organisation's tasks.

In the period under review, the valid and effective statute of the Central Military Hospital – Military University Hospital Prague was ref. No. 572-2/2012-2697 of 13 December 2012. On 7 December 2015, the Director of the CMH sent to the MoD a proposal to change the statute of the CMH due to the establishment of a clinic. **From 1 January 2016 to 19 September 2017, the MoD did not approve the updated statute of the CMH public-benefit corporation, the text of which would have responded to the new facts, although it had repeatedly received proposals to change the statute.**

**The MoH did not have an elaborated concept of development and solution of fundamental issues for the providers of health services in direct management in line with Act No. 2/1969 Coll.<sup>50</sup>.** The management of directly managed organisations takes place in accordance with the rules of organisation of the MoH and on the basis of tasks assigned to the department of directly managed organisations by the Deputy Minister of Economy and Directly Managed Organisations, the Minister or the Management Board.

**The MoH did not act as the founder of the university hospitals in accordance with Act No. 218/2000 Coll.<sup>51</sup>, as it did not monitor and evaluate the economy, effectiveness and efficiency of spending at the university hospitals in 2015 and 2016.**

The inspections performed at the CMH carried out at the MoD level were ensured both in terms of internal legislative standards and in the area of planning of inspection activities.

## 2.2 Provision of funds by the founder

**Table 15: Funds from founders provided to the university hospitals (in CZK thousands)**

			2014	2015	2016
<b>Ministry of Health</b>	<b>BUH</b>	Operation allowance	53,898.61	0.00	0.00
		Non-investment subsidies		66,609.51	53,049.38
		Investment subsidies	72,917.23		
	<b>MUH</b>	Operation allowance	89,337.78		
		Non-investment subsidies		95,501.17	302,669.38
		Investment subsidies	15,068.50		
<b>Ministry of Defence</b>	<b>CMH</b>	Operation allowance	319,608.71		
		Investment subsidies	68,064.95	142,679.47	0.00

**Source:** financial settlement of the relations of state contributory organisations (without specific support for science and research) of the BUH and MUH for the years 2014, 2015 and 2016; submitted reports of the MoD on request of the SAO.

**Note:** The figures are without projects co-financed by the EU.

**The SAO identified a risk in the area of providing funds to the audited university hospitals by the founders<sup>52</sup>** with possible negative impacts on both the provider and the recipient of

<sup>50</sup> Sections 22 and 10(1) of Act of the Czech National Council No. 2/1969 Coll., on the Establishment of Ministries and Other Central Authorities of the State Administration of the Czech Republic.

<sup>51</sup> The provisions of Section 39(3) of Act No. 218/2000 Coll., on Budgetary Rules and on Amendments to Certain Related Acts (Budgetary Rules).

<sup>52</sup> Article 107(1) of the *Treaty on the Functioning of the European Union*.

state aid. During 2016, the MoH issued, within the meaning of Article 106(2) of the *Treaty on the Functioning of the European Union*, a delegation act on services of general economic interest<sup>53</sup> for investment at the BUH and the MUH. **The MoD did not in any way address the area related to the provision of funds, although the SAO had already alerted it to the risk in this area as part of Audit No. 15/38.** The CMH provided health services, which can be considered<sup>54</sup> economic activities<sup>55</sup> according to the service of general economic interest manual within the meaning of European regulations. The CMH stated the following concerning the issue: “*The CMH charges an operating fee from the founder to analytical account 67110001 as the total amount for each month. The fee is not recorded in the accounts by individual activity.*”

The MoD did not use the opportunity to consult this risk area with the Office for the Protection of Competition pursuant to Act No. 215/2004 Coll.<sup>56</sup> or through it with the Commission of the European Union, as already stated in the Audit Conclusion of the SAO of Audit No. 15/38.

### **2.3 Bonuses provided by suppliers**

The MoH regulated the bonus area by 3 February 2017 by Order of the Minister No. 3/2013 *Anti-Corruption Strategy of the Ministry of Health of the Czech Republic for directly managed organisations*<sup>57</sup>, under which all quantitative and other bonuses relating to a particular business relationship should be specified in the relevant contract. With the exception of this obligation, the MoH did not define any further procedures or obligations in negotiating and using bonuses at the university hospitals. **The MoH did not modify the issue of bonuses in the award procedures.** After receiving the audit protocol from the SAO, the MoH took corrective action in the form of Order of the Minister No. 13/2018, which, with effect from 1 September 2018, specifies the direct and non-direct bonuses, the conditions for their acceptance by the university hospitals, their handling, the principles of analytical records, and partially also reporting the SCM/SCMP price to health insurance companies. **The MoD did not regulate the bonus area methodically.**

The SAO, in light of the conclusions of this audit, stresses that, in order to ensure cost-effective management of bonuses, it is necessary to ensure transparency and reviewability of the bonus management process at the university hospitals in the following areas:

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<sup>53</sup> A service of general economic interest is a service whose provision in favour of a particular group of citizens or society as a whole is considered necessary by the public authorities for cultural or social reasons.

<sup>54</sup> Service of general economic interest manual (dated 25 April 2013) on pages 7 and 18.

<sup>55</sup> Economic activity according to the rules of the European Union is not identical to the definition of economic activity according to the provisions of Section 5(4) of Decree No. 410/2009 Coll., which implements some provisions of Act No. 563/1991 Coll., on Accounting, as amended, for certain selected accounting entities, and to the definition of other activities pursuant to the provisions of Section 63 of Act No. 218/2000 Coll., on Budgetary Rules and on Amendments to Certain Related Acts (Budgetary Rules).

<sup>56</sup> Section 2g) of Act No. 215/2004 Coll., on the regulation of certain relationships within the area of state aid, and amending the act on the promotion of research and development

<sup>57</sup> Order of the Minister No. 3/2013 *Anti-Corruption Strategy of the Ministry of Health of the Czech Republic for directly managed organisations*, this order was repealed by Order of the Minister No. 2/2017 of 3 February 2017, ref. No. MZDR 4984/2017. In April 2018, the MoH issued, after the end of this audit, Order of the Minister No. 13/2018 *Selected principles of transparent management of directly managed organisations of the Ministry of Health in the field of goods and services*. In Article 3, with effect from 1 June 2018, it specifies the use of negotiated procedure without publication and use of random purchase exceptions.

- unambiguous identification of bonuses, definition of conditions and criteria for negotiations with suppliers in internal regulations, keeping written records of negotiations with suppliers and their archiving, obligation of a written form of bonus contract;
- the use of the option to set both the price and the bonus as a criterion for the evaluation of offers in the context of the award procedure for pharmaceuticals and medical supplies;
- keeping of bonus analytical records in accounting;
- the use of bonus revenue only for the core business of the university hospital;
- proper disclosure of the value of the subject-matter of the bonus contract in the register of contracts.

#### 2.4 Endowment fund set up by the BUH

**The SAO found at the MoH that the BUH was the founder of an endowment fund, and identified a risk of a non-transparent environment in the field of receiving financial and material sponsorship donations, and did not find relevant reasons for a further existence of that endowment fund which would contribute to the BUH core objectives.** It was not possible to find out the original donor or the amount of its donation to the endowment fund from the overview of donations to the BUH, which was regularly sent by the BUH to the MoH in the period under review, or from the donation information published on the BUH website. The SAO sees the risk of a non-transparent environment in that all received donations through the endowment fund established by the BUH lost any identification of the particular donor and the amount of the donation, as the donor may be a supplier at the same time.

In the period under review 2014-2016, the endowment fund provided pecuniary and material gifts to the BUH in the total value of CZK 2,539,269.75.

#### List of abbreviations:

ATC group	Anatomical-therapeutical-chemical group (of pharmaceuticals)
CR (Czech Republic)	Czech Republic
HI Code	Health Insurance Code
Medical device codebook	Codebook of medical devices (SCM) – issued by the VZP CR
VAT	Value added tax
DTP channel	A method of distributing pharmaceuticals ordered directly from the manufacturer and supplied by an exclusive distributor
University hospitals	Audited hospitals (BUH, MUH and CMH)
BUH	Brno University Hospital
MUH	Motol University Hospital
Pharmaceuticals	Medicinal products
Methodology	Methodology for obtaining and transferring documents to the VZP CR
MoH	Ministry of Health
MoD	Ministry of Defence
SAO	Supreme Audit Office

SÚKL	State Institute for Drug Control
CMH	Central Military Hospital – Military University Hospital Prague
VZP CR	General Health Insurance Company of the Czech Republic (Všeobecná zdravotní pojišťovna)
Medical devices	Medical device
SCMP	Separately charged medicinal products
SCM	Separately charged material

## Price differences of unit prices of centric drugs

SÚKL code <sup>58</sup>	Year	Minimum unit price in CZK	Hospitals with minimum unit price	Maximum unit price in CZK	Hospitals with maximum unit price	Difference in CZK	Difference in %	Number of hospitals in the sample	Number of suppliers in the sample
0025566	2014	22,035.51	MUH	25,751.04	BUH, CMH	3,715.53	16.86	3	5
	2015	15,290.00	BUH	21,274.43	MUH	5,984.43	39.14	3	5
	2016	20,951.84	MUH	21,467.85	BUH	516.01	2.46	3	4
0027283	2014	11,740.55	BUH	14,130.10	CMH	2,389.55	20.35	3	5
	2015	9,294.76	MUH	11,555.76	BUH	2,261.00	24.33	3	4
	2016	9,294.76	MUH	9,378.00	CMH	83.24	0.90	2	3
0027905	2014	20,903.24	MUH	24,538.92	BUH	3,635.68	17.39	3	4
	2015	19,956.67	MUH	20,314.11	CMH	357.44	1.79	3	3
	2016	19,956.67	MUH	20,314.11	CMH	357.44	1.79	3	1
0029795	2014	24,488.19	MUH	25,895.11	BUH	1,406.92	5.75	3	1
	2015	21,783.84	CMH	23,424.48	BUH, CMH	1,640.64	7.53	3	1
	2016	21,783.84	BUH, CMH	xx	xx	0	0.00	2	1
0167600	2014	76,642.69	MUH, CMH	76,642.70	BUH	0.01	0.00	3	1
	2015	73,310.40	BUH, MUH, CMH	xx	xx	0	0.00	3	1
	2016	73,310.40	BUH, MUH, CMH	xx	xx	0	0.00	3	1
0167756	2014	27,686.79	BUH, CMH	29,559.61	MUH	1,872.82	6.76	3	1
	2015	26,483.02	BUH, CMH	28,277.90	MUH	1,794.89	6.78	3	1
	2016	26,483.02	CMH	28,833.34	MUH	2,350.32	8.87	3	1
0193696	2014	24,463.96	BUH, CMH	xx	xx	0	0.00	2	1
	2015	22,643.16	CMH	23,400.31	BUH	757.15	3.34	2	1
	2016	21,649.11	BUH, MUH, CMH	22,643.17	BUH, CMH	994.06	4.59	3	1
0194345	2015	9,627.85	MUH	11,454.69	MUH	1,826.84	18.97	2	1
	2016	8,909.25	MUH	9,878.18	BUH	968.93	10.88	3	3
0194569	2015	21,783.84	BUH, MUH	23,424.48	BUH, MUH, CMH	1,640.64	7.53	3	1
	2016	21,783.84	BUH, MUH, CMH	xx	xx	0	0.00	3	1
0194770	2015	337,003.04	BUH, MUH	421,253.80	CMH	84,250.76	25.00	3	1
	2016	337,003.04	CMH	406,032.19	MUH, CMH	69,029.15	20.48	2	1
0210118	2015	126,675.20	BUH, MUH, CMH	xx	xx	0	0.00	3	1
	2016	101,338.91	MUH	126,675.20	BUH	25,336.29	25.00	3	2
0210201	2015	380,842.88	BUH	476,053.60	CMH	95,210.72	25.00	2	1
	2016	483,112.67	BUH, MUH	xx	xx	0	0.00	2	1
0210291	2016	30,633.14	BUH, MUH, CMH	30,785.55	BUH	152.41	0.50	3	3
0210292	2016	344,401.64	BUH, MUH, CMH	346,115.09	BUH	1,713.45	0.50	3	2
0210317	2016	26,544.88	BUH, CMH	26,545.20	BUH, MUH	0.32	0.00	3	2
0210935	2016	20,933.00	MUH	21,142.33	BUH, CMH	209.33	1.00	3	2

Source: annexes to individual audit protocols of university hospitals (according to invoices).

<sup>58</sup> SÚKL code – the code is a unique identifier of the medicinal product, allocated by the State Institute for Drug Control.



## Price differences of unit prices of ATC – J pharmaceuticals

SÚKL code <sup>58</sup>	Year	Minimum unit price in CZK	Hospitals with minimum unit price	Maximum unit price in CZK	Hospitals with maximum unit price	Difference in CZK	Difference in %	Number of hospitals in the sample	Number of suppliers in the sample
0003708	2014	10,349.09	MUH	12,139.38	BUH	1,790.29	17.30	3	4
	2015	2,115.30	MUH	11,611.58	BUH	9,496.28	448.93	3	4
	2016	2,115.30	MUH	7,098.00	CMH	4,982.70	235.56	3	2
0005113	2014	769.33	BUH	1,584.11	CMH	814.78	105.91	3	3
	2015	680.45	MUH	849.53	BUH	169.08	24.85	3	2
	2016	681.05	MUH	689.83	BUH	8.78	1.29	2	2
0011592	2014	299.00	MUH	403.51	BUH	104.51	34.95	3	1
	2015	226.60	BUH	432.48	BUH	205.88	90.86	3	2
	2016	226.60	BUH	286.00	MUH	59.40	26.21	2	1
0016600	2014	25.17	CMH	45.94	BUH	20.77	82.52	3	4
	2015	21.32	BUH	43.86	BUH	22.54	105.71	3	4
	2016	39.61	MUH	43.48	BUH	3.87	9.77	3	4
0026127	2014	12,309.80	MUH	12,580.25	BUH	270.45	2.20	3	3
	2015	11,869.41	BUH	13,007.56	CMH	1,138.15	9.59	3	4
	2016	12,241.36	MUH	12,522.48	BUH	281.12	2.30	3	3
0026889	2014	13,316.25	MUH	15,704.53	MUH	2,388.28	17.94	2	3
	2015	12,737.29	MUH	13,675.32	BUH, CMH	938.03	7.36	3	1
	2016	7,438.43	MUH	13,661.85	CMH	6,223.42	83.67	2	3
0026902	2014	2,933.01	MUH	2,963.88	CMH	30.87	1.05	3	3
	2015	2,805.48	MUH	2,850.34	CMH	44.86	1.60	3	4
	2016	1,537.04	MUH	2,828.05	BUH	1,291.01	83.99	3	2
0029464	2014	11,500.00	MUH	12,043.95	BUH	543.95	4.73	2	1
	2015	11,000.00	MUH	11,520.30	BUH	520.30	4.73	2	1
	2016	11,000.00	MUH	11,521.33	BUH	521.33	4.74	2	1
0066036	2015	377.70	MUH	911.19	BUH	533.49	141.25	2	2
0072972	2014	77.91	MUH	109.25	MUH	31.34	40.23	2	2
	2015	74.53	MUH	138.60	CMH	64.07	85.97	3	3
	2016	104.21	BUH	181.50	MUH, CMH	77.29	74.17	3	4
0083417	2014	2,873.85	MUH	5,666.04	MUH	2,792.19	97.16	2	3
	2015	2,748.90	MUH	3,780.55	BUH	1,031.65	37.53	2	3
	2016	2,748.90	MUH	5,356.42	MUH	2,607.52	94.86	3	4
0087200	2014	532.74	BUH	633.97	BUH	101.23	19.00	2	3
	2015	513.89	BUH	605.23	BUH	91.34	17.77	2	4
	2016	507.87	CMH	605.23	BUH	97.36	19.17	3	3
0092359	2014	36.93	CMH	37.70	BUH	0.77	2.08	3	4
	2015	35.37	CMH	35.98	BUH	0.61	1.72	3	4

SÚKL code <sup>58</sup>	Year	Minimum unit price in CZK	Hospitals with minimum unit price	Maximum unit price in CZK	Hospitals with maximum unit price	Difference in CZK	Difference in %	Number of hospitals in the sample	Number of suppliers in the sample
	2016	35.37	CMH	35.77	BUH	0.40	1.14	3	2
0113453	2014	352.02	MUH	529.00	CMH	176.98	50.28	3	2
	2015	385.00	MUH	2,102.50	CMH	1,717.50	446.10	3	2
	2016	627.00	BUH	1,154.89	CMH	527.89	84.19	3	1
0142077	2014	817.80	MUH	1,233.89	CMH	416.09	50.88	3	4
	2015	781.55	MUH	784.63	MUH	3.08	0.39	2	3
	2016	776.70	CMH	962.12	BUH	185.42	23.87	3	4
0155939	2014	637.88	BUH, MUH	683.49	CMH	45.61	7.15	3	3
	2015	610.15	MUH	784.37	BUH	174.22	28.55	3	3
	2016	590.47	MUH	788.25	CMH	197.78	33.50	3	4
0156835	2014	1,155.75	MUH	3,450.00	BUH	2,294.25	198.51	2	1
	2015	955.90	CMH	3,300.00	BUH	2,344.10	245.22	3	1
	2016	935.00	MUH	3,300.00	BUH	2,365.00	252.94	3	1
0164350	2014	2,263.20	MUH	3,775.59	BUH	1,512.39	66.83	3	3
0198417	2014	23,148.60	CMH	26,101.15	BUH	2,952.55	12.75	3	3
	2015	22,074.45	CMH	26,432.44	BUH	4,357.99	19.74	3	4
	2016	25,203.24	MUH	26,047.87	MUH	844.63	3.35	2	3

**Source:** Annexes to individual audit protocols of university hospitals (according to invoices).

## Price differences of unit prices of medical devices (SCM)

Medical device code <sup>59</sup>	Year	Minimum unit price in CZK	Hospitals with minimum unit price	Maximum unit price in CZK	Hospitals with maximum unit price	Difference in CZK	Difference in %	Number of hospitals in the sample	Number of suppliers in the sample
0031589	2014	30,008.10	BUH, MUH, CMH	xx	xx	0.00	0.00	3	1
	2015	30,008.10	BUH, MUH, CMH	xx	xx	0.00	0.00	3	1
	2016	30,008.10	BUH, MUH, CMH	xx	xx	0.00	0.00	3	1
0031591	2014	30,008.10	BUH, MUH, CMH	xx	xx	0.00	0.00	3	1
	2015	30,008.10	BUH, MUH, CMH	xx	xx	0.00	0.00	2	1
	2016	30,008.10	BUH, MUH, CMH	xx	xx	0.00	0.00	2	1
0046018	2014	54,450.00	MUH	55,782.00	BUH	1,332.00	2.45	2	1
	2015	54,450.00	MUH	55,000.00	CMH	550.00	1.01	2	1
	2016	54,450.00	MUH	55,782.00	CMH	1,332.00	2.45	2	1
0046020	2014	37,620.00	BUH	42,987.00	MUH	5,367.00	14.27	2	1
	2015	34,500.00	CMH	42,987.00	MUH	8,487.00	24.60	3	1
	2016	34,500.00	CMH	42,987.00	MUH	8,487.00	24.60	3	1
0046021	2014	46,200.00	BUH	51,819.00	MUH	5,619.00	12.16	2	2
	2015	46,200.00	BUH	51,819.00	MUH	5,619.00	12.16	3	2
	2016	46,200.00	BUH	51,819.00	MUH	5,619.00	12.16	3	2
0049219	2014	60,500.00	BUH	77,502.10	MUH	17,002.10	28.10	3	1
	2015	60,500.00	BUH	74,655.00	CMH	14,155.00	23.40	2	1
	2016	60,500.00	BUH	74,655.00	CMH	14,155.00	23.40	2	1
0059007	2014	5,757.50	BUH	8,349.00	CMH	2,591.50	45.01	2	1
	2015	5,757.50	BUH	12,087.90	MUH	6,330.40	109.95	3	2
0059793	2014	31,481.61	BUH	32,985.65	MUH	1,504.04	4.78	3	1
	2015	32,780.00	CMH	32,985.65	MUH	205.65	0.63	2	1
	2016	32,780.00	CMH	32,986.00	MUH	206.00	0.63	2	1
0059987	2014	34,960.00	BUH, MUH	xx	xx	0.00	0.00	2	1
	2015	34,959.00	CMH	34,960.00	MUH	1.00	0.00	2	1
	2016	34,959.00	CMH	34,960.00	MUH	1.00	0.00	2	1
0091792	2014	31,801.00	CMH	33,126.00	BUH	1,325.00	4.17	2	2
	2015	30,033.90	BUH	36,600.00	MUH	6,566.10	21.86	3	3
	2016	31,801.00	CMH	36,600.00	MUH	4,799.00	15.09	3	3

<sup>59</sup> Medical device code – the code is assigned by the General Health Insurance Company of the Czech Republic (VZP) according to the valid methodology, this code is a unique identifier of the relevant medical device (SCM) and is listed in the VZP – medical device (SCM) codebook and in the medical device/SCM reimbursement catalog.

Medical device code <sup>59</sup>	Year	Minimum unit price in CZK	Hospitals with minimum unit price	Maximum unit price in CZK	Hospitals with maximum unit price	Difference in CZK	Difference in %	Number of hospitals in the sample	Number of suppliers in the sample
0111741	2014	51,999.55	BUH, MUH, CMH	xx	xx	0.00	0.00	3	1
	2015	51,999.55	BUH, MUH, CMH	52,000.00	BUH	0.45	0.00	3	1
	2016	51,999.55	MUH, CMH	52,000.00	BUH	0.45	0.00	3	1
0111742	2014	51,999.55	MUH	52,000.00	BUH, CMH	0.45	0.00	3	1
	2015	52,000.00	BUH, CMH	xx	xx	0.00	0.00	2	1
	2016	52,000.00	BUH, CMH	xx	xx	0.00	0.00	2	1
0113355	2014	59,800.00	BUH, MUH, CMH	xx	xx	0.00	0.00	3	1
	2015	51,175.00	MUH	59,800.00	BUH, CMH	8,625.00	16.85	3	1
0113357	2014	58,075.00	MUH	59,800.00	BUH, CMH	1,725.00	2.97	3	1
	2015	58,075.00	MUH	59,800.00	BUH, CMH	1,725.00	2.97	3	1
0141338	2014	282,378.00	CMH	282,451.50	MUH	73.50	0.03	2	1
	2015	274,999.50	BUH	282,378.00	CMH	7,378.50	2.68	2	1
	2016	274,999.50	BUH	282,378.00	CMH	7,378.50	2.68	2	1
0192089	2014	118,324.00	CMH	118,324.19	MUH	0.19	0.00	2	1
	2015	112,408.01	MUH	118,324.19	BUH, MUH	5,916.18	5.26	3	1
	2016	82,826.93	BUH	118,324.19	BUH	35,497.26	42.86	3	1
0193339	2014	71,797.00	CMH	74,410.60	BUH	2,613.60	3.64	3	1
	2015	70,687.16	MUH	74,410.87	BUH	3,723.71	5.27	3	1
	2016	44,646.52	BUH	74,410.87	BUH	29,764.35	66.67	3	1
0193810	2016	310,500.00	BUH, CMH	xx	xx	0	0	2	1
0193999	2015	51,175.00	MUH	59,800.00	BUH, CMH	8,625.00	16.85	3	1
	2016	49,399.00	CMH	59,800.00	BUH	10,401.00	21.06	3	1
0194014	2015	79,990.00	BUH, MUH, CMH	xx	xx	0	0	3	2
	2016	59,414.00	CMH	79,990.00	BUH	20,576.00	34.63	3	2

**Source:** annexes to individual audit protocols of university hospitals (according to invoices).