



**MANAGEMENT SCIENCES FOR HEALTH, INC.**  
*Health Sector Reform Technical Assistance Project (HSRTAP)*

PA-AQU-SM

United States Agency for  
International Development



*This report was made possible through support provided by the U.S. Agency for International Development,  
under the terms of Contract No. HRN-I-00-98-00033-00, Delivery Order No. 804*

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**IMPLEMENTATION KIT FOR  
GOVERNMENT HOSPITAL  
CORPORATIZATION  
*LGU HOSPITALS***

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This report was made possible through support provided by the U. S. Agency for International Development, under the terms of Contract No. HRN-I-00-98-00033-00. The opinions expressed herein are those of the author(s) and do not necessarily reflect the views of the U. S. Agency for International Development.

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## INTRODUCTION

One of the biggest challenges faced by the local government units (LGUs) post-devolution is the management of provincial and district hospitals. Hospitals represent the more costly and complex component of health care delivery.

The Local Government Code of 1991 opened new opportunities for local chief executives to become responsive to the basic social requirements of their communities.

The Department of Health, through the Health Sector Reform Technical Assistance Project (HSRTAP), embarked on a major undertaking of supporting LGUs in finding and implementing innovative ways of managing and operating their devolved hospitals. The primary focus of HSRTAP is to address the managerial and financial limitations confronted by both the LGUs and devolved hospital administrators. These two factors have commonly been cited as a major constraint in the effective delivery of basic health services.

HSRTAP assisted the LGUs and devolved hospitals in the eight convergence sites (Pangasinan, Misamis Occidental, Pasay, Capiz, South Cotabato, Negros Oriental, Bulacan, Nueva Viscaya) in exploring other possible options apart from direct LGU management and operation of these health facilities. The main framework is to give these hospitals greater managerial and fiscal autonomy while allowing LGUs to rechannel its limited resources to equally important services. HSRTAP worked on two interrelated avenues for devolved hospitals to acquire operational autonomy: a) gradual introduction of reforms into the major operational areas and b) conversion of these facilities into government-owned corporate hospitals. These directions are consonant with the thrust of implementing universal social health insurance coverage. This will allow all citizens access to health services and enable health facilities to derive revenues from reimbursements. Financing their operations will no longer be solely dependent on only one source that of government allocated budgets. The new health systems delivery scenario will slowly unfold into the government as the main buyer rather than provider of health services. Hospital facilities would therefore need to restructure along these lines.

The DOH is committed to supporting LGU endeavors along these objectives. Technical guidance from in-house experts and short-term consultants will be extended to the various activities. This Manual serves as the preliminary document to guide the LGUs through the initial process of instituting reforms in their devolved health facilities.

## THE HSRTAP EXPERIENCE

HSRTAP implemented various activities in the convergence sites to promote hospital autonomy. Among the eight convergence sites, HSRTAP concentrated its effort in converting the provincial hospital into corporations in the provinces of Pangasinan and Capiz. At the end of the project (two years), both provinces have not given corporate status to their provincial hospitals but the process of conversion is a rich experience similar future activities.

The work program of HSRTAP was based on the Management-Ownership Manual for Local Chief Executives published by the Health Finance Development Project (HFDP). Dubbed the "Implementation Manual – Management And Organizational Options For Devolved Hospitals" (the "Manual", for brevity), the document gave seven (7) options ranging from direct LGU ownership of hospital facilities to contractualization of hospital services. It also identified seven (7) major, preliminary considerations that government should take into account in choosing the best option for each devolved hospital, namely: the government objective, financial viability of the hospital, flexibility of operations, private sector participation, tax exposure, prohibitions and limitations on public officers, and transition costs.

The Manual contained an extensive write-up on Option 2 (Indirect LGU Ownership), which calls for the corporatization of devolved hospitals. The Manual assumed that the LGU has a clear understanding of its role and objectives with respect to the delivery of hospital services, the deficiencies of devolved hospitals, and the resources necessary to effect the chosen alternative.

The Manual established that corporatization will only require the passage of a local ordinance that will authorize the formation and registration of a corporation and the transfer of hospital assets, liabilities and personnel to the new corporation.

While this is legally feasible, the LGUs are not accustomed to government hospitals operating independent from them, much more, entrusting governance of their hospital facilities to a board of trustees. The direct conversion into government owned hospital corporations was perceived as a drastic move. HSRTAP then proposed an alternative. First the hospital adopts systems improvement measures that will prepare them for corporate conversion. Simultaneously the hospital works out an arrangement with the LGU to utilize their revenues. The Negros Oriental income retention and utilization scheme was used as a model (*Please see report on the Documentation of the Negros Oriental Income Retention Scheme*). At the end of the HSRTAP, all hospital sites have income utilization arrangements in place. (*Please refer to the income retention report, 3<sup>rd</sup> quarterly deliverable HSRTAP 2002*). The most common arrangement is for the hospital to set target incomes for a fiscal year. The income over and above the agreed targets, were given to the hospitals. While this it is

realized that full fiscal autonomy is still far from being accomplished, the mindsets of the local health stakeholders have begun to change. They have now understood that government hospitals are not just resource users but are in fact resource generators.

Once a site have accomplished systems improvement and partial income utilization, the next stage would have been to create a hospital advisory board whose main function is to oversee the budget development and monitor financial performance of the hospital. The board's resolutions are carried out through the governor's office and executed by the hospital Chief. The board can be the precursor of the hospital board of trustees.

The next stage is for the LGU to create a foundation that would manage the hospital. The newly created foundation enters into a usufruct arrangement with the LGU. The use of the hospital assets by the new foundation is governed by a memorandum of agreement. The details of these are covered by the materials cited in this manual. This stage is the stepping stone to full autonomy. However if the LGU does not reap the expected benefits from such an organizational change, they can easily revert back to the original system of directly managing the hospital by rescinding the usufruct agreement and MOA.

The last stage is to grant full autonomy to the hospitals and the process to accomplish this is described in the manual. The LGU converts its hospital into a foundation. The funding source of the hospital will come from social insurance reimbursements. Full governance of the hospital institution will be delegated to the board of trustees.

# ACTIVITY LIST FOR CORPORATIZATION OF A LOCAL GOVERNMENT (DEVOLVED) HOSPITAL

NAME OF HOSPITAL:

DATE SUBMITTED:

Objectives:

1. To guide the Local Government Unit (LGU) hospital in formulating its transition plans;
2. To help the LGU hospital, the LGU and the Department of Health-National Center for Health Facility Development (DOH-NCHFD) monitor the progress of the hospital's activities toward corporatization, and
3. To identify the availability of technical assistance for specific corporatization steps.

Note: The highlighted portions indicate the availability of a reference material or DOH technical assistance.

## Phase one – Preparatory Phase

FORMALIZING THE TECHNICAL ASSISTANCE	STARTING DATE	COMPLETION DATE
1. LGU requests for briefing on Corporatization from DOH-NCHFD		
2. DOH-NCHFD sends its Speaker's Bureau to present the conceptual framework of Corporatization to LGU representatives		
3. LGU decides it wants to Corporatize its hospital by: <ol style="list-style-type: none"> <li>a. Sending a letter to DOH formally requesting for Assistance</li> <li>b. Drafting a Sanggunian Resolution to signal start of corporatization process</li> </ol>		

4. DOH and LGU signs a Memorandum of Agreement (annex A) outlining the general areas of cooperation		
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PRELIMINARY ADVOCACY	STARTING DATE	COMPLETION DATE
1. The hospital chief organizes speaker's bureau at the hospital level		
2. Speaker's Bureau (of NCHFD) conducts advocacy to officers and rank and file of the hospital.		
3. NCHFD conducts operations and financial assessment of hospital. Refer to the Hospital Assessment Tool (annex B) and the Financial Assessment Tool (annex C)		
4. NCHFD provides the LGU executives and the hospital with reading materials on the following topics– Hospital Reform Policy Framework (annex D), Transition Operations Manual , Issues and Concerns on Corporatizing Government Hospitals.		
5. NCHFD-DOH reports assessment findings to the hospital and LGU executive officers		

TRANSITION PLANNING	STARTING DATE	COMPLETION DATE
1.NCHFD provides format to guide LGU hospital in drafting their transition plans. Refer to the sample transition plan of Pangasinan Provincial Hospital (annex E)		
2. LGU hospital prepares its transition plan		
3. LGU Hospital submits and presents its plan to NCHFD. Critiquing by DOH-NCHFD and other LGU officials.		
4. LGU hospital revises transition plan		
5. Transition plan completed		

ORGANIZATIONAL DEVELOPMENT TEAM	STARTING DATE	COMPLETION DATE
1. The LGU Hospital Chief organizes an organizational development team (OD)		
2. The OD team undergoes change management training. Refer to the Documentation of the Change Management Training of ITRMC and QMMC		
3. The OD team crafts organizational development strategies to carry out the initial systems improvement activities.		

INITIAL SYSTEMS TO BE IMPROVED	STARTING DATE	COMPLETION DATE
<b>Quality Improvement Program</b>		
1. The NCHFD conducts 5S training to the department heads of the hospital		
2. All department heads re-echo 5S training to their respective staff		
3. The hospital conducts 5S activities		
4. The chief of hospital organizes his quality assurance committee (QAC)		
5. The QAC undergoes TQM training		
6. The QAC undertakes its first project by assisting the process team to document and improve the billing and collection procedure.		
<b>Billing and Collection Systems</b>		
1. The Hospital Chief organizes a Billing and Collections process team (B & C Team).		
2. The QAC team provides technical assistance in improving Billing and collection process. Flowcharting and Procedures Writing techniques (annex F)		
3. The B & C team studies and improves the billing and collection processes.		
4. The hospital executive committee deliberates on the new process and approves these.		
5. The OD team plans and conducts information dissemination and awareness campaign for the collection procedures		

6.The B & C team orient the appropriate staff on the new billing and collection procedures.		
7. The Hospital Chief issues an order to implement the new procedures		
<b>Costing and Rate setting</b>		
1.The hospital organizes a costing team. Refer to costing reports of Misamis Occidental, Bulacan, Capiz and Pangasinan.		
2.NCHFD provides technical assistance in the process of costing and rate setting		
3.Costing team is oriented on the costing and rate setting methodology (Refer to the document on data requirements for cost allocation tool and Hospical manual)		
4.Costing team starts its costing and rate setting study – refer to rate setting reports of Misamis Occidental, Bulacan, Capiz and Pangasinan		
5.Costing team completes the costing of hospital services		
6.Costing team proceeds to developing rates based on the costing results.		
7. The costing team presents to the hospital executive committee their pricing schedule.		
8.Hospital executive committee deliberates and approves of the new price schedule.		
<b>Medical Social Worker Patient Classification System</b>		
1. The NCHFD-DOH updates the LGU Medical Social Worker on the process of determining ability to pay.		
2. The MSW improves the system on patient classification system		
<b>THE OD TEAM, QAC, B &amp; C PROCESS TEAM, COSTING TEAM and the MSW shall coordinate their activities. The objective shall be an immediate improvement in the cleanliness of the hospital, streamlined processes at the frontline services and a substantial increase in the collection of revenues. They shall also focus on informing the clients and the staff on the changes in procedures. As soon as the hospital achieves these objectives, it can now proceed to the next set of activities.</b>		

2 <sup>nd</sup> set of Systems to be Improved	STARTING DATE	COMPLETION DATE
<b>Income Retention Scheme</b>		
1. The hospital studies the income retention and utilization scheme of Negros Oriental.		
2. The hospital crafts a plan to authorize them to use hospital revenues		
3. the hospital negotiates with the local chief executives on the use of income		
<b>Drug Management System</b>		
1. Medical Center Chief organizes Pharmaco-therapeutics committee and procurement teams		
2. DOH provides technical assistance to establish efficient drug procurement and distribution systems		
3. The hospital executive committee approves the new systems		
4. Hospital implements the new system		
<b>Strategic Business Planning</b>		
1. The LGU Hospital Chief organizes a planning team		
2. The planning team is oriented on the process of <b>strategic business planning</b>		
3. The planning team prepares a planning schedule.		
4. The planning team organizes and facilitates the planning activities for the different units of the hospital.		
5. The planning committee completes the first draft of the S/B plan		
6. The planning team presents the draft to the executive committee for concurrence		
<p><b>The three sets of activities will increase the fund source of the hospital as well as decrease cost of drugs. The benefits they gain from here can be used to partially fund their facilities improvement program. The strategic business plan will also let the hospital undergo a thinking process of improving income at the same time enhancing their capabilities to serve the poor.</b></p>		

3 <sup>rd</sup> Set of activities	STARTING DATE	COMPLETION DATE
<b>Governance</b>		
1. The LGU reviews and approves the guidelines in selecting hospital board members. The guidelines for establishing the hospital board (annex G) and list of executive officers (annex H) will be provided by the DOH		
2. The LGU accepts nominations for membership in the hospital board		
3. The selection committee accepts nominees to the hospital board.		
4. The (LGU) selection committee decides and recommends to the Local Chief Executive the board members for the hospital		
5. The Local Chief Executive appoints the board members and issues an order to this effect.		
6. The hospital board members studies the budget and monitors the financial status of the hospital. The hospital also sets the direction of the hospital towards management and financial autonomy		
<b>PREINCORPORATION STEPS</b>		
1. The LGU Hospital Chief organizes a core group to conduct the pre-incorporation steps (annex I).		
2. The NCHFD-DOH conducts orientation of the LGU core group on the pre-incorporation processes		
3. LGU Hospital conducts inventory of assets and liabilities		
4. LGU Hospital conducts personnel audit		
5. LGU Hospital identifies and lists down all issues concerning the inventory and audit.		
6. The LGU provides legal assistance to the hospital to address the issues and concerns.		

7. Resolution of the issues and concerns (via a hospital corporatization committee composed of hospital officials/employees, LGU reps, DOH etc.)		
<b>The 3<sup>rd</sup> set of activities prepares the hospital for the legal conversion into a corporation. The hospital board, while it acts as an advisory to the governor, becomes the precursor the board of trustees.</b>		

**Phase 2 – Legal Conversion to Autonomous Hospital Status**

CORPORATIZATION STEPS	STARTING DATE	COMPLETION DATE
<b>The legal Authority</b>		
1.The LGU executives orient themselves on the legal basis for establishing autonomous hospitals. Refer to Final Report to Hospital Reforms Manager, HSRTAP – a Proposal to the Roxas Memorial Provincial Hospital and Pangasinan Provincial Hospital (annex J)		
2. The LGU decides on the legal basis.		
3. The Local Chief Executive, through a Sanggunian resolution (annex K), issues an order to register a foundation under the Corporate Code with the Securities and Exchange Commission		
4.The LGU Hospital Chief organizes a committee to work on the SEC Registration (annex L).		
5.The LGU officials together with the LGU hospital decides on the following: <ul style="list-style-type: none"> <li>- Name of the foundation</li> <li>- Purpose of the foundation</li> <li>- Place of principal office</li> <li>- Term of existence</li> <li>- Number, names, Nationalities and residences of the incorporators</li> <li>- Capitalization</li> <li>- Membership</li> </ul>		
6.The LGU hospital drafts the <b>Articles of Incorporation (annex M)</b> Provision of technical assistance for drafting the AIO		
7.The LGU hospital includes the special provisions for a non-stock non-profit foundation in its AIO		

<p>8.The LGU hospital prepares other documents:</p> <ul style="list-style-type: none"> <li>- By-laws (annex N)</li> <li>- Letter Undertaking</li> <li>- Registration Data Sheet</li> <li>- Treasurer's Affidavit</li> <li>- Verification Slip</li> </ul>		
<p>9.If a non stock corporation, the LGU hospital will prepare the following documents</p> <ul style="list-style-type: none"> <li>- Affidavit of Modus Operandi</li> <li>- Resolution of the Board of Trustees</li> <li>- List of Members</li> <li>- Undertaking to submit list of additional members to the SEC from time to time</li> </ul>		
<b>Register the Corporation with the SEC</b>		
1.Present the registration documents to the Corporate and Legal Department (CLD) to get an "Approved for Payment" stamp		
2.Pay the necessary filing and miscellaneous fees at the cashier.		
3.Leave three copies of the registration documents at the receiving unit.		
4.After about two weeks, the certificate of registration can be claimed at the Releasing Unit of the Records Division		
5.If a non-stock non-profit corporation, apply for tax exemption and as a donee institution with the Bureau of Internal Revenue		
<b>Organize the Corporation and installation of board members</b>		
1.The LGU drafts a Memorandum Of Agreement (annex O) with the newly organized foundation.		
2.The New Foundation will deliberate on the provisions of the MOA and provide concurrence.		
3.Orientation of the Hospital Board		
4.The Hospital Board holds its first organizational meeting.		
3.The Hospital Board elects its officers		
4.The Hospital Board (HB) adopts the by-laws of the corporation		

5.The HB delegates its authority to the CEO		
6. The LGU executes a deed of assignment (annex P) with the New Foundation		
The successful conversion of the hospital into a corporation enables them to exercise more financial and management autonomy. Further improvement of remaining systems will enhance their sustainability as a corporate organization		

4 <sup>th</sup> set of activities for systems improvement	STARTING DATE	COMPLETION DATE
<b>Financial Management Systems for a Revenue Generating organization</b>		
1. LGU hospital Chief organizes a team who shall be tasked to implement changes in the financial management systems		
2.Financial management team undergoes training in the financial management systems.		
3.Financial management team uses a Manual to guide them through setting up the system. (Financial Management Manual for the Autonomous Government Hospital Corporation)		
4.The hospital engages a financial adviser to support them in the process of improving the system		
5.The financial system is set-up, workflow is organized, staff are trained, and reports are submitted.		
<b>Information System</b>		
1.Hospital Chief organizes a group to implement the information software (HOMIS)		
2.The information team undergoes training conducted by the IHOMP		
3.Hospital purchases hardware		
4.Installation of the HOMIS program		
5.Implementation of the new information system		
<b>Human Resources Management System</b>		
1. The hospital organizes a human resources management committee		

2. The committee studies the organizational structure and recommends changes consonant with the corporate structure		
3. The LGU hires a Human Resources Manager and organizes this a a department		

Note: Additional Requirements

- a. Submit a SEC registration to the Bureau of Permits and Licensing Office at the city or municipality where the hospital is located
- b. Apply for a tax account number at a local BIR office

Annex A

**MEMORANDUM OF AGREEMENT  
BETWEEN THE DEPARTMENT OF HEALTH AND  
THE PROVINCIAL GOVERNMENT OF PANGASINAN  
FOR THE PROVISION OF TECHNICAL ASSISTANCE  
TO THE PANGASINAN PROVINCIAL HOSPITAL**

**KNOW ALL MEN THESE PRESENTS:**

This Memorandum of Agreement made and entered into this \_\_\_\_\_ day of April 2001 in Lingayen, Pangasinan, Philippines by and between

The **PROVINCE OF PANGASINAN** with office address at the Provincial Capitol, Lingayen, Pangasinan, and herein represented by **HON. VICTOR AGBAYANI** in his capacity as Provincial Governor of Pangasinan and hereinafter referred to as the **PROVINCE**

- and -

The **DEPARTMENT OF HEALTH**, herein, represented by **HON. MANUEL M. DAYRIT**, in his capacity as the Department Secretary.

**WITNESSETH:**

WHEREAS, the Pangasinan Provincial Government is empowered by the LGC of 1992 to look for alternative ways of financing, managing, and operating its devolved hospital;

WHEREAS, the study of the possible conversion of the Pangasinan Provincial Hospital into a government-owned, corporate entity must be initiated and pursued, as corporatization is one viable option that can grant fiscal and managerial autonomy to the hospital;

WHEREAS, the Department of Health, through its Health Sector Reform Technical Assistance Project (HSRTAP), is extending technical assistance to local government units in studying the feasibility of transforming its provincial hospital into corporate entities;

WHEREAS, the HSRTAP of the Department of Health has been requested by the Provincial Government of Pangasinan to extend assistance in finding ways for the effective and efficient management of the Pangasinan Provincial Hospital, and;

WHEREAS, the HSRTAP has also been requested by the Pangasinan Provincial Government to assist two (2) other district hospitals in the province by introducing management and fiscal reforms to improve their operational efficiencies.

NOW THEREFORE, on premises considered the Province and the Department of Health, hereby agree and covenant on the following duties and responsibilities:

1. THE DEPARTMENT OF HEALTH shall:
  - 1.1 Through the National Center for Health Facilities Development (NCHFD), provide the over-all technical direction, including but not limited to a review and technical clearances of all reports and studies; and guidance in the actual implementation of project improvements and recommendations;
  - 1.2 Assign the Director of the Center for Health Development San Fernando City as the team leader who shall be responsible for mobilizing and coordinating DOH resources, as well as in dealing with the concerned officials of Pangasinan province.
  - 1.3 Through its HEALTH SECTOR REFORM TECHNICAL ASSISTANCE PROJECT (HSRTAP) and the Center for Health Development San Fernando City, draft an action plan. The Action Plan will enumerate the different activities to be pursued in order to begin the study of transforming the provincial hospital into a corporation and other activities necessary to attain this objective. The draft action plan will be reviewed and approved by the Pangasinan Provincial Government and the DOH;
  - 1.4 Through its HSRTAP and the Center for Health Development in San Fernando City, draft a separate action plan to describe the activities to be undertaken to introduce reforms and improve operational efficiency in the two other district hospitals in Pangasinan;

- 1.5 Through its HSRTA Project, hire consultant(s) as required by the different activities. All expenses (e.g. professional fees, transportation, travel allowance) related to the consultant(s) work shall be shouldered by the HSRTAP;
  - 1.6 Provide additional administrative and technical coordination as required by each activity, through the Center for Health Development San Fernando City;
  - 1.7 Through the National Center for Health Facilities Development (NCHFD), provide additional technical inputs especially in the conduct of the activities and the review of consultants' reports, studies and recommendations.
2. THE PANGASINAN PROVINCIAL GOVERNMENT shall:
- 2.1 Act as the main implementor of the project to study the corporatization of the Pangasinan Provincial Hospital and all related and succeeding activities;
  - 2.2 Identify and assign a lead person or technical committee who will assist the HSRTAP consultants in the researches, analysis and trainings to be done. The lead person or technical committee shall also be responsible for steering the timely implementation of the project and ensuring the cooperation and active participation of concerned LGU officials and personnel; where a technical committee is created a lead person shall be appointed.
  - 2.3 Shoulder the expenses of workshops and meetings related to the technical assistance including but not limited to rental of venues, meals/snacks, reproduction of materials, audio-visual equipment and travel expenses (e.g. lodging allowance, per diem) of participating LGU staff.

Specific objectives, scope of the engagement, approaches / methodologies to be employed and the expected outputs or deliverables shall be contained in the Terms of Reference (TOR) of each activity.

IN WITNESS WHEREOF, the Parties have caused this agreement to be signed in their respective names in Pangasinan, Philippines, as of the day and year written above.

HON. VICTOR AGBAYANI  
Governor  
Province of Pangasinan

HON. MANUEL M. DAYRIT, MD, MSc  
Secretary  
Department of Health

Witnesses:

DR. NEMESIA Y. MEJIA  
Provincial Health Officer I- Hospital Services  
Pangasinan

DR. CRISELDA ABESAMIS  
Director  
NCHFD – DOH

DR. ALFREDO L. SY  
Provincial Health Officer I –  
Field Health Services  
Pangasinan

DR. MELCHOR LUCAS JR.  
Manager  
HSRTA Hospital Reforms  
Program Area

# Hospital Assessment Tool

(Adapted from the MSH-AFS project)

## PURPOSE:

To undertake an operational assessment of Hospitals to identify the organization's scope of services, it's performance, strengths and weaknesses, and the feasibility for achieving a new level of institutional autonomy and sustainability.

## PROCESS:

The Assessment Team will perform a *rapid* focused collection and analysis of operational data, individual and small group interviews, and on-site observations.

## METHODOLOGY:

- I. Facility Identification, Profile and Scope of Services
- II. Senior Management Interviews
- III. Middle Management/Department Head Interviews and Department Tour
- IV. Ward Rounds – Patient Care Environment
- V. Exit Conference – Summary of Preliminary Findings and Management Feedback for Clarification or Additional Supportive Information
- VI. Assessment Findings and Conclusions
- VII. Recommendations for Improvement

### 1. FACILITY IDENTIFICATION

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Telephone/Fax: \_\_\_\_\_

Chief of Hospital: \_\_\_\_\_

2. HOSPITAL SENIOR MANAGEMENT

Chief, Professional Medical Staff: \_\_\_\_\_

Training Officer: \_\_\_\_\_

Chief of Clinics: \_\_\_\_\_

Chief Nurse: \_\_\_\_\_

Administrative Officer: \_\_\_\_\_

Other: \_\_\_\_\_

3. HOSPITAL PROFILE

Year Built/Opened: \_\_\_\_\_

Total No. Beds- authorized: \_\_\_\_\_

Total No. Beds- implementing: \_\_\_\_\_

Bed Complement- by clinical service:

Medical: \_\_\_\_\_

Surgical: \_\_\_\_\_

Maternity: \_\_\_\_\_

Pediatrics: \_\_\_\_\_

Special Care/ICU: \_\_\_\_\_

Other: \_\_\_\_\_

Operating Theatre:

No. Rooms: \_\_\_\_\_

Recovery: \_\_\_\_\_

Outpatient Clinics/Services:

Types of Services:

Other Services:

4. HOSPITAL SCOPE OF SERVICES

Blood Bank  
Cardiology  
C C U  
Dentistry  
Emergency/Casualty  
Endoscopy  
E N T  
Gynecology  
I C U  
Laboratory  
Mortuary/Morgue  
Neurology  
Neurosurgery  
Newborn Nursery  
Obstetrics  
Occupational Therapy  
Orthopedics  
Ophthalmology  
Outpatient Clinics  
Pathology  
Pediatrics  
Physiotherapy  
Psychiatry  
Radiology  
Renal Dialysis  
Surgery  
Ultrasound  
Urology  
Other: \_\_\_\_\_  
Satellite/Off-Site Units? \_\_\_\_\_  
Training Programs/Affiliations- medical, nursing:

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5. INTERVIEWS – HOSPITAL MANAGEMENT

5.1 Administration/Senior Management

- Review organization chart
- Review developmental plan
- Review minutes of management meetings
- Are any hospital functions contracted out?

- What is the MIS capability, computerization?
- What kind of management reports do you review/receive - financial, patient data?
- Is there a program in place for QA and QI
- What are the employee issues/concerns
- What are the hospital strengths, weaknesses?  
3 greatest strengths? - weaknesses?
- Concerns/Barriers to effectiveness?

#### Housekeeping

- How organized?
- Orientation/training of staff?
- Equipment, methods/process/procedures
- Cleaning agents- review/approval?
- Problems/concerns

#### Security System

- Staff or Subcontracted?
- Visiting hours
- Procedure protecting assets and patients?
- Security Wall/Fence?

#### Maintenance- Buildings and equipment

- Maintenance Rounds by committee?
- Fire safety- smoke detectors, alarms, staff training?
- Interruption of utilities? Standby power, which areas?
- Problems/concerns?
- Condition of buildings
- Waste disposal?
- Accessibility to services? Parking, Roads, Walkways
- Signage?

### 5.2 Middle Management/Department Head ( Interview individually in department)

- Review hospital and department organization chart
- Are you involved in planning and decision making?
- How are organizational changes communicated?
- What are the hospital's strengths, weaknesses?
- What are the employee issues/concerns?
- Are there QA and infection control activities?
- Do you receive management information reports? What are these?
- Other concerns: building, equipment, supplies, drugs?

### 5.2.1 Personnel/Human Resources

Total No. Staff: \_\_\_\_\_

Consultants: \_\_\_\_\_

By Medical Specialty:

Ob/G- \_\_\_\_\_

Medicine- \_\_\_\_\_

Ped.- \_\_\_\_\_

Surgery- (specify general, ortho, ent, etc.)

Pathologist-

Radiologist-

Others-

Med. Officers: \_\_\_\_\_

Nursing Staff: \_\_\_\_\_

Administrative Staff: \_\_\_\_\_

Are there any manpower shortages? If yes, what are they?

Is there an orientation program for new staff? \_\_\_\_\_

Is there a training program for staff? \_\_\_\_\_

What are some of the employee's issues or concerns?

### 5.2.2 Financial Information Systems - Accounting

Income from hospital services: \_\_\_\_\_

Income from PHIC reimbursements: \_\_\_\_\_

PHIC Outstanding Claims: \_\_\_\_\_

Expenditures- Personnel Services: \_\_\_\_\_

Expenditures- MOOE: \_\_\_\_\_

Expenditure- Drugs & Supplies: \_\_\_\_\_

Number of Cash Collection Points? \_\_\_\_\_

Average Inpatient Charge per day (General Ward)? \_\_\_\_\_

Annual Budget? \_\_\_\_\_

Qualifications of staff?

Problems/Concerns?

### 5.2.3 Purchasing and Store Room- supplies and drugs

- Describe process for user requisition, ordering, receiving, stores and inventory control, and distribution to user departments – functional standardization committee?
- Performance in meeting hospital needs?
- Review space allocation/utilization for stocks

### 5.2.4 Medical Staff Leadership – Clinical Heads (as a group)

- Is the staff formally organized- bylaws, officers, clinical chiefs?
- Are there doctor manpower shortages or overages?  
Which specialty?
- What are the main problems/concerns of the staff affecting the quality of medical care?
- What are the hospital's 3 greatest strengths? – weaknesses?
- What are greatest medical strengths? – weaknesses?
- Are there ongoing peer review activities?
- Is there continuing medical education activity?
- Is there medical review of admissions and extended stay for appropriateness?
- Morbidity and Mortality review?
- Drug Usage Review?
- What are the top 4-5 discharge diagnoses?

### 5.2.5 Pharmacy

- No. of staff, qualifications?
- Medical staff approved drug list/formulary?
- Performance in meeting drug needs?
- Requisition/Distribution process to users?
- Floor stock? Where?
- Proper storage, expiry dates, labeling procedures?

### 5.2.6 Clinical Laboratory

- No. of staff, qualifications?
- No./Type diagnostic units?
- Condition of equipment? Problems/concerns?
- Additional services based on need?
- Patient/Specimen flow?

### 5.2.7 Medical Records

Utilization of hospital services:

Total Inpatient Admissions: \_\_\_\_\_

Adult: \_\_\_\_\_

Pediatric: \_\_\_\_\_

Maternity: \_\_\_\_\_

Newborn: \_\_\_\_\_

Average Occupancy Rate \_\_\_\_\_

Average Length of Stay \_\_\_\_\_

Total Surgical Operations \_\_\_\_\_

Major \_\_\_\_\_

Minor \_\_\_\_\_

Total Outpatient Visits: \_\_\_\_\_

MCH/FP Visits: \_\_\_\_\_

Total Emergency Visits: \_\_\_\_\_

### 5.2.8 Food Service - Kitchen

- Method of feeding patients
- Nutritionists on staff?
- Service Concerns?
- Is there an employee canteen?
- Condition of Kitchen?

### 5.2.9 Radiology

- No. of staff, qualifications?
- No. diagnostic units?
- Range of services?
- Condition of equipment? Problems/concerns
- Additional services based on need?
- Patient flow?

### 5.3 Nursing Administration

- Org. Chart? Hierarchy-levels of management?
- Concerns affecting quality of nursing care, job satisfaction, equipment, space, supplies, staff, training, interdepartmental relationships?
- Continuing Education?
- QA, Infection Control, Safety, CPR?
- Tour of patient care environment

5.3.1 WARDS SURVEY- patient care environment, relative location to other services, space allocation/utilization, equipment.  
Staff concerns, barriers to quality, patient/staff satisfaction?

6. BUILDINGS AND GROUNDS

- General condition of buildings and equipment
- Fire and Safety Committee?
- Hazardous waste disposal? Incinerator?
- Patient flow? Accessibility to services, reception, signage, patient registration, cashier
- Ventilation, Lighting

7. EXIT CONFERENCE

A summary presentation of preliminary findings and conclusions with management feedback for clarification or additional supportive information.

8. FINDINGS AND CONCLUSIONS

9. RECOMMENDATIONS

Recommendations are made based on the findings and conclusions to improve organizational performance and quality of services, control costs, increase revenues and cash collection, and improve patient and staff satisfaction.



## FINANCIAL ASSESSMENT TOOL

Name of Hospital: \_\_\_\_\_

Address: \_\_\_\_\_

Hospital Director: \_\_\_\_\_

### I. HOSPITAL PROFILE

Total Bed Capacity

Authorized: \_\_\_\_\_

Implementing: \_\_\_\_\_

Number of beds allotted:

Pay: \_\_\_\_\_

Service: \_\_\_\_\_

Average Rate of Occupancy

Pay: \_\_\_\_\_

Service: \_\_\_\_\_

Average Length of Stay

Pay: \_\_\_\_\_

Service: \_\_\_\_\_

Number of HMO's Accredited by the Hospital: \_\_\_\_\_

Average number of HMO patients admitted/month: \_\_\_\_\_

Average number of Company Sponsored patients: \_\_\_\_\_

Average number of patient with PHIC: \_\_\_\_\_

### II. FINANCIAL PLANNING

1. Are department heads consulted in the budget preparation? \_\_\_\_\_ Are they required to submit individual department budgets? \_\_\_\_\_. If not, who prepares the budget?  
\_\_\_\_\_

2. Are internal budget deliberations conducted? \_\_\_\_\_. If yes, explain briefly the manner of deliberations.  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_ If not, why?  
\_\_\_\_\_

3. For capital expenditure request, do you require submission of feasibility studies? \_\_\_\_\_ If yes, who reviews the feasibility study? \_\_\_\_\_ If not, what is management basis for approving the request for capital expenditure? \_\_\_\_\_

III. FINANCIAL DATA

1. Operating budget 2001:

Sources of Funds:

Percentage vs. Total Budget

National Government: \_\_\_\_\_  
 Hospital Income: \_\_\_\_\_  
 Trust Funds: \_\_\_\_\_  
 CDF: \_\_\_\_\_  
 Others : \_\_\_\_\_

Funds Utilization:

	Amount	Percentage
PS:	_____	_____
MOOE:		
Supplies		
Drugs	_____	_____
Laboratory	_____	_____
Radiology	_____	_____
Medical/OR	_____	_____
Others	_____	_____
Utilities	_____	_____
Contractual Services	_____	_____
Others	_____	_____
Capital Outlay		
Infra:		
Equipment:	_____	_____
TOTAL	_____	_____

2. Financial reports prepared and frequency of preparation:

- a. Departmentalized Income & Expenditure: \_\_\_\_\_
- b. Balance Sheet: \_\_\_\_\_
- c. Statement of Operation: \_\_\_\_\_
- d. Statement of Cash Flow: \_\_\_\_\_
- e. Cash Position Reports: \_\_\_\_\_

3. Hospital gross income for CY 2000: \_\_\_\_\_  
Actual cash collection: \_\_\_\_\_

4. Receivable Account/class. Indicate ageing.

5. Inventory Classification.

	Inventory balance
Drugs	_____
Laboratory	_____
Radiology	_____
Medical/OR	_____
Others	_____

*IV. FINANCE PERSONNEL*

Number of Staff: \_\_\_\_\_

General Qualifications:

# Hospital Reform Policy Framework

## I. Introduction

In terms of bed to population ratio, the Philippines has an adequate hospital system comprising approximately 70,000 beds, of which about half are in privately run hospitals, while the rest are in national and local government- owned institutions. Although there is a tendency to concentration in urbanized areas and there are some isolated island communities, geographic access to hospital services is, at least on paper, evenly distributed throughout the archipelago. However, there is a gross inequity in the quality of services by socio-economic class and by urban-rural distribution of sophisticated facilities.

The upper classes (A, B, and upper C) access technological superior tertiary level facilities that are mainly in the private sector and generally located in highly urbanized areas. When the technological quality of services in government hospitals is high, these are also accessible more to the higher income groups than to the lower classes because of de facto co-payment requirements as well as their urban locations.

The passage of the Philippine health insurance law in 1995 was intended to reduce the factor of ability to pay as a determinant of quality of hospital services available to the population. But even when universal coverage becomes implemented in the year 2010, the inequities will persist unless all Filipinos, irrespective of socio-economic status overhaul the hospital system of the country to enable access to all level of services. It is important, therefore, that the state develop a hospital policy framework that will guide a reform of the hospital system over the next two decades. The framework in effect should answer the question: "What will the Philippine hospital system look like in the year 2020, when presumably universal social health insurance is a reality?"

This paper is an early attempt to answer the question from the point of view of ownership of facilities, the levels of hospital services available, the sources of hospital financing, geographic distribution, governance mechanisms and regulatory arrangements. It suggests the concept of institutional autonomy as the basic guiding principle for change in the hospital system. Finally, the paper also suggests some approaches that will initiate this process of change in the next few years.

It is expected that the present 50/50 mix of government and private ownership will persist. However, in both sectors, the character of the ownership will evolve into non-stock, non-profit corporate proprietorship. In the government

sector, ownership by local governments at provincial and city levels will be dominant. In the private sector, single proprietary operations will comprise only a very small segment of the system. In effect, the operations of government and private hospitals will converge so that differences are progressively blurred, as insurance financing becomes the primary source of income in the two sectors.

## II. Types of Hospitals (according to level of hospital services offered)

At present the Department of Health classifies hospitals into primary, secondary and tertiary institutions for licensing purposes. The Philippine Health Insurance Corporation (Philhealth) follows the DOH licensing classification for the accreditation of hospitals to determine the levels of reimbursements for hospital benefits of its members. Criteria for classification focus on bureaucratic compliance with requirements and have little relation to quality concerns, particularly from the viewpoint of clinical quality and patient satisfaction. To reconcile the apparent inconsistencies between compliance with regulatory requirements and quality of hospital care, it is proposed to simplify the criteria. To begin with, the primary hospital category should be deleted, as it is actually a contradiction in terms. Hospitals are designed to be referral institutions for health problems that cannot be handled at primary or first contact levels. The categorization of hospitals should not be used to determine reimbursement scales for insurance purposes.

Outlined below is a proposed hospital classification system based solely on the kinds of services available. This categorization would be used basically for purposes of planning, in order to ensure accessibility of the various kinds of hospital service by geographic area and population size. Quality assessment would be based on outcomes, data that are expected to be generated through the health insurance information system.

### Secondary Hospitals

Secondary hospitals should be the 1<sup>st</sup> level of referral from primary health care facilities, networks or community organizations. They also function as emergency facilities. The district hospitals that were devolved to provinces would fall under this category.

This level of hospital will provide both primary and secondary care services. While their major function will be the provision of in-patient secondary medical care, all secondary facilities should be capable of providing primary health care to the immediately surrounding communities. As such these hospitals will also have public health functions.

In addition to the direct provision of some primary services, the secondary level hospitals will also serve some of the training needs of health workers at lower levels. Thus these facilities will serve as integrating mechanisms between field and higher-level workers and institutions.

Secondary hospitals will also have research functions. While staff will be directly responsible mainly for field and applied research, they may be called upon to participate in research activities of tertiary and specialized hospitals.

### Tertiary

Tertiary hospitals will be the 2<sup>nd</sup> level referral facilities for most cases or problems requiring hospital care. They will be able to provide almost all specialized services. The catchment areas served by tertiary hospitals will be the same as those presently served by provincial hospitals.

Although specialized care will be their main concern, primary and secondary health and medical services will also be available in these institutions. Thus they will also be expected to participate in public health programs and be functioning integrating mechanisms between promotive, preventive, curative, and rehabilitative care.

Training for personnel of lower level (primary and secondary) will also be a function of tertiary institutions as will be research at field, applied and clinical levels.

### \*Special (including research institutes)

The highest referral level will be the special hospitals, including research institutes and university or medical school affiliated facilities. All levels of health and medical services, including new high technology interventions, will be available at these facilities. In addition to field and applied research, these facilities will have the capacity to engage in basic biomedical research.

## III. Sources of Financing

It is expected that insurance benefits will cover the cost of most primary, secondary and ordinary specialized interventions. Thus, secondary hospitals will be almost entirely supported by their insurance income while tertiary and special institutions will have mixed sources depending on their capabilities.

Direct payments from patients may also continue to be received. For most hospitals these will be mainly for hotel and restaurant amenities such as extra-rooms or better meals. There may be some elective clinical services such as cosmetic surgery that may be made available to those who can pay for them.

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Charitable donations are likely to be sources of funds. Because of the nature of their services, beneficiary hospitals are expected to be mostly the special and academic institutions.

Government subsidies will continue to pay for some services. This should constitute a relatively minor but very important component of health care financing. The subsidies would mainly in the form of grants for research or training activities and for costly new technological interventions.

#### IV. Distribution

Considerations of geographic accessibility to the greatest number, the population size of communities served, and the epidemiology or pattern of diseases would determine the distribution of secondary and tertiary hospitals. On the other hand, specialty and technology intensive hospitals would continue to be located in urban areas, although close links with the lower levels would be maintained. Although profitability would be a determinant of the distribution of services, ability to pay by individuals and community would be a significantly reduced influence.

#### V. Governance

Almost all hospitals would be governed by independent boards of trustees or similar collegial bodies in which the following stakeholders would be represented:

- clients (patients)
- health providers (professionals)
- government (local and/or national as needed)
- community (people's organization, civil society as appropriate)
- academic institutions (when relevant)

The governance system is aimed at establishing institutional autonomy, providing freedom to respond to the operational environment, such as the changing pattern of diseases, evolving community aspirations, as well as market forces (both local and international).

## VI. Regulatory Mechanisms

The Department of Health and Philhealth would continue to be partners in the regulation of hospital operations. DOH licensure would be based on minimum standards of safety and other community considerations. Philhealth would be

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the main implementor of quality standards through its reimbursement scheme and a system of incentives and disincentives. Practice guidelines and outcomes monitoring will be a cooperative undertaking of the two organizations with assistance from the academe.

International issues (quality standards, insurance portability) mainly through DOH and other relevant government agencies.

## VIII. Approaches

Wherever possible or relevant, operational autonomy may be given to national hospitals through administrative issuance and arrangements. One model is the linkage of selected hospitals with existing corporatized institutions (e.g. placing the Ilocos Regional Hospital and the Quirino Memorial hospital under the board of trustees of the National Kidney and Transplantation Institute).

Another model would be the revival of corporate structures that had previously controlled specific hospitals (e.g., the board of governors of the precursor of the East Avenue Medical Center. It is suggested that these steps be taken as soon as possible for at least four institutions. A target date of 2004 for the identification of the most efficient models would then be feasible.

National and local legislative action would be necessary to enable the establishment of independent hospital boards that will run individual facilities. As many provincial and city administrations as are prepared to do so should be encouraged and supported to pass required local legislation for hospitals now controlled by provincial or city governments.

It may be possible for the current national legislature to pass laws enabling the transfer of governance of national hospitals to independent boards. In the senate, work is in progress to revise a previously filed hospital-upgrading bill to incorporate features of an omnibus hospital autonomy law. With the cooperation of all stakeholders, it is necessary to identify partners in both houses of congress for this effort.

In the meantime, Philhealth must develop its reimbursement packages in order to ensure appropriate financial support for the autonomous facilities as they emerge.

Finally, an aggressive advocacy campaign must be initiated to overcome the strong resistance to the corporatization of government hospitals especially by staff of these institutions. Advocacy should emphasize the advantages of autonomy and assure transitional arrangements that will not unduly endanger the employment status of current staff.

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# Activity Plan

## PANGASINAN PROVINCIAL HOSPITAL

### Objectives:

This project is expected to completely carry out hospital reforms in PANGASINAN PROVINCIAL HOSPITAL. The LGU has expressed their desire to change the organizational form of the provincial hospital into a Government-Owned and Controlled Corporation.

The objectives are:

1. To apply the corporatization procedures to the Pangasinan Provincial Hospital.
2. To provide assistance in institutional capacity building toward a corporate design .
3. To formulate the tools/technology required to provide the assistance.
4. To document the experience to improve the corporatization process.

ACTIVITY	TASKS	TIME FRAME						PERSON RESPONSIBLE	OUTPUT
		DEC	JAN	FEB	MAR	APR	MAY		
The hospital implements revenue enhancement measures	>The CEO organizes the hospital costing team	--	--	--		--	--		>Costing team is organized >Costing Team trained in costing & rate setting >Costing of cost and revenue centers conducted >Costing study approved
	>The costing team is trained on costing and rate setting methodology	--	--	--	--		--		
	>Hospital costing team conducts costing study	--	--	--			--		
	>Costing team submits results for approval								
Improve Billing and collection procedures	>Costing team conducts rate setting exercise	--	--	--	--		--		>Rate setting of services done >Fee Schedule revised >Fee schedule approved
	>Costing team revises fee schedule	--	--	--	--		--		
	>Costing team submits revised fee schedule for approval								
	>MSH trains costing team on procedures writing	--	--	--	--				
Improve Billing and collection procedures	>MSH orients the costing team on the different processes of billing and collection	--	--	--	--				>Costing team trained on procedures >Costing team oriented on billing and collection processes >Patient classification criteria revised >Billing & collection processes revised
	>Medical social worker revises patient classification criteria	--	--	--	--				
	>Costing team revises billing and collection processes								

ACTIVITY	TASKS	TIME FRAME						PERSON RESPONSIBLE	OUTPUT
		DEC	JAN	FEB	MAR	APR	MAY		
The LGU organizes the hospital Board	>MSH provides LGU with the guidelines to establish the hospital board >LGU selects and engages members of the hospital board >MSH orients the Hospital Board on their roles and responsibilities	--	--	--	--	--	--		Guidelines provided >Hospital Board Members appointed on advisory capacity >Hospital Board oriented
Hospital Board appoints the CEO/Hospital Director	>The hospital board selects and hires the CEO >MSH provides the Hospital Board the proposed authority/limitations of the CEO >The Hospital Board agrees on the authority and limitations of the CEO	--	--	--	--	--	--		>CEO/Hospital Director selected >CEO authorities provided >Hospital Board delegates powers to CEO/Hospital Director
Start pre-incorporation steps	>The LGU conducts an inventory of assets and liabilities, and personnel audit >MSH assists in providing legal remedies to the issues identified in this process	--	--	--	--	--	--		>Inventory and audit conducted >Transfer issues resolved

ACTIVITY	TASKS	TIME FRAME						PERSON RESPONSIBLE	OUTPUT
		DEC	JAN	FEB	MAR	APR	MAY		
Hold preliminary meetings with the LGU	<ul style="list-style-type: none"> <li>&gt;Contact LGU and set date of meeting</li> <li>&gt;Draft agenda for the meeting</li> </ul>		--	--	--	--	--		<ul style="list-style-type: none"> <li>Date of meeting set</li> <li>Agenda for the meeting drafted</li> </ul>
	<ul style="list-style-type: none"> <li>&gt;Hold meeting, orient LGU on the project, present areas of possible technical assistance</li> </ul>		--	--	--	--	--		<ul style="list-style-type: none"> <li>LGU and hospital staff oriented on the project</li> </ul>
Formalize technical assistance to LGU	<ul style="list-style-type: none"> <li>&gt;MSH orients the LGU and hospital representatives on corporatization and the different steps to achieve conversion</li> <li>&gt;MSH arranges for the signing of the MOA</li> <li>&gt;LGU signs MOA with the DOH to formalize arrangements for the technical assistance</li> </ul>		--	--	--	--	--		<ul style="list-style-type: none"> <li>MOA signed</li> </ul>
The LGU decides to institute reforms in the hospital	<ul style="list-style-type: none"> <li>&gt;HOMS conducts advocacy campaign</li> <li>&gt;LGU formulates the transition plan</li> <li>&gt;LGU submits transition plan to Regional health office and HOMS</li> <li>&gt;CORE GROUP is organized to coordinate and oversee implementation of transition plan</li> </ul>		--	--	--	--	--		<ul style="list-style-type: none"> <li>&gt;Advocacy conducted</li> <li>&gt;Hospital oriented on corporatization</li> <li>Transition Plan formulated</li> </ul>
Formulation of the Legal instrument	<ul style="list-style-type: none"> <li>&gt;MSH provides a template of the Sanggunian Resolution</li> <li>&gt;The Provincial Health Board and the core group drafts a Sangguniang Panlalawigan resolution</li> </ul>		--	--	--	--	--		<ul style="list-style-type: none"> <li>&gt;Template provided to LGU</li> <li>&gt;Sanggunian Resolution drafted and finalized</li> </ul>
Provision for regular subsidy	<ul style="list-style-type: none"> <li>&gt;The Provincial Health Board and the core group studies and recommends formula as basis for continuing subsidies</li> </ul>			--	--	--	--		<ul style="list-style-type: none"> <li>Formula for subsidies incorporated in Sanggunian Resolution</li> </ul>

ACTIVITY	TASKS	TIME FRAME						PERSON RESPONSIBLE	OUTPUT
		DEC	JAN	FEB	MAR	APR	MAY		
The LGU formalizes the transfer of assets to the corporation	>Draft the business transfer agreements	--	--		--	--	--		>BTA drafted and finalized >Assets match with inventory  >Assets transferred to corporation >BTA signed
	>Physical inspection of assets by SCPH and the Corporaton	--	--		--	--	--		
	>LGU makes actual transfer of assets to the corporation	--	--		--	--	--		
	>The LGU and the corporation and signs BTA	--	--		--	--	--		
The hospital board conducts its first board meeting	>The hospital board: -elects its officers -adopts the corporate seal -establishes a principal office -fix place of regular meetings -authorizes signing and counter signing of checks -adopts contracts made by promoters -authorize the opening of a bank account and designate certain officer/representatives a authorized bank signatories -organize committees -authorize acquisition of property and execution of contracts to actual commencement of the business	--	--	--		--	--		>Hospital Board meeting conducted and adopts By-Laws

ACTIVITY	TASKS	TIME FRAME						PERSON RESPONSIBLE	OUTPUT
		DEC	JAN	FEB	MAR	APR	MAY		
Advocacy for new fee schedule	>Hospital costing team orients staff on the new fee schedule >Core group plans measures to inform hospital clients and other stakeholders on the new fee schedule >Hospital campaigns for the adoption of the new fee schedule >Hospital implements new fee schedule	--	--	--	--	--	--		>Hospital staff oriented on new fee schedule >Plan to inform other stakeholders formulated >Stakeholders are informed of new fee schedule >New fee schedule implemented
Hospital explores other sources of revenue	>Costing team studies other options to increase revenue >Costing team formulate plans for other fund sources >Hospital implements plan	--	--	--	--	--	--		>Other sources of revenue explored >Plans formulated >Plans implemented

ACTIVITY	TASKS	TIME FRAME						PERSON RESPONSIBLE	OUTPUT
		DEC	JAN	FEB	MAR	APR	MAY		
Hospital formulates strategic/business plan	>The CEO organizes the hospital planning team >The planning team is trained on Strategic/business planning >Hospital planning team conducts planning activities >Planning team presents plan for approval	--	--	--	--	--	--		>Planning team is organized >Planning Team trained >Strategic/ business planning conducted >Strategic/Business plan approved
Hospital improves its financial management system	>The CEO organizes a financial mgnt. team (FMT) >FMT is oriented on the financial management manual >FMT implements improvements in the financial systems of the hospital	--	--	--	--	--	--		>FMT organized >FMT trained >Financial management systems improved

# GUIDE TO WRITING PROCEDURES

## PURPOSES OF A PROCEDURE

- Record and preserve the previous experience of the organization
- Provide basis for training, not only of new employees but existing staff learning new jobs
- Minimize learning time for a new job and reduces queries and interruptions to experienced staff
- Establish a standard method
- Force detailed examination and evaluation of methods and the allocation of job responsibilities
- Tie together the work of many people or departments and provide for cooperation

## A PROCEDURE IS DIFFERENT FROM A

**SYSTEM** which is a larger unit of work. A procedure is a part of the system which might include people and skills, layout, machines, supplies, tools and a number of procedures

**POLICY** which usually provides broad guidelines within which specific goals and procedures can be developed

### Choose Your Audience

TYPE	PURPOSE	STYLE	AUDIENCE
General Procedure	To tie together activities of many departments into the systems plan	Gives brief paragraphs like thos in functional guides. Main forms used	All officers, department heads, and supervisors concerned.
Department Procedure	To mesh work of 2 or more groups within one department	Covers flows, all froms, files, and operations	Supervisor and group leaders concerned
Job Summary	To describe one job in the organization and how it fits with others	Main accountabilities and relationships described	Supervisors, Personnel, Jobholder
Job Procedure	To tell worker how to proceed. Aids to training. Used to handle work done frequently	Details all essential steps of one job	Jobholder concerned

## TRANSLATE PROCEDURES INTO PLAIN ENGLISH

PROCEDURES	PLAIN ENGLISH
1. Ascertain	Find out
2. Accomplish	do
3. Advise	tell
4. Ameliorate	Improve
5. Appreciable	some
6. Composed	made up
7. Compilation	list
8. Conformance	do, follow
9. Discrepancy	error
10. Designated	named
11. Documents	papers
12. Deemed	thought
13. Disposition	
14. Expeditious	rapid, quick
15. Expenditure	spend
16. Establish	set up
17. Furnish	supply
18. Forward	send
19. Facilitate	allow
20. Incumbent	job
21. Incorporate	include
22. Indoctrinate	teach, show
23. Issuance	sent out
24. Increment	part
25. Initiate	start
26. Juxtaposition	next to
27. Jurisdiction	has the say
28. Locate	find
29. Necessitate	need
30. Necessity	need
31. Origination	start
32. Operable	usable
33. Overage	too much
34. Optimal	best
35. Proficiency	ability
36. Pertinent	applies to

37. Procurement	gets
38. Prior to	before
39. Reimburse	pay back
40. Routed	sent to
41. Surveillance	look, watch
42. Sequential	in order
43. Transmittal	send
44. Termination	end
45. Utilize	use
46. Utilization	use

### Some Common Phrases

In the event of	if or when
In order that	so
Serves the purposes of	does
Make a revision of	revise
Grant approval to	agree
Unaware of the fact that	unaware
The individual jobholder	he
In the normal course of events	normally
Come to an end	end

Note: These few examples only illustrate the point, which is:

**Write it as you would say it.**

## HOW TO WRITE A PLAYSRIPT PROCEDURE

1.       **Select a logical work cycle**  
  
The procedure should present a major flow of activity in which the actions are packaged between a recognizable beginning and end.
2.       **List the Actors**  
  
Identify all of the people involved and list them
3.       **List the Action Steps**  
  
Read carefully through any existing procedures and talk with the people involved to find out all the things which have to be done. Stick with the major flow of activity that gets action along the mainstream of the chosen work cycle.
4.       **Match up actors and actions**  
  
Identify who does what for each step listed
5.       **Fix the start and finish points**  
  
The action or event that starts the cycle is where the procedure begins. Spell out the results of the activity, the point at which the job (and the procedure) is complete. These are the brackets within which you will describe the action.
6.       **Put all the steps in their right sequence**  
  
Write down who does what to complete the cycle, in the order that they should happen
7.       **Improve the writing**  
  
Edit the description of each step to remove excess words. Describe what each actor does in plain, simple English.

8. **Number the steps**

Keep the entire process in its time sequence by numbering all steps. Handle simple exceptions this way. For instance, if you are writing step four, the exception can be indented as step 4a, 4b, etc. Avoid over-complicated use of decimals, e.g. 2.1.1.3

9. **Choose a Title**

A good title tells briefly what the procedure covers and separates it from all others. It is better to use five or six words which truly describe the work cycle than one or two words which do not.

If you are revising an existing procedure, stick to the existing title.

The effective procedure gets into the how-to-do-it quickly.

10. **Get users to agree to the procedure**

Circulate a draft and ask for approval or suggested changes. Alternately, circulate copies and then have a meeting at which the procedure is described and try to get everyone to agree in one go.

## ADVANTANGES OF A PLAYSRIPT PROCEDURE

1. Makes procedures easy to write
2. Makes procedure easy to read
3. Reveals any duplication in the action
4. Reveals any backtracking of the action flow
5. Saves coordination time
6. Lets each manager readily see if he is involved in the proposed action
7. Each manager can see the relationship of his department to other in the specific team-play
8. Forces the writer-analyst to think in terms of a logical work sequence
9. People focus on the work, not the words, in a procedure
10. Forces a decision on work responsibility
11. Makes sense to people. They like its simplicity
12. Leads to direct participation. People pick up the format and use it naturally
13. Increases enthusiasm of operating people for the system. The plan now becomes clear to them
14. Communicate well. Talk about work in a common language-simple English
15. Reveals a complex team-play, but does so simply
16. Fewer words
17. The analyst can sort information as gathers it. He rejects information that does not make the procedure proceed
18. Provides a uniform procedure format that everybody gets used and understands
19. Gets procedure proposals started right. People originate their own procedures in this style, sending in proposals that are easy to understand
20. Makes it easy to connect the work sequence of various procedures
21. Changes are easier to make. You can see what effect each proposed change will have.

## PROCEDURE CHECKLIST

### First Impression

1. Does the procedure have a heading that says "Procedure"?
2. Does the procedure's general appearance make it look interesting?
3. Does it avoid a cluttered dull look due to many boxes and approvals?
4. Is it balanced on the page? Does it have wide white margins?
5. Are the paragraphs short? Do they invite easy reading?

### Thought Behind The Procedure

1. Does the subject (title) really tell what the procedure is about?
2. Does the writing reveal the purpose of the procedure? (Not "talk around about" the subject.)
3. Does the procedure seem to "package up" the subject matter well? Do subsections go together logically?
4. Does the procedure answer all how-to-proceed questions?
5. Is the action pattern in logical, step-by-step order?
6. Does it include the main exceptions?

### How Well Does It Guide?

1. Does it tell each doer the steps he is to take in the action pattern?
2. Does it do a good job of coordinating the action? Secure cooperation?
3. Can the reader understand it without "study"?
4. Does it specifically spell out forms, approvals, conditions?
5. Does it tell each man enough about the other man's role as he can work with the other man intelligently?
6. Can it be used to train new staff?

## ADDITIONAL POINTS

1. **Don't save paper and spoil the procedure**

Don't try to make one procedure cover too many conditions or jobs. Print large enough for comfortable reading and use plenty of white space on uncrowded pages.

2. **Handle forms separately**

Don't describe how to complete a form or record in the body of the procedure. It's often a good idea to include a completed example of each form and record as back up sheets.

3. **Flowcharts should improve understanding**

Make sure that charts improve the readers understanding and not baffle them. Include a chart to illustrate the main points or flows. Keep its simple, and think in terms of the user's needs and knowledge.

4. **Review procedures regularly**

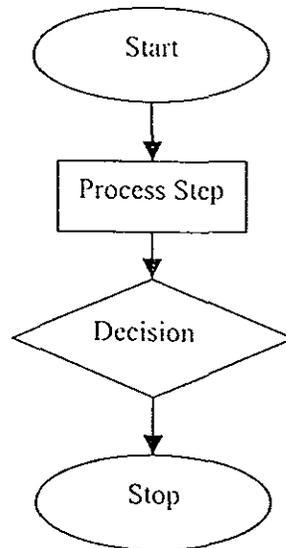
Encourage people to suggest or report changes to procedures and set up a regular review schedule for all existing material. Keep a special central file for each procedure in which you can accumulate background material and ideas for improvement until it is worth doing a rewrite.

5. **Seek and destroy obsolete procedures**

When you issue a revised procedure, include clear guidance which enables manual holders to identify and destroy obsolete material. At least annually, purge existing manuals to ensure that they contain complete and up-to-date materials.

## FLOWCHART

A Flowchart is a pictorial representation showing all of the steps of a process. It is done to identify the actual ideal paths that any product or service follows in order to identify deviations. Flowcharts provide excellent documentation of a program and can be a useful tool for examining how various steps in a process are related to each other. Flowcharting uses easily recognizable symbols to represent the type of processing performed.

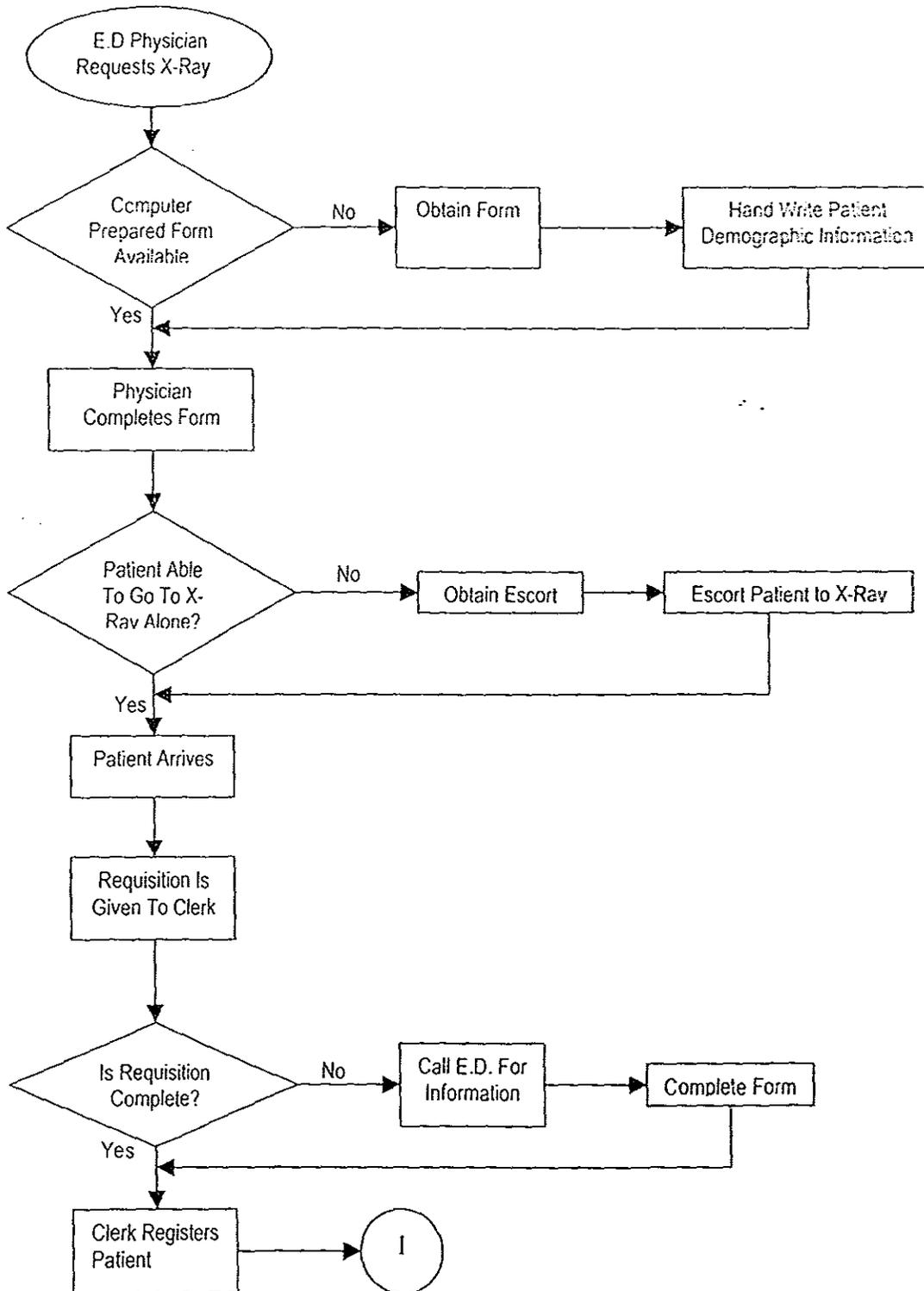


By studying the flowcharts you can often uncover loopholes which are potential sources of trouble. Flowcharts can be applied to anything from the travels of an invoice or the flow of materials, to the steps in making a sale or servicing a product.

The flowchart is most widely use in problem identification in a process called IMAGINEERING. The people with important knowledge about the process meet to:

1. Draw a Flowchart of what steps the process actually follows.
2. Draw a Flowchart of what steps the process should follow if everything worked right.
3. Compare the two charts to find where they are different because this is where the problems arise.

Flowchart – Admin./Service Example  
Emergency Department/ Radiology Process





## PROPOSED GUIDELINES IN ORGANIZING A HOSPITAL BOARD OF TRUSTEES

### 1. WHAT IS THE PRIMARY FUNCTION OF THE HOSPITAL BOARD?

The Board of Trustees shall have general charge of the properties, business, affairs and transactions of the Foundation with the power to manage, direct and supervise the same under its collective responsibility as provided in the By-laws or conferred upon it by applicable laws and regulations. (Model By-Laws of a non-stock, non-profit corporation).

The hospital board has the ultimate authority and responsibility for patient care and the overall quality of service in the hospital. It provides the general direction and guidance for the management and operation of the hospital. The board is established to serve as a link between the community and the hospital.

### 2. WHAT ARE THE ROLES AND RESPONSIBILITIES OF HOSPITAL BOARD MEMBERS?

The following are the proposed duties and responsibilities of the LGU hospital's board of trustees:

- To ensure that the basic mission of the hospital is accomplished
- To determine the policies of the institution in relation to community needs
- To assist the Provincial Governor in the financial management of the hospital (including the review and approval of financial plans)
- To ensure that hospital financing is sufficient to provide services of acceptable quality and enforce business-like control of expenditures:
- To mobilize community resources (including funds) for the operations and development of the hospital;
- To ensure that the current volume and quality of services provided is attuned to the standards of the health care industry;
- To coordinate professional interest with administrative, financial, and community needs
- To assist in information dissemination about the hospital programs, policies and needs;
- To generate community support for and participation in the hospital programs and operations;
- To help make the hospital as a center of wellness through a hospital-based primary health care program;
- To protect the assets of the hospital [To provide for the safe administration given in trust]
- To keep accurate records of finances and activities

- To surround the patient with every reasonable protection, thereby fulfilling the moral and legal responsibility of the board accordingly by:
  - a. selecting qualified administrators and hospital personnel
  - b. appointing only on the basis of merit; and
  - c. not profiting by connections with the hospital

The board would hire the hospital's Executive Director who would in turn, hire staff and operate the hospital

### 3. HOW ARE THE HOSPITAL BOARD MEMBERS SELECTED?

Hospital Board Members may be selected in the following manner:

- a. A selection committee may be formed to invite various groups to submit nominees to the hospital board;
- b. The selection committee screens the nominees;
- c. The selection committee submits a short-list of qualified persons for board membership to the local chief executive (provincial governor);
- d. The Local Chief Executive appoints the board members

To ensure continuity and the presence of experienced board members at any given time, terms of office should overlap. Integrity, intelligence, interest, proven decisiveness and dedication should be given weight in the selection process.

### 4. HOW MANY MEMBERS SHOULD COMPOSE THE BOARD?

In stock corporations, the number of directors shall not be less than five but not more than fifteen. In non-stock corporations, the number of trustees may exceed fifteen. (Corporation Code, Secs 14 and 32)

The board of directors should be made up of representatives of government, the concerned community, and the medical profession.

### 5. WHO SHOULD BE ELECTED / APPOINTED AS BOARD MEMBERS?

Only natural persons may be admitted as members of a non-stock, non-profit organization (foundation), as such, the LGU itself cannot be an incorporator.

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In selecting or appointing the hospital board members, it is proposed that the search committee limits its choices to persons who have the right knowledge, skills and experience, time and inclination to serve the hospital. They will be entrusted to protect the public's interest, ensuring that the hospital is serving the community healthcare needs. Board members should be tempered by the realities of the issues facing the organization and the types of expertise required to address them. ( MSH, Hospital Board Members Handbook, Coast Provincial General Hospital Mombasa)

The Board Members should preferably have a variety of expertise, among of which are: (hospital) finance and administration, medical care, public healthcare, government rules and regulations.

Potential board members may come from the following groups:

Local Government Unit(s) within the hospital's catchment area  
Hospital staff  
Medical practitioners in the community  
Non-Government Organizations / Peoples Organizations  
Religious community

The board may also elect, by a unanimous vote, honorary members and officers who shall have no authority over nor responsibility for the operations of the Foundation.

## 6. HOW IS THE BOARD ORGANIZED?

The hospital board may be organized in this manner:

- Board Chairperson (e.g. The Local Chief Executive or SP member representing the district where the hospital is located)
- Vice Chairperson (Chief of Hospital – ex-officio member)
- Board Secretary
- Treasurer
- Other members

Committees may also be established to provide support or guidance to the board in the performance of their functions. Here are some of the committees which may be established:

- Executive
- Budget and finance
- Quality Improvement
- Strategic Planning
- Medical Staff Affairs

## THE CHAIRPERSON

The Chairperson of the Board of Trustees shall be elected by the members of the Board from among themselves, and shall be the presiding officer of the Board of Trustees.

## THE CHIEF EXECUTIVE OFFICER AND VICE-CHAIRPERSON

1. The Chief Executive Officer shall be appointed by the Board of Trustees who shall serve as Vice-Chairperson of the Board and upon appointment shall be recommended to the Local Chief Executive for appointment as member of the Board of Trustees.

2. The Chief Executive Officer shall be selected by the Board of Trustees for a term of \_\_\_\_\_ (*no. of years*) or until his successor shall have been appointed; His appointment shall be without prejudice to subsequent reappointment for similar terms, or until he shall have reached the age of \_\_\_\_\_ (*retirement age*).

3. He shall act as Vice-Chairperson and take over the duties of the Chairperson during his/her absence, incapacity or at the request of the latter.

4. He shall execute bonds, mortgage and other contracts requiring a seal, under the seal of the \_\_\_\_\_ (*name of LGU hospital*).

5. He shall exercise direct charge of the \_\_\_\_\_ (*name of LGU hospital*), and general supervision over the business affairs and property of the \_\_\_\_\_ (*name of LGU hospital*) and over the subordinate affairs, agents, and employees, subject however, to the direction of the Board of Trustees.

6. He shall issue, enforce or cause to be enforced and modify and/or amend such rules and regulations governing all aspects of the \_\_\_\_\_ (*name of LGU hospital*) as he may deem fit and necessary in the conduct of the affairs of the \_\_\_\_\_ (*name of LGU hospital*).

7. He shall present his report of the state of the affairs of the \_\_\_\_\_ (*name of LGU hospital*) at the annual meeting of the Board of Trustees and from time to time shall report to the Chairperson all matters within his knowledge which the interest of the \_\_\_\_\_ (*name of LGU hospital*) may require to be brought to their attention and such other time as required by the Chairperson.

8. He shall sign all contracts in the name of the \_\_\_\_\_ (*name of LGU hospital*);

9. He shall countersign all checks, treasury warrants, money order and other negotiable instruments in the name of the \_\_\_\_\_ (name of LGU hospital);

10. He shall appoint and fix the tenure of offices at his discretion, remove or suspend temporarily or permanently and fix the compensation as he may from time to time think, fit the personnel of the \_\_\_\_\_ (name of LGU hospital) and shall determine their duties and responsibilities and may require security in such instances and in such amounts of accountable personnel as he may see fit, subject to the review of the Board of Trustees and subject to existing Civil Service or Labor Code rules and regulations;

11. He may create such committees or appoint such individuals as he may deem fit for the proper and efficient function of the \_\_\_\_\_ (name of LGU hospital) or to assist him or the Board of Trustees in the accomplishment of any of the objectives of the \_\_\_\_\_ (name of LGU hospital) and related activities, determine their function, composition, duties and responsibilities;

12. The Chief Executive Officer, subject to the review of the Board shall initiate changes in the organizational structure of the \_\_\_\_\_ (name of LGU hospital) to make it more responsive to the attainment of the goals and objectives of the \_\_\_\_\_ (name of LGU hospital);

13. He shall do and perform all things incidental to the position of the Chief Executive Officer of the \_\_\_\_\_ (name of LGU hospital) and such duties as may be assigned to him by the Board of Trustees; and

14. The Chief Executive Officer in the performance of his duties and responsibilities, shall have his principal assistant an Assistant Director to whom he may delegate the powers and authority to perform any or all of the duties of the CEO or to any other Senior Officers except as Vice-Chairperson and member of the Board of Trustees during his absence due to incapacity or at the request of the former in writing and such other duties as the Board may from time to time prescribe.

#### THE SECRETARY OF THE BOARD

1. The Secretary of the Board shall be appointed by the Chairperson or Vice-Chairperson to serve on a part time basis and shall receive such allowances or remuneration as the Chairperson or Vice-Chairperson may from time to time.

2. He must be a citizen and resident of the Philippines.

3. He must keep full minutes of the meetings of the Board of Trustees;

4. He shall attend all sessions of the Board and record all votes and the minutes of all proceedings in a book to be kept for the purpose;

5. He shall give or cause to be given notices of all meetings of the Board and other duties as may be prescribed by the Board of Trustees or the Chairperson or Vice-Chairperson under whose supervision he shall be;

6. He shall keep in safe custody the seal of the \_\_\_\_\_ (name of LGU hospital), and when authorized by the Board of Trustees, affix the seal to any instrument requiring the same, and the seal when so affixed, shall be attested by his signature.

#### VACANCIES IN BOARD

If there shall be any vacancy for any reason in the Board, the remaining members of the Board shall inform the Local Chief Executive through the Chairperson of such vacancy. Any vacancy in the Board of Trustees shall be filled by appointment by the Local Chief Executive, and such appointee shall serve for the unexpired term.

#### BOARD RESIGNATION

Any member of the Board of Trustees may resign his office at any time, such resignation shall be made in writing to take effect from the time fixed in the resignation, but in no case less than fifteen (15) days from thereof. The acceptance of the resignation shall not be required to make it effective except in case of accountable officers.

#### COMPENSATION

The appointive members of the Board of Trustees shall serve without compensation.

THE PROPOSED EXECUTIVE OFFICERS  
OF THE LGU HOSPITAL

THE CHIEF EXECUTIVE OFFICER

The Chief Executive Officer (CEO) shall exercise direct management and supervision over the business affairs of the hospital. He shall also be designated as the Vice-chairperson of the Hospital's Board of Trustees. (see Vice-Chairperson under Proposed Guidelines in Organizing a Hospital Board of Trustees)

THE ASSISTANT DIRECTOR

The Assistant Director shall be appointed by the Chief Executive Officer for a term of \_\_\_\_\_ (no. of years) or until his successor shall have been appointed. His appointment shall be without prejudices to subsequent reappointment for similar terms or until he shall have reached the age of \_\_\_\_\_ (retirement age).

He shall be vested with all the powers and authority and required to perform any or all of the duties of the CEO, except as Vice-Chairperson and member of the Board of Trustees during the absence of the latter due to incapacity or at the request of the latter in writing and such other duties as the Board or the Director may from time to time prescribe.

THE CHIEF DIVISION OF MEDICAL STAFF

1. The Chief of the Division of Medical Staff shall be appointed by the CEO for a term of \_\_\_\_\_ (no. of years) without prejudice to subsequent reappointment for similar terms or until he shall have reached the age of \_\_\_\_\_ (retirement age).

2. The Chief of the Division of Medical Staff who shall for all intents and purposes be called the Chief of Medical Staff is responsible to the CEO for all medical and professional activities, including all administrative matters inherent in the discharge of such functions;

3. He shall be responsible for supervising the functions of all the medical and diagnostic departments of the \_\_\_\_\_ (name of LGU hospital) and insure the observance of all the rules and regulations of the \_\_\_\_\_ (name of LGU hospital).

4. He shall help coordinate the training of the members of the house staff excluding the formulation of the training curriculum;

5. He shall report monthly to the CEO of the \_\_\_\_\_ (name of LGU hospital) on the state of medical practice in the \_\_\_\_\_ (name of LGU hospital).

6. He shall exercise technical supervision and control over the rank and file of the para-medical personnel in the \_\_\_\_\_ (name of LGU hospital).

7. He shall be ex-officio member of all standing and special committees of the Medical Staff; and

8. He shall perform such other duties and responsibilities that may be required by the CEO of the \_\_\_\_\_ (name of LGU hospital) or during the former's absence by the Assistant Director or by the Board of Trustees;

9. He shall perform such other duties as the Board or the CEO may from time to time prescribe.

#### CHIEF, DIVISION OF ADMINISTRATION

1. The Chief of the Division of Administration shall be appointed by the Director for a term of \_\_\_\_\_ (no. of years) without prejudice to subsequent reappointment for similar terms or until he shall have reached the age of \_\_\_\_\_ (retirement age);

2. The Administrator shall be a recognized specialist in hospital administration who need not be a member of the medical profession;

3. He shall have direct charge of the administrative aspects of the Center's operation; subject to the control and supervision of the CEO and/or the Assistant Director;

4. He shall keep full and accurate accounts of receipts, and disbursement and other transactions in books belonging to the \_\_\_\_\_ (name of LGU hospital), and shall deposit all moneys and other valuable effects in the name and to the credit of the \_\_\_\_\_ (name of LGU hospital) in such depositories as may be designated from time to time by the Board of Trustees;

5. He shall issue and sign checks of the \_\_\_\_\_ (name of LGU hospital) upon properly drawn vouchers authorized by the CEO or the Assistant Director, so designated by the CEO or the Board of Trustees in writing, and shall endorse for deposit all checks, treasury warrants, money order and other negotiable instruments for the account of the \_\_\_\_\_ (name of the LGU hospital) in such bank or banks as may be designated by the Board of Trustees;

6. He shall disburse the funds of the \_\_\_\_\_ (name of LGU hospital) as may be ordered by the CEO, and shall render to the Chairperson, The CEO and the Board at the regular meetings of the Board of Trustees and at such other times as may be required, an account of all his transactions as Administrator and of

the financial condition of the Corporation and at the regular meeting of the Board of Trustees in (month-ex. February) of each year similar to a report of the preceding year;

7. He shall do and perform all the functions and duties incidental to a Treasurer and Property Custodian and;

8. He shall prepare the annual budget of the \_\_\_\_\_ (name of LGU hospital) for the CEO not later than the end of (month- ex. January) of each year for presentation to and approval of the Board of Trustees.

#### THE CHIEF, DIVISION OF EDUCATION AND TRAINING

1. The Chief of the Division of Education and Training shall be appointed by the CEO for a term of \_\_\_\_\_ (no. of years) without prejudice to subsequent reappointment for similar terms or until he shall have reached the age of \_\_\_\_\_ (retirement age).

2. The Chief, Division of Education and Training shall be the principal Assistant of the CEO in formulating and carrying out the education and training program of medical, para-medical and lay personnel of the \_\_\_\_\_ (name of LGU hospital);

3. He shall exercise technical supervision and control in the training programs which are medical in nature of the various Divisions and Departments of the \_\_\_\_\_ (name of LGU hospital).

4. He shall recommend to the CEO for approval appropriate policies and guidelines in carrying out his functions as Chief of the Division of Education and Training;

5. He shall stimulate a high quality of training program to insure high standard of medical practice in the \_\_\_\_\_ (name of LGU hospital) and in the community;

6. He shall coordinate the participation of the Medical Staff members in the implementation of the national health care programs; and

7. He shall perform such other duties and responsibilities that may be required by the CEO of the \_\_\_\_\_ (name of LGU hospital) or by the Board of Trustees;

#### THE CHIEF, DIVISION OF RESEARCH

1. The Chief of the Division of Research shall be appointed by the CEO of a term of \_\_\_\_\_ (no. of years) without prejudice to subsequent reappointment

for similar terms or until he shall have reached the age of \_\_\_\_\_ (*retirement age*).

2. The Chief, Division of Research is the principal Assistant of the CEO in carrying out all research activities of the \_\_\_\_\_ (name of LGU hospital);

3. He shall initiate, encourage, review, screen and integrate all research programs, activities and research protocols in the \_\_\_\_\_ (name of LGU hospital) to ensure efficiency;

4. He shall assist and coordinate the research requirements of the different departments so that their projects could be carried out smoothly. This will include assisting investigation, secure research funds and coordinate the use of research equipment to preclude duplication of research equipment and research efforts;

5. He shall conduct seminars, prescribe conferences for the medical staff for the purpose of invigorating the members of the medical staff on the different aspects of research and its relevance to their practice of medicine;

6. He shall device research plans and monitor the progress of all research activities;

7. He shall integrate the efforts and activities of members of the Medical Staff, fellows and residents from the different departments in all research activities and all projects;

8. He shall stimulate among the medical staff members with new research ideas and concepts for greater creativity and productivity; and

9. He shall perform such duties that may be assigned to him by the CEO from time to time as the need arises.

#### THE CHIEF, DIVISION OF NURSING

1. The Chief of the Division of Nursing shall be appointed by the CEO for a term of \_\_\_\_\_ (*no. of years*) without prejudice to subsequent reappointment for similar terms or until he/she shall have reached the age \_\_\_\_\_ (*retirement age*).

2. The Chief, Division of Nursing or the Nursing Director shall be responsible to the CEO for all Nursing care activities of the \_\_\_\_\_ (name of LGU hospital) including such administrative matters inherent in the performance of his/her duties and responsibilities;

3. He/She shall develop a continuing program for upgrading the quality of nursing care, with emphasis on critical care;

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4. He/She shall develop programs for increasing the knowledge and expertise of all members of the nursing staff;

5. He/ She shall prepare for the CEO a comprehensive recruitment program to ensure a continuing source of good nursing material; and

6. He/She shall perform such duties and responsibilities that may be assigned to him/her by the CEO from time to time.

REMOVAL OF OFFICERS

All officers of the \_\_\_\_\_ (name of LGU hospital) can be subject to removal for cause in accordance with existing Civil Service or Labor Code rules and regulations, whichever is applicable.

## PRE-INCORPORATION STEPS FOR LGU-OWNED HOSPITALS

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

1. Inventory and Valuation of Assets
2. Inventory (Audit) of Liabilities
3. Prepare New Organizational Structure and Statement of Duties and Functions
4. Personnel Audit
5. Prepare the Shareholders' Agreement
6. Prepare the Business Plan

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

The business plan (step # 6) is optional, but it is nonetheless useful for the corporatizing agent to have it at the earliest stage.

## PRE-INCORPORATION STEPS FOR LGU HOSPITALS

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

Hospital assets should be listed and described preferably as follows:

- a. Land and Buildings – date of acquisition or construction, fair market value, deed of conveyance, certificate of title, latest real property tax receipts, zonal valuation, etc. (Annex A);
- b. Motor Vehicles – make, model, book value, proof of acquisition, certificate of registration, etc.;
- c. Other properties classified as capital equipment (Annex B) ;
- d. Supplies and materials;

- e. Cash on hand and bank deposit/s;
- f. Accounts receivable – e.g. from insurers, clients, etc.;
- g. Lease contract/s over properties rented by the concerned hospital units/s from third parties;
- h. Undistributed budgetary allocation under the current LGU Appropriations Act (GAA) for capital outlay, personal expenses and maintenance and operating expenses, and other properties.

2. **Inventory (Audit) of Liabilities –**

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

3. **Prepare New Organizational Structure and Statement of Duties and Functions –** As a separate juridical personality, the PROFO organizational structure should reflect the new shareholders/members-directors/trustees-officers-staff working relationships. It will be necessary to draw the new organizational structure showing the names of the offices/divisions/sections and to restate the duties and functions of each unit of the PROFO. The LGU should prepare its own expected post-corporatization organizational structure and plantilla of personnel.

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

- a. **Employment Status –** Hospital employees who voluntarily transfer to the CGH should not suffer a break in government employment. For those who refuse to transfer or will not be needed the new organization, the LGU may have to provide for their separation/ retirement benefits under R.A. 6656 or retain them in

another LGU unit or order their detail in the CGH. Due regard must be given to the following factors:

- a.1 status of appointment, whether permanent, temporary, contractual or casual;
- a.2 Civil Service eligibility;
- a.3 performance and merit;
- a.4 pending administrative or criminal case and other circumstances.

b. Plantilla of Personnel – The LGU shall assign the original plantilla of personnel to the PROFO on a secondment basis, subject to DBM approval. Abolition of positions due to corporatization is not recommendable. In fact, the LGU can expect a need to increase the number of positions and personnel in the PROFO with the decentralization of administrative and financial services. The following steps are suggested:

- b.1 Prepare the list of affected plantilla positions;
- b.2 Re-title, re-classify, upgrade positions, and/or create new positions, where necessary;
- b.3 Prepare the new list of plantilla positions;
- b.4 Change or provide new item numbers if necessary;
- b.5 Prepare individual job descriptions and qualification standards for all positions

**5. Prepare Memorandum of Agreement and Supporting Legal Conveyances –** The Memorandum of Agreement will be the operative act that will implement the legal authority for the PROFO to use assets and management of liabilities of the LGU Provincial Hospital. It will be most helpful if the LGU can present the specific measures that will be taken in transferring its operations to the approving authorities. The MOA will provide, among others, for:

- a. The use of assets and management of liabilities by the PROFO;
- b. The value of assets and liabilities;
- c. The terms and conditions for the transfer, detail, separation or retirement of affected LGU employees;

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

6. **Prepare the Shareholders' Agreement** – Where the DOH and other LGUs participate in the capital of the PROFO, it may be necessary to have a Shareholders' Agreement, even if the PROFO is a non-stock corporation. The Shareholders' Agreement will spell out all the general and special arrangements between the principal LGU and other participating agencies (e.g. DOH and other LGUs) in the management and operation of the PROFO, particularly in its Board of Directors/Trustees. The agreement can pre-determine the number of seats to be allocated between the principal LGU and other participating agencies, the voting share of the parties, the requisite number of votes to effect a decision of the Board, the limitations on the powers of conveyance, merger and consolidation, etc. The agreement applies even to non-stock corporations since such corporations also have a share capital.

7. **Prepare the Business Plan** – The preparation of a business plan is not a strict legal requirement and its absence will not affect the validity of corporatization. However, it is submitted that this is important to determine which government hospital should be given priority in corporatization and to calibrate the capability-enhancing systems that should be put in place in each hospital unit. The business plan should be able to:

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

Annex J

December 28, 2001

**MANAGEMENT SCIENCE FOR HEALTH, INC.**

Health Sector Reform Technical Assistance Project  
Rm. 502, 5<sup>th</sup> Floor, Maria Natividad Building  
470 T.M. Kalaw Street, Manila

RE : FINAL REPORT

ATTN: Dr. Melchor R. Lucas, Jr.  
*Hospital Reforms Manager*

Dear Dr. Lucas,

In compliance with our agreement with the Management Services for Health, we submit our final report on the legal assistance rendered for the provinces of Pangasinan and Capiz on the subject of corporatizing their provincial hospitals.

**BACKGROUND**

The undersigned was engaged to provide legal assistance to the proposed conversion of the provincial hospitals of two (2) pilot provinces, namely: Pangasinan and Capiz. The said provinces were chosen primarily because among the Chief Executives of the provinces approached, the two (2) elicited the most interest in and receptiveness on pursuing corporatization of their provincial hospitals.

The Local Government Code of 1991 provides a wide latitude to Local Government Units (LGU's) to explore and adopt organizational options to operate their hospitals. How extensive this latitude given to LGU's is described in the operative principles of decentralization under Title One, Section 3 of the 1991 Local Government Code, which provides as follows:

*"Sec. 3. Operative Principles of Decentralization – The formulation and implementation of policies and measures on local autonomy shall be guided by the following operative principles:*

x x x

*(b) There shall be established in every local government units an accountable, efficient and dynamic organizational structure and operating mechanism that will meet the priority needs and service requirements of its communities;*

x x x

*(f) Local government units may group themselves, consolidate or coordinate their efforts, services, and resources for purposes commonly beneficial to them;*

x x x

*(b) There shall be a continuing mechanism to enhance local autonomy not only by legislative enabling acts but also by an administrative and organizational reforms;*

x x x

*(k) The realization of local autonomy shall be facilitated through improved coordination of national government policies and programs and extension of adequate technical and material assistance to less developed and deserving local government units;*

*(l) The participation of the private sector in local governance, particularly in the delivery of basic services, shall be encouraged to ensure the ability of the autonomy as an alternative strategy for sustainable development x x x."*

Other provisions of the Local Government Code of 1991 which provided legal bases for decentralization and local autonomy are found in Sections 17 [b] and [j]; Section 22 [d], and Section 33 and 35 of the Code.

With the foregoing principles and in line with the national government's move towards a more decentralized organizational structure to achieve full autonomy and at the same time ensure the basic health services to the marginalized sector of the various communities, we were tasked to come up with an acceptable model to present the two (2) pilot provinces.

Given the foregoing legal bases, both local Chief Executives and their legislative bodies (i.e. Sangguniang Panlalawigan) are given the freedom to create innovative and novel concepts to improve and effectively manage, operate and administer their respective provincial hospitals. This study therefore seeks to propose and introduce to LGU's these new ideas and alternatives which the Chief Executive, if convinced, should be clothed with proper authority by the Sanggunian Panlalawigan to effect and implement the same. This could be done through a Sanggunian Resolution, a proposed draft of which is attached hereto as Annex "A".

## FORM AND ORGANIZATION

Four (4) basic legal forms of organizations under Philippine law are available to achieve full autonomy for the provincial hospital, namely: sole proprietorship, partnership, corporation (stock and non-stock) and cooperative. Among the

foregoing Joint Venture was chosen to be the best vehicle to achieve the ends envisioned. Specifically, representatives of both the provinces of Pangasinan and Capiz were franchising in choosing a non-stock corporation/foundation as the entity that should be for the benefit of the province to manage and administer the provincial hospital. Sale of hospitals was the only alternative because foundations in this country are identified with charitable programs consistent with the mission of provincial hospitals for the province health care except for the privilege of provincial hospitals in the Philippines. (5) Of the several options, indirect LGU ownership, joint venture, contracting, franchising and LGU - LGU collaborative arrangements.

### ORIGINAL CONCEPT

The original approach **PROPOSED MODEL** the provincial hospital was to be transformed into a non-stock corporation/foundation which was to manage, administer and operate the provincial hospital which is then owned by the local government of the province. The LGU in this case, the province, would be the sole owner of the provincial hospital. In this, could be deemed as fulfilling the intent of the law that the provincial hospitals are to be operated by the province. As one of the provisions of the law, the representation of the province is followed in Sections 14, 46 and 47<sup>2</sup> of the Corporation Code of the Philippines. Non-stock corporations and foundations, on the other hand, are not subject to the provisions of the Corporation Code of the Philippines. national government agencies in the event transfer of government properties of the provincial hospital to private entities (i.e. the foundation) is effected.

Limitations, however, of this approach starts with the bureaucratic "red type" within the second problem would be the technology and status of the present hospital and medical staff of the respective provincial hospital. In addition, the management, operation and administration of the provincial hospital would be a total displacement of the present government and managing the provincial hospital, thus, precluding them from determining whether it is indeed going to the right direction. Thus, we proposed that the foundation to be formed would be a liability manager, of quasi-judicial and legal nature committed by hospital. However, the foundation would be a separate entity and its tasks and operations are presently with the local government unit assumes expenses for the legal defense and the liability in case negligence is proven. With the foundation in between, this becomes a problem. Moreover, LGU representatives could not reconcile the idea that under the scheme, while the LGU would not **OPTIONS** of the income of the provincial hospital, the LGU would be made to shoulder these expenses.

As to how the LGU's are to manage, operate and administer their respective provincial hospitals, continued) source of funds for the management, administration and operation of the provincial hospital was yet another obstacle.

1. Direct LGU Ownership
2. Indirect LGU Ownership

Thus, our task became even more complicated as we had to come up with certain solutions to these problems.

At the onset, we proposed the immediate formation of a foundation to manage, operate and administer the provincial hospital so that these functions could immediately be performed by the foundation. In the formation of the same, the LGU would be free to shape the membership, policy making body, limitations of powers and authority of the said foundation to suit their interests and preferences. If organized immediately, the LGU could determine within the period of transition whether the transfer of the management, operation and administration of the provincial hospital would improve the financial returns of the provincial hospital and if not, to reverse the process without much effect on the management, operation and administration of the provincial hospital. In other word reverting back to how the provincial hospital was being managed would not be a complicated task. We proposed a five (5) year transition period for the LGU to determine this before it goes to the next step of transferring the assets of the provincial hospital to the foundation.

We proposed a transition phase as the transfer of properties of the provincial hospital, would require proper justification with the Department of Interior and Local Government and the Commission on Audit. This would mean, once again, further delay in the implementation of the model. Thus, was introduced the idea that the foundation, during the transition stage, would not own the properties and equipment of the provincial hospital but only use the same in the concept of "usufruct."

Usufruct under the new Civil Code is defined as a "real right of a temporary nature, which authorizes its holder to enjoy all the benefits which results from the normal enjoyment of another's property, with the obligation to return, at the designated time, either the same thing or, in special cases, its equivalent" (De Buen definition). Articles 562 to 612 of the New Civil Code<sup>5</sup> govern such an arrangement. For a usufruct arrangement therefore, the foundation would be allowed to use and operate the existing facilities of the provincial hospital without the need to pay consideration for the use of the same.

In a usufruct arrangement, the probability that the foundation and the LGU would be questioned is nil. After all there is justification that the arrangement was proposed in the first place, to find out whether transfer of properties should be pursued. Under the concept of usufruct, the income generated by the provincial hospital would revert back to the hospital for its operations.

The initial step in this arrangement is for the LGU to give proper authority, perhaps through a Sanggunian Panglalawigan Resolution to the Provincial Governor

to enter into such an arrangement (as per Annex "A" hereof). Thereafter, details of the usufruct arrangement as described in our final draft of the Memorandum of Agreement between the LGU and the foundation (Annex B hereof) should be signed by the Governor as per his authority.

The second concern voiced out by representatives of both provinces was about the status of existing employees should the foundation take over the management, operation and administration of the provincial hospital. A secondment arrangement was proposed as the solution for this.

Under a secondment arrangement, all government employees of provincial hospitals shall be assigned the same duties and functions and paid salaries by the LGU but will be under the direct supervision and control of the foundation. We proposed that the respective rights and responsibilities of the employees be detailed in a separate Secondment Agreement which should be drafted in the event the plan is pursued. The Secondment Agreement, once acceptable to the LGU should undergo scrutiny by the Civil Service Commission, perhaps upon request of a legal opinion to give assurances that all provisions are in accordance with the Civil Service laws of the Philippines.

Thereafter, the problem of who would assume liability in cases where the LGU is sued because of the negligence of the staff of the provincial hospital was likewise taken up. It was proposed that an insurance for such risk must be required of the foundation plus an undertaking by the latter to assist in the legal defense of all hospital staff who may be involved in such controversies. Expenses for the foregoing would be taken from the income generated from the operations of the provincial hospital.

Continued allocation of funds by the LGU for the operations of the provincial hospital should be required on the assumption that income of the provincial hospital would not be sufficient to sustain the operations of the provincial hospital. The continued allocation of funds for this purpose for the period of transition (i.e. five (5) years) was proposed. Again, a resolution to assure the allocation of funds during the transition period was proposed to be included in the Sanggunian Panglalawigan Resolution (i.e. to authorize and require the provincial governor to allocate the required percentage from Internal Revenue Allotment (IRA) of the province specifically for the management, operation and administration of the provincial hospital). For the income of the provincial hospital to revert back and be used for the expenses for its management, operation and administration, we included in the Memorandum of Agreement (Annex "B" hereof) a clause to authorize the provincial treasure to earmark income received from the provincial hospital for such purpose.

This scheme, we learned from the discussions with the representatives of Capiz, had been utilized by the province and had proved successful in sustaining the required funding of the operations of its provincial hospital.

Overall, our discussions on the possible legal impediments with representatives of the two (2) pilot provinces proved fruitful as ideas and possible solutions were proposed for the successful implementation of the plan. Every meeting with the representatives of the province meant improvement of our draft documents.

Nonetheless, should the plan be acceptable, further consultations with the national government agencies such as the Department of Health, Department of Interior and Local Government, Commission on Civil Service and the Commission on Audit should be pursued to clear the way for the approval of the plan. Thereafter final discussions with the LGU must be had to come up with the final documents to be signed by the parties.

### MEMBERSHIP AND TRUSTEE OF FOUNDATION

Interestingly, the discussions in the province of Capiz centered on the composition of the Board of Trustees and the membership of the foundation. What was proposed was that juridical persons involved in rendering health services become members of the foundation. Individuals, charitable institutions, religious corporations and private sector representatives, by way of exception, may likewise qualify as members.

The ideal number of members of the Board of Trustees for both provinces was seven (7) trustees. It was suggested that three (3) of the trustees would represent the public sector while the other three (3) would represent the private sector, and the last seat would represent the hospital employees. It was recommended however, that representation in the Board of Trustees be further studied to reflect the sentiments and preferences of each province.

Other provisions of the By Laws of the proposed Foundation elicited much interest in discussions in both provinces. The modified draft of the proposed By Laws is therefore enclosed as Annex C hereof.

### RECOMMENDATIONS

It was the observation of the undersigned that after extensive discussions with the representatives of the chosen provinces, there was still resistance and reservation

on the part of the representatives of the provinces in getting into what appears to be "unchartered waters." It may have been caused by the human factor of resisting new and innovative ideas or simply the fear of the unknown. It may also have been caused by conflicting interests on the part of those who participated in the discussions; perhaps between the genuine desire of medical and hospital staff workers to improve the management and operation of the provincial hospital in the hope of improving their salaries and wages and other financial or political considerations of the provinces. All these factors, we believe, contributed to the hesitancy of the LGU to apply the new arrangement immediately.

To address these apprehensions, perhaps, what is still needed, given what had been accomplished during the period of the study, is to have the model and documents pertaining to the same, cleared with the appropriate national government agencies, namely: the Department of Health, Civil Service Commission, Department of Justice, Department of the Interior and Local Government and the Commission on Audit.

Endorsement by the Department of Health would set the tone for the acceptance of the model by the local government units. A favorable opinion of the model from the Department of Justice and the Department of the Interior and Local Government particularly as to the usufruct arrangement, would support the Department of Health in selling the idea. The Civil Service Commission would clear whatever legal impediments there are on the relationship of government employees to the foundation. The Commission of Audit could give its seal of approval to the arrangement as no transfer of property would be effected. Subsequent steps to be taken after the transition however, should move the Commission of Audit to say something more of the new arrangement.

With the whole model passing through scrutiny of the national government, perhaps, the local government units would find the same more acceptable and hopefully implement the same immediately.

## ALTERNATIVES

The main problem of the model presented is its acceptability to the local government units. If after all the clearances from national government agencies have been secured, there still exists reservations on the part of the pilot provinces, perhaps a so called "middle ground" between the initial step and the transition phase may be a more acceptable scheme for the LGUs.

Title Five Section 102 of the Local Government Code of 1991 proposes the activation of a provincial health board. The section provides, as follows:

*“ Section 102. Creation and Composition. (a) There shall be established a local health board in every province, city, or municipality. The composition of the local health boards shall be as follows:*

- (1) The provincial health board shall be headed by the governor as chairman, the provincial health officer as vice-chairman, and the chairman of the committee of the health of the sangguniang panlalawigan, a representative from the private sector or non-governmental organizations involved in health services, and a representative of the Department of Health in the province, as members;*
- (2) The city health board shall be headed by the city mayor as chairman, the city health officer as vice-chairman, and the chairman of the committee on health of the sangguniang panglungsod, a representative from the private sector or nongovernmental organizations involved in health services, and a representative of the Department of Health in the city, as members; and*
- (3) The municipal health board shall be headed by the municipal mayor as chairman, the municipal health officer as vice-chairman, and the chairman of the committee on health of the sangguniang bayan, a representative from the private sector or nongovernmental organizations involved in health services, and a representative of the Department of Health in the Municipality, as members.*

*(b) The functions of the local health board shall be:*

- (1) To propose to the sanggunian concerned, in accordance with standards and criteria set by the Department of Health, annual budgetary allocations for the operation and maintenance of health facilities and services, and within the municipality, city or province, as the case may be;*
- (2) To serve as an advisory committee to the sanggunian concerned on health matters such as, but not limited to, the necessity for, and application of, local appropriations for public health purposes; and*
- (3) Consistent with the technical and administrative standards of the Department of Health, create committees which shall advise local health agencies on matters such as, but not limited to, personnel selection and promotion, bids and awards, grievance and complaints, personnel discipline, budget review, operations review and similar functions.*

The immediate activation of the Provincial Health Board may convince the LGU to take bolder steps towards local autonomy of the provincial hospital. A subsequent transformation of this advisory body into a private foundation as discussed above is strongly suggested. How this is to be done, however needs further study.

Another alternative may be the formation of a government-owned foundation similar to our model. By forming a government-owned corporation, the Salary Standardization Law will not apply to the employees of the new corporation, thus may likewise encourage the present provincial hospital employees to resign from the service and join the newly formed government owned corporation. It was a pity however that our present study was focused and directed by a previous study which centered on the formation of a non-stock private corporation. This therefore, leaves us more room for an in depth study on the advantages and disadvantages of forming a government owned corporation instead of a private foundation as per our model. It is suggested, however that the Office of the Government Corporate Counsel be consulted first before further study is initiated.

Be that as it may, whether it is a local health board or a government owned foundation, the LGU concerned must be made to realize that the next step which is the formation of a private foundation is the right direction to achieve full autonomy of their provincial hospitals.

We remain.

Yours faithfully,

JOSE MA. R. ARCINAS

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## FOOTNOTES:

<sup>1</sup>Art XIII Section 11 of the 1987 Constitution of the Republic of the Philippines.

<sup>2</sup> Section 14 of the Corporation Code of the Philippines. *Contents of Articles of Incorporation.* All corporations organized under this Code shall file with the Securities and Exchange Commission articles of incorporation in any of the official languages duly signed and acknowledged by all of the incorporators, containing substantially the following matters, except as otherwise prescribed by this Code or by special law:

1. The name of the corporation;
2. The specific purpose or purposes for which the corporation is being incorporated. Where a corporation has more than one stated purpose, the articles of incorporation shall state which is the primary purpose and which is/are the secondary purpose or purposes; Provided, That a non-stock corporation may not include a purpose which would change or contradict its nature as such;
3. The place where the principal office of the corporation is to be located, which must be within the Philippines;
4. The term for which the corporation is to exist;
5. The names, nationalities and residences of the incorporators;
6. The number of directors or trustees, which shall not be less than five (5) nor more than fifteen (15);
7. The names, nationalities and residents of the persons who shall act as directors or trustees until the first regular directors or trustees are duly elected and qualified in accordance with this Code;
8. If it be a stock corporation, the amount of its authorized capital in lawful money of the Philippines, the number of shares into which it is divided, and in case the shares are par value shares, the par value of each, the names, nationalities and residences of the original subscribed and paid by each on his subscription, and if some or all of the shares are without par value, such fact must be stated;
9. If it be a non-stock corporation, the amount of its capital, the names, nationalities and residences of the contributors and the amount contributed by each; and
10. Such other matters as are not inconsistent with law and which the incorporators may deem necessary and convenient.

The Securities and Exchange Commission shall not accept the articles of incorporators of any stock corporation unless accompanied by a sworn statement of the Treasurer elected by the subscribers showing that at least twenty-five (25%) percent of the authorized capital stock of the corporation has been subscribed, and at least twenty-five (25%) percent of the total subscription has been fully paid to him in actual cash and/or in property the fair valuation of which is equal to at least twenty-five (25%) percent of the said subscription, such paid-up capital being not less than five thousand (P5,000.00) pesos.

The contents of every corporation (whether commercial, industrial or agricultural) are set forth in the above section. Incorporating directors must be not less than five (5) nor more than fifteen (15). An incorporating director must now own at least one share of the capital stock for every incorporator is now required to own at least one of the corporation's capital stock.

A non-stock corporation must also state the amount of its capital consisting of contributions by members thereof.

Proof of compliance with the minimal capital requirements is, as before, required in the form of an affidavit of the treasurer of the corporation, elected by the subscribers. The sworn statement immediately follows the notarial acknowledgment in the articles of incorporation.

Section 46 of the Corporation Code of the Philippines. *Adoption of by-laws.* Every corporation formed under this Code, must, within one (1) month after receipt of official notice of the issuance of its certificate of incorporation by the

Securities and Exchange Commission, adopt a code of by-laws for its government not inconsistent with this Code. For the adoption of by-laws by the corporation, the affirmative vote of the stockholders representing at least a majority of the outstanding capital stock, or of at least a majority of the member, in the case of non-stock corporations, shall be necessary. The by-laws shall be signed by the stockholders or members voting for them and shall be kept in the principal office of the corporation, subject to the inspection of the stockholders or members during office hours; and a copy thereof, duly certified to by a majority of the directors or trustees and counter-signed by the secretary of the corporation, shall be filed with the Securities and Exchange Commission which shall be attached to the original articles of incorporation.

Notwithstanding the provisions of the preceding paragraph, by-laws may be adopted and filed prior to incorporation; in such case, such by-laws shall be approved and signed by all the incorporators and submitted to the Securities and Exchange Commission, together with the articles of incorporation.

In all cases, by-laws shall be effective only upon the issuance by the Securities and Exchange Commission of a certification that the by-laws are not inconsistent with this Code.

The Securities and Exchange Commission shall not accept for filing by-laws or any amendment thereto of any bank, banking institution, building and loan association, trust company, insurance company, public utility, educational institution or other special corporations governed by special laws, unless accompanied by a certificate of the appropriate government agency to the effect that such by-laws or amendments are in accordance with law. (20a)

By-laws may be filed together with the articles of incorporation or within one month from receipt of official notice of issuance of certificate of incorporation by the SEC. In either case, by-laws shall take effect only upon issuance of the SEC of a certification that the by-laws are not inconsistent with the Corporation Code.

The requisites of valid by-laws are:

- (1) The by-laws must be consistent with law and the articles of incorporation or charter;
- (2) They must be consistent with public policy;
- (3) They must be general and uniform;
- (4) They must be reasonable; and
- (5) They must not impair vested rights.

Corporate by-laws must be observed by directors and officers of the corporation as well as by the stockholders. Persons who are not members or officers of the corporation cannot be affected in any of their rights by a corporate by-law of which they have no choice. Strangers are not bound to know by-laws which are merely provisions for the government of a corporation and notice of them will not be presumed.

Section 47 of the Corporation Code of the Philippines. *Contents of by-laws.* Subject to the provisions of the Constitution, this Code, other special laws, and the articles of incorporation, a private corporation may provide in its by-laws for:

1. The time, place and manner of calling and conducting regular or special meetings of the directors or trustees;
2. The time and manner of calling and conducting regular or special meetings of the stockholders or members;
3. The required quorum in meetings of stockholders or members and the manner of voting therein;
4. The form for proxies of stockholders and members and the manner of voting them;
5. The qualifications, duties and compensation of directors or trustees, officers and employees;
6. The time for holding the annual election of directors or trustees and the mode or manner of giving notice thereof;
7. The manner of election or appointment and the term of office of all officers other than directors or trustees;
8. The penalties for violation of the by-laws;
9. In the case of stock corporations, the manner of issuing certificates; and
10. Such other matters as may be necessary for the proper or convenient transaction of its corporate business and affairs. (21a)

**TRUSTEES AND OFFICERS.** Section 92 of the Corporation Code of the Philippines. *Election and term of trustees.* – Unless otherwise provided in the articles of incorporation or the by-laws, the board of trustees of non-stock corporations, which may be more than fifteen (15) in number as may be fixed in their articles of incorporation or by-laws, shall, as soon as organized, so classify themselves that the term of office of one-third ( $1/3$ ) of their number shall expire every year; and subsequent elections of trustees comprising one-third ( $1/3$ ) of the board of trustees shall be held annually and trustees so elected shall have a term of three (3) years. Trustees thereafter elected to fill vacancies occurring before the expiration of a particular term shall hold office only for the unexpired period.

No person shall be elected as trustee unless he is a member of the corporation.

Unless otherwise provided for in the articles of incorporation or the by-laws, officers of a non-stock corporation may be directly elected by the members. (n)

Section 93 of the Corporation Code of the Philippines. *Place of meetings.* – The by-laws may provide that the members of a non-stock corporation may hold their regular or special meetings at any place even outside the place where the principal office of the corporation is located: *Provided,* That proper notice is sent to all members indicating the date, time and place of meeting; and *Provided, further,* That the place of meeting shall be within the Philippines. (n)

**DISTRIBUTION OF ASSETS IN NON-STOCK CORPORATION.** Section 94 of the Corporation Code of the Philippines. *Rules for distribution.* – In case of dissolution of a non-stock corporation in accordance with the provisions of this Code, its assets shall be applied and distributed as follows:

1. All liabilities and obligations of the corporation shall be paid, satisfied and discharged, or adequate provision shall be made therefor;
2. Assets held by the corporation upon a condition requiring return, transfer or conveyance, and which condition occurs by reason of the dissolution, shall be returned, transferred or conveyed in accordance with such requirements;
3. Assets received and held by the corporation subject to limitations permitting their use only for charitable, religious, benevolent, educational or similar purposes, but not held upon a condition requiring return, transfer or conveyance by reason of the dissolution, shall be transferred or conveyed to one or more corporations, societies or organizations engaged in activities in the Philippines substantially similar to those of the dissolving corporation pursuant to a plan of distribution adopted as provided in this Chapter;
4. Assets other than those mentioned in the preceding paragraphs, if any, shall be distributed in accordance with the provisions of the articles of incorporation or the by-laws, to the extent that the articles of the incorporation or the by-laws determine the distributive rights of members, or any class or classes of members, or provide for distribution; and
5. In any other case, assets may be distributed to such persons, societies, organizations or corporations, whether or not organized for profit, as may be specified in a plan of distribution as provided in this Chapter. (n)

Section 95 of the Corporation Code of the Philippines. *Plan of distribution of assets* – A plan providing for the distribution of assets, not inconsistent with the provisions of this Title, may be adopted by a non-stock corporation in the process of dissolution in the following manner:

The board of trustees shall, by majority vote, adopt a resolution recommending a plan of distribution and directing the submission thereof to a vote at a regular or special meeting of members having voting rights. Written notice setting forth the proposed plan of distribution or a summary thereof; and the date, time and place of such meeting shall be given to each member entitled to vote, within the time and in the manner provided in this Code for the giving of notice of meetings to members. Such plan of distribution shall be adopted upon approval of at least two-thirds ( $2/3$ ) of the members having voting rights present or represented by proxy at such meeting. (n)

<sup>4</sup> Management and Organizational Options for Devolved Hospitals, Implementation Manual by Balane, Tamase, Alampay Law Office, November 1994.

<sup>5</sup> **USUFRUCT IN GENERAL.** Articles 562 of the Civil Code of the Philippines. Usufruct gives a right to enjoy the property of another with the obligation of preserving its form and substance, unless the title constituting it or the law otherwise provides.

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Articles 563 of the Civil Code of the Philippines. Usufruct is constituted by law, by the will of private persons expressed in acts *inter vivos* or in a last will and testament, and by prescription.

Articles 564 of the Civil Code of the Philippines. Usufruct may be constituted on the whole or a part of the fruits of the thing, in favor of one or more persons, simultaneously or successively, and in every case from or to a certain day, purely or conditionally. It may also be constituted on a right, provided it is not strictly personal or intransmissible.

Articles 565 of the Civil Code of the Philippines. The rights and obligations of the usufructuary shall be those provided in the title constituting the usufruct; in default of such title, or in case it is deficient, the provisions contained in the two following Chapters shall be observed.

*RIGHTS OF THE USUFRUCTUARY.* Articles 566 of the Civil Code of the Philippines. The usufructuary shall be entitled to all the natural, industrial and civil fruits of the property in usufruct. With respect to hidden treasure which may be found on the land or tenement, he shall be considered a stranger.

Articles 567 of the Civil Code of the Philippines. Natural or industrial fruits growing at the time the usufruct begins, belong to the usufructuary.

Those growing at the time the usufruct terminates, belong to the owner.

In the preceding cases, the usufructuary, at the beginning of the usufruct, has no obligation to refund to the owner any expenses incurred; but the owner shall be obliged to reimburse at the termination of the usufruct, from the proceeds of the growing fruits, the ordinary expenses of cultivation, for seed, and other similar expenses incurred by the usufructuary.

The provisions of this article shall not prejudice the rights of third persons, acquired either at the beginning or at the termination of the usufruct.

Articles 568 of the Civil Code of the Philippines. If the usufructuary has leased the lands or tenements given in usufruct, and the usufruct should expire before the termination of the lease, he or his heirs and successors shall receive only the proportionate share of the rent that must be paid by the lessee.

Articles 569 of the Civil Code of the Philippines. Civil fruits are deemed to accrue daily, and belong to the usufructuary in proportion to the time the usufruct may last.

Articles 570 of the Civil Code of the Philippines. Whenever a usufruct is constituted on the right to receive a rent or periodical pension, whether in money or in fruits, or in the interest on bonds or securities payable to bearer, each payment due shall be considered as the proceeds or fruits of such right.

Whenever it consists in the enjoyment of benefits accruing from a participation in any industrial or commercial enterprise, the date of the distribution of which is not fixed, such benefits shall have the same character.

In either case they shall be distributed as civil fruits, and shall be applied in the manner prescribed in the preceding article.

Articles 571 of the Civil Code of the Philippines. The usufructuary shall have the right to enjoy any increase which the thing in usufruct may acquire through accession, the servitudes established in its favor, and, in general, all the benefits inherent therein.

Articles 572 of the Civil Code of the Philippines. The usufructuary may personally enjoy the thing in usufruct, lease it to another, or alienate his right of usufruct, even by a gratuitous title; but all the contracts he may enter into as such usufructuary shall terminate upon the expiration of the usufruct, saving leases of rural lands, which shall be considered as subsisting during the agricultural year.

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Articles 573 of the Civil Code of the Philippines. Whenever the usufruct includes things which, without being consumed, gradually deteriorate through wear and tear, the usufructuary shall have the right to make use thereof in accordance with the purpose for which they are intended, and shall not be obliged to return them at the termination of the usufruct except in their condition at that time; but he shall be obliged to indemnify the owner for any deterioration they may have suffered by reason of his fraud or negligence.

Articles 574 of the Civil Code of the Philippines. Whenever the usufruct includes things which cannot be used without being consumed, the usufructuary shall have the right to make use of them under the obligation of paying their appraised value at the termination of the usufruct, if they were appraised when delivered. In case they were not appraised, he shall have the right to return the same quantity and quality, or pay their current price at the time the usufruct ceases.

Articles 575 of the Civil Code of the Philippines. The usufructuary of fruit bearing trees and shrubs may make use of the dead trunks, and even of those cut off or uprooted by accident, under the obligation to replace them with new plants.

Articles 576 of the Civil Code of the Philippines. If in consequence of a calamity or extraordinary event, the trees or shrubs shall have disappeared in such considerable number that it would not be possible or it would be too burdensome to replace them, the usufructuary may leave the dead, fallen or uprooted trunks at the disposal of the owner, and demand that the latter remove them and clear the land.

Articles 577 of the Civil Code of the Philippines. The usufructuary of woodland may enjoy all the benefits which it may produce according to its nature.

If the woodland is a copse or consists of timber for building, the usufructuary may do such ordinary cutting or felling as the owner was in the habit of doing, and in default of this, he may do so in accordance with the custom of the place, as to the manner, amount and season.

In any case the felling or cutting of trees shall be made in such manner as not to prejudice the preservation of the land.

In nurseries, the usufructuary may make the necessary thinnings in order that the remaining trees may properly grow.

With the exception of the provisions of the preceding paragraphs, the usufructuary cannot cut down trees unless it be to restore or improve some of the things in usufruct, and in such case he shall first inform the owner of the necessity for the work.

Articles 578 of the Civil Code of the Philippines. The usufructuary or an action to recover real property or a real right, or any movable property, has the right to bring the action and to oblige the owner thereof to give him the authority for this purpose and to furnish him whatever proof he may have. If in consequence of the enforcement of the action he acquires the thing claimed, the usufruct shall be limited to the fruits, the dominion remaining with the owner. (486)

Articles 579 of the Civil Code of the Philippines. The usufructuary may make on the property held in usufruct such useful improvements or expenses for mere pleasure as he may deem proper, provided he does not alter its form or substance; but he shall have no right to be indemnified therefor. He may, however, remove such improvements, should it be possible to do so without damage to the property.

Articles 580 of the Civil Code of the Philippines. The usufructuary may set off the improvements he may have made on the property against any damage to the same.

Articles 581 of the Civil Code of the Philippines. The owner of property the usufruct of which is held by another, may alienate it, but he cannot alter its form or substance, or do anything thereon which may be prejudicial to the usufructuary.

Articles 582 of the Civil Code of the Philippines. The usufructuary of a part of a thing held in common shall exercise all the rights pertaining to the owner thereof with respect to the administration and the collection of fruits or interest. Should the co-ownership cease by reason of the division of the thing held in common, the usufruct of the part allotted to the co-owner shall belong to the usufructuary.

*OBLIGATIONS OF THE USUFRUCTUARY.* Articles 583 of the Civil Code of the Philippines. The usufructuary, before entering upon the enjoyment of the property, obliged:

(1) To make, after notice to the owner or his legitimate representative, an inventory of all the property, which shall contain an appraisal of the movables and a description of the condition of the immovables;

(2) To give security, binding himself to fulfill the obligations imposed upon him in accordance with this Chapter.

Articles 584 of the Civil Code of the Philippines. The provisions of No. 2 of the preceding article shall not apply to the donor who has reserved the usufruct of the property donated, or to the parents who are usufructuaries of their children's property, except when the parents contract a second marriage.

Articles 585 of the Civil Code of the Philippines. The usufructuary, whatever may be the title of the usufruct, may be excused from the obligation of making an inventory or of giving security, when no one will be injured thereby.

Articles 586 of the Civil Code of the Philippines. Should the usufructuary fail to give security in the cases in which he is bound to give it, the owner may demand that the immovable be placed under administration, that the movables be sold, that the public bonds, instruments of credit payable to order or to bearer be converted into registered certificates or deposited in a bank or public institution, and that the capital or sums in cash and the proceeds of the sale of the movable property be invested in safe securities.

The interest on the proceeds of the sale of the movables and that on public securities and bonds, and the proceeds of the property placed under administration, shall belong to the usufructuary.

Furthermore, the owner may, if he so prefers, until the usufructuary gives security or is excused from so doing, retain in his possession the property in usufruct as administrator, subject to the obligation to deliver to the usufructuary the net proceeds thereof, after deducting the sum which may be agreed upon or judicially allowed him for such administration.

Articles 586 of the Civil Code of the Philippines. If the usufructuary who has not given security claims, by virtue of a promise under oath, the delivery of the furniture necessary for his use, and that he and his family be allowed to live in a house included in the usufruct, the court may grant this petition, after due consideration of the facts of the case.

The same rule shall be observed with respect to implements, tools and other movable property necessary for an industry or vocation in which he is engaged.

If the owner does not wish that certain articles be sold because of their artistic worth or because they have a sentimental value, he may demand their delivery to him upon his giving security for the payment of the legal interest on their appraised value.

Articles 588 of the Civil Code of the Philippines. After the security has been given by the usufructuary, he shall have a right to all the proceeds and benefits from the day on which, in accordance with the title constituting the usufruct, he should have commenced to receive them.

Articles 589 of the Civil Code of the Philippines. The usufructuary shall take care of the things given in usufruct as a good father of a family.

Articles 590 of the Civil Code of the Philippines. A usufructuary who alienates or leases his right of usufruct shall answer for any damage which the things in usufruct may suffer through the fault or negligence of the person who substitutes him.

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Articles 591 of the Civil Code of the Philippines. If the usufruct be constituted on a flock or herd of livestock, the usufructuary shall be obliged to replace with the young thereof the animals that die each year from natural causes, or are lost due to the rapacity or beasts of prey.

If the animals on which the usufruct is constituted should all perish, without the fault of the usufructuary, on account of some contagious disease or any other uncommon event, the usufructuary shall fulfill his obligation by delivering to the owner the remains which may have been saved from the misfortune.

Should the herd or flock perish in part, also by accident and without the fault of the usufructuary, the usufruct shall continue on the part saved.

Should the usufruct be on sterile animals, it shall be considered, with respect to its effects, as though constituted on fungible things.

Articles 592 of the Civil Code of the Philippines. The usufructuary is obliged to make the ordinary repairs needed by the thing given in usufruct.

By ordinary repairs are understood such as are required by the wear and tear due to the natural use of the thing and are indispensable for its preservation. Should the usufructuary fail to make them after demand by the owner, the latter may make them at the expenses of the usufructuary.

Articles 593 of the Civil Code of the Philippines. Extraordinary repairs shall be at the expense of the owner. The usufructuary is obliged to notify the owner when the need for such repairs is urgent.

Articles 594 of the Civil Code of the Philippines. If the owner should make the extraordinary repairs, he shall have a right to demand of the usufructuary the legal interest on the amount expended for the time that the usufruct lasts.

Should he not make them when they are indispensable for the preservation of the thing, the usufructuary may make them; but he shall have a right to demand of the owner, at the termination of the usufruct, the increase in value which the immovable may have acquired by reason of the repairs.

Articles 595 of the Civil Code of the Philippines. The owner may construct any works and make any improvements of which the immovable in usufruct is susceptible, or make new plantings thereon if it be rural, provided that such acts do not cause a diminution in the value of the usufruct or prejudice the right of the usufructuary.

Articles 596 of the Civil Code of the Philippines. The payment of annual charges and taxes and of those considered as a lien on the fruits, shall be at the expense of the usufructuary for all the time that the usufruct lasts.

Articles 597 of the Civil Code of the Philippines. The taxes which, during the usufruct, may be imposed directly on the capital, shall be at the expense of the owner.

If the latter has paid them, the usufructuary shall pay him the proper interest on the sums which may have been paid in that character; and, if the said sums have been advanced by the usufructuary, he shall recover the amount thereof at the termination of the usufruct.

Articles 598 of the Civil Code of the Philippines. If the usufruct be constituted on the whole of a patrimony, and if at the time of its constitution the owner has debts, the provisions of articles 758 and 759 relating to donations shall be applied, both with respect to the maintenance of the usufruct and to the obligation of the usufructuary to pay such debts.

The same rule shall be applied in case the owner is obliged, at the time the usufruct is constituted, to make periodical payments, even if there should be no known capital.

Articles 599 of the Civil Code of the Philippines. The usufructuary may claim any matured credits which form a part of the usufruct if he has given or gives the proper security. If he has been excused from giving security or has not been

able to give it, or if that given is not sufficient, he shall need the authorization of the owner, or of the court in default thereof, to collect such credits.

The usufructuary who has given security may use the capital he has collected in any manner he may deem proper. The usufructuary who has not given security shall invest the said capital at interest upon agreement with the owner; in default of such agreement, with judicial authorization; and, in every case, with security sufficient to preserve the integrity of the capital in usufruct.

Articles 600 of the Civil Code of the Philippines. The usufructuary of a mortgaged immovable shall not be obliged to pay the debt for the security of which the mortgage was constituted.

Should the immovable be attached or sold judicially for the payment of the debt, the owner shall be liable to the usufructuary for whatever the latter may lose by reason thereof.

Articles 601 of the Civil Code of the Philippines. The usufructuary shall be obliged to notify the owner of any act of a third person, of which he may have knowledge, that may be prejudicial to the rights of ownership, and he shall be liable should he not do so, for damages, as if they had been caused through his own fault. (

Articles 602 of the Civil Code of the Philippines. The expenses, costs and liabilities in suits brought with regard to the usufruct shall be borne by the usufructuary.

**EXTINGUISHMENT OF USUFRUCT.** Articles 603 of the Civil Code of the Philippines. Usufruct is extinguished:

- (1) By the death of the usufructuary, unless a contrary intention clearly appears;
- (2) By the expiration of the period for which it was constituted, or by the fulfillment of any resolatory condition provided in the title creating the usufruct;
- (3) By merger of the usufruct and ownership in the same person;
- (4) By renunciation of the usufructuary;
- (5) By the total loss of the thing is usufruct;
- (6) By the termination of the right of the person constituting the usufruct;
- (7) By prescription.

Articles 604 of the Civil Code of the Philippines. If the thing given in usufruct should be lost only in part, the right shall continue on the remaining part.

Articles 605 of the Civil Code of the Philippines. Usufruct cannot be constituted in favor of a town, corporation, or association for more than fifty years. If it has been constituted, and before the expiration of such period the town is abandoned, or the corporation or association is dissolved, the usufruct shall be extinguished by reason thereof.

Articles 606 of the Civil Code of the Philippines. A usufruct granted for the time that may elapse before a third person attains a certain age, shall subsist for the number of years specified, even if the third person should die before the period expires, unless such usufruct has been expressly granted only in consideration of the existence of such person.

Articles 607 of the Civil Code of the Philippines. If the usufruct is constituted on immovable property of which a building forms part, and the latter should be destroyed in any manner whatsoever, the usufructuary shall have a right to make use of the land and the materials.

The same rule shall be applied if the usufruct is constituted on a building only and the same should be destroyed. But in such a case, if the owner should wish to construct another building, he shall have a right to occupy the land and to make use of the materials, being obliged to pay to the usufructuary, during the continuance of the usufruct, the interest upon the sum equivalent to the value of the land and of the materials.

Articles 608 of the Civil Code of the Philippines. If the usufructuary shares with the owner the insurance of the tenement given in usufruct, the former shall, in case of loss, continue in the enjoyment of the new building, should one be constructed, or shall receive the interest on the insurance indemnity if the owner does not wish to rebuild.

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Should the usufructuary have refused to contribute to the insurance, the owner insuring the tenement alone, the latter shall receive the full amount of the insurance indemnity in case of loss, saving always the right granted to the usufructuary in the preceding article.

Articles 609 of the Civil Code of the Philippines. Should the thing in usufruct be expropriated for public use, the owner shall be obliged either to replace it with another thing of the same value and of similar conditions, or to pay the usufructuary the legal interest on the amount of the indemnity for the whole period of the usufruct. If the owner chooses the latter alternative, he shall give security for the payment of the interest.

Articles 610 of the Civil Code of the Philippines. A usufruct is not extinguished by bad use of the thing in usufruct; but if the abuse should cause considerable injury to the owner, the latter may demand that the thing be delivered to him, binding himself to pay annually to the usufructuary the net proceeds of the same, after deducting the expenses and the compensation which may be allowed him for its administration.

Articles 611 of the Civil Code of the Philippines. A usufruct constituted in favor of several person living at the time of its constitution shall not be extinguished until the death of the last survivor.

Articles 612 of the Civil Code of the Philippines. Upon the termination of the usufruct, the thing in usufruct shall be delivered to the owner, without prejudice to the right of retention pertaining to the usufructuary or his heirs for taxes and extraordinary expenses which should be reimbursed. After the delivery has been made, the security or mortgage shall be cancelled.

SANGGUNIANG PANLALAWIGAN

**RESOLUTION NO.**

A RESOLUTION AUTHORIZING THE PROVINCIAL GOVERNOR TO ORGANIZE A FOUNDATION THAT WILL MANAGE AND OPERATE THE PROVINCIAL HOSPITAL AND TO APPROPRIATE FUNDS FOR THE SAME.

WHEREAS, the Province of \_\_\_\_\_ adheres to its mandate under the Constitution that it shall adopt an integrated and comprehensive approach to health development and endeavor to make essential goods, health, and other social services available to all the people at affordable cost with priority for the needs of the underprivileged, sick, elderly, disabled, women and children and endeavor to provide free medical care to paupers;

WHEREAS, it has become extremely difficult for the Province to fulfill such responsibility due to dwindling subsidies from the National Government as well as reduced availability of local funding brought about by the aftershocks of the 1997 Asian financial crisis and the continuing economic crisis in the country;

WHEREAS, there is a pressing need to explore alternative forms of management and organization of the provincial hospital for the province to be able to fulfill its mandate under the Constitution and effectively run its provincial hospital;

WHEREAS, studies reveal that a foundation registered with the Securities and Exchange Commission is the most appropriate and acceptable form available under existing laws to enable effective cooperation between local government units, international agencies and

the private sector for a more efficient management, operation and administration of the provincial hospital;

WHEREAS, capable and qualified members of the private sector and international organizations in cooperation with officials of the local government have in fact been negotiating and discussing ways and means to convince the provincial, municipal, city and barangay units of the Province to contribute and be represented in a foundation to manage, operate and administer the provincial hospital to attain efficient and effective management as well as financial independence in line with the Local Government Code of 1991;

NOW THEREFORE, BE IT RESOLVED AS IT IS HEREBY RESOLVED that:

RESOLVED that the Provincial Government be authorized to form, organize and invest funds in a foundation, to be registered with the Securities and Exchange Commission, for the purpose of operating and managing the provincial hospital;

RESOLVED that the Provincial Governor be authorized as he is hereby authorized to represent the Province in the said foundation to be formed and organized under the Corporation Code of the Philippines and to enter into agreement for the Province with such foundation to manage, operate and administer the provincial hospital;

RESOLVED that the amount of PESOS \_\_\_\_\_ (P\_\_\_\_\_) be hereby appropriated for whatever expenses are necessary for the formation, organization and for the initial contribution of the Province to the said foundation;

RESOLVED that the Province appropriate a percentage of its Internal Revenue Allotment equivalent to the value of services given to indigent patients not recovered through the present financial schemes of the provincial hospital, for the management, operation and administration of the provincial hospital for a period of five (5) years starting fiscal year 200\_\_ until 200\_\_ to assure continuity of hospital services during the transition period and to extend such period for another five (5) years should additional funding on the fourth year be determined to be needed;

RESOLVED that the Provincial Governor with consultation with the Local Health Boards and Health Officers devise a scheme whereby the assets of the provincial hospital will be eventually transferred to the said foundation should the latter prove to be a more effective vehicle for the management, operation and administration of the said provincial hospital.

ADOPTED this \_\_\_\_ day of \_\_\_\_\_ 2001 on motion made by  
\_\_\_\_\_ seconded by \_\_\_\_\_.

I HEREBY CERTIFY TO THE  
CORRECTNESS OF THE  
FOREGOING RESOLUTIONS.

VICE GOVERNOR

\_\_\_\_\_  
SECRETARY

APPROVED BY HIS HONOR  
this \_\_\_\_ day of \_\_\_\_\_ 2001.

GOVERNOR

THE SECURITIES AND EXCHANGE COMMISSION (SEC)  
REGISTRATION PROCESS

**Registering the LGU Corporation**

1. Draft the required documents and papers for the registration of the corporation with the SEC. The documents to be drafted would depend essentially on the type of corporation to be organized. Specimen documents for the registration of a stock corporation are shown in Annex "C"; while those for a non-stock, non-profit corporation (foundation) are shown in Annex "D".

Regardless of whether stock or non-stock, the Articles of Incorporation ("AOI") is the most important document of the corporation as it lays down the basic agreements of the stockholders or members who shall, after incorporation, be considered as a single legal entity. Before drafting the AOI, the LGU must first determine the following:

- a) Corporate name. The name of the corporation is essential for it is the principal means of distinguishing it not only from its stockholders or members but from other juridical entities as well. There are a number of restrictions in the use of corporate names, among which are as follows:
  - i. The corporate name should contain the word "Corporation" or "Incorporated", either in full or in abbreviated form. The word "Company" is appended to names of partnerships (SEC Guidelines, 7 September 1977);
  - ii. If the proposed name contains a word similar to a word already used, as part of the firm name or style of a registered company, the proposed name must contain two other words different from the name of the company already registered. This is to prevent confusion and difficulties of administration and supervision (ibid.);
  - iii. If the corporate name contains initials, an explanation must accompany the AOI stating the meaning of the same and the relevance or reason for the use thereof (ibid.); and
  - iv. Only non-stock, non-profit corporations are allowed to use the word "Foundation" as part of the corporate name.

It is thus advisable that the DOH/LGU, even before preparing the AOI, should verify with the SEC if it could use its proposed name. Once the name has been verified to be available for use, the DOH/LGU may reserve it for a period of thirty (30) days therefrom. It must be noted, however, that the verified and reserved name is deemed unofficial unless and until the certificate of registration is issued to the corporation.

b) Purpose of the Corporation. The purpose clause confers as well as limits the powers of the corporation. The purpose should be specified with sufficient clarity and elucidation to define with certainty the scope of the corporation's activities. It is illegal for a corporation to apply its capital or profits to objects not contemplated in the AOI. (SEC Opinion, 20 June 1989).

Primary and Secondary Purposes – A corporation can have as many lawful purposes as it may desire, but the AOI should specify the primary purpose as well as the secondary ones. A non-stock corporation may not include a purpose that would change or contradict its nature as such (Corporation Code, Sec. 14[2]).

In the case of hospital corporations, the purpose clause must contain a provision to the effect that “purely medical or surgical services in connection therewith shall be performed by duly qualified physicians and surgeons who may or may not be freely and individually contracted by the patient”.

(c) Place of Principal Office. The place need not be a complete address. The city or town where the principal office is to be located is sufficient. Furthermore, the principal office may be in one place and the place of operation in another (Agbayani, 150).

(d) Term of Existence. The original term should not exceed fifty (50) years from the date of incorporation. This, however, may be extended by an unlimited number of times by subsequent amendments of the AOI, as long as each extension does not exceed fifty (50) years (Corporation Code, Sec. 11).

(e) Number, Names, Nationalities and Residences of the Incorporators. The incorporators must be natural persons, i.e., the DOH/LGU itself cannot be an incorporator. They must also be stockholders or members of the corporation. Hence, in a stock corporation, the DOH/LGU must provide the incorporators one qualifying share each. There must not be less than five (5) but not more than fifteen (15) incorporators, and a majority of them must be residents of the Philippines. (Corporation Code, Sec. 10).

(f) Number of Directors or Trustees. In stock corporations, the number of directors shall not be less than five but not more than fifteen; in non-stock corporations, the number of trustees may exceed fifteen. (Corporate Code, Secs. 14 and 92)

(g) Capitalization. In a stock corporation, the amount of authorized capital stock (ACS), subscribed capital, paid up-capital and the names, nationalities and residences of the original subscribers should be indicated in the AOI. At least 25% of the ACS must be subscribed and at least 25% of the subscribed capital must have been paid; provided that the paid-up capital shall not be less than P5,000.00 (Corporate Code, Sec. 14)

(h) Membership. In a non-stock corporation, the amount of capital, names, nationalities, residences and individual contributions of the members must be stated in the AOI. There are no restrictions as regards the capitalization of non-stock, non-profit corporations, except that if the word "Foundation" is made part of the corporate name, the membership contributions at the time of registration must be at least P50,000.00.

(i) Special Provisions for Non-Stock, Non-Profit Corporations. Should the DOH/LGU decide to form a non-stock, non-profit corporation (e.g., foundation), the following provisions must appear in the AOI for it to qualify as a tax-exempt corporation and a donee institution:

- i. "The Corporation is non-stock and non-profit";
- ii. "The property and income of the Corporation wheresoever derived shall be applied solely towards the promotion of the purposes of the Corporation as set forth in the AOI and no portion thereof shall be used or transferred, directly or indirectly, by way of dividends, bonuses or any other form of profit distribution to persons who at any time are or have been members of the Corporation or to any person claiming through any of them";
- iii. "The level of administrative expenses of the Corporation on an annual basis shall not exceed thirty percent (30%) of its total utilization during the taxable year";
- iv. "Not later than the 15<sup>th</sup> day of the third month after the close of the Corporation's taxable year in which contributions are received, the Corporation shall utilize the said contributions directly for the active conduct of the activities constituting the purpose for which it is organized and operated, unless an extended period is granted by the Secretary of Finance"; and
- v. "In the event of its dissolution, all the assets of the Corporation, after paying its liabilities and otherwise complying with its contractual commitments to the Philippine government or any of its departments, bureaus, agencies and instrumentalities, and to international and local institutions, shall be disposed of and turned over to one or more non-stock, non-profit corporations or cooperatives engaged in activities in the Philippines substantially similar to those of the corporation pursuant to a plan of distribution adopted in accordance with Sec. 95 of the Corporation Code". (NLRC, Sec. 29[h] [c]0

Other necessary registration documents are as follows:

DOCUMENTS COMMON TO STOCK AND NON-STOCK CORPORATIONS:

- i. By-Laws – This contains the rules and regulations of corporate governance. By-Laws may be filed together with the AOI or within one month from the time of receipt by the Corporation of its certificate of incorporation.
- ii. Letter-undertaking – Signed by one of the incorporators that the corporation will change its name in the event that any person, firm or entity has acquired a prior right to use the same.
- iii. Registration Data Sheet – Contains basic information about the corporation (e.g., purpose, term of existence, address, etc.). Pre-printed registration data sheet may be obtained from the SEC.
- iv. Treasurer's Affidavit – In a stock corporation, this certifies that at least 25% of the ACS has been subscribed, and that 25% of the subscribed capital stock has been duly paid. In non-stock corporations, this will show the actual contribution made by each member. Both must be notarized before a notary public.
- v. Verification Slip – This is proof that the proposed corporate name is available for use and the same has been reserved by the applicant.

Other necessary documents are as follows:

#### DOCUMENTS COMMON TO STOCK CORPORATIONS:

- i. Authority to Verify Bank Deposit – This document gives the SEC the authority to have the bank deposits of the corporation examined and verified.
- ii. Subscribers Information Sheet – This provides, among others, information regarding the capital contribution of each stockholder. A pre-printed form may be obtained from the SEC.
- iii. Bank Certificate of Deposit – This shows the amount of paid-up capital deposited in the bank. It must be notarized before a notary public.

If registration is through the Express Lane and there is no check writer on the bank certificate of deposit, especially from banks located in the provinces, or if the account number is not specified in the bank certificate, the original bank book of the corporation must be presented and a xerox copy thereof bearing the name of the company, Treasurer-in-Trust and bank balance as of a certain date must be submitted to the SEC. (SEC MC No. 3, 01 October 1993).

Other necessary registration documents are as follows:

- c) a copy of the Articles of Incorporation;
- d) a copy of the By-Laws;
- e) a copy of the latest (i.e., last 3 years) audited financial statements showing the assets, liabilities, receipts, and disbursements of the corporation. If a new corporation, a Treasurer's Affidavit certifying that the corporation is non-profit and has recently been organized.

**TO QUALIFY AS A DONEE INSTITUTION, THE FOLLOWING DOCUMENTS SHOULD BE FILED WITH THE BIR:**

- a) BIR-Form GTCED No. 3;
- b) An affidavit showing the following:
  - i. the character of the organization,
  - ii. the purpose for which it was organized,
  - iii. its actual activities,
  - iv. the source of income and disposition thereof, whether or not any of the income is credited to surplus or inures or may inure to the benefit of any private stockholder or individual, and
  - v. in general, all facts relating to the operations of the corporation which affect its right to exemption.
- c) Article, By-Laws and SEC Certificate of Incorporation;
- d) A copy of the latest financial statements. If a new corporation, a Treasurer's Affidavit certifying that the corporation is non-profit and has recently been organized; and
- e) Filing fee for Certificate of Registration.

Note, however, that any donee institution enjoying tax benefits under the CTRA is prohibited from undertaking any of the following activities:

- a) Lending any part of its income or property without adequate security or a reasonable rate of interest;
- b) Purchasing any security or property for more than an adequate consideration in money or money's worth;

- c) Selling any part of the security or other property for less than adequate consideration in money or money's worth;
- d) Diverting its income or transferring its property, by way of lease or sale to any members of its Board of Directors or Trustees, founder, principal officers or any member of their families, or to any corporation controlled directly or indirectly by aforesaid individuals or their family;
- e) Using any part of its property, income or capital for any purpose other than that for which the corporation was created; and
- f) Engaging in activity contrary to law or public policy.

4. **Organize the Corporation** - The Corporation is required to formally organize and commence the transaction of its business or the construction of its works within two years from the date of incorporation. Failure to comply with these conditions subsequent will result in the automatic expiry of corporate powers. Should the corporation later exercise corporate powers, *quo warranto* proceedings may be brought against it to oust it therefrom. Organizing a corporation includes the following steps:

- a) Holding of the first organizational meeting of the stockholders to elect the Board of Directors and to adopt the By-Laws of the corporation.
- b) If By-Laws were not filed together with AOI during incorporation, filing of the same with the SEC. This must be done within one month from the receipt of official notice of the issuance of certificate of incorporation by the SEC; and
- c) Holding of the first organizational meeting of the elected Board of Directors or Trustees. The first meeting of the Board should:
  - i. Elect officers, fix their compensation and, if necessary, require the posting of fidelity bonds;
  - ii. Adopt the corporate seal and form of stock certificates;
  - iii. Authorize the issuance of shares and the taking of subscriptions;
  - iv. Accept pre-incorporation subscriptions;
  - v. Establish a principal office;
  - vi. Fix the place for regular meetings of Directors or Trustees;

- vii. Authorize the signing and counter-signing of checks and similar instruments by certain officers of the corporation;
- viii. Adopt contracts made by promoters, if any, on behalf of the proposed corporation;
- ix. Authorize application for a permit for taking subscription and issuing shares with the SEC, if one is necessary and has not been filed, or if no exemption has been granted;
- x. Authorize the opening of a bank account and designate certain officers or representative as authorized bank signatories; and
- xi. Authorize acquisition of property and execution of contracts necessary to actual commencement of the business.

Thenceforth, the DOH/LGU Hospital Corporation or Foundation may proceed to conduct its business of managing the devolved hospital.

5. **Invest in the Corporatized Government Hospital** - If what has been organized or created is a holding corporation (i.e., a company that confines its activities to owning shares of stock in, and supervising management of, other companies. It usually owns more than 50% of the voting stock of the companies whose stock it holds), it may now invest in the CGH by purchasing share of the latter. This may be done by means of a Board resolution authorizing the holding corporation to invest in the stocks of the CGH and to execute a Subscription Agreement with the latter or by legislation transferring the shares of a hospital corporation or the assets of a hospital unit to the holding company.

DOCUMENTARY REQUIREMENTS

FOR THE REGISTRATION

OF A

NON-STOCK, NON PROFIT

CORPORATION

MODEL ARTICLES OF INCORPORATION  
OF A FOUNDATION

Articles of Incorporation  
Of  
\_\_\_\_\_ Foundation, Inc.

KNOW ALL MEN BY THESE PRESENTS:

THAT WE, all of whom are of legal age and residents of the Philippines, have this day voluntarily agreed to form a non-stock corporation under the laws of the Republic of the Philippines.

AND WE HEREBY CERTIFY: That

FIRST: The name of the said corporation shall be FOUNDATION, INC., hereinafter called the "Foundation"

SECOND: To establish, maintain, run and operate on a non-profit basis a medical clinic, hospital or hospitals in the [Province of \_\_\_\_] for the treatment, care, relief and medical or surgical attendance of the sick, afflicted, injured or inform in the [Province], for the study of the cause, nature, prevention and cure of the various diseases, and for the care and treatment of maternity cases, subject to the condition that purely professional medical or surgical services in connection therewith shall be performed by duly qualified physicians or surgeons who may or may not be connected with the Corporation and who may or may not be freely and individually contracted by the patient; and to establish and maintain drug dispensaries and medical and chemical laboratories necessary for the purposes of the hospital, including anatomical, x-ray pathological and similar laboratories and such other enterprises which may have similar or analogous undertaking or dedicated to services in connection therewith.

**AND IN FURTHERANCE OF THE PURPOSE AFORESAID,**  
the Foundation shall have the following incidental powers –

(a) To accept any gifts, contributions endowments, grants, bequests and devices of any kind of real or personal property which are necessary and proper for the attainment of the purpose of the Foundation, and to hold, acquire or administer any real or personal property given, devised or bequested to it for the purpose of the Foundation;

(b) To hold, buy, sell, exchange, hire, rent or lease, and to mortgage or otherwise encumber, any real or personal property, and to invest or re-invest its funds, monies or properties in such undertakings and activities as may be desired or necessary to carry out the purpose of the Foundation;

(c) To do and perform all acts and things necessary, suitable or proper for the accomplishment of the purpose hereinabove stated or which shall at any time appear conducive to the protection or benefit of the Foundation, including the exercise of the powers, authorities and attributes conferred upon corporations organized under the laws of the Republic of the Philippines in general and upon domestic corporations of like nature in particular.

**THIRD.** The principal office of the Foundation shall be established or located in the [Province of \_\_\_\_\_],

**FOURTH.** The term for which the Foundation is to exist shall be fifty (50) years from and after the date of issuance of its certificate of incorporation.

**FIFTH.** The names, nationalities and residences of the incorporators of the Foundation are as follows:

NAME	NATIONALITY	RESIDENCE
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

**SIXTH.** The Foundation shall have five (5) Trustees, and the names, nationalities and residences of the first Trustees of the Foundation are as follows:

NAME	NATIONALITY	RESIDENCE
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

**SEVENTH.** The membership of the Foundation shall be comprised of such non-stock, non-profit corporations and cooperatives as may from time to time qualify and be admitted in accordance with the By-laws of the Foundation, and the names, nationalities and principal offices of the first members of the Foundation are as follows:

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NAME	NATIONALITY	PRINCIPAL OFFICE
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

**EIGHT.** (a) The property and income of the Foundation wheresoever derived shall be applied solely towards the promotion of the purpose of the Foundation as set forth in these Articles of Incorporation and no portion thereof shall be used or transferred, directly or indirectly, by way of dividends, bonuses or any other form of profit distribution to the persons who at any time are or have been members of the Foundation or to any person claiming through any of them, provided that nothing herein contained shall prevent the payment in good faith of reasonable compensation to any officer or employee of the Foundation, to any member thereof, or to nay other person in return for services actually rendered to the Foundation.

(b) In the event of its dissolution, all the assets of the Foundation, after paying its liabilities, shall be disposed of and turned over to the Republic of the Philippines or any of its agencies, instrumentalities or political subdivisions to be used for a public purpose

**NINTH.** \_\_\_\_\_ has been elected by the incorporators as the Treasurer of the Foundation to act as such until his successor is duly elected and qualified in accordance with the By-laws, and that, as such Treasurer, he has been authorized to receive for and in the name and for the benefit of the Foundation all dues, fees, donations or other contributions paid or given by the members and other parties.

IN WITNESS WHEREOF, the parties hereto have signed these presents this \_\_\_\_\_ day of \_\_\_\_\_ 2000, at \_\_\_\_\_ Philippines.

\_\_\_\_\_  
TIN No.

Signed in the Presence of:

\_\_\_\_\_

**ACKNOWLEDGMENT**

Republic of the Philippines)  
Province of \_\_\_\_\_ ) SS.

BEFORE ME, a Notary Public in and for the Province of \_\_\_\_\_, Philippines, personally appeared:

Name	CTC No.	Date/Place Issued
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

all known to me and by me known to be the same persons who executed the foregoing instruments and who acknowledged to me that the same is their free and voluntary act and deed.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my notarial seal this \_\_\_\_th day of \_\_\_\_\_ 2000, at \_\_\_\_\_, Philippines.

NOTARY PUBLIC

Doc. No. \_\_\_\_\_  
Page No. \_\_\_\_\_  
Book No. \_\_\_\_\_  
Series of \_\_\_\_\_.

## COMPLIANCE WITH SEC REQUIREMENTS FOR NON-STOCK CORPORATION

WE, the undersigned, constituting all the Trustees of the LGU Hospital Foundation, Inc. (The "Foundation"), a non-stock, non-profit corporation which is now in the process of being registered with the SEC hereby undertake that, in the course of its operations, the Foundation will comply with the SEC Requirements for Non-Stock Corporation dated \_\_\_\_\_.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

## MODUS OPERANDI

LGU HOSPITAL FOUNDATION, INC., to establish, maintain, run and operate on a non-profit basis a medical clinic, hospital or hospitals in the [Province of \_\_\_\_] for the treatment, care, relief and medical or surgical attendance of the sick, afflicted, injured or infirm in the [Province], for the study of the cause, nature, prevention and cure of the various diseases, and for the care and treatment of maternity cases, subject to the condition that purely professional medical or surgical services in connection therewith shall be performed by duly qualified physicians or surgeons who may or may not be connected with the Corporation and who may or may not be freely and individually contracted by the patient; and to establish and maintain drug dispensaries and medical and chemical laboratories necessary for the purposes of the hospital, including anatomical, x-ray pathological and similar laboratories and such other enterprises which may have similar or analogous undertaking or dedicated to services in connection therewith.

Once incorporated, the Board of Trustees shall create from time to time such committee(s) it may deem desirable and necessary in the implementation of the purpose, programs, projects and activities of the Foundation. Cooperative undertakings with government agencies and non-governmental organizations with similar objectives will likewise be pursued.

Considering its purpose and plans, the Foundation shall, without doubt, make a significant contribution to the advancement and development of academic research and training in public policy and administration.

\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_

Date \_\_\_\_\_

The Chairman  
Securities and Exchange Commission  
EDSA Avenue  
Mandaluyong, MM.

Subject: Undertaking to Change Corporate Name

Dear Chairman,

In connection with the registration of the Articles of Incorporation of the LGU Hospital Foundation (the "Foundation"), the organizers of the Foundation, through the undersigned representative, manifest their willingness to change the name of the Foundation in the event that another person, firm or entity has acquired a prior right to the use of the said name or one deceptively or confusingly similar to it.

Very truly yours,



Annex N

**BY-LAWS  
OF  
PROVINCIAL HOSPITAL FOUNDATION, INC.**

WE, the undersigned, constituting at least a majority of the entire members of the PROVINCIAL HOSPITAL FOUNDATION, INC., hereby promulgate the herein By-laws.

**ARTICLE I**

**IDENTIFICATION**

**Section 1. Name.** The name of the corporation shall be PROVINCIAL HOSPITAL FOUNDATION, INC., hereinafter referred to as the "Foundation".

**Section 2. Nature and Objectives of the Foundation.** The Foundation is private, non-stock, non-profit corporation whose objectives are those set forth in the Articles of Incorporation.

**ARTICLE II**

**OFFICES**

**Section 1. Principal Office.** The principal office of the Foundation shall be located in the Province of \_\_\_\_\_, Philippines, or at such place therein as the Board of Trustees may designate.

**Section 2. Other Offices.** The Foundation may establish a branch office or offices in such other place or places within or without the Philippines as the Board of Trustees may from time to time determine or the work of the Foundation may require.

**ARTICLE III**

**MEMBERS**

**Section 1. Members.** The members of the Foundation shall be composed of the Incorporators named in the Articles of Incorporation, national government as represented by the Department of Health, local government units within the Province of \_\_\_\_\_, juridical entities such as registered cooperatives, and associations whose primary purpose is health related services and/or hospital management and charitable institutions and international organizations whose main objective is to improve the management, operation and administration of the provincial hospital. Natural persons with expertise in hospital management may be admitted from time to time by a two thirds (2/3) vote of the members of the Board of Trustees. The Board may also elect by unanimous vote, honorary members and officers who shall have no authority over nor responsibility for the operations of the Foundation.

**Section 2. Application for Memberships.** The application for membership shall be made in writing in a form approved and provided for such purpose by the Board of Trustees. The conditions for membership in the Foundation shall likewise be determined and prescribed by the Board of Trustees.

**Section 3. Membership Fees and Other Dues.** The Board shall prescribe from time to time the required membership fees, dues and other assessment; provided, however, that honorary members shall not be charged such fees, dues or assessments.

**Section 4. Certificate of Membership.** A certificate of membership shall be issued by the Foundation to each member which shall be in a form prescribed by the Board of Trustees. The certificate is non-transferable. In case a certificate is lost, destroyed, or mutilated, a new certificate may be issued upon payment of a reasonable replacement fee which the Board of Trustees in its discretion may require.

**Section 5. Membership in Good Standing.** Any member, other than a honorary member, (i) whose required fees, dues and other assessments are fully paid, (ii) has not violated any provisions of the Articles of Incorporation, these By-Laws, the rules and regulations, circulars, memoranda and other issuances of the Board of the Foundation, and (iii) has complied with all the obligations, duties and undertakings of membership shall be considered in good standing and unless otherwise provided by these By-laws, may avail himself of all the rights and privileges of membership in the Foundation.

**Section 6. Rights and Privileges of Members.** All members of the Foundation shall enjoy rights and privileges as may from time to time be determined by the Board of Trustees, except that only members in good standing shall have the right to vote at any meeting of the members and the privilege to be elected or appointed to any position or honor or responsibility in the Foundation.

**Section 7. Limitation on the Right of Members to the Funds and Assets.** No member shall have or acquire any right, title or interest in the funds or assets of the Foundation nor any vested right in the continuation of any privileges granted by the Foundation, nor be entitled to share in the distribution of any assets of the Foundation which shall be utilized and applied by the Board of Trustees for the attainment of the purposes and objectives of the Foundation as stated in its Articles of Incorporation and such other activities in furtherance thereof.

**Section 8. Termination of Membership.** Membership in the Foundation may be terminated either by withdrawal or expulsion therefrom. Any member desiring to terminate his membership by withdrawal from the Foundation shall submit a written notification to the Board of Trustees.

**Section 9. Expulsion.** If a member commits any act prejudicial to the interests of the Foundation or refuses to comply with its duties and obligations as a member, the Board of Trustees may, following a hearing, expel such member or, in lieu of expulsion, order the suspension of the member's right to vote until such time as the Board shall

determine. During the period of suspension, the presence of such member shall not be required in determining the existence of a quorum or the number or votes required to approve any course of action or proposition.

#### ARTICLE IV

### MEETINGS OF MEMBERS

Section 1. **Place of Meetings.** All meetings of members shall be held at the principal office of the Foundation unless written notices of such meetings should fix another place within the Province of \_\_\_\_\_.

Section 2. **Biennial Meetings.** The biennial meeting of the members of the Foundation for the election of Trustees and the transaction of such other business as may properly come before the said meeting shall be held on the first week of July, at such time and place as the Board of Trustees may determine. If the election of Trustees could not be held on the day designated for the biennial meeting or at any adjournment of such meeting, the Board of Trustees shall cause the election to be held at a special meeting as soon thereafter as the same may conveniently be held. At such special meeting, the members may elect the Trustees and transact other business as stated in the notice of the meeting with the same force and effect as at a biennial meeting duly called and held.

Section 3. **Special Meetings.** Special meetings of the members may be called at any time by resolution of the Board of Trustees or upon the written request of at least twenty percent (20%) of all the members of the Foundation. Such request shall state the purpose or purposes of the proposed meeting.

Section 4. **Notice of Meetings.** Except as otherwise provided by law, written or printed notice of all biennial and special meetings of the members, stating the place and time of the meeting and, if necessary, the general nature of the business to be considered, shall be transmitted by personal delivery, mail, telegraph, telex or facsimile transmission to each member at his address last known to the Secretary of the Foundation, at least thirty (30) days before the date of the meeting, if a biennial meeting, or at least ten (10) days before the date of the meeting, if a special meeting. Except where expressly required by law, no publication of any notice of a meeting of members shall be required. If any member shall, in person or by attorney-in-fact thereunto authorized, in writing or by telegram, telex, facsimile transmission, waive notice of any meeting, whether before or after the holding of such meeting, notice thereof need not be given to him. Notice of any adjourned meeting of the members shall not be required to be given, except when expressly required by law.

Section 5. **Quorum.** At least forty per cent (40%) of all members in good standing of the Foundation shall constitute a quorum for the transaction of business at each meeting of the Foundation save in those cases where the Corporation Code requires the presence at the meeting of a greater number of members. In the absence of a quorum, the members in good standing of the Foundation present in person, by majority vote, shall have the power to adjourn the meeting from time to time, until members in good standing

sufficient to constitute a quorum shall be present. At any such adjourned meeting at which a quorum may be present any business may be transacted which might have been transacted at the meeting as originally called. The absence from any meeting of the number required by the laws of the Republic of the Philippines or by the Articles of Incorporation or action at such meeting upon any other matter or matters which may properly come before the meeting, if the number of members required in respect of such other matter or matters shall be present.

**Section 6. Organization of Meeting.** At every meeting of the members, the Chairman of the Board, or, in his absence, the President, or, in the absence of the Chairman of the Board and the President, a Chairman chosen by a majority of the members in good standing present in person, shall act as Chairman. The Secretary shall act as a secretary at all meeting of the members. In the absence from any such meeting of the Secretary, the Chairman may appoint any person to act as secretary of the meeting.

**Section 7. Voting.** At every meeting of the members of the Foundation, each member in good standing shall be entitled to one vote. All elections and all questions at all meetings of the members shall be decided by the majority vote of members in good standing present and in person (not by proxy), a quorum being present, except in cases where other provisions are made by statute. Unless required by law, or demanded by a member in good standing present in person at any meeting, the vote on any question need not be by ballot. On a vote by ballot, each ballot shall be signed by the member voting.

#### ARTICLE V

### BOARD OF TRUSTEES

**Section 1. General Powers.** The Board of Trustees shall have general charge of the properties, business, affairs and transactions of the Foundation with the power to manage, direct and supervise the same under its collective responsibility as provided in these By-laws or conferred upon it by applicable laws and regulations.

**Section 2. Number and Term.** There shall be seven (7) seats in the Board of Trustees, each of whom shall be and remain members in good standing of the Foundation.

Of the seven (7) seats in the Board, three (3) shall be reserved for local government units of the Province of \_\_\_\_\_ with the incumbent governor of the Province assuming the first while the second and third shall be nominated by the former. The fourth seat shall be reserved for the designated representative of the Department of Health. The fifth seat shall be reserved for the duly elected representative of the association of the hospital employees. The last two (2) seats shall be reserved for two (2) representatives of all private sector association and cooperative members elected pursuant to rules and regulations promulgated by these private sector associations and cooperative members.

Each Trustee shall serve for a term of one (1) year until his successors shall have been duly elected and qualified in accordance with there By-Laws.

**Section 3. Qualification of Trustees.** Members of the Board of Trustees shall have the minimum of qualification as follows:

- a. As for the local government unit representative, except for the incumbent governor of the Province, he or she must be appointed by the governor and must have management experience for at least five (5) years;
- b. As for the representative of the Department of Health, he or she must be appointed by the Secretary of Health and must have had hospital service experience for at least five (5) years;
- c. As for the private sector representative, he or she must be elected by all members under the rules and regulations promulgated by all private sector members and must have practiced a profession related to health services for a minimum of five (5) years;
- d. As for the representative of health worker employees, he or she must have been elected by all members of the association in accordance with its rules and regulations and must have rendered services for the provincial hospital for not less than five (5) years.

**Section 4. Quorum and Manner of Acting.** Except as otherwise provided by statute, by the Articles of Incorporation or by these By-laws, a majority of the number of elected Trustees specified in the Articles of Incorporation shall constitute a quorum for the transaction of business at any meeting, and the act of a majority of the elected Trustees present at any meeting at which there is a quorum shall be valid as a corporate act. In the absence of a quorum, a majority of the elected Trustees present may adjourn any meeting from time to time until a quorum be had. Notice of any adjourned meeting need not be given.

**Section 5. Place of Meetings.** The Board of Trustees may hold its meetings at the principal office of the Foundation or at such other places within or without the Province of \_\_\_\_\_ as the Board may from time to time determine or as shall be specified or fixed in the respective notices or waivers of notice thereof.

**Section 6. Organization Meetings.** The Board of Trustees shall meet for the purpose of organization, the election of officers and transaction of other business as soon as practicable after each biennial election of Trustees. Such meeting may be held at any time or place which shall be specified in a notice given as hereinafter provided for special meetings of the Board of or in a consent and waiver of notice thereof signed by all the Trustees.

**Section 7. Regular Meetings.** Regular meetings of the Board of Trustees shall be held at such places and at such times as the Board shall from time to time by resolution determine. Unless otherwise determined by the Board of Trustees, if any day fixed for a regular meeting shall be a legal holiday at the place where the meeting is to be held, then the meeting which would otherwise be held on that day shall be held at the same hour on the next succeeding business day not a legal holiday. Notice of regular meetings need not be given.

**Section 8. Special Meetings: Notice.** Special meetings of the Board of Trustees shall be held when called by the Chairman of the Board, or by the President, or by the Secretary at the request of any five (5) Trustees. Notice of each such meeting shall be mailed to each Trustee, addressed to him at his residence or usual place of business, at least ten (10) days before the day on which the meeting is to be held, or shall be sent to him at such place by telegram, telex or facsimile transmission, or be delivered personally not later than five (5) days before the day on which the meeting is to be held. Every such notice shall state the time and place of meeting and the purpose thereof. Notice of any meeting of the Board need not be given to any Trustee, however, if such notice is waived by him in writing or by telegram, telex or facsimile transmission whether before or after such meeting is held or if he shall be present at the meeting, and any meeting of the Board shall be a legal meeting without any notice thereof having been given to any Trustee, if all the Trustee shall be present thereat.

**Section 9. Resignation.** Any elected Trustee of the Foundation may resign at any time by giving written notice to the Chairman of the Board, the President or the Secretary of the Foundation. The resignation of any elected Trustee shall take effect at the time specified therein and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

**Section 10. Removal of Trustees.** Any elected Trustee may be removed at any time by the affirmative vote of at least two-thirds (2/3) of all the members in good standing of the Foundation at a special meeting of the members called for the purpose and held after due notice as provided in Section 28 of the Corporation Code. The vacancy in the Board caused by any such removal may be filled by at least two-thirds (2/3) of the members at such meeting without further notice, or at any biennial or special meeting called for the purpose after giving notice as prescribed by the Corporation Code, provided that the vacancy shall be filled up by an individual representing the same sector as the removed Trustee.

**Section 11. Vacancies.** Any vacancy in the Board of Trustees caused by death, resignation, disqualification, or any other cause, except by removal and expiration of term, may be filled by the majority vote of the remaining elected Trustees then in office, constituting a quorum, and each Trustee so elected shall hold office for a term to expire at the next biennial election of Trustees, and until his successor shall be duly elected and qualified or until he shall resign or shall have been removed in the manner herein provided. The Trustee to be elected should come from the same sector as the Trustee replaced.

**Section 12. Compensation of Trustees.** Members of the Board of Trustees shall not receive any compensation in cash or in kind for their services as Trustees, but by resolution of a majority of the members in good standing of the Foundation, expenses of attendance at regular or special meetings of the Board may be allowed. Actual and necessary travelling expenses of the members of the Board while engaged in serving the interests of the Foundation and in pursuit of its defined objectives and purposes may be allowed by special resolution of the Board.

#### ARTICLE VI

### COMMITTEES

**Section 1. Executive Committee.** The Board of Trustees may, by resolution passed by a majority of all its members, create an Executive Committee of not more than five (5) members who shall be appointed by the Board. At least three (3) members of the Executive Committee shall be members of the Board. Except as provided in Section 35 of the Corporate Code, the Executive Committee shall have and exercise all such powers as may be delegated to it by the Board. The Executive Committee shall keep regular minutes of its proceedings and report the same to the Board whenever required. The Board shall have the power to change the members of the Executive Committee at any time, to fill vacancies therein and to discharge or dissolve such committee either with or without cause.

**Section 2. Other Committees.** The majority of all the members of the Board of Trustees may by resolution create other committees with such powers and functions as may be delegated to them by the Board. All such committees shall keep a record of their proceedings and report the same to the Board, whenever required. The Board shall have the power to appoint and remove the members of such committees and may at any time with or without cause dissolve any of such committees.

#### ARTICLE VII

### OFFICERS

**Section 1. Number.** The officers of the Foundation shall be a Chairman of the Board, a President/CEO, one or more Vice Presidents, a Secretary, a Treasurer and such other officers as may from time to time be elected or appointed by the Board of Trustees. Any two or more positions may be held concurrently by the same person, except that no one shall act as President/CEO and Secretary or as President/CEO and Treasurer.

**Section 2. Election, Term of Office and Qualifications.**

The Chairman of the Board, shall be the incumbent governor of the Province.

The President/CEO, shall be the incumbent Chief of Hospital of the Provincial Hospital provided that in case of vacancy or removal during the term of the first President/CEO, the vacancy shall be filled up in accordance with the terms and conditions of the Memorandum of Agreement. The President/CEO shall not be qualified to be elected as such for two (2) consecutive terms.

The Vice Presidents, the Secretary and the Treasurer shall be elected biennially by affirmative vote of a majority of all the members of the Board of Trustees. The Secretary shall be a resident of the Province and a citizen of the Philippines. Each officer shall hold office until his successor is elected and qualified in his stead, or until he shall have resigned or shall have been removed in the manner hereinafter provided.

Such other officers as may from time to time be elected or appointed by the Board of Trustees shall hold office for such period, have such authority and perform such duties as are provided by these By-laws or as the Board of Trustees may determine.

**Section 3. Removal.** Any officer except the Chairman and the first President/CEO, may be removed at any time by the vote of a majority of all the members of the Board of Trustees.

**Section 4. Resignations.** Any officer may resign at any time by giving written notice to the Board of Trustees, to the Chairman of the Board or to the President/CEO. Any such resignation shall take effect on the date of receipt of such notice or at any later time specified therein; and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

**Section 5. Vacancies.** A vacancy in any office because of death, resignation, removal, disqualification or any other cause may be filled for the unexpired portion of the term by the Board of Trustees.

**Section 6. The Chairman of the Board.** The Chairman of the Board shall, if present, preside at all meetings of the members and of the Board of Trustees. In the absence of the Chairman, the President/CEO shall perform the duties of the Chairman. The Chairman shall also perform such other duties as shall from time to time be assigned to him by the Board of Trustees.

**Section 7. President/CEO.** The President shall be the Chief Executive Officer of the Foundation and, subject to the control of the Board of Trustees, shall have general care and supervision of the business and affairs of the Foundation. He shall, in the absence of the Chairman of the Board, preside at all meetings of the members and of the Board of Trustees. He shall provide the members and the Board of Trustees such reports, memoranda, accounts and data which may be required of him; and, in general, perform all duties incident to the Office of the President and such other duties as may from time to time be assigned to him by the Board of Trustees or as prescribed by these By-laws.

**Section 8. Vice President.** At the request of the President, any Vice President who is also a Trustee, or in the absence or disability of the President who is also a Trustee, shall perform all the duties of the President, and, when so acting, shall have all the powers of, and be subject to all the restrictions upon the President. Any Vice President shall perform such other duties as may, from time to time, be assigned to him by the Board of Trustees or the President.

**Section 9. The Secretary.** The Secretary shall keep or cause to be kept in books provided for the purpose the minutes of the meetings of the members and of the Board of Trustees shall give, or cause to be given, notice of all meetings of members and trustees and all other notices required by law or by these By-laws and in the case of his absence or refusal or neglect to do so, any such notice may be given by any person thereunto directed by the President, or by the Trustees or members, upon whose request the meeting is called as provided in these By-laws; shall, unless otherwise determined by the Board of Trustees, be custodian of the records of the Foundation; shall keep a register of the address of each members and make all proper changes in such register, retaining and filing his authority for all such entities; shall, unless otherwise determined by the Board of Trustees, have charge of the minute books and membership books of the Foundation; and in general, shall perform all duties incident to the office of the Secretary, and such other duties as may, from time to time, be assigned to him by the Board of Trustees or by the President.

**Section 10. The Treasurer.** The Treasurer shall give such bond for the faithful performance of his duties as the Board of Trustees may require. He shall have charge and custody of, and be responsible for, all funds, securities, evidences of indebtedness and other valuable documents of the Foundation, and deposit all such funds in the name of the Foundation, deposit all such funds in the name of the Foundation in such banks, trust companies or other depositories as shall be selected by the Board of Trustees; at all reasonable times, exhibit his books of account and records to any of the Trustees of the Foundation where such books and records are kept; when required by the President or the Board of Trustees, render a statement on the condition of the finances of the Foundation; receive and give, or cause to be given, receipts for moneys due and payable to the Foundation from any source whatsoever, and pay out money as the business of the Foundation may require: and, in general, shall perform all the duties incident to the office of Treasurer and such other duties as from time to time may be assigned to him by the Board of Trustees or by the President.

#### ARTICLE VIII

### FINANCIAL AND OTHER TRANSACTIONS

**Section 1. Fiscal Year.** The fiscal year of the Foundation shall commence on the first day of January of each calendar year and shall close on the 31<sup>st</sup> day of December of the same calendar year.

**Section 2. Contracts.** The Board of Trustees may authorize any officer or officers to enter into any contract or execute and deliver any instrument in the name or in

behalf of the Foundation, and such authority may be general or confined to specific instances or undertakings.

**Section 3. Checks, Drafts, Etc.** All checks, drafts, or other orders for the payments of moneys, notes or other evidence of indebtedness issued in the name of the Foundation shall be signed by such officers of the Foundation and in such manner as may be determined by resolution of the Board of Trustees.

**Section 4. Depository.** The Board of Trustees shall select one or more banks or trust companies to act as depositories of the funds of the Foundation, and the Board of Trustees shall determine the manner of receiving, depositing, disbursing or withdrawing such funds

**Section 5. Auditors.** An external Auditor shall be designated by the Board of Trustees prior to the close of each fiscal year, who shall audit and examine the books of account of the Foundation, and shall certify to the Board of Trustees and the members of the annual balances of said books which shall be prepared at the close of the said year under the direction of the Treasurer. An internal auditor may be hired by the Foundation to audit and examine the books of account of the Foundation on a monthly basis. No Trustee or officer of the Foundation, and no firm or corporation of which such officer or Trustee is a member, shall be eligible to discharge the duties of auditor. The compensation of the Auditors shall be fixed by the Board of Trustees.

**Section 6. Prohibition Against Sharing in Corporate Earnings.** No members, Trustees, officer, agent, employee or person connected with the Foundation, or any other private individual, shall receive at any time any of the net earnings or pecuniary profit from the operation of the Foundation; provided, however, that this shall not prevent the payment to any person of such reasonable compensation for services actually rendered to or for the Foundation as shall be fixed by the Board of Trustees. No person or persons shall be entitled to share in the distribution of any of the corporate assets upon the dissolution or winding up of the affairs of the Foundation. All members of the Foundation shall be deemed to have expressly agreed and consented that, upon dissolution or winding up of the affairs of the Foundation, whether voluntary or involuntary, the assets of the Foundation, after paying its liabilities, shall be conveyed and transferred to a non-stock and non-profit foundation dedicated to the same objectives as the Foundation, or to the province, or any of its agencies, instrumentalities or political subdivisions for a public purpose, or as a competent court of justice would distribute to accomplish the general purposes for which the Foundation is organized.

**Section 7. Seal.** The Board of Trustees or the President, by delegation of the Board, shall provide a suitable seal for the Foundation.

#### ARTICLE IX

#### AMENDMENTS

All By-laws of the Foundation shall be subject to amendment, alteration or repeal, and new By-laws, not inconsistent with any provision of law may be made by the affirmative vote of a majority of the Board of Trustees and a majority of the members in good standing of the Foundation present in person, there being a quorum, given at a biennial meeting or at any special meeting, provided that notice of the proposed amendment, alteration or repeal or of the proposed new By-laws be included in the notice of such meeting. The Board of Trustees may likewise amend, alter or repeal By-laws or adopt new By-laws, at any regular or special meeting of the Board, if authorized by the members as provided in Section 48 of the Corporate Code.

Adopted in \_\_\_\_\_, Philippines this \_\_\_\_ day of \_\_\_\_\_, 2001 by the unanimous affirmative vote of the entire membership and members of the Board of Trustees of the Provincial Hospital Foundation, Inc.

MEMORANDUM OF AGREEMENT

KNOW ALL MEN BY THESE PRESENTS:

This AGREEMENT, entered into by and between:

The PROVINCE OF \_\_\_\_\_, a local government unit under the laws of the Republic of the Philippines, represented herein by its Governor, HON. \_\_\_\_\_ with address at \_\_\_\_\_, Provincial Hall, \_\_\_\_\_, hereafter referred to as PROVINCE ,

- and -

NEW FOUNDATION, INC., a non-stock corporation, duly organized and existing under Philippine laws, with address at \_\_\_\_\_, herein represented by its President, \_\_\_\_\_, hereafter referred to as NEW CO.

WITNESSETH That:

WHEREAS:

Pursuant to Sanggunian Resolution No. \_\_\_\_\_, the Province had been given authority to organize and form a foundation to operate and manage the provincial hospital;

NEW CO. had been organized and registered with the Securities and Exchange Commission primarily for such purpose;

NEW CO. whose membership includes representatives of the province and the various cities, municipalities and barangay units within the Province as well as international agencies and the private sector with expertise in hospital management is qualified to efficiently manage and operate the provincial hospital;

The Province has agreed to turn over operations, management and administration of the provincial hospital to NEW CO while NEW CO has agreed to take on such responsibilities under the following terms and conditions:

NOW THEREFORE, for and in consideration of the aforementioned premises, the parties hereto agree as follows:

1. **GRANT OF CONCESSION** - The Province hereby grants to NEW CO the right to perform certain functions in the operation, management and administration of the provincial hospital enumerated in Schedule "A" hereof;
2. **TERM** - NEW CO shall perform functions under Schedule "A" hereof for a period of five (5) years to commence at the beginning of the fiscal year 2002 up to the fiscal year \_\_\_\_ and may be extended for another term of five (5) years upon sole discretion of the Province. In case of extension for a second term, the Province shall give prior written notice of such extension to NEW CO not later than the first (1<sup>st</sup>) of July 200\_\_;
3. **LISTING OF EMPLOYEES** - The Province upon signing of this Agreement, shall provide NEW CO with a list of all employees of the provincial hospital and their specific duties and functions for NEW CO to determine the staffing pattern and the need for additional employees for the effective management and operation of the provincial hospital;
4. **SECONDMENT OF EMPLOYEES** - All employees of the provincial hospital shall be seconded to NEW CO upon the effectivity of this Agreement. Seconded employees shall remain employees of the Province and shall enjoy the same wages and benefits enjoyed at the time this Agreement was entered into and as provided under the law;
5. **NEW EMPLOYEES** - Upon determination by NEW CO of the need for additional personnel and staff, NEW CO shall hire the services of qualified individuals to perform such duties and functions under negotiated terms and conditions;
6. **CHIEF EXECUTIVE OFFICER** - Upon the signing of this Agreement the Chief of Hospital of the provincial hospital shall assume the position of Chief Executive Officer (CEO) under NEW CO. However, in case of resignation or

incapacity of the CEO to perform the functions and duties of his office before his term ends, NEW CO shall nominate qualified individuals for the position of CEO who will have a term co-terminus to this Agreement. The CEO shall be appointed by a majority vote of all members of the Board of Trustees of NEW CO.

As CEO, the individual shall be in-charge of the usual and regular course of business of the provincial hospital. He shall be accountable to the Board of Trustees of NEW CO who can reconsider his appointment and cause his suspension or dismissal in the office, for cause, as provided by law and after due process;

7. **MANAGEMENT TEAM** – Members of the present management team of the provincial hospital shall maintain their present positions and respective posting. The present organizational structure shall likewise be maintained. In the event of vacancy, NEW CO may hire the services of qualified individuals to fill up the vacancy under negotiated terms and conditions of employment;
8. **EXISTING LIABILITIES** - The provincial hospital shall shoulder its obligations incurred before and during the effectivity of this Agreement; subject to existing accounting and auditing rules and procedures. NEW CO shall not be liable for any obligation incurred by the Province for the provincial hospital or the public.
9. **NEW CONTRACTS** - NEW CO may enter into contracts with individuals and entities for the efficient and effective management, operation and administration of the provincial hospital. NEW CO shall hold the Province free from such liabilities as may be incurred by reason of such contract or agreement, and shall be solely responsible for the same.
10. **ASSET CONDITION REPORT** - NEW CO shall submit an asset condition report within sixty (60) days from the signing of this Agreement and recommend to the Province which of the assets need to be maintained,

repaired or replaced. Allocated funds shall thereafter be used to maintain, repair or replace the said equipment.

11. **USUFRUCT OF ASSETS** - Legal title to all existing assets and equipment at the time of this Agreement shall remain with the Province. NEW CO however shall have usufruct of all these assets during the term of this Agreement. An inventory of the same shall be taken of these assets and attached to this Agreement as Schedule "B";

NEW CO shall have the right to use any consumable items listed in the inventory of the provincial hospital to carry out its business and responsibilities under this Agreement.

NEW CO shall determine the need of new and additional equipment for the efficient operation of the hospital which may be provided by NEW CO at its own expense or source the same as provided in paragraph 14 hereof.

12. **NEW EQUIPMENT** - All new equipment purchased or acquired by NEW CO during the term of this Agreement whether purchased from the funds of NEW CO or sourced from the income of the provincial hospital or donated by individuals and entities shall be owned by NEW CO unless such equipment is donated to the Province.

13. **BUSINESS AND OPERATION** - The business and operation of the provincial hospital shall be conducted in the ordinary and usual course in the manner consistent with the manual of operations of hospitals issued by the Department of Health. NEW CO and the provincial hospital shall cooperate in all reasonable ways to facilitate the carrying out of its obligations and responsibilities under this Agreement;

14. **INCOME GENERATED** - All income generated during the term of this Agreement from the operations of the provincial hospital shall be used exclusively for the development and improvement of the hospital and to

increase benefits for the personnel, its equipment and facilities and fund the contracts entered into by NEW CO for such purpose;

15. **TERMINATION FOR CAUSE** - This Agreement may be terminated for cause by any party, with the party initiating termination required to give prior written notice within ninety (90) days of the intended date of termination to the other.

Causes for termination include the following;

- a. Inefficient and ineffective management and administration of the provincial hospital;
- b. Insolvency of NEW CO.
- c. Repeal of enabling law.

16. **DISPUTES** - The parties hereto agree to use best efforts to resolve any agreements or disputes concerning the interpretation and implementation of this Agreement through initial consultation and negotiation. All disagreements, disputes, controversies or claims arising out of or relating to this Agreement or the interpretation hereof or any arrangements relating hereto or contemplated herein or the breach, termination or invalidity hereof which can not be resolved through consultation and negotiation among the parties hereto shall be finally settled by an arbitration panel consisting of three (3) members composed of a designated representative of the provincial hospital, a designated representative of NEW CO and an appointee of the Provincial Governor. Arbitration proceedings shall be conducted in accordance with arbitration rules acceptable to all parties. Any costs incurred in arbitration proceedings shall be shared in equal portion by the Province and NEW CO.

17. **FINANCIAL BOOK AND RECORDS** - NEW CO shall maintain financial books and records of its business and operation and shall follow generally

accepted rules and principles of accounting. NEW CO shall secure the services of accountants and auditors for proper accounting and audit.

18. **ENFORCEABILITY** - The enforceability of the obligations of the respective parties herein and the effectivity of this Agreement shall be subject to the condition that no order, statute, rule, regulations, executive order, injunction, stay, decree or restraining order shall have been enforced by any court of competent jurisdiction or governmental or regulatory authority or instrumentality having jurisdiction over the matter that restrains, prohibits or declares illegal computation or stipulations agreed in this Agreement;

19. **GOVERNING LAW** - This Agreement shall be governed by existing laws of the Republic of the Philippines;

20. **EXTENSION OF TERM** - The Province shall strive to extend management, operation and administration of the provincial hospital by NEW CO should NEW CO be successful in the management, operation and administration of the same and formulate a plan for the eventual transfer of all assets of the provincial hospital to NEWCO..

IN WITNESS WHEREOF, the parties have signed this Agreement in \_\_\_\_\_  
this \_\_\_\_ day of \_\_\_\_\_, 2001.

PROVINCE OF  
\_\_\_\_\_

NEW FOUNDATION INC.

By:

By:

\_\_\_\_\_  
Governor

\_\_\_\_\_  
President

SIGNED IN THE PRESENCE OF:

\_\_\_\_\_

REPUBLIC OF THE PHILIPPINES)  
PROVINCE OF \_\_\_\_\_ ) S.S.

ACKNOWLEDGMENT

BEFORE ME, this \_\_\_\_ day of \_\_\_\_\_, 2001, personally the following:

NAME	CTC NO.	DATE/PLACE ISSUED
_____		
_____		

all known to me and to me known to be the same persons who executed the foregoing instrument and acknowledged to me that the same is their free voluntary act and deed and of the corporation so represented.

WITNESS MY HAND AND SEAL on the date and place above stated therein.

NOTARY PUBLIC

Doc. No. \_\_\_\_;  
Page No. \_\_\_\_;  
Book No. \_\_\_\_;  
Series of 2001.

Annex P

DRAFT ONLY

DEED OF ASSIGNMENT

KNOW ALL MEN BY THESE PRESENTS:

This DEED, entered into by and between:

The PROVINCE OF \_\_\_\_\_, a local government unit under the laws of the Republic of the Philippines, represented herein by its Governor, HON. \_\_\_\_\_ with address at \_\_\_\_\_, Provincial Hall, \_\_\_\_\_, hereafter referred to as PROVINCE,

- and -

NEW FOUNDATION, INC., a non-stock corporation, duly organized and existing under Philippine laws, with address at \_\_\_\_\_, herein represented by its President, \_\_\_\_\_, hereafter referred to as NEW CO.

WITNESSETH That:

WHEREAS:

Pursuant to Sanggunian Resolution No. \_\_\_\_\_, the Province had been given authority to organize NEW CO for the purpose of operating and managing the provincial hospital;

Under the same Resolution, the Province recognized that if NEW CO is able to manage, operate and administer the provincial hospital in the most efficient manner, it shall cause the transfer of all assets of the provincial hospital. NEW CO has usufruct of all assets of the provincial hospital under the Memorandum of Agreement it had entered into with the Province;

Over the years, NEW CO has proven its efficiency, and to further its success in the management, operation and administration of the provincial hospital, the Province in Sanggunian Resolution No. \_\_\_\_\_ has decided to assign, transfer, cede and convey all assets of the provincial hospital enumerated in Schedule "B" of the Memorandum of Agreement dated \_\_\_\_\_ to NEW CO.

\_\_\_\_\_  
REPUBLIC OF THE PHILIPPINES)  
PROVINCE OF \_\_\_\_\_ ) S.S.

ACKNOWLEDGMENT...

BEFORE ME, this \_\_\_\_ day of \_\_\_\_\_, 2001, personally the following:

Name	CTC NO.	DATE/PLACE ISSUED
_____		
_____		

all known to me and to me known to be the same persons who executed the foregoing instrument and acknowledged to me that the same is their free voluntary act and deed and of the corporation so represented.

WITNESS MY HAND AND SEAL on the date and place above stated therein.

NOTARY PUBLIC

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Series of 2001.