



ZdravReform
ЗдравРеформ

TRIP REPORT NO. CAR/KYR-3

COST CENTERS AND STEP-DOWN COST ALLOCATION

January 19–February 11, 1995
Karakol, Kyrgyzstan

Prepared under Task Order 209 by:
John R. Gass, IESC

Submitted by the *ZdravReform* Program to:
AID/ENI/HR/HD

AID Contract No. CCN-0004-C-00-4023-00
Managed by Abt Associates Inc.
with offices in: Bethesda, Maryland, U.S.A.
Moscow, Russia; Almaty, Kazakhstan; Kiev, Ukraine

SUMMARY

The government of Kyrgyzstan has acknowledged the need to reform its health care system to address problems resulting from its hierarchical structure, centralized administration and top-down allocation of funds, characteristics common among health systems throughout the former Soviet Union. The health sector in Kyrgyzstan is in the process of moving toward a more private/public mix in its organization and financing.

To help upgrade the health care financial systems, Karakol, Issyk-kul Oblast was selected as an Intensive Demonstration Site (IDS) of the *ZdravReform* Program. At the Karakol General Hospital, a significant step has been taken: the development and installation of a model cost accounting system. The primary purpose of this visit was to review and extend installation of the new cost accounting method in the demonstration site in collaboration with the Almaty Regional Office.

During the visit, the consultant reviewed a computer printout of the cost accounting method installed at Karakol General Hospital as well as accounting records and reports; conducted personal interviews and group discussions; and visited selected facilities and hospital departments. The consultant also toured the Karakol Institute of Management and the Karakol School of Nursing and met with executives of both facilities.

Objectives of this task included collaborating with the Almaty Regional Office MIS specialist to implement the cost accounting task order and assisting the Kemerovo specialist in an initial assessment of needs for the Mandatory Health Insurance (MHI) Fund. In addition, a supplemental work plan was added that included: reviewing current procedures for the flow of materials, paper and money for operating supplies and recommending improvements; recommending technical improvements in inventory methods; and incorporating improvements in supply and inventory methods into budgeting and reporting procedures.

The consultant was able to determine that the Almaty Office MIS specialist will install the new cost accounting method at other facilities when computers become available, and a computer specialist from the MHI Fund in Bishkek has been trained in the new method and will supervise training of hospital and polyclinic personnel. Also, at a special meeting in Karakol, the Kemerovo specialist was able to elicit local needs and offer recommendations for implementation.

Under the supplemental work plan, the consultant found that the procedure for purchasing supplies was cumbersome and time-consuming, requiring staff members to travel sometimes as far as Bishek (150 miles) for pickup. The Karakol Hospital warehouse was empty, and the dietary storeroom contained only bales of rice and tins of cooking oil, both marked USAID. Order points are controlled by available funds. Accounting for supplies is recorded under the chapter system, which does not permit additional funds to be transferred into a chapter once its funds have been expended. For any significant improvement in the supply process, there must be an open market, which means a measure of privatization and bank deregulation.

The observations and activities described in this report yielded the following generic recommendations, similar to those made in Technical Report No. RUS-1, *Cost Centers and Step Down Allocation: Adjusting Hospital Cost Accounting in Issyk-kul Oblast, Kyrgyzstan*, by Stan Hildebrand and Alexander Telyukov.

1. Budget reform is essential. The chapter system should be adapted to Western concepts, including:
 - Standard chart of organization by functional units
 - Standard coding such as that used by Medicare for classifying resources (accounts)
 - Standard budget methodology adapted to local cultural conditions

Westernizing the budget will require some form of accrual accounting to permit financial statements to be updated so that they conform to Western methods of performance reporting. These changes must be universal and will require many new or modified support systems. Budget reform must be the next major step toward fiscal development.

2. Statistics required for cost allocation must be refined to improve accuracy. Appropriate selection is essential in step-down costing, and many statistics are not available, e.g., area measurement of departments and buildings. Collection and recording methods need evaluation and revision to avoid some of the compromises required of the new cost allocation method.
3. Local perceptions of fiscal and administrative needs should be elicited and advanced programs developed to address these needs where necessary.
4. A case-mix method similar to Medicare Diagnostic Related Groups (DRG) is needed to evaluate the clinical work of physicians. This requires the use of one of the forms of standard International Classification of Diseases (ICD9).
5. Focus education and training in administration and clinical practice management on workshops, seminars and certification programs at the Karakol Institute of Management and the Karakol Nursing School. Grant assistance will be required for this effort.
6. Develop manuals in Russian for all new systems installed.

For roll-out to take place, a measure of standardization must be achieved. The above recommendations will help this to happen.

BACKGROUND AND OBJECTIVES

The health system in Kyrgyzstan is characteristic of health systems found throughout the former Soviet Union—a hierarchical structure, centralized administration and top-down allocation of funds. The Soviet approach to health care delivery did not encourage efficient use of resources by or between providers. The Kyrgyzstani government has acknowledged the need to reform its system to address this problem.

The health sector in Kyrgyzstan is in transition, moving from a public, centrally planned system to a more private/public mix in its organization and financing. To help upgrade the health care financial systems, Karakol, Issyk-kul Oblast was selected as an Intensive Demonstration Site (IDS) of the *ZdravReform* Program. At the Karakol General Hospital, a significant step has been taken in the development and installation of a model cost accounting system. The purpose of this effort is to review and extend installation of the new cost accounting method in the demonstration site in collaboration with the Almaty Regional Office.

Task Number 209, Cost Accounting Implementation, was established to implement the new cost accounting method developed under Task Order 020 to facilitate market-oriented reforms. The scope of work includes the steps and tasks listed below regarding Karakol.

Step 1 includes a comparative analysis of the existing Soviet budget allocation process and the new cost accounting method.

Step 2 notes that the implementation process may lead to refinement of the new accounting method (e.g., changes in the department step-down order) and additional documentation to improve the standardized model for national dissemination.

Step 3 includes follow-up to the Health Management Training Course in Karakol to ensure that other management principles such as governance, business planning and productivity improvements are used in concert with cost accounting.

Tasks

- A. Collaborate with the Almaty Regional Office MIS specialist to implement the cost accounting task order, including:
 - 1. Contribute to the comparative analysis of the existing Soviet budget allocation process and the new cost accounting method
 - 2. Refine and implement the new cost accounting method in Karakol health facilities
 - 3. Participate in planning and initial development of other financial accounting techniques

4. Follow-up to the Health Management Training Course
 5. Contribute to the initial formulation of a global budget system to replace chapter budgets in the allocation of funds to health care facilities
 6. Contribute to a plan for national dissemination of cost accounting
- B. Assist the Kemerovo specialist in an initial assessment of needs for the Mandatory Health Insurance (MHI) Fund

Outputs

1. Report on the status of cost accounting and other financial accounting techniques in Karakol (MIS specialist to take lead)
2. Plan for follow-on training or implementation activities in health facility management

Supplemental Work Plan

A supplemental work plan incorporating supply management was added to provide further definition to the new cost accounting method. The work plan included the following activities:

1. Chart current procedures and recommend improvements for the flow of materials, paper and money (som) for operating supplies
2. Technical improvements in inventory methods
3. Incorporate improvements in supply processes and inventory methods into budgeting and reporting procedures

Output

Outline the results of the analysis and progress in implementation of recommendations and conclusions.

ACTIVITIES

After an orientation to the Abt Associates programs in Karakol and an opportunity to review a computer print-out of the cost accounting method of the proposed budget at the Karakol General Hospital, the consultant undertook an extensive familiarization tour of the hospital. Activities thereafter included a combination of personal interviews, group discussions and site visits to selected facilities and hospital departments. The consultant also reviewed accounting records and reports. Separate meetings and tours were conducted at the Karakol Institute of Management and the Karakol School of Nursing.

FINDINGS

Task A. Collaboration with the Almaty Regional Office MIS specialist to implement the cost accounting task order.

1. *Contribute to the comparative analysis of the existing Soviet budget allocation process and the new cost accounting method.*

Comparative analysis of the old and new cost allocation methods was performed during the development of the new method and is detailed in Trip Report No. 14 and Technical Report No. RUS-1 by Stan Hildebrand and Alexander Telyukov. However, two meetings were held in the Karakol Hospital between Almaty MIS specialist Sheila O'Dougherty and the Head Economist to explore the old method. The review produced no additional contribution.

2. *Refine and implement the new cost accounting method in Karakol health facilities.*

The new cost accounting method has been prepared for computer installation and will be installed at other facilities in the oblast, when a computer is available to them, by Mr. E. Kutanov, Almaty Office MIS specialist. A computer specialist from the Mandatory Health Insurance (MHI) Fund in Bishkek has also been trained in the use of the method and will supervise training of hospital and polyclinic personnel. Manual application at this time would be impractical.

It is important to note that the Karakol Hospital staff feel that the new cost method is "up and running," although the cost method currently is inactive pending computer availability and the new budget (approximately March, after Parliamentary elections). The staff members are eager for other systems to be installed, for example, one that would enable them to evaluate the work of physicians.

The supplemental work plan was established to contribute a refinement to the cost allocation method and will be addressed later in this section.

3. *Participate in planning and initial development of other financial accounting techniques.*

There was no opportunity to participate in the planning and development of other financial accounting techniques.

Discussions with hospital and other agency personnel indicated a clear need to start with basic Western accounting techniques before other financial techniques are introduced. Chapter accounting allows very little creativity; however, it can be modified and adapted to accommodate accrual accounting, which is required for other techniques to yield performance data and comparatives.

4. *Follow-up to the Health Management Training Course.*

Discussions indicated a local interest in management training; however, given the political climate, application is limited without more freedom to manage. Incentives are needed to boost interest. It should be noted that Karakol has a very significant asset in the Karakol Institute of Management. The rector is knowledgeable, experienced and eager to participate. He can develop faculty talent with grant assistance. Future training programs should focus on the Karakol Institute of Management.

5. *Contribute to the initial formulation of a global budget system to replace chapter budgets in the allocation of funds to health care facilities.*

There was no opportunity to contribute to the initial formulation of a global budget system. It is worth noting, however, that the cost allocation method selected does not require the Kyrgyzstan health system to modify the chapter accounting system. Therefore, the new method costs can be used by the Ministry of Health in the budget allocation process. This approach should also be used at other sites and in other republics where the former Soviet system is employed.

6. *Contribute to a plan for national dissemination of cost accounting.*

There was no opportunity to contribute to a national dissemination plan. However, because the new cost allocation method is very flexible and adaptable to local conditions, roll-out at other health facilities on a national basis would not be complicated.

Outputs: Task A

1. *Report on the status of cost accounting and other financial accounting techniques in Karakol (MIS specialist to take lead).*

The opportunity to collaborate on this report was not possible in the trip time frame. The new cost allocation method is a strong beginning and the Karakol staff are awaiting other developments.

Dissemination depends on computer availability, which perhaps can be improved by networking. Budget reform is the key to future progress.

2. *Plan for follow-on training or implementation activities in health facility management.*

The Karakol Institute of Management should be utilized for future educational and training activities and plans for such should be developed in conjunction with the rector so that he can staff accordingly. Basic management techniques should be included in addition to task-oriented or system-oriented instruction. Implementation activities should continue under the direction of the Abt Almaty office.

Task B. Assist the Kemerovo specialist in an initial assessment of needs for the Mandatory Health Insurance (MHI) Fund

Output: Task B

At a special meeting in Karakol, the Kemerovo specialist was able to elicit local needs and offer recommendations for implementation.

Supplemental Work Plan

Task 1. *Chart current procedures and recommend improvements for the flow of materials, paper and money (som) for operating supplies.*

To document material flow processes, meetings were held with the hospital Chief Economist, Head of Pharmacy, Head of Laboratory and Head of Food Service. The Chief of the Warehouse, Mr. Dusyo Urazbekova, was a hospital patient and had no assistant. It was later determined that the warehouse was empty and there was no inventory (Mr. Urazbekova only handled receiving and department delivery). Similarly, the dietary storeroom contained only bales of rice and tins of cooking oil, both marked USAID.

To purchase supplies, the department head had to obtain the approval of the hospital's Head Physician. The authorization was then hand carried to the State Bank, where the funds were approved and released. Once funds were in hand, the hospital staff member charged with obtaining the supplies then had to go to one of the central, state-operated warehouses, which each hold different types of supplies, e.g., pharmaceuticals, office, etc. In some cases, the staff member had to travel as far as the republic capital, Bishkek, (approximately 150 miles) for pickup. There is no delivery system.

Quantity buying and inventory stocking are not options. Order points are controlled by available funds, so the cost of stock-outs versus inventory is moot. Central supply processing is meager and of questionable integrity—sterile techniques and equipment are antiquated.

Purchased supplies are recorded under the chapter system, an inflexible system that does not allow additional funds to be transferred into a chapter once that chapter's funds have been expended. Other sources must be used for shortages of critical items. Funds derived from patient charges are deposited in a separate account but require the same routine for expenditure. For any significant improvement in the supply process, there must be an open market, which means a measure of privatization and bank deregulation.

Task 2. *Technical improvements in inventory methods.*

Without significant quantities of supplies there is little need for an inventory system. Supplies are coded for accounting purposes (see Appendix B, Balance Sheet) and supplies could be inventoried if significant quantities become attainable. Technical improvements are covered by Task 3.

Task 3. *Incorporate improvements in supply processes and inventory methods into budgeting and reporting procedures.*

Current budgeting is mainly an historical process, i.e., based on the previous year. While the hospital projects its income requirements, its funding is allocated in a finite amount not necessarily related to the proposed budget, pending the availability of funds at the federal level. Distribution is recorded in chapter accounts. Technical improvements in supply and inventory will require an open market, as noted in Task 1 above, and the adoption of Western budgeting concepts and accrual accounting.

Output

Outline the results of the analysis and progress in implementation of recommendations and conclusions.

The results of the analysis are noted above and no implementation of supply management was attempted, having been deemed impractical without budget reforms first.

RECOMMENDATIONS

The observations and activities described in this report yielded the following generic recommendations. It should be noted that similar recommendations were made in Technical Report No. RUS-1, *Cost Centers and Step Down Allocation: Adjusting Hospital Cost Accounting in Issyk-kul Oblast, Kyrgyzstan*, by Stan Hildebrand and Alexander Telyukov.

1. Budget reform is essential. The chapter system should be adapted to Western concepts, including:
 - Standard chart of organization by functional units

- Standard coding such as that used by Medicare for classifying resources (accounts)
- Standard budget methodology adapted to local cultural conditions

Westernizing the budget will require some form of accrual accounting to permit financial statements to be updated to that they conform to Western methods of performance reporting. These changes must be universal and will require many new or modified support systems. Budget reform must be the next major step toward fiscal development.

2. Statistics required for cost allocation must be refined to improve accuracy. Appropriate selection is essential in step-down costing, and many statistics are not available, e.g., area measurement of departments and buildings. Collection and recording methods need evaluation and revision to avoid some of the compromises required of the new cost allocation method.
3. Local perceptions of fiscal and administrative needs should be elicited and advanced programs developed to address these needs where necessary.
4. A case-mix method similar to Medicare Diagnostic Related Groups (DRG) is needed to evaluate the clinical work of physicians. This requires the use of one of the forms of standard International Classification of Diseases (ICD9).
5. Focus education and training in administration and clinical practice management on workshops, seminars and certification programs at the Karakol Institute of Management and the Karakol Nursing School. Grant assistance will be required for this effort.
6. Develop manuals in Russian for all new systems installed.

For roll-out to take place, a measure of standardization must be achieved. The above recommendations will help this to happen.

Appendix A

PERSONS CONTACTED

Issyk-kul Oblast

Mr. Tokon Kyrgyzbaev, MD	Minister of Health
Ms. Gulnura Akmatova	Head Economist
Ms. Tokon Ismailova	Head Statistician

Karakol Municipal

Mr. Iskender Idareliev, MD	Minister of Health
Mr. Okey Berdikuzhoev, MD	Head Physician, Polyclinic

Karakol Institute of Management

Mr. Kubanyehbek Baiserkeev, PhD	Rector
---------------------------------	--------

Karakol School of Nursing

Mr. Victorin Kulova, MD	Director
-------------------------	----------

Karakol General Hospital

Mr. Damira Saaliyeva, MD	Head Physician (Administrator)
Mr. Kuzhobek Ryspaer, MD	Deputy Head Physician
Mr. Medit Iyzaliyev, MD	Deputy Head Physician-Organization
Mr. Tatyana Indyukova, MD	Chief Economist
Mr. Mergiyaz Basylov, MD	Head, Blood Bank
Mr. Sharshen Bysaliev, MD	Head, Ophthalmology
Mr. Damir Bekbasarov, MD	Head, Urology
Ms. Asan Begaliev	Head, Intensive Care
Ms. Mengeeva Gulmira	Head, Surgery
Ms. Gulmira Abosova	Head, X-Ray
Ms. Chinare Esenalieva	Head, Central Laboratory
Ms. Murzhamal Ibraeva	Head, General Clinic
Ms. Vero Dasymbaev	Head, Pharmacy
Ms. Antonio Bessalitzina	Kitchen Chief Nurse

Newly Organized Private Multi-specialty Clinic for Inpatients (25 Beds)

Outpatients seeking grant funds.

Mr. Munanduvba Kulanbaena, MD

Mr. Gulneve Myrizelielilieve, MD

Mr. Ananarh Zhettimishbaezeh, MD

Mr. Anipe Zamyibekoze, MD

Mr. Salemar Asrankulov, Voluntary Insurance Policy Company

Appendix B
BALANCE SHEET

*Karakol General Hospital, Issyk-kul Oblast, balance sheet form
and English translation of essential categories by Nuripa Mukanova*

Unit (Enterprise) _____
to _____, 19_____
Annual (Semi-Annual)
Measurement
Control Sum.

Active	Line Code	To the Beginning of the Year	To the End of the Year (Qu.)
I. Fixed Capital			
Fixed Capital (010-019)	010		
II. Materials and Supplies			
Manufactured Articles (030)	020		
Output of AgroFarms (031)	030		
Materials for Long-Term Usage for Scientific Research and Laboratory Tests (043)	040		
Special Equipment for Self-Financed Scientific Research (044)	050		
Food (060-069)	070		
III. Less Valuable and Rapidly Worn-Out Subjects (070, 071)	080		
IV. Manufacturing and Other Expenses			
Workshop and Manufacture Production Expenses (080)	090		
Subsidiary Farms Expenses (081)	100		
Expenses for Science-Research Work on Agreement Basis (082)	110		

Active	Line Code	To the Beginning of the Year	To the End of the Year (Qu.)
Expenses for Production of Demonstration Equipment (083)	120		
Expenses for Production and Processing of Materials (084)	130		
V. Funds			
Open Credits to Cover Unit's Expenses (090, 091)	140		
Open Credits for Capital Investments (093)	150		
Open Credits at the Expense of Other Budgets (096)	160		
Current Accounts (federal, local budgets) (100, 101)	170		
Beneficiary's Special Account (109)	180		
Current Account for Requested Sums (110)	190		
Current Account for Special Fund (111)	200		
Current Account for Nonbudget Funds (112)	210		
Bank Account (113)	211		
Current Account for Nonbudget Funds (114)	212		
Cash (120)	220		
Other Funds (130-133)	230		
VI. Settling			
VII. Expenses			
VIII. Losses			

Appendix C

KARAKOL INSTITUTE OF MANAGEMENT