

OVERVIEW

THE AUDITOR
STATE OF HAWAII

Study of the Division of Community Hospitals

Summary

The State's community hospitals have been continuously plagued with financial problems. These have become particularly serious in recent years. In 1991, the Legislature had to appropriate \$15 million in immediate emergency funds to pay for the hospitals' operating deficits. The Legislature also appropriated an additional \$309 million, including \$56 million in general funds, to the community hospitals for the 1991-1993 fiscal biennium. By September 1991, however, the community hospitals were projecting another operating deficit of \$19.2 million for fiscal year 1991-1992.

The community hospitals are administered by the Division of Community Hospitals, one of 14 divisions of the state Department of Health. It consists of a central office located in Honolulu and 13 medical facilities located primarily on the neighbor islands. Three islands, Maui, Lanai, and Hawaii, depend entirely on community hospitals for acute care.

Concerns about the division's collections of accounts receivable and the ability of the Community Hospitals Information Processing System (CHIPS) to provide administrators with adequate financial and operational information led to this request for the Auditor to conduct a management and financial study of the Division of Community Hospitals.

Despite expenditures of over \$11 million, CHIPS is problem-ridden. We found that it is not generating the financial and operational information that division and hospital administrators need to manage the facilities in a businesslike way. We also found that the system was implemented without the appropriate staff to manage or operate it or an adequate budget to give it support.

We found that the source of the community hospitals' financial and operational problems goes much deeper. State laws and policies have resulted in unrealistic budgets, cash flow problems, recurrent deficits, and poor financial management. Delays in billings and collections fall below industry standards and have resulted in millions of dollars in lost revenues. In the year ended 1990, the hospitals had a combined accounts receivable balance of \$56 million. State practices on paying vendors have resulted in delays that threaten hospital services. State policies on personnel also have hampered timely recruitment and hiring of appropriately trained personnel. A pilot project giving Maui Memorial and Hilo

hospitals greater autonomy and authority to make decisions has not resulted in significant operational changes or financial improvement.

We believe the community hospitals could be managed much more efficiently and effectively as business entities free of the policies governing state agencies. A new legal structure is needed—a public corporation—to effect these changes and improve management of Hawaii's community hospital system.

Recommendations and Response

We recommend that the Legislature establish a Community Hospitals Public Corporation attached to the Department of Health for administrative purposes only. The governing body of this corporation will be a board of directors consisting of eight members nominated by the counties and appointed by the governor with the advice and consent of the Senate. Also, the director of health will serve as a voting, ex-officio member of the board. The chief executive officer of the corporation be hired by the board to manage the hospital system. The corporation will have the authority to make personnel decisions, budget, set rates, procure materials and services, obtain short-term loans, and hold title to real property interests. The corporation will report annually to the Legislature on its financial viability and the quality and access to care it provides and be held accountable for its decisions..

We recommend the corporation be established by legislation in the 1992 Regular Session of the Legislature with preliminary implementation by a special master and transition team. The special master and transition team will plan for the transfer of functions from the Division of Community Hospitals to the community hospitals public corporation and will propose necessary amendments to the 1992 legislation at the 1993 Regular Session.

The Department of Health responded that it found our approach to be refreshing and constructive. The director of health says that the department has also made declarations about the incompatibility between state bureaucracy and hospital operations.

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