

OVERVIEW

THE AUDITOR
STATE OF HAWAII

Financial Audit of the Hilo Medical Center

Summary

The Office of the Auditor and the certified public accounting firm of Arthur Andersen LLP conducted a financial audit of the Hilo Medical Center for the fiscal year July 1, 1994 to June 30, 1995. The audit examined the center's financial records and its systems of accounting and internal controls and tested these for compliance with applicable laws and regulations.

We found that the financial management practices at the Hilo Medical Center are deficient. Problems are such that the center is far from being capable of functioning as an independent or autonomous entity. Problems are primarily the result of several layers of bureaucracy and inattention by the Division of Community Hospitals; State of Hawaii job classification and pay scales; and a failure to properly manage important functions such as billings and collections, contracts, and workers' compensation claims.

The audit identified four reportable conditions, which, taken together, constituted a material weakness in the center's internal control structure. The reportable conditions resulted in errors in the accounting records of such magnitude that Arthur Andersen LLP has stated an exception to the fair presentation of the Hilo Medical Center's June 30, 1995 financial statements.

Specifically, we found that the center's financial reporting system is inadequate to effectively manage operations; the center's billing and collection system is inadequate; business office personnel are improperly classified and lack adequate training; some functions of the business office are poorly organized; and the information processing system has severe limitations.

The audit also identified other problems that limit the center's ability to contain costs or improve revenues. We found that the agreements for laboratory, radiological, and kidney dialysis services are not adequately monitored and that the center's self-insured workers' compensation program is poorly managed. The center would benefit from expanding the role of utilization review in managing costs. We pointed out that waitlisted long-term care patients may impact the financial viability of the center.

Recommendations and Response

To correct these problems, the center must have the help and support of the Division of Community Hospitals. We recommend that the division and the center make a concerted effort to improve the center's accounting, billing, and information system

functions; make it a priority to improve staff capabilities at the center; and begin to develop plans to deal with the potential problems associated with its waitlisted patients. We also recommend that the division cease negotiating contracts that are financially detrimental to the center and allow the center to negotiate its own agreements.

We further recommend that the center continue its efforts to improve the utilization review function, that the center take steps to ensure that it is paying for only contract services that are authorized and that conform to the contract, and that it evaluate the need to continue its contracts to pay for radiological, laboratory, and kidney dialysis services. We also recommend that the center take steps necessary to effectively manage its workers' compensation claims.

The department concurs with our findings and is taking steps to implement many of our recommendations. The department believes that many of the problems noted can be better dealt with if the Hilo Medical Center were authorized to operate autonomously. Until the Legislature approves an autonomy proposal, the department is taking steps to make improvements. We are pleased that the department is taking immediate corrective actions at the Hilo Medical Center.

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