OVERVIEW

Audit of the Hawaii Health Systems Corporation

Report No. 99-9, February 1999

Summary

The Hawaii Health Systems Corporation was established by the Legislature through Act 262, SLH 1996. The corporation assumes the responsibility of the Department of Health's Division of Community Hospital to manage the State's system of community hospitals. The hospitals had been under State control since 1969 and consists of acute care, long-term care, and rural hospitals situated on the various islands in the State. The purpose of the Act was to provide better health care to people by freeing hospital facilities from unwarranted bureaucratic oversight. Administratively attached to the Department of Health, the corporation is defined as a "public body corporate and politic and instrumentality and agency of the State." An 11-member board of directors is responsible for developing policies, procedures, and rules necessary to plan, operate, and manage the hospitals.

We found that the corporation's ability to establish a viable hospital system is hampered by a combination of restrictive personnel rules, an inadequate financial system, and deficient planning and implementation. Consequently, the corporation is unable to demonstrate whether it can achieve the expected benefits of converting from a state system to a public benefit corporation.

Act 262 provided the corporation little relief from the State's inflexible personnel system. The State's lengthy recruitment process slows the corporation's ability to meet changes in demand for patient care services. The existing collective bargaining agreements also constrain personnel management and hinder recruitment. Uniform compensation programs negotiated through collective bargaining causes difficulties for the hospitals to competitively recruit staff with essential skills or experience.

The corporation also inherited a deficient financial system that resulted from the division's poor management of information systems development. Despite expenditures of several million dollars, the division developed and implemented a hospital information system that could not generate necessary financial and operational information. Since the transition, the corporation has made some improvements in its financial system, but additional improvements are still needed.

We also found that the Board of Directors failed to assert adequate leadership to ensure an effective transition from a state hospital system to a corporate structure. The Board was formed in August 1996 and established policies to guide the transition. An acting chief executive officer was appointed by the board soon thereafter to implement its policies and directives. However, the Board failed to ensure its policies were properly implemented. Detailed transition plans were never developed and communications with employees and communities, essential for a successful reorganization, were inadequate.

We also found the corporation's procurement system deficient and lacking adequate management controls. The procurement system contained unclear policies and procedures, improper segregation of duties, and inadequate contract management. In addition, the corporation failed to plan and implement an efficient information system. The corporation lacks strategic information systems plans and has not adequately addressed the year 2000 problem.

Recommendations and Response

We recommended that the board develop a transition plan that includes detailed task descriptions, time frames, an implementation plan, a communication plan, and any additional legislation to help achieve its goals. The board should also amend its procurement policies and improve contract management procedures. We also recommended that the corporation's administration establish formal accounting policies and procedures and ensure their compliance. The administration should also improve the management of the information system and ensure all computer and automated medical equipment are year 2000 compliant.

The corporation basically agreed with the findings and recommendations of the audit except for comments about the Board of Directors. The corporation notes that the audit time period from July 1, 1996 through June 30, 1998 describes the "embryonic infancy" of a new organization and fails to consider post-audit developments and achievements. The corporation stated that the Board of Directors volunteered their services to develop and implement the corporation from a system that lacked any structure. The corporation further adds that concerns expressed in the audit have been resolved or are in the process of resolution.

We are encouraged by steps taken by the corporation, but we reemphasize the importance of the board to properly fulfill its responsibility of managing the corporation.

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