# OVERVIEW

## *Follow-Up Study of the Hawaii Health Systems Corporation*

**Report No. 02-09, April 2002**

## Summary

In 1996, the Hawaii Health Systems Corporation took over the management, assets, and property rights of the State's community hospitals system from the Division of Community Hospitals in the Department of Health. Act 262, Session Laws of Hawaii 1996, established the Hawaii Health Systems Corporation as a "public body corporate and politic and an instrumentality and agency of the State." The purpose of Act 262 was to provide better health care to people, including those served by small rural facilities, by freeing the corporation's facilities from unwarranted bureaucratic oversight.

Placed within the Department of Health for administrative purposes only, the corporation is organized into five regions based on the counties of Honolulu, Kauai, and Maui, and the eastern and western sections of the county of Hawaii. Governed by a 13-member Board of Directors, which appoints the corporation's president/chief executive officer, the corporation oversees the operations of 12 community hospitals, classified as acute care, long-term care, or rural. The corporation operates over 1,200 licensed beds and employs over 3,000 state workers. In FY1998-99, the corporation's facilities admitted 21,754 inpatients.

The corporation's revenues consist primarily of third party payments, which along with patient copayments are deposited into the Health Systems Special Fund. For FY1999-2000, the Legislature authorized about $235.4 million to be spent from the special fund, and made an additional $7.75 million in general fund appropriations and $20.5 million in emergency general fund appropriations to the corporation.

In our study, we found that the corporation's control over its procurement and contract spending has worsened since our 1999 audit of the corporation and may be costing millions of dollars. Substandard procurement practices, questionable discretionary purchases, and other serious deficiencies reflect laxity at the corporate level.

We also found that the corporation is now managing its information systems more effectively. In addition, the corporation has made progress by developing action plans for its personnel system and is moving to take advantage of recent Hawaii state legislation on personnel flexibility. However, an "independent contractor" arrangement with a top executive of the corporation was questionable.

Some of the corporation's key financial operations need tighter control. We found weaknesses in its billings and collections for services to its patients. Also, the corporation lacks control over the invoices (bills) it receives from others. Deficiencies in financial operations can have wide-ranging impact. Excessive

funds may be expended. Revenues may not be maximized and expenditures minimized. In addition, without adequate controls, the corporation is at greater risk of loss, including waste or possible fraud and abuse.

In addition, we found that potential conflicts relating to officials of the corporation serving as directors and officers of Ali'i Community Care, Inc. were not adequately addressed.

We retained consultants to assess the corporation's organizational structure and to perform some other tasks. The consultants concluded that the corporation is working with an organizational structure that approaches efficiency and effectiveness given the political constraints it operates under. The corporation's operating performance is mixed when viewed as an entire system and compared against other health facilities in Hawaii. The consultants also concluded that the corporation's executives are underpaid when compared to national industry standards. We found that the corporation's executive salaries sometimes fell below and sometimes exceeded the salaries paid to top officials of Hawaii state government.

Our consultants found that the corporation in its current configuration will not become self-sufficient. However, they observed that the corporation might make progress toward self-sufficiency through outsourcing, consolidation, staff incentives, and adjustments in service delivery levels. The consultants also found that the corporation has not substantially reduced or eliminated direct care services since its inception and that board members and senior executives were very aware of the legislative intent to maintain services.

## Recommendations and Response

We made a number of recommendations to the corporation to correct problems that we identified.

In written comments on a draft of our report, the corporation's president/chief executive officer acknowledged that many of our findings are accurate and our recommendations are reasonable. He also disagreed on some points and clarified others.

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