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AUDIT REPORT NO. 69-7
JUNE, 1969

FINANCIAL AUDIT OF THE KOHALA HOSPITAL

FOR THE FISCAL YEAR ENDED JUNE 30, 1968

A REPORT TO THE GOVERNOR AND THE LEGISLATURE OF THE STATE OF HAWAII

SUBMITTED BY THE LEGISLATIVE AUDITOR OF THE STATE OF HAWAII

THE OFFICE OF THE LEGISLATIVE AUDITOR

The office of the legislative auditor is a public agency attached to the Hawaii State legislature. It is established by Article VI, Section 8, of the Constitution of the State of Hawaii. The expenses of the office are financed through appropriations made by the legislature.

The primary function of this office is to strengthen the legislature's capabilities in making rational decisions with respect to authorizing public programs, setting program levels, and establishing fiscal policies and in conducting an effective review and appraisal of the performance of public agencies.

The office of the legislative auditor endeavors to fulfill this responsibility by carrying on the following activities.

1. Conducting examinations and tests of state agencies' planning, programming, and budgeting processes to determine the quality of these processes and thus the pertinence of the actions requested of the legislature by these agencies.
2. Conducting examinations and tests of state agencies' implementation processes to determine whether the laws, policies, and programs of the State are being carried out in an effective, efficient and economical manner.
3. Conducting systematic and periodic examinations of all financial statements prepared by and for all state and county agencies to attest to their substantial accuracy and reliability.
4. Conducting tests of all internal control systems of state and local agencies to ensure that such systems are properly designed to safeguard the agencies' assets against loss from waste, fraud, error, etc.; to ensure the legality, accuracy and reliability of the agencies' financial transaction records and statements; to promote efficient operations; and to encourage adherence to prescribed management policies.
5. Conducting special studies and investigations as may be directed by the legislature.

Hawaii's laws provide the legislative auditor with broad powers to examine and inspect all books, records, statements, documents and all financial affairs of every state and local agency. However, the office exercises no control functions and is restricted to reviewing, evaluating, and reporting its findings and recommendations to the legislature and the governor. The independent, objective, and impartial manner in which the legislative auditor is required to conduct his examinations provides the basis for placing reliance on his findings and recommendations.

LEGISLATIVE AUDITOR

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Foreword

This financial audit report is the result of our examination of the fiscal records of the Kohala Hospital for the fiscal period beginning July 1, 1967 and ending June 30, 1968. It was conducted pursuant to section 23-4 of the Hawaii Revised Statutes which requires this office to conduct post-audits of all transactions and of all books and accounts kept by State departments and county agencies.

The purpose of our examination was to determine the propriety of the fiscal transactions of the hospital, the accuracy and reliability of its financial records, and the adequacy of the hospital's controls to safeguard its assets against loss, waste, fraud and extravagance. We made no assessment of the effectiveness of the hospital or the efficiency with which it has carried out its programs.

It is our practice to request the agencies affected by our examination to submit in writing their comments on our findings and recommendations and to indicate what action they have taken or intend to take on our recommendations. With respect to the Kohala Hospital, we requested the administrative director of the Hawaii county hospital system to respond on behalf of the hospital. His response and that of the director of the State department of health are appended in Part IV, *A Memorandum on the Comments Made by Affected Agencies.*

We wish to express our sincere appreciation for the fine cooperation and assistance given to our staff members by the management and staff of the hospital and the State department of health.

Clinton T. Tanimura
Legislative Auditor

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INTRODUCTION AND SOME BACKGROUND

Chapter 1

INTRODUCTION

This is a report on our post-audit of the financial transactions, books and accounts of the Kohala Hospital. The audit was conducted pursuant to section 23-4, Hawaii Revised Statutes, which requires the office of the auditor to conduct post-audits of all transactions and of all books and accounts kept by State departments and county agencies.

Purpose of Audit

The audit was conducted to examine the propriety of the hospital's financial transactions, the accuracy and reliability of its financial records, and the adequacy of the hospital's controls to safeguard its assets against loss, waste, fraud and extravagance.

Scope of Audit

This audit examined the hospital's financial records for, and the transactions had during the fiscal year from July 1, 1967 to June 30, 1968. It was conducted in accordance with generally accepted auditing standards as adopted by the American Institute of Certified Public Accountants and as set forth in the *Manual of Guides of the Office of the Legislative Auditor*. It included tests of the accounting records and the use of such auditing procedures as we considered necessary.

Organization of the Report

This report is organized into three parts. Part I consists of this introduction (chapter 1) and some background on the Kohala Hospital (chapter 2).

Part II (chapters 3 through 5) contains our opinions, findings and recommendations regarding the hospital's financial statements, its assets, its system of internal control, and its transactions.

Part III contains a summary of the findings and recommendations.

Definitions of Terms

There are certain terms which are used throughout this report. The terms and their definitions or references are as follows:

Encumbrances means obligations in the form of purchase orders, contracts or commitments which are chargeable to the year in which they are budgeted. These obligations cease to be encumbrances when paid or when they become actually due and payable.

Hospital refers to the Kohala Hospital unless otherwise specified.

County refers to the county of Hawaii.

State refers to the State of Hawaii.

Medicare refers to the federal health insurance program for the aged authorized under the Social Security Act.

Medicaid refers to the federal grant-in-aid program under the Social Security Act which provides funds on a matching basis with the states to persons eligible to receive public assistance for medical care.

Chapter 2

SOME BACKGROUND

The Kohala Hospital is a government-operated, long-term and short-term care institution located at Kapaau, North Kohala, in the county of Hawaii. Its establishment was authorized by Act 36, SLH 1907, but it was officially opened to the public 10 years later in April 1917. The hospital provides all of the major categories of medical care and services of a general hospital. It also provides 24-hour emergency ambulance and outpatient services. It services the general population of the North Kohala district.

The present facility was constructed in 1963 and has a 26-bed capacity. Ten beds are allocated to medical-surgical, four beds to obstetrics, two beds to pediatrics and ten beds to extended care. In fiscal year 1967-68, the hospital had approximately 28 employees on its staff and admitted 336 patients. The average, daily census was 12.3 patients.

Exhibit I at the end of this chapter summarizes the statistical data of the hospital for the years ended June 30, 1967 and June 30, 1968.

Future Plans for Capital Facilities

In recent years, there has been a growing concern over the need for a hospital to be situated at Kamuela, Hawaii. Private interest groups have been developing plans for a 60-bed acute and long-term facility in Kamuela. It is said that a hospital in such a central location would permit services to be provided to Kawaihae and the surrounding resort area on the west coast of the island, Kohala on the northern coast and Honokaa on the east coast.

A hospital at Kamuela has been endorsed by the health facilities planning council[1] and is included in its long-range health facilities plan for the county of Hawaii.[2] The council's long-range plan calls for the conversion of the Kohala Hospital into a long-term facility, with limited emergency service. Short-term or acute care services are to be assumed by the proposed hospital in Kamuela. In addition, the plan provides for the eventual phasing out of the Honokaa Hospital (an Act 97 hospital).

Recent Legislation on Hospital Administration

State legislation. In recent years, the State legislature has enacted several pieces of legislation affecting the administration of all public hospitals and public health and medical facilities. Effective July 1, 1965, Act 97, SLH 1965, transferred the functions of planning, construction, improvement, maintenance and operation of all public hospitals from the counties to the State. However, to provide an uninterrupted continuation of services, the act authorized the State to contract with the counties for the counties to perform the above functions, with certain restrictions, during the period July 1, 1965 to June 30, 1966.

[1]The council is a voluntary non-profit organization which was established in 1963 to plan for health facilities and related services throughout the State of Hawaii. The members of the council are comprised of physicians, hospital administrators, legislators, and business and community leaders.

[2]Health facilities planning council of Hawaii, *Areawide Health Facilities Plan for County of Hawaii, 1964-1985 (Rev. 1967).*

Act 14, SLH 1966, authorized the governor to re-enter into the contracts described in the preceding paragraph for the period July 1, 1966 to June 30, 1967.

Act 203, SLH 1967, affirmed that all matters pertaining to the operation and maintenance of county hospitals and related public health and medical facilities are State responsibilities, but provided that "each county shall, on behalf of the State, operate and maintain" such hospitals and facilities situated in the county, with all costs to be paid for by the State. The act also provided for the establishment in each county of a 10-member county hospital advisory council to serve without compensation and to advise the State director of health on matters concerning the planning, construction, improvement, maintenance and operation of public hospitals and other public health and medical facilities within the county.[3]

Hawaii county resolutions and the Hawaii county hospital system. By resolution no. 282, dated November 22, 1967, the county of Hawaii

[3]At the 1969 session, the legislature completed the State "take-over" of all public hospital and health facilities operations by enacting H.B. No. 740, H.D. 1, S.D. 1. This bill, upon the governor's approval, requires that effective January 1, 1970, all functions pertaining to the operation and maintenance of all public hospitals and all other public health and medical facilities (which are currently being performed by the various counties in behalf of the State under Act 203, SLH 1967), together with all personnel, personal property and real property employed therein, be completely transferred from the counties to the State.

established a county hospital system called the Hawaii county hospital system.[4] The resolution created a governing board for the system and a trustee committee for each of the hospitals within the system. (A trustee committee was also created for the privately-operated Kau Hospital.)[5] On July 3, 1968, by resolution no. 470, the county abolished the governing board. However, it retained the Hawaii county hospital system and the trustee committees for each of the hospitals.

The function of the trustee committees is to advise the county council on matters concerning the operation of the respective hospitals they serve.[6] The superintendent of the Hilo Hospital has been designated as the administrative director of the system.

[4] Consists of the Hilo, Kona, Honokaa, and Kohala hospitals.

[5] A new *public* general hospital in the Kau district of the island of Hawaii is scheduled to be constructed by the State in the near future. This new hospital will replace the present, *privately-operated* Kau Hospital (also known as the Pahala Hospital). At the 1969 session, the legislature enacted House Bill No. 128, H.D. 1 (Act 63, SLH 1969), which provides for the incorporation of the new public hospital into the county/State hospital system and for the transfer of the employees of the Pahala Hospital to the new hospital.

[6] For a general discussion on the various county hospital advisory councils and boards, see our reports to the State legislature entitled, *Status Report on the Implementation of Act 203, Session Laws of Hawaii 1967,* dated February 1968, and *Second Annual Status Report on the Implementation of Act 203, Session Laws of Hawaii 1967,* dated February 1969.

Funding

The operation and maintenance of the Kohala Hospital are financed by the State general fund through annual appropriations by the State legislature. The appropriations are based largely on the hospital's estimated average, daily, inpatient population.

Monies collected by the hospital as a result of services rendered to patients or otherwise are deposited into the State treasury as general fund revenue. However, monies collected for services rendered prior to Act 97, SLH 1965, are considered county receipts and are deposited to the credit of the county.[7]

EXHIBIT I

STATISTICAL DATA
Years Ended June 30, 1967 and 1968

	1967	1968
Number of beds	26	26
Number of bassinets	6	6
Average number of employees	28	28
Nursing personnel:		
Registered nurses	6	6
Practical nurses	7	7
Patients admitted	445	336
Newborn babies delivered	46	53
Patient-days of care–adult	4,093	4,484
Patient-days of care–newborn	120	135
Average patients per day	11.2	12.3
Percent of occupancy	43%	47%
Number of operations performed . .	98	72
Out-patients treated	2,484	2,517
Meals served	14,653	15,823

[7] Conceivably, effective January 1, 1970, collections on these pre-Act 97 receivables would inure to the benefit of the State under H.B. No. 740, H.D. 1, S.D. 1, which requires the transfer of all *personal property* used in the function of operating and maintaining public hospitals from the county to the State. Accounts receivable are, by their nature, personal property.

PART II
FINDINGS AND RECOMMENDATIONS ON INTERNAL CONTROL, FUND MANAGEMENT AND OPERATION, AND OPINION ON FINANCIAL STATEMENTS

Chapter 3

HOSPITAL OPERATING RESOURCES AND EXPENDITURES

This chapter contains the hospital's financial statement displaying the operating resources and expenditures for the fiscal year ended June 30, 1968. It also contains a discussion of the major items and figures noted therein.

Statement of Appropriation, Expenditures and Unencumbered Balance

The hospital's statement of appropriation, expenditures and unencumbered balance for the year ended June 30, 1968 is shown in Table I.

Opinion on statement. In our opinion, the statement of appropriation, expenditures and unencumbered balance presents fairly the hospital's operating resources, expenditures and unencumbered balance for the fiscal year ended June 30, 1968.

Resources

State general fund appropriation. To finance the cost of operations, the State legislature, by Act 54, SLH 1967, appropriated $227,638 for the fiscal period beginning July 1, 1967 and ending June 30, 1968. This amount, appropriated out of the general revenue of the State, was based on the hospital's estimated average, daily, inpatient population of eight persons.

Transfer from Maui Memorial Hospital. During the fiscal year, the hospital secured additional funds totaling $2,150 from the Maui Memorial Hospital. The Maui Memorial Hospital ended the 1965-66 fiscal year with a surplus of $35,960. The governor recommended that this total surplus amount be used to purchase equipment for all Act 97 hospitals and that the allocation of this surplus among the hospitals be based on a review of equipment requirements and priorities by a committee appointed by the State department of health. An equipment review committee was formed in early 1967. By October 1967, this committee agreed on the

TABLE I
STATEMENT OF APPROPRIATIONS, EXPENDITURES AND UNENCUMBERED BALANCE
Year Ended June 30, 1968

	Actual	Budget	Actual Over [Under] Budget
Resources			
State general fund appropriation Act 54, SLH 1967	$227,638	$227,638	$ –
Transfer from Maui Memorial Hospital	2,150	–	2,150
Reimbursement of expenditures	3,013	–	3,013
Total resources	232,801	227,638	5,163
Expenditures (including encumbrances)			
Personal services	177,323	188,294	[10,971]
Other current expenses (Schedule II)			
Nursing services	3,631	2,001	1,630
Clinical services	6,424	8,340	[1,916]
House services	24,295	21,545	2,750
Administrative services	5,811	4,760	1,051
Total other current expenses	40,161	36,646	3,515
Equipment	4,760	2,698	2,062
Total expenditures	222,244	227,638	[5,394]
Unencumbered balance at June 30, 1968	$ 10,557	$ --	$10,557

allocation of the surplus. The Kohala Hospital's allocation was $2,150.[1]

Reimbursement of expenditures. During the fiscal year, the hospital became entitled to reimbursements from the State general fund, totaling $3,013, for nightshift differential payments ($448) and blue collar salary adjustments ($2,565) made by the hospital pursuant to the mandates of Act 147, SLH 1967, and Act 72, SLH 1968. The funds for these salary adjustments were appropriated in the respective acts.

[1]The operation of the Maui Memorial Hospital is financed from its hospital receipts and the State general fund. Monies from both sources are placed in a special fund from which expenditures are made. The State general fund monies are appropriated to the hospital annually by the legislature. The amount of each annual appropriation is the difference between the estimated hospital receipts and the estimated operations costs for the ensuing fiscal year. The Maui Memorial Hospital's surplus was a surplus in the special fund which came about as a result of actual receipts exceeding the estimated amounts.

Since 1961, each of the annual, legislatively-approved, general appropriation acts has included a provision that where the operation of a department of a program is financed by both the general fund and non-general funds, the general fund portion shall be decreased to the extent that the receipt of non-general funds approved in the act are exceeded, provided that such decrease shall not jeopardize the receipt of such increased non-general funds, and provided, also, that this provision "shall not apply to any fund if such excess receipts are to be expended for a purpose or purposes approved by the Governor or the director of the Department of Budget and Finance if such authority is so delegated by the Governor." (See section 15, Act 54, SLH 1967.)

Expenditures

Table I shows a comparison of the actual expenditures incurred during the year against the budgeted or planned expenditures. The purpose of this comparison is to note how well the hospital was able to control its actual expenditures and how closely it adhered to its planned program of expenditures. The total cost incurred by the hospital for rendering nursing, clinical and house services to patients and for general and administrative expenses totaled $222,244. This was $5,394 less than the amount budgeted ($227,638). A discussion of the major variances between actual and budgeted expenditures follows.

Personal services. Personal services, which includes salaries, overtime pay, and pay adjustment actions, totaled $177,323 for the fiscal year 1967-68 or approximately 80% of the hospital's total operating expenditures. As shown in Table I, the actual expenditures were $10,971 less than the amount budgeted. This underexpenditure resulted when several authorized positions, including those of the hospital superintendent, X-ray technician, and a part-time nurse-anesthetist, were left vacant during the fiscal year. The unexpended balance of the personal services account would have been larger, if monies in that account had not been used to finance the expenditure of items properly falling within the *other current expense* category and if the hospital had not been required to defray the cost of salary increases resulting from a reclassification of the nursing and hospital support positions. The State department of personnel services (DPS) reclassified the nursing and support positions as a part of the revision of the State classification system that it is presently conducting.[2] The DPS announced the commencement of its study of these positions in November 1966 and completed it in July 1967. The reclassification actions were made retroactive to December 1, 1966. Thus, the fiscal impact of the reclassification actions was beyond the control of the hospital.

Other current expenses. Other current expenses totaled $40,161, as compared to the budgeted amount of $36,646, resulting in an excess of actual expenditures over the budget of $3,515. A more detailed categorization of the expenditures is contained in Schedule I of Table I shown below. As stated above, the hospital financed the excess by transferring the necessary sum from the personal services account.

[2] The action taken by the DPS on this matter was apparently made without prior consideration of the State's ability to finance the increased cost of salaries. This is made evident in a memorandum dated September 1967 (which was *after* the reclassification was completed) from the State director of finance to the State director of the department of health in which he stated (in part), "While the means of financing this additional cost has not been fully ascertained, it is our hope that through the use of excess receipts, possible deferment of non-essential purchases of equipment, and transfers, the greater part or all of the costs can be met." This kind of reclassification action taken by the DPS without involving the State director of finance to ascertain the cost implications of the intended action is reviewed in our audit report no. 69-4, entitled, *General Audit of the Department of Personnel Services,* dated February 1969. See particularly part II, chapters 2 and 3 of that report.

Equipment. The hospital expended $4,760 for equipment during the fiscal year 1967-68. This amount was $2,062 in excess of the amount budgeted ($2,698). The excess was paid for out of the money transferred from the Maui Memorial Hospital.

Unencumbered Balance.

The unencumbered balance of the hospital as of June 30, 1968 amounted to $10,557. This amount represents the excess of the total resources (funds) available to the hospital over all expenditures paid and obligated by the hospital for the year. The unencumbered balance lapsed and reverted to the State general fund.

SCHEDULE I OF TABLE I
SCHEDULE OF OTHER CURRENT EXPENSES
Year Ended June 30, 1968

	Actual	Budget	Actual Over [Under] Budget
Nursing Services			
Central Service and Supply	$ 1,609	$ 1,700	$ [91]
Operating and Delivery	1,144	301	843
Emergency Service	878	--	878
Total Nursing Service	3,631	2,001	1,630
Clinical Services			
Pharmacy	2,830	4,750	[1,920]
Laboratory	1,613	1,300	313
Radiology	1,297	1,140	157
Others	684	1,150	[466]
Total Clinical Services	6,424	8,340	[1,916]
House Service Expense			
Operation of Plant and Maintenance	13,965	12,670	1,295
Patient Food Service	8,574	7,800	774
Housekeeping, Laundry & Linen	1,756	1,075	681
Total House Service	24,295	21,545	2,750
Administrative Service Expense			
Office Expense	2,107	1,050	1,057
Travel	1,434	1,083	351
Telephone	1,205	1,250	[45]
Others	1,065	1,377	[312]
Total Administrative Service	5,811	4,760	1,051
Total Other Current Expense	$40,161	$36,646	$3,515

Chapter 4

HOSPITAL REVENUE

This chapter contains our findings with respect to the revenue of the hospital and discusses the extent to which the State subsidized the hospital during fiscal year 1967-68. As mentioned earlier, the operation and maintenance of the hospital are financed entirely by the State general fund through annual appropriations by the State legislature. Thus, any revenue derived from the operation of the hospital is not earmarked for hospital use, but is instead considered general fund revenue and is deposited into the State treasury.

Statement of Revenue

The statement of revenue for the fiscal year ended June 30, 1968 is shown on Table II. The statement is displayed on both the accrual and cash bases of accounting. The figures on the accrual basis and the figures on the cash basis do

TABLE II
STATEMENT OF REVENUE
Year Ended June 30, 1968

	Actual Amount Accrual	Actual Amount Cash	Budget	Actual Cash Over [Under] Budget
Patient services revenue:				
Patient fees	$ 74,653	$ 80,328	$59,000	$21,328
Support and care of indigent patients	35,755	29,693	12,000	17,693
Total patient services revenue	110,408	110,021	71,000	39,021
Other revenue:				
Contractual reimbursement	57,709	10,700	--	10,700
Sale of meals to non-patients	828	828	940	[112]
Rental of housing	685	685	840	[155]
Total other revenue	59,222	12,213	1,780	10,433
Total Revenue	$169,630	$122,234	$72,780	$49,454

not necessarily represent the same transactions. On the accrual basis, revenue includes all amounts which were earned and thus accrued to the hospital during the fiscal year--that is, revenue is accounted for at the time service is rendered, regardless of when collection is made. Thus, some of the revenue earned during the year may or may not have been collected during the year. On the cash basis, revenue includes only those amounts which the hospital actually collected during the fiscal year; the receipts may have been for accounts which accrued in prior fiscal years.

On the accrual basis, the statement enables the hospital to determine how much revenue was generated as a result of the costs incurred during the fiscal year. On the cash basis, the statement enables one to compare the actual cash collections made by the hospital during the fiscal year with that anticipated in the budget. The cash basis is used by the State for budgeting and funding purposes. Thus, any comparison between what actually happened and what was budgeted must be confined to the amounts shown under the cash basis.

Opinion on statement. In our opinion, the statement of revenue presents fairly the revenue earned (accrual basis) or collected (cash basis) during the fiscal year ended June 30, 1968.

Specific variances between the accrual method and the cash basis of accounting for the hospital's revenue and the variances between what actually took place under the cash basis and the budget, together with our comments, are as follows.

Patient services revenue. Patient services revenue includes charges made to (1) the State department of social services for the support and care of indigent and medically indigent patients and (2) non-indigent patients.

Patient services revenue totaled $110,408 on the accrual basis and $110,021 on the cash basis. The difference in the two figures is that the accrual-based $110,408 represents the total amount which the hospital acquired the right to collect for patient services rendered during the fiscal year, while the cash-based $110,021 represents the total amount actually collected during the fiscal year, regardless of when services were provided (some of the services may have been provided in prior fiscal years).

The cash-based $110,021 is $39,021 more than the $71,000 budgeted for the year. This increase in revenue actually collected over the budgeted amount was caused primarily by a 50% increase in the average, daily, patient census over the number estimated for budget purposes.

Other revenue. On the cash basis, the hospital collected $12,213 in other revenue. On the accrual basis, the hospital earned the right to collect $59,222 by reason of various services rendered during the fiscal year. Other revenue includes (1) medicare and medicaid contractual reimbursements, (2) meal charges to non-patients, and (3) rentals of personnel quarters to hospital employees. The contractual reimbursements from medicare and medicaid represent the hospital's claim for the difference between the reasonable cost of providing services to medicare and medicaid patients and the provisional payments made to the hospital for these services.

The total other revenue collections of $12,213 exceeded the estimated amount ($1,780) by $10,433 for the year. Contractual reimbursements from medicare account for most of this increase. Since the hospital had no prior experience with the then relatively new medicare program, no revenue from medicare had been estimated and included in the hospital's 1967-1968 budget.

State Subsidy

As stated earlier in this report, the operations of the Kohala Hospital are funded entirely by the State general fund. The revenue generated from the services rendered by the hospital is deposited into the State treasury to the credit of the general fund. However, to show the extent to which the State subsidized the hospital during the fiscal year, the revenue and expenditures of the hospital are summarized here.

Excess of expenditures over revenue collected. The hospital's expenditures exceeded its revenue collections for the fiscal year ended June 30, 1968 by $100,010. This is computed as follows:

Total expenditures (Table I)	$222,244
Total Revenue collected (Table II) . .	122,234
Excess of expenditures over revenue .	$100,010

The State subsidy of $100,010 represents approximately 45% of the total operating expenditures. The need for State subsidy is apparent when one considers the occupancy rate of the hospital. In fiscal year 1967-1968, the average, daily, patient census was 12.3 as compared to 26 available beds. This means that, on the average, over half of the hospital beds were not filled throughout the year. As a matter of economics, the lower the occupancy rate (as compared to the number of available beds), the higher is the per patient cost. Based on economic factors alone, then, there appears to be considerable merit to the health facilities planning council's proposal to establish a general hospital in Kamuela to service Kamuela, Honokaa and Kohala and to convert the Kohala Hospital to a long-term facility, with limited emergency service.

Additional costs not under the control of the hospital. There were other expenditures made in the fiscal year which added to the direct cost of operating the hospital, but which are not included in the amount of expenditures shown above. The reason for the non-inclusion is that these other expenditures were budgeted, appropriated and expended by other State agencies and were thus beyond the control of the hospital. The total expended in fiscal year 1967-1968 by other State agencies was $29,229 as follows:

Fringe benefits for hospital employees, which include the State's portion of payroll taxes, retirement system contributions, dental and health insurance premiums, unemployment compensation benefit	$24,289
County administrative cost, which is the cost of staff services provided by the county of Hawaii to the hospital	4,940
	$29,229

The investment cost of capital improvements is also, of course, not included in the statement of operating expenditures. These additional costs, among others, further increase the extent to which the State subsidizes the hospital.

Proposed rate changes. In an effort to bring revenue more in line with expenditures, the State department of health is studying the matter of restructuring the rates and charges of all Act 97 hospitals. The proposed, new rates for the hospitals in the Hawaii county hospital system are shown in Exhibit II.

EXHIBIT II

PROPOSED HOSPITAL RATE CHANGES FOR
HONOKAA HOSPITAL
KOHALA HOSPITAL
KONA HOSPITAL

Services	Present Rates	Proposed Rates
Acute	\$23.50 private, per day 19.00 semi-private, per day 16.00 ward, per day	\$31.25 private, per day 27.50 semi-private, per day 23.75 ward, per day
Long Term	\$23.50 private, per day 19.00 semi-private, per day 16.00 ward, per day	\$26.50 private, per day 22.75 semi-private, per day 19.00 ward, per day
Nursery	\$6.00 regular, per day 7.00 boarder, per day 8.00 premature, per day	\$22.75 regular, per day 26.00 boarder, per day 30.75 premature, per day
Operating Room	Major operation: \$25.00 first 30 minutes, \$7.50 each 15 minutes thereafter Minor operation: \$15.00 first 30 minutes, \$3.00 each 15 minutes thereafter	One rate for both major and minor operations: \$38.00 first 30 minutes, \$13.00 each 15 minutes thereafter
Delivery Room	\$25.00 per delivery 5.00 circumcision	\$53.25 per delivery 11.00 per circumcision
Anesthesia	\$30.00 first 30 minutes 3.00 each 10 minutes thereafter	\$26.00 first 30 minutes 5.00 each 15 minutes thereafter
Emergency Room	\$1.50 basic fee, 7 a.m. to 5 p.m. weekdays, plus supplies and drugs \$3.00 plus supplies and drugs at all other times	\$7.25 basic rate, plus supplies and drugs
Ambulance	\$5.00 plus 50 cents a mile for first 50 mile round trip, 25 cents a mile thereafter	\$7.00 plus 70 cents a mile thereafter

Chapter 5

ASSETS AND TRUST FUND

The hospital is administratively responsible for certain assets and a trust fund. This chapter contains a presentation and discussion of these assets and the trust fund.

Assets

Petty cash fund. The hospital maintains a petty cash fund of \$100 which is located in the business office of the hospital. This fund is used to defray minor expenses such as postage and freight.

County accounts receivable. County accounts receivable at June 30, 1968 totaled \$170,363. This amount represents the unpaid balance of hospital charges for services rendered while the hospital operated as a county institution (prior to Act 97). It is highly doubtful that any significant collections can be made on these accounts, inasmuch as they date back to 1965 and earlier. Most of the accounts are either in the hands of a collection agency or are inactive for reasons such as death, statute of limitations, disappearance, and bankruptcy.

There is apparently no statutory authority that permits the removal of uncollectible accounts, otherwise receivable by the county, from the accounting records of the hospital. On the other hand, with respect to accounts receivable by the State, section 40-82, HRS, permits the removal, with the approval of the State attorney general, of those accounts which are more than two years delinquent and are clearly uncollectible by reason of the death, disappearance, or bankruptcy of the debtors. *We recommend that the State legislature enact legislation similar to section 40-82, HRS, to permit the hospital to delete from the records those county accounts receivable which are clearly uncollectible.*[1]

State accounts receivable. At June 30, 1968, State accounts receivable totaled \$99,346. This amount represents the unpaid balance of hospital charges for services rendered since the hospital began operating under State jurisdiction (subsequent to Act 97).

Included in the total \$99,346 is the sum of \$73,131, consisting of claims by the hospital for the difference between the reasonable cost of providing services to medicare and medicaid patients and the provisional payments made to the hospital for these services during the fiscal year. These claims are subject to audits by medicare and medicaid representatives before final settlements are made. A summary of these unpaid claims as of June 30, 1968 is as follows:

[1] The passage of House Bill No. 740, H.D. 1, S.D. 1, 1969 legislative session, conceivably will require the transfer of these county accounts receivable to the State as "personal property" used in the operation and maintenance of the hospital. If such be the case, these county accounts receivable will become State property and be subject to section 40-82, HRS.

	Total Claims
Medicare	$37,554
Medicaid	35,577
Total	$73,131

Inventories of drugs and supplies. Inventories on hand totaled $14,969 at June 30, 1968. Inventories are valued at cost and include a wide variety of items such as drugs and pharmaceuticals, groceries, hospital and office supplies, and linen.

Property. The Kohala Hospital maintains an inventory of its property. A summary of the property items under the control and responsibility of the hospital at June 30, 1968 is as follows:

Land		$ 5,000
Building		492,451
Equipment		87,978
		585,429
Less depreciation accumulated:		
Prior to July 1, 1967	$108,144	
During the year ended June 30, 1968	18,979	127,123
Total property (Net)		$458,306

All property is valued at cost, except for donated items which are valued at their estimated market value at the time of donation.

Governmental units do not normally record depreciation. In governmental funding and budgeting, all costs of acquiring property are considered sunk once they are expended. However, on July 1, 1966, the hospital adopted the practice of recording depreciation. It did so, because depreciation is an allowable expense in the computation of cost reimbursable by the federal government under the medicare and medicaid programs.

Trust Fund

The hospital holds in trust for safekeeping monies belonging to individual patients. At June 30, 1968, this trust fund had a balance of $390.

The cash for this trust fund is kept in a bank account in the names of the former superintendent and the present acting superintendent. We believe that since the hospital is responsible for the administration of this trust fund, the bank account should be in the hospital's name and not in the name of any employee. Also, checks drawn from the bank account require only one signature. This practice does not afford a "cross-check" which is desirable for proper control of funds. *We recommend that the bank account for the patients' trust fund be kept in the name of the hospital and that dual signatures be required before checks are drawn against the account.*

Chapter 6

INTERNAL CONTROL AND SELECTED PROBLEMS

This chapter contains our findings and recommendations regarding the hospital's internal control system. It also discusses specific problems and issues arising from the hospital's operating practices.

Internal Control

The term, *system of internal control,* means the plan of organization and all of the methods and measures adopted within the hospital to check the accuracy and reliability of accounting data, to promote operational efficiency, and to encourage adherence to prescribed laws, policies, and rules and regulations of the State of Hawaii, the State department of health, the county of Hawaii and the Kohala Hospital. A sound system of internal control includes two basic elements. The first is a system of authorizations and recording procedures to provide adequate and reasonable accounting control over assets, liabilities, revenue and expenditures in accordance with generally accepted accounting principles and with the laws, policies, and rules and regulations of the State, the department of health, the county, and the hospital. The second is an appropriate segregation of duties assigned in a manner that no one individual controls all phases of a transaction without the interrelated function of a cross-check by some other individual.

General control. Where the number of personnel is limited, the possibility of setting up an ideal system of internal control is severely curtailed. Such limitation exists at the hospital. Specifically, this situation is present in the areas of cash, accounts receivable, and inventory controls. Because of the small staff available for control purposes in the above areas, an appropriate segregation of duties is impractical. In such a situation, constant surveillance on the part of the hospital's management is the principal and only practical means of safeguarding the assets under its control.

Non-compliance with perquisite policies. Our audit revealed that the hospital has not complied with certain policies and procedures relating to perquisites.[1]

Prior to April 2, 1968, perquisites were governed by county policies and procedures. On April 2, 1968, the State department of health, with the approval of the governor, issued certain policies and instructions to be followed by all public hospitals. Included among the instructions was one stating that "all hospitals will follow the department of health perquisite policy." The State department of health's policy on perquisites requires all executive officers of divisions to submit to the director of health reports on all employees to whom perquisites are granted.

[1]The State department of health, in its *Policies and Procedures on Perquisites,* dated October 27, 1964, defines perquisites as, "Those things furnished or services rendered to an employee by the State government which have value to the employee by reducing his personal expenses."

Certain employees of the hospital receive perquisites such as hospitalization in private rooms at ward room rates, and meals and housing. However the hospital has not submitted to the director of health any report on these employees receiving perquisites.

We recommend that the hospital adhere to the State policy and immediately submit the required perquisite reports to the director of health. A review of the perquisites will give the director a chance to determine whether the perquisites are properly allowable under the State policy.

Selected Problems

Some of the operational practices existing at the Kohala Hospital are similar to those we found at the Kula Sanatorium and the Hilo Hospital when we conducted audits of those institutions. Our recommendations with respect to the Kohala Hospital are, in these cases, generally similar to those which we made in our audit reports of the Kula Sanatorium[2] and the Hilo Hospital.[3]

Vending machine. The hospital has a vending machine which is stationed in the hospital building. The revenue from this vending machine is used for the benefit of the hospital employees. This situation is not unique to the Kohala Hospital. Other public institutions and agencies throughout the State do from time to time install vending machines in public buildings and utilize the revenue for the benefit of employees or, in some cases, patients.[4] It appears that revenue from these vending machines constitutes public funds, since it is generated from the use of space in public buildings.

We do not question the benefits derived from the use of the revenue for employees' activities, but there is neither a statute nor governmental policy which permits such non-operational use of what otherwise is public funds. *Until some statutory authority is found and governmental policy formulated to permit earmarking of the income for use by employees, we recommend that all revenue from the vending machine be treated and deposited as hospital revenue and included in the estimated hospital revenue for budget purposes.*

In August 1968, the State department of health requested an opinion from the State attorney general as to the legality of using revenue from vending machines in public hospitals for the benefit of hospital employees and patients. The attorney general has not as yet issued an opinion.

[2]Legislative Auditor, *Management Audit of Kula Sanatorium: A Report to the Governor and the Legislature of the State of Hawaii*, report no. 67-2, February 1967.

[3]Legislative Auditor, *Financial Audit of Hilo Hospital: A Report to the Governor and the Legislature of the State of Hawaii*, report no. 68-8, April 1968.

[4]Legislative Auditor, *Management Audit of Kula Sanatorium*, pp. 82-83, and *Financial Audit of the Hilo Hospital*, p. 22.

Free coffee for employees. At the time of our audit, the hospital had a long-established practice of providing free coffee to hospital employees. There was no justifiable reason for this gratuity. It constituted an unwarranted preferential treatment of the Kohala Hospital employees over other governmental employees.[5] We recommended to the hospital that this practice be discontinued immediately. We are pleased to report that, prior to the writing of this report, this recommendation was adopted by the hospital. Hospital employees are now required to pay for coffee.

Rental charges for housing facilities. As we noted in chapter 4, during fiscal year 1967-68, the hospital collected $685 in rentals from employees occupying living quarters owned by the hospital. The rentals being charged individual employees range from $10 to $30 per month, depending on the type of accommodation. We understand that a cost analysis has not been made in recent years to determine whether or not these charges for living quarters are sufficient to recover the cost to the hospital in maintaining and operating them. We believe that such an analysis is overdue. *We recommend that the hospital conduct a cost analysis to determine the adequacy of the rates now being charged the renters of living quarters owned by the hospital.*

[5]Legislative Auditor, *Financial Audit of the Hilo Hospital*, p. 23.

Sale of meals. As noted in chapter 3, the hospital collected $828 during fiscal year 1967-68 from the sale of meals to its employees. Since 1966, the meal rate has been 42 cents per meal. Based on the records of the hospital, the total direct cost per meal amounted to $1.82 in fiscal year 1967-68 ($1.63 in fiscal year 1966-67). Direct cost includes cost of salaries, raw food and other supplies and expenses directly attributable to the dietary department of the hospital. The raw food cost per meal alone was 52 cents in fiscal year 1967-68 (47 cents in fiscal year 1966-67). As these figures indicate, the 42 cents per meal now charged is not sufficient to cover even the raw food cost and much less the total direct cost. We understand that the State department of health is in the process of reviewing non-patient meal charges for all Act 97 hospitals for the purpose of setting uniform guidelines for determining meal charges. *We recommend that at the completion of this department of health study, the hospital take such action as necessary to remedy the meal charge situation. In the meantime, we recommend that the hospital adjust its meal charges to cover at least the raw food cost.*

Laundry services. The hospital maintains and operates its own laundry facilities. For the year ended June 30, 1968, the cost of maintaining and operating these laundry facilities amounted to approximately $10,147, or 27 cents per pound of laundry serviced (19 cents per pound of laundry serviced for the year ended June 30, 1967). We compared this cost with the cost of having laundry services performed by private concerns. We found that two other hospitals in the county of Hawaii (Kona and Honokaa) have been able to contract with private concerns to do the laundry at a rate of 13 cents per pound. It thus appears that it is more economical for the Kohala Hospital to contract with a private concern for laundry services. *We recommend that the hospital, in conjunction with the State department of health, seriously consider contracting with a private concern for laundry services.*

PART III
SUMMARY

Section 23-4, Hawaii Revised Statutes, requires the office of the auditor to conduct post-audits of all transactions and of all books and accounts kept by State departments and county agencies. Pursuant to this requirement, we examined the Kohala Hospital's financial records for, and the transactions had during the fiscal period July 1, 1967 to June 30, 1968.

The audit was conducted to determine the propriety of the hospital's financial transactions, the accuracy and reliability of its financial records, and the adequacy of the hospital's controls to safeguard its assets against loss, waste, fraud and extravagance. The examination covered the hospital's operating resources and expenditures and other funds for which the hospital is responsible.

Our major findings and recommendations are summarized below.

Operating Resources and Expenditures

The hospital's operations are financed by the State general fund through annual legislative appropriations. Revenue derived from services rendered by the hospital is not earmarked for hospital use, but is instead considered general fund revenue and is deposited into the State treasury.

1. **Opinion on the statement.** In our opinion, the hospital's statement of appropriation, expenditures and unencumbered balance presents fairly the hospital's operating resources, expenditures and unencumbered balance for the fiscal year ended June 30, 1968.

2. **Resources.** For the fiscal year 1967-68, the legislature appropriated $227,638 (Act 54, SLH 1967). The appropriation was based on an estimated, average, daily inpatient population of eight persons. Additional funds amounting to $2,150 were secured by the hospital through the transfer of surplus funds from the Maui Memorial Hospital. The hospital also became entitled to reimbursements, from the State general fund, totaling $3,013 for nightshift differential payments and blue collar salary adjustments made by the hospital pursuant to Act 147, SLH 1967, and Act 72, SLH 1968.The funds for these salary adjustments were appropriated in the respective acts.

3. **Expenditures.** The total cost incurred by the hospital during the fiscal year was $222,244. This was $5,394 less than the amount budgeted to the hospital of $227,638. A comparison by categories between the actual and budgeted expenditures is as follows:

Expenditure	Actual	Budget	Actual Over [Under] Budget
Personal services	$177,323	$188,294	$[10,971]
Other current expenses .	40,161	36,646	3,515
Equipment	4,760	2,698	2,062
Total expenditures .	$222,244	$227,638	$ [5,394]

"Personal services" expenditures were $10,971 less than the budget amount primarily because the hospital left vacant several authorized positions. The underexpenditure would have been larger if a portion of the personal services account had not been used to defray the cost of salary increases resulting from a reclassification of the nursing and hospital support positions, initiated and conducted by the State department of personnel services. The State department of personnel services reclassified the nursing and hospital support positions as a part of the revision of the entire State classification system. The resulting increase in salary costs was thus beyond the fiscal control of the hospital.

The underexpenditure in personal services would also have been greater, if expenditures for "other current expenses" had not exceeded the budget. Other current expenses exceeded the budget by $3,515, and the hospital financed this excess by transferring the necessary sum from the "personal services" account.

Equipment expenditures exceeded the budget by $2,062. This excess was paid for with the money transferred from the Maui Memorial Hospital.

4. **Unencumbered balance.** On June 30, 1968, the hospital had an unencumbered balance of $10,557. "Unencumbered balance" means the excess of total resources (funds) available to the hospital over all expenditures paid and obligated by the hospital during the year. This excess amount of $10,557 lapsed at the close of the fiscal year and reverted to the State general fund.

Hospital Revenue

The revenue generated from the operation of the hospital (and deposited into the State general fund) is displayed in the hospital's financial statement on both the accrual and cash bases of accounting. The revenue reported on the accrual basis represents the amount earned for services rendered during the fiscal year. The revenue reported on the cash basis includes only those amounts which the hospital actually collected during the fiscal year, without regard to when the revenue was earned. The revenue displayed on the cash basis is the relevant one for budgeting and funding purposes and for comparing the amount generated from the operation of the hospital with the amount which was anticipated when the budget was prepared.

1. **Opinion on the statement.** In our opinion, the statement of revenue presents fairly the revenue earned on the accrual basis and the revenue collected on the cash basis for the fiscal year ended June 30, 1968.

2. **Revenue earned and collected.** On the accrual basis, revenue earned or accrued during the fiscal year totaled $169,630—$74,653 for medical services rendered to non-indigent patients, $35,755 for services rendered to indigent patients (payable by the State department of social services), $57,709 for services reimbursable by medicare and medicaid, and $1,513 for miscellaneous, non-medical services, such as meals and housing to employees.

On the cash basis, revenue collected during the fiscal year totaled $122,234. Collections from non-indigent patients and from the department of social services for indigent patients totaled $110,021. This was $39,021 more than the $71,000 anticipated for the year. This increase resulted primarily because the average, daily, patient census was approximately 50% more than that estimated when the budget was prepared. Actual reimbursement from medicare and medicaid was $10,700 (no part of this was anticipated in the budget). Collections for meals and housing totaled $1,513.

3. **State subsidy.** Although the operations of the hospital are funded entirely by the State general fund and the revenue actually collected is deposited into the State treasury to the credit of the general fund, a comparison of the revenue and expenditures is useful to secure a view of the amount to which the State subsidized the hospital during the fiscal year. That comparison shows the following:

Total expenditures	$222,244
Total revenue collected	122,234
State subsidy	$100,010

The State subsidy was approximately 45% of the hospital's total operating expenditures. This is not surprising when one considers that in fiscal year 1967-68, the 26-bed hospital had an average, daily, patient census of 12.3. If other expenditures, the costs of which were budgeted, appropriated and expended by other State agencies, such as employee fringe benefits, capital improvements, and county staff services provided the hospital, are added, the amount of State subsidy is naturally increased.

In an effort to bring revenue more in line with expenditures, the State department of health is studying the matter of restructuring the rates of all Act 97 hospitals.

Assets and Trust Fund

1. **Assets.** The hospital has administrative and custodial responsibility over a petty cash fund of $100; drugs and supplies valued at June 30, 1968 at $14,969; land, building and equipment valued at June 30, 1968 at $458,306; and accounts receivable which at June 30, 1968 totaled $269,709.

$170,363 worth of the accounts receivable represents the unpaid balance of hospital charges for services rendered while the hospital operated as a county institution (prior to Act 97). These accounts date back to 1965 and earlier, and most of them are either in the hands of a collection agency or are inactive for reasons such as death, statute of limitations, disappearance, and bankruptcy. It is thus doubtful that any significant collection can be made, but there is no statutory authority at present to permit the hospital to eliminate uncollectible accounts from the hospital records. *We recommend that the State legislature enact legislation similar to section 40-82, HRS, (for State accounts receivable) to permit the hospital to delete from its records those county receivables which are clearly uncollectible.*

The balance of the receivables totaling $99,346 represents the amount due to the State for services rendered since the hospital began operating under State jurisdiction. Of that amount, $73,131 consists of claims by the hospital for the difference between the reasonable cost of providing services to medicare and medicaid patients and the provisional payments received during the fiscal year.

2. Trust fund. The hospital administers a patients' trust fund, consisting of monies belonging to individual patients. The trust fund is held in a bank account in the names of the former superintendent and the present acting superintendent. In addition, only one signature is required when checks are drawn, a practice which does not afford a "cross-check" which is desirable for proper control of funds. *We recommend that the bank account for the patients' trust fund be kept in the name of the hospital and that dual signatures be required before checks are drawn against the account.*

Internal Control and Selected Problems

1. Internal control, generally. A system of internal control is required to insure accuracy and reliability of financial data, to promote operational efficiency and to assure adherence to laws, policies, rules and regulations. Included in any system of internal control is the principle of "cross-check"; that is, the separation of duties such that no one individual handles all phases of a transaction. However, because of the small staff, the structuring of an ideal system of internal control is precluded at the hospital. In such circumstances, constant surveillance on the part of the hospital's management is the principal and only practical means of safeguarding the hospital's assets.

2. Non-compliance with perquisite policies. The hospital has not submitted reports on employees' perquisites to the State director of health, as required by the State department of health's policies. *We recommend that the hospital adhere to the State policy and immediately submit the required perquisite reports to the director of health.*

3. Selected problems. There are several problems and issues arising from the operational practices of the hospital. Some of these are similar to those we found existing at the Kula Sanatorium and the Hilo Hospital when we conducted audits of those institutions (see our audit reports entitled, *Management Audit of Kula Sanatorium* and *Financial Audit of the Hilo Hospital).*

a. Vending machine. The commissions from a vending machine located in the hospital building are used for the benefit of the hospital employees. It appears that revenue generated from vending machines in public buildings constitutes public funds. Being public funds, there must be some earmarking under legal authority to enable the use of the revenue for a special purpose. There is, however, neither a statute nor governmental policy which permits the use of the vending machine revenue for the benefit of the hospital employees. *Until some statutory authority is found and governmental policy formulated to permit earmarking of the income for use by employees, we recommend that all revenue from the vending machine be treated and deposited as hospital revenue and included in the estimated hospital revenue for budget purposes.*

b. Free coffee for employees. At the time of our audit, the hospital was providing free coffee to its employees. We saw no justification for this practice and recommended the immediate discontinuance of this practice. The hospital has followed our recommendation, and the employees are now required to pay for their coffee.

c. Rental charges for housing facilities. The hospital is currently renting living quarters to its employees at rental fees ranging from $10 to $30 per month depending on the type of accommodation. No cost analysis has been made recently to determine whether or not the current charges for the quarters are sufficient to recover the cost of maintaining and operating them. *We recommend that the hospital conduct a cost analysis to determine the adequacy of the rates now being charged the renters of living quarters owned by the hospital.*

d. Sale of meals. The rate of 42 cents per meal is currently charged the employees of the hospital who take meals at the hospital. This rate is insufficient to recover even the raw food cost (52 cents in fiscal year 1967-68) and much less the total direct food cost ($1.82 in fiscal year 1967-68). We understand that the State department of health is in the process of setting uniform guidelines for determining meal charges. *We recommend that, at the completion of this study, the hospital take such action as necessary to remedy the meal charge situation. In the meantime, we recommend that the hospital adjust its meal charges to cover at least the raw food cost.*

e. Laundry services. The hospital's cost of maintaining and operating its own laundry facilities was approximately 27 cents per pound of laundry serviced in fiscal year 1967-68. Two other Act 97 hospitals in the county of Hawaii (Kona and Honokaa) are contracting with private concerns for laundry services at a negotiated rate of 13 cents per pound. It thus appears that it is more economical to contract out the laundry service. *We recommend that the hospital, in conjunction with the State department of health, seriously consider contracting with a private concern for laundry services.*

PART IV
A MEMORANDUM ON THE COMMENTS MADE BY AFFECTED AGENCIES

The preliminary draft of this financial audit report of the Kohala Hospital was completed in May 1969, at which time we distributed copies of the draft to the acting superintendent of the hospital, the administrative director of the Hawaii county hospital system and the director of the State department of health. In our transmittal letters we requested the agencies to submit in writing their comments on our findings and recommendations and also to indicate what actions they have taken or intend to take therefor. The administrative director of the Hawaii county hospital system was asked to respond on behalf of the hospital.

Copies of our transmittal letters are attached as Attachment nos. 1, 2 and 3. The response of the administrative director of the Hawaii county hospital system is attached as Attachment no. 4. The response of the State director of health is attached as Attachment no. 5.

We are pleased to note that the agencies concur with all of our recommendations and have indicated that the recommendations have been or will be implemented.

COPY

Attachment No. 1

THE OFFICE OF THE AUDITOR
State of Hawaii
Iolani Palace
Honolulu, Hawaii 96813

May 2, 1969

Mrs. Ruby S. Isaacs
Acting Superintendent
Kohala Hospital
P. O. Box 398
Kapaau, Hawaii 96755

Dear Mrs. Isaacs:

Enclosed is a copy of our preliminary report on the financial audit of the Kohala Hospital for the fiscal year ended June 30, 1968. The term, "preliminary," indicates that the report has not been released for general distribution. However, copies of the report have been transmitted to the administrative director of the Hawaii County Hospital System, the Mayor of the County of Hawaii, the Director of the State Department of Health, the Governor, and the presiding officers of both houses of the State Legislature.

The report contains several recommendations. I have asked Mr. Frank Keifer, as the administrative director of the system, for his written comments on them, including information as to the specific actions your hospital has taken or intends to take with respect to each of them. I have also asked the Director of the State Department of Health for his comments. Their comments must be in our hands by May 15, 1969. The report will be finalized and released shortly thereafter.

We sincerely appreciate the assistance and cooperation which you and members of your staff have extended to our representatives.

Sincerely,
/s/ Clinton T. Tanimura
Legislative Auditor

Encl.

COPY

Attachment No. 2

THE OFFICE OF THE AUDITOR
State of Hawaii
Iolani Palace
Honolulu, Hawaii 96813

May 2, 1969

Mr. Frank E. Keifer
Administrative Director
Hawaii County Hospital System
1190 Waianuenue Avenue
Hilo, Hawaii 96720

Dear Mr. Keifer:

Enclosed is a copy of our preliminary report on the financial audit of the Kohala Hospital for the fiscal year ended June 30, 1968. The term, "preliminary," indicates that the report has not been released for general distribution. However, copies of the report have been transmitted to the Acting Superintendent of Kohala Hospital, the Mayor of the County of Hawaii, the Director of the State Department of Health, the Governor, and the presiding officers of both houses of the State Legislature.

The report contains several recommendations. I would appreciate receiving your written comments on them, including information as to the specific actions the hospital has taken or intends to take with respect to each of them. I have also asked the Director of the State Department of Health for his comments. All comments must be in our hands by May 15, 1969. The report will be finalized and released shortly thereafter.

If you wish to discuss the report with us, we will be pleased to meet with you on or before May 12, 1969. Please call our office to fix an appointment. A "no call" will be assumed to mean that a meeting is not required.

Sincerely,
/s/ Clinton T. Tanimura
Clinton T. Tanimura
Legislative Auditor

Encl.

COPY Attachment No. 3

THE OFFICE OF THE AUDITOR
State of Hawaii
Iolani Palace
Honolulu, Hawaii 96813

May 2, 1969

Dr. Walter B. Quisenberry, Director
Department of Health
State of Hawaii
Honolulu, Hawaii

Dear Dr. Quisenberry:

Enclosed is a copy of our preliminary report on the financial audit of the Kohala Hospital for the fiscal year ended June 30, 1968. The term, "preliminary," indicates that the report has not been released for general distribution. However, copies of the report have been sent to the Administrative Director of the Hawaii County Hospital System, the Acting Superintendent of Kohala Hospital, the Mayor of the County of Hawaii, the Governor, and the presiding officers of both houses of the State Legislature.

I would appreciate receiving your written comments on this report. I have also asked the Administrative Director of the Hawaii County Hospital System for his comments. All comments must be in our hands by May 15, 1969. The report will be finalized and released shortly thereafter.

If you wish to discuss the report with us, we will be pleased to meet with you on or before May 12, 1969. Please call our office to fix an appointment. A "no call" will be assumed to mean that a meeting is not required.

We are deeply thankful for the assistance received by our representatives from your staff.

Sincerely,
/s/ Clinton T. Tanimura
Clinton T. Tanimura
Legislative Auditor

Encl.

COPY Attachment No. 4

HAWAII COUNTY HOSPITAL SYSTEM
1190 Waianuenue Ave., Hilo, Hawaii 96720

Mr. Clinton T. Tanimura
Legislative Auditor
Iolani Palace
Honolulu, Hawaii

Dear Mr. Tanimura:

Thank you for allowing us the opportunity to comment on the financial audit of Kohala Hospital. Some recommendations were implemented during the course of the audit, others during the interval of the audit and the preliminary report, and others will be implemented immediately or upon advice from the Department of Health.

1. Proposed Hospital Rate Changes - Exhibit II

   The long term care proposed rate was corrected on April 29, 1969 at the public hearing held at Hilo Hospital from the quoted:

   $26.50 private, per day
   $22.75 semi-private, per day
   $19.00 ward, per day

   to

   $19.00 private, per day
   $16.75 semi-private, per day
   $14.25 ward, per day

2. Trust Fund

The patient trust fund was placed in a separate bank account under Kohala Hospital Patients Safekeeping Fund. We concur that dual signatures be required before checks are drawn against the account and have initiated implementation of this recommendation.

3. Perquisite Policies

We concur that the required perquisite reports be submitted to the Director of Health and have instructed Kohala Hospital to do so. The old policy of permitting hospital employees hospitalization in private rooms at ward rates was discontinued in June 1968.

4. Vending Machine

Kohala Hospital has one vending machine in operation. The Department of Health has requested clarification and guidance from the State Attorney General on this matter, as stated in your report. We are awaiting an opinion from the Attorney General's Office.

5. Free Coffee for Employees

On August 8, 1968, we sent a memorandum to all system hospitals directing them to charge employees for coffee. This was immediately implemented by Hilo, Honokaa, Kohala and Kona Hospitals.

6. Rental Charges on Housing Facilities

The perquisite policy of the Department of Health on rental charges was implemented by Kohala Hospital in July, 1968.

7. Sale of Meals

We concur that until the completion of the Department of Health study on meal charges, that charges should be made to cover at least raw food cost. This will be done as soon as an analysis is completed.

8. Laundry Services

We will seriously consider contracting laundry services to private concerns as soon as practicable.

I want you to know how much we appreciate the audits of our system facilities. Sometimes we "cannot see the forest for the trees," and the viewpoint of someone not so intimately involved is a valuable aid to our management policies and practices.

Sincerely,

/s/ Frank E. Keifer

Frank E. Keifer
Administrative Director

FEK:lyu

cc: Walter B. Quisenberry, M.D., Director of Health
Acting Superintendent, Kohala Hospital

May 6, 1969

COPY

STATE OF HAWAII
DEPARTMENT OF HEALTH
P. O. Box 3378
Honolulu, Hawaii 96801

Attachment No. 5

May 13, 1969

Mr. Clinton T. Tanimura
Legislative Auditor
Office of the Auditor
State of Hawaii
Honolulu, Hawaii

Dear Mr. Tanimura:

Re: Financial Audit of the Kohala Hospital

In our review of the financial audit on Kohala Hospital for the year ended June 30, 1968, we are pleased to note that the overall fiscal procedures and operations generally reflect adequate financial controls and management.

With respect to the recommendations, a coordinated effort between this department and the hospital staff will be made to implement the required changes and to resolve specific problem areas. Where certain recommendations have general application to several or all hospitals, we will take the necessary action to handle these problem areas on a system-wide basis.

The financial audits on the various County/State Hospitals are helpful to us in meeting our management responsibilities. We appreciate the efforts of your office and you may be assured of our continuing cooperation and assistance.

Very sincerely,

/s/ WALTER B. QUISENBERRY
WALTER B. QUISENBERRY
Director of Health

PUBLISHED REPORT OF THE LEGISLATIVE AUDITOR

Audit Reports

1966
1. Examination of the Office of the Revisor of Statutes, 66 pp. (out of print).

1967
1. Overtime in the State Government, 107 pp.
2. Management Audit of Kula Sanatorium, 136 pp.

1968
1. Financial Audit of the Department of Health for the Fiscal Year Ended June 30, 1967, v.p. (out of print).
2. Financial Audit of the Department of Planning and Economic Development for the Fiscal Year Ended June 30, 1967, v.p. (out of print).
3. Financial Audit of the Department of Regulatory Agencies for the Fiscal Year Ended June 30, 1967, v.p. (out of print).
4. Financial Audit of the Department of Hawaiian Home Lands for the Fiscal Year Ended June 30, 1967, 54 pp.
5. Financial Audit of the Oahu Transportation Study for the Period July 1, 1962 to August 31, 1967, 68 pp.
6. Financial Audit of the Hawaii Visitors Bureau for the Period July 1, 1966 to January 31, 1968, 69 pp.
7. State Capital Improvements Planning Process, 55 pp.
8. Financial Audit of the Hilo Hospital for the Fiscal Year Ended June 30, 1967, 43 pp.
9. Financial Audit of the Hawaii Visitors Bureau for the Period July 1, 1967 to June 30, 1968, 42 pp.

1969
1. Financial Audit of the General Fund, State of Hawaii, for the Fiscal Year Ended June 30, 1968, v.p.
2. Financial Audit of the Judicial Branch, State of Hawaii, for the Fiscal Year Ended June 30, 1968, v.p.
3. Financial Audit of the State Department of Budget and Finance for the Fiscal Year Ended June 30, 1968, v.p.
4. General Audit of the Department of Personnel Services, State of Hawaii, 129 pp.
4. A Summary of the General Audit of the Department of Personnel Services, 53 pp.

Other Reports

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