AUDIT REPORT NO. 69-8
JUNE, 1969

FINANCIAL AUDIT OF THE KONA 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 Kona 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. This report is one of several audit reports we have issued recently relating to our financial audits of some of the hospitals now under State jurisdiction (Act 97 hospitals).

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, except as they bear directly on the fiscal transactions under examination.

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 Kona Hospital, we requested the administrative director of the Hawaii county hospital system for his response on behalf of the hospital. His response and that of the State department of health are appended in Part IV, *A Memorandum on the Comments Made by the 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

TABLE OF CONTENTS

PART I
INTRODUCTION AND SOME BACKGROUND

Chapter 1

INTRODUCTION

This is a report on our post-audit of the financial transactions, books and accounts of the Kona 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 the Audit

The purpose of our audit was 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 the Audit

This audit examined the hospital's financial records for, and the transactions had during the fiscal year 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 Kona Hospital (chapter 2).

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

County refers to the county of Hawaii.

State refers to the State of Hawaii.

System refers to the Hawaii county hospital system.

Chapter 2

SOME BACKGROUND

The Kona Hospital is a 52-bed, government operated general hospital. It is situated at Kealakekua, Hawaii, and serves the people of North and South Kona districts. North and South Kona have a combined population of approximately 10,000. In addition, the acute and chronic care facilities of the hospital are available to tourists who may be visiting in the area.

The hospital's ancillary services include a clinical laboratory, electrocardiography and diagnostic X-ray services, an operating and obstetrical delivery room, and a premature nursery. In addition, the hospital has an outpatient and emergency department and provides ambulance services.

The hospital staff consists of 39 full-time employees. They include a superintendent who also serves as an anesthetist, 11 registered nurses, 11 practical nurses, 2 nurses aides, 1 laboratory X-ray technician, and 1 laboratory X-ray assistant, and other service and maintenance personnel. Physician services are rendered by four private practitioners.

The 52 available beds were, on June 30, 1968, assigned in the following manner: medical-surgical, 28; obstetrics, 7; psychiatric, 1; pediatrics, 4; and long-term care, 12.

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

Recent Legislation on Hospital Administration

State legislation. In recent years, the State legislature has enacted several pieces of legislation affecting the administration of public hospitals and other 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.

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 and health facilities within the county.[1]

Hawaii county resolutions and the Hawaii county hospital system. By resolution no. 282, dated November 22, 1967, the county of Hawaii established a county hospital system called the Hawaii county hospital system.[2] 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.[3]) 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.[4] The superintendent of the Hilo Hospital

[1]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.

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

[3]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.

[4]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.

has been designated as the administrative director of the system.

Funding

The cost of operating and maintaining the Kona Hospital is 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 on or after July 1, 1965 are deposited into the State treasury as general fund revenue. Monies collected for services rendered prior to July 1, 1965 are deposited with the county treasury as county realization.

EXHIBIT I
STATISTICAL DATA
Years Ended June 30, 1967 and 1968

	1967	1968
Number of beds	52	52
Number of bassinets	9	9
Number of incubators	2	2
Number of employees	35	39
Nursing personnel:		
Registered nurses	11	11
Practical nurses	11	11
Others	2	2
Meals served	48,363	40,334
Pounds laundered	83,516	78,411
Out-patient visits	2,270	2,388
Emergency visits	1,456	1,493
Patients admitted	1,086	1,060
Newborn babies delivered	160	136
Patient-days of care—adult	11,930	11,893
Patient-days of care—newborn	571	631
Average length of stay—days[a]	9	25
Daily average number of patients, including newborns	34.2	34.3
Number of operations	288	235
X-ray examinations	1,153	1,197
Laboratory examinations	3,160	3,447

[a]General—adults and pediatrics.

Source: Data compiled by the Kona Hospital from its records and reports.

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 is concerned with the sources of financing the Kona Hospital's operation and the manner in which the resources were expended by the hospital. It contains our findings regarding the propriety of expenditures and adequacy of fiscal controls.

Statement of Appropriation, Expenditures and Unencumbered Balance

Table I is the statement of appropriation, expenditures, and unencumbered balance of the Kona Hospital for the year ended June 30, 1968.

Opinion on statement. In our opinion, except as may be noted in this chapter, the statement of appropriation, expenditures and unencumbered balance presents fairly the resources, expenditures and unencumbered balance for the fiscal year ended June 30, 1968.

Resources

State general fund appropriation. The general fund appropriation of $359,649 authorized by section 1, Act 54, SLH 1967, was intended for an average daily inpatient population of 35. The average daily number of patients, including newborns, for the year ended June 30, 1968 was 34.3.

Transfers from other Act 97 hospitals. During the fiscal year, the hospital secured additional funds totaling $16,011 from the Hilo Hospital and the Maui Memorial Hospital. The amount secured from the Hilo Hospital was $15,413. This sum was received in varying amounts at different times, and it represented a portion of the Hilo Hospital's receipts in excess of the amount estimated in that hospital's budget for 1967-68. The fund transfers were requested by the Kona Hospital on the basis of "increased hospital receipts," and were approved by the State department of budget and finance.

From the Maui Memorial Hospital, the Kona Hospital received the sum of $598. This sum represented a portion of the surplus with which the Maui Memorial Hospital ended the fiscal year 1965-66. The total Maui Memorial Hospital's surplus was $35,960. The governor

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

	Actual	Budget	Actual Over [Under] Budget
Resources			
State general fund appropriation, Act 54, SLH 1967	$359,649	$359,649	$ –
Transfers from other Act 97 hospitals	16,011	–	16,011
Reimbursement of expenditures	4,189	–	4,189
Total resources	379,849	359,649	20,200
Expenditures (including encumbrances)			
Personal services	267,548	258,094	9,454
Other current expenses (Schedule I)			
Nursing services	10,761	8,900	1,861
Clinical services	26,500	20,910	5,590
House services	49,439	52,932	[3,493]
Administrative services	10,818	10,141	677
Total other current expenses	97,518	92,883	4,635
Equipment	9,269	8,672	597
Total expenditures	374,335	359,649	14,686
Unencumbered balance at June 30, 1968	$ 5,514	$ –	$ 5,514

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 allocation of the surplus. The Kona Hospital's allocation was $598.[1]

The reason given for the fund transfers from the Hilo Hospital, "increased hospital receipts," is misleading. The need for additional funds apparently arose because of (a) an increase in salary requirements resulting from a reclassification of the nursing and hospital support positions, (b) temporary hire of private nurses for special duties during the meningitis epidemic that struck Kona in spring of 1968, (c) overtime incurred in excess of the amount budgeted therefor, and (d) other expenditures beyond the budget limits. (See our comments on these items later in this chapter.)

Reimbursement of expenditures. During the fiscal year, the hospital submitted claims for or was entitled to receive reimbursements totaling $4,189 for certain costs it had incurred. The major reimbursable cost was $2,686 for blue collar salary adjustments authorized by Act 72, SLH 1968. Other reimbursable costs included $756 for unbudgeted night-shift differential payments made in accordance with Act 147, SLH 1967, which provided for a pay differential to employees required to perform work between six in the evening and six in the morning, and $747 for miscellaneous items.

Expenditures

Table I shows a comparison of the actual expenditures incurred during the year with 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 $374,335, as compared to the budgeted amount of $359,649. Thus, the actual expenditures

[1]The operations of both the Hilo Hospital and the Maui Memorial Hospital are financed from their hospital receipts and the State general fund. For each of these hospitals, the State appropriation is made on the basis of the difference between the estimated hospital receipts and the estimated operations cost for the ensuing fiscal year. The excess of receipts in the case of the Hilo Hospital, and the surplus in the case of the Maui Memorial Hospital 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.)

exceeded the budget by $14,686. As shown in Table I (under Resources), this excess was financed primarily from funds transferred from other Act 97 hospitals. A discussion of the major variances between actual and budget expenditures follows.

Personal services. Personal services, which include salaries, overtime pay, and pay adjustment actions, totaled $267,548 (approximately 73 percent of the hospital's total operating expenditures for fiscal year 1967-68). As shown in Table I, the actual expenditures exceeded the budgeted amount by $9,454. A major portion ($8,168) of the excess was paid from funds transferred from the Hilo Hospital. The remainder was paid by using funds earmarked for other current expenses.

The excess expenditure for personal services was due primarily to an increase in salary requirements resulting from a reclassification of the nursing and hospital support positions. The reclassification of the nursing and hospital support positions was a part of the revision of the State classification system presently being conducted by the State department of personnel services (DPS).[2] The DPS announced the commencement of its study of this class of positions in November 1966 and completed it in July 1967. The actions were made retroactive to December 1, 1966. Thus, the fiscal impact of the reclassification actions was beyond the control of the hospital.

Several items relating to personal services expenditures require comment.

1. *Failure to encumber overtime for June 1968.* The hospital failed to encumber overtime pay of $762 incurred during June 1968. In addition, it failed to encumber split-shift and stand-by pay of $235 incurred during the same month. These charges totaling $997 are not included in the personal services expenditure of $267,548 shown in Table I. They should have been encumbered by the hospital against the appropriation authorized for the fiscal year ended June 30, 1968. Failure to encumber the $997 resulted in the charging of this unbudgeted amount against the subsequent fiscal year's appropriation. *We recommend that the hospital charge all obligations including overtime, split-shift and stand-by costs, against the appropriation for the fiscal year in which the obligations are incurred.*

[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, 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.

2. *Overtime and other pay.* Overtime, split-shift and stand-by pay for the fiscal year totaled $9,158, including the $997 mentioned above. This amount exceeded the budgeted amount ($5,000) by $4,158. This, of course, contributed to the personal services expenditures being in excess of the budget. Overtime, split-shift and stand-by are to be expected in the case of hospitals which by their very nature operate around-the-clock, but they are, to a large degree, controllable through proper estimation of the need for them (for example, the number of holidays in a year is known) and through proper planning, scheduling and distribution of work.[3] *We recommend that the hospital review its overtime, split-shift and stand-by needs, seek to identify and resolve, where possible, the underlying causes of the excess experienced in fiscal year 1967-68, and annually estimate its requirements with care and properly budget therefor.*

3. *Delay in processing payments to private nurses.* During the meningitis epidemic that struck the Kona area in February and March of 1968, the hospital obtained additional services of four private nurses at a cost totaling $930. Payment for these services was unduly delayed. Although the services were performed in February and March, they were not paid for until August 1968. The chronology in payment is as follows.

Since these services were unbudgeted, the hospital on *May 31, 1968,* requested the department of budget and finance for the needed $930. The request was approved by the department of budget and finance on *June 28.* The money was received by the county on *July 25.* In the meantime, the hospital encumbered this sum as of June 30, 1968. (This sum of $930 is a portion of the total $16,011 transferred from the Hilo Hospital.) The invoices for these services were then processed for payment in late August 1968. We believe that matters such as this should be handled more expeditiously. *We recommend that the hospital, the department of accounting and general services and the department of budget and finance process requests for additional appropriations and pay for emergency services secured without undue delay.*

Other current expenses. The hospital's other current expenses totaled $97,518, as compared to the budgeted amount of $92,883, resulting in an excess of $4,635 over the budget. A more detailed categorization of the expenditures is contained in Schedule I of Table I. The excess was financed from funds transferred from the Hilo Hospital.

As noted in Schedule I of Table I, expenditures in excess of the budget occurred primarily in pharmacy, laboratory and central services and supply. The reason for these overexpenditures is not clear. We note, however, that even as early as October 1967 (slightly more than three months after the fiscal year began), the hospital entertained the intent to

[3]See our audit report no. 67-1, *Overtime in the State Government,* February 1967.

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	$ 8,513	$ 7,200	$1,313
Operating and Delivery	2,248	1,700	548
Total Nursing Service	10,761	8,900	1,861
Clinical Services			
Pharmacy	17,062	13,000	4,062
Laboratory	4,424	2,800	1,624
Radiology	4,444	4,160	284
Anesthesiology	570	800	[230]
Ambulance and Others	–	150	[150]
Total Clinical Service	26,500	20,910	5,590
House Service Expense			
Patient Food Service	23,421	23,200	221
Operation of Plant and Maintenance	15,853	21,342	[5,489]
Laundry and Linen	7,957	7,225	732
Housekeeping	1,813	840	973
Maintenance of Grounds	395	325	70
Total House Service	49,439	52,932	[3,493]
Administrative Service Expense			
Insurance	2,607	2,400	207
Office Expense	2,286	2,280	6
Telephone	1,906	2,200	[294]
Travel	1,271	1,348	[77]
Others	2,748	1,913	835
Total Administrative Service	10,818	10,141	677
Total Other Current Expenses	$97,518	$92,883	$4,635

expend more than appropriated. In October, it submitted a letter to the State director of health, requesting $6,315 in addition to the amount appropriated by the legislature. The letter sought to justify the additional funds on the basis that the amounts appropriated by the legislature for certain specific items (e.g. central supplies, laundry, radiology, pharmacy, etc.) were less than the actual expenditures for those items in the preceding fiscal year. In March 1968, the State department of budget and finance approved a transfer of funds from the Hilo Hospital in exactly that amount requested in October–$6,315. In approving the transfer,[4] the State director of finance stated that the need for additional funds to cover fixed requirements for which the appropriated amount was below the requirement is understandable, but that there is need in other areas to stay within the appropriated amount. He called upon the superintendent of the Hilo Hospital (who also serves as the administrative director of the Hawaii county hospital system) "to emphasize to all hospital administrators that a legislative appropriation is not to be disregarded as it is law." He further stated, "Hereafter, we expect the hospitals to clear with the department of health before proceeding on a course of action which can have serious detrimental effects. Spending indiscriminately with the casual comment that funds were not budgeted cannot be condoned."[5] We agree with the director of finance.

It should be pointed out that the Kona Hospital's appropriation for fiscal year 1967-68 was based on an average daily inpatient population of 35. The hospital's actual experience was 34.3 in fiscal year 1967-68 and 34.2 in fiscal year 1966-67.

We recommend that the Kona Hospital, in the future, adhere closely to the amounts of legislative appropriations which are the legal limits of expenditure.

Equipment expenditure. The hospital expended $9,269 for equipment during the fiscal year. This amount was $597 in excess of the amount budgeted ($8,672). As discussed earlier under the section on *Resources*, the excess was paid for from funds transferred from the Maui Memorial Hospital.

Unencumbered Balance

The unencumbered balance as of June 30, 1968 was $5,514. This amount represents the excess of the total resources (funds) available to

[4] This transfer was one of several had during the fiscal year. As noted elsewhere, the total amount transferred from the Hilo Hospital during the year was $15,413.

[5] Letter dated March 22, 1968 from the State director of finance to the administrator of the Hilo Hospital. The letter was also directed to the Honokaa Hospital's request for $10,000 additional funds. As noted in our report on the audit of the Honokaa Hospital, its need for additional funds apparently arose from an increase in the average daily inpatient population from that estimated in the appropriation act.

the hospital over all expenditures paid and obligated by the hospital during the fiscal year. The unencumbered balance lapsed and reverted to the State general fund.

Chapter 4

HOSPITAL REVENUE

This chapter displays the hospital's statement of revenue. It contains our findings with respect to the items and figures noted therein. In addition, it contains a discussion of the extent to which the State subsidized the hospital during the fiscal year 1967-68.

Statement of Revenue

The hospital's statement of revenue for the fiscal year ended June 30, 1968 is presented in Table II. It is displayed on both the accrual and cash bases of accounting. The transactions represented by the figures shown on the accrual basis are not necessarily the same as those transactions represented by the figures on the cash basis. The reason for this is as follows. The statement on the accrual basis includes in revenue, all amounts which were earned and thus "accrued" to the hospital during the fiscal year. This means that revenue is accounted for at the time services are rendered regardless of when collections are made. Thus, some of the revenue earned during the year may or may not have been collected during the year. The statement on the cash basis includes in revenue, 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 on the cash basis.

Opinion on 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, 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 on the cash basis and the budget, together with our comments, findings and recommendations, are as follows.

Patient services revenue. *1. Patient fees.* The total fees earned (accrual basis) by the hospital during the fiscal year for the various services

TABLE II
STATEMENT OF REVENUE
Year Ended June 30, 1968

	Actual Amount			Actual Cash Over [Under] Budget
	Accrual	Cash	Budget	
Patient services revenue:				
Patient fees	$193,728	$166,955	$115,622	$51,333
Support and care of indigent patients	92,929	86,817	100,000	[13,183]
Total patient services revenue	286,657	253,772	215,622	38,150
Other revenue:				
Contractual reimbursements	58,000	12,900	--	12,900
Sale of meals to non-patients	3,737	3,622	4,786	[1,164]
Rental of housing	1,415	1,412	2,592	[1,180]
Total other revenue	63,152	17,934	7,378	10,556
Total Revenue	$349,809	$271,706	$223,000	$48,706

rendered to patients, other than nursing home patients, amounted to $193,728. A breakdown of these fees is detailed in Schedule I of Table II. The hospital's collections (cash basis) during the fiscal year totaled $166,955. This amount represents the total revenue from patient services collected during the year regardless of when the services were provided (some of the services may have been provided in prior fiscal years).

The cash based revenue ($166,955) exceeds the budgeted amount by $51,333. This excess is primarily due to revenue collected as a result of the federal medicare program. No estimate of medicare revenue was included in the hospital's 1967-68 budget because the medicare program was new at the time the budget was prepared.

2. Support and care of indigent patients. The revenue earned (accrual) for the support and care of indigent patients under the State public welfare program for the fiscal year 1967-68 amounted to $92,929, as compared to $86,817 of revenue collected (cash basis).

SCHEDULE I OF TABLE II
SCHEDULE OF PATIENT FEES EARNED
Year Ended June 30, 1968

Daily Patient Services		
Medical and surgical	$99,275	
Obstetrics	7,813	
Nurseries	4,306	$111,394
Nursing Services		
Operating room	6,161	
Delivery room	3,125	
Central service and supply	9,514	
Emergency service	3,520	22,320
Clinical Services		
Laboratory	13,398	
Radiology	12,282	
Pharmacy	27,159	
Anesthesiology	6,165	
Ambulance	1,010	60,014
Total Patient Fees		$193,728

The amount budgeted for the year ($100,000) exceeded the actual collection ($86,817) by $13,183. This was partially due to the receipt of payments from the department of social services after the close of the fiscal year. These payments are normally received during the fiscal year in which services are rendered.

Other revenue. *1. Contractual reimbursements.* During the fiscal year ended June 30, 1968, the hospital provided various services to patients who qualified under the federal medicare and medicaid programs. The practice of the federal government is to make provisional medicare and medicaid payments to the hospital during the year. Sometime after the end of the year, a settlement is made to reimburse the hospital for the difference between the actual cost of providing services to medicare and medicaid patients and the provisional payments. The computation of actual cost is made by the hospital and is subject to audits by medicare and medicaid. The hospital has estimated the contractual reimbursements to be $58,000 ($55,000 from medicare and $3,000 from medicaid). The hospital received $12,900 during the fiscal year as reimbursement for services provided in the prior fiscal year.

2. Non-patient sale of meals. Meals served during the fiscal year to employees and guests of the hospital totaled $3,737 (accrual basis). Actual receipts totaled $3,622 (cash basis). Actual receipts were less than the budgeted amount ($4,786) by $1,164, partly because fewer hospital employees had their meals at the hospital. The discontinuance of the practice of renting quarters to non-hospital employees who previously ate their meals at the hospital also contributed to the decrease in meal revenue.

3. Rental of quarters. Revenue earned from the rental of quarters to hospital personnel and other individuals not connected with the hospital totaled $1,415. Revenue actually collected was $1,412. During the year and as mentioned above, the hospital discontinued the

practice of renting quarters to individuals not connected with the hospital. This caused the cash collected to be less than the budgeted amount ($2,592) by $1,180. A part of these quarters is now let to two employees in exchange for stand-by services.

State Subsidy

As stated earlier, the operation of the Kona Hospital is funded entirely by the State general fund and is not dependent at all on the revenue generated from the services rendered by the hospital; all of the hospital's revenue is therefore deposited into the State treasury to the credit of the general fund. However, for the purpose of indicating the extent to which the State subsidized the hospital during the fiscal year, the total revenue collected and the total expenditures made are summarized here.

Excess of expenditures over revenue collected. The total expenditures made exceeded the total revenue collected by $102,629.

Total expenditures (Table I)	$374,335
Total revenue collected (Table II)	271,706
Excess of expenditures over revenue	$102,629

The $102,629 represents the amount by which the State subsidized the operation of the hospital. The subsidy is approximately 27 percent of the total operating expenditures. The need for State subsidy is apparent from the occupancy rate of the hospital. During the fiscal year, there were 52 available beds, but the average daily patient census was only 34.3. This means that, on the average, 35 percent 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 the per patient cost.

Additional costs not under the control of the hospital. There were other expenditures made during the year to defray the 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 monies for these expenditures were budgeted, appropriated and expended by other State and county agencies and were not within the control of the hospital. A summary listing of these additional expenditures and the expending agencies are as follows.

Fringe benefits for hospital employees (including the State's portion of payroll taxes, retirement system contributions, dental and health insurance premiums, unemployment compensation benefit) expended by the State department of budget and finance	$44,650
Staff services provided by the county of Hawaii to the hospital, the cost of which was expended by the county	8,229
	$52,879

The investment cost of capital improvements is also, of course, not included in the statement of operating expenditures. These additional costs further increase the extent to which the State subsidized the hospital during fiscal year 1967-68.

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 the Act 97 hospitals. The department's proposed rate changes for the hospitals within 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 FUNDS

The hospital is responsible for certain assets, a patients' trust fund and a donation fund. This chapter presents and discusses our findings relating to the administration of these assets and funds.

Assets

Petty cash. The hospital keeps cash on hand at various locations in the hospital. The following are the amounts and locations of the cash funds on January 29, 1969 when we counted the cash.

Business office	$321
Change machine	69
Nurses' station	10
	$400

Our findings with respect to each of these cash amounts are as follows.

1. *Petty cash at business office.* The cash at the business office is used to give change when payments for services are made over the counter and for minor expenses such as postage and freight. The $321 includes disbursement vouchers for the cash spent and the amount of cash on hand.

2. *Improper use of nursing home trust fund.* At one point, when the petty cash fund was running low, the hospital borrowed $153 from the patients' trust fund. The trust fund was repaid after the petty cash fund was replenished. This borrowing was improper, since the trust fund consists of monies belonging to the nursing home patients and not the hospital. *We recommend that the petty cash fund be replenished on a timely basis, without resort to borrowing of monies belonging to private patients.*

3. *Excessive cash in the change machine.* The change machine, which is located in the visitors' waiting area, provides change for those using the public phone located there. Our count of the cash in January 1969 showed that the change machine contained $69 in coins. We believe that this amount is excessive for the intended purpose. *We recommend that the hospital review the cash requirements for the change machine and adjust the amount accordingly.*

County accounts receivable. County accounts receivable at June 30, 1968 totaled $54,901. These receivables represent 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 amount of collections can be made on these accounts, since 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, the State accounts receivable totaled $136,430. These receivables represent the unpaid balance of hospital charges for services rendered since the hospital began operating under State jurisdiction (subsequent to Act 97). On June 30, 1968, approximately 57 percent or $77,596 of the total State accounts receivable were past due for more than 30 days and 45 percent or $61,831 were past due for more than 90 days.

[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.

This extremely high rate of delinquency is largely attributable to laxity in collecting on accounts. For example, we noted during our audit that the hospital had referred delinquent State accounts to a collection agency only once since the State assumed responsibility over public hospitals in July 1965.[2]

Another reason for the unusually large amount of past due accounts is the result of a rather limited definition of what constitutes a delinquent account. At the time of our audit, we noted that grossly or unreasonably slow-paying accounts were not considered delinquent.

In July and December 1968, the administrative director of the Hawaii county hospital system issued certain memoranda to all hospitals in the system regarding billing and collection procedures. The July memorandum formalized the collection procedures by listing the specific actions that should be taken by the hospitals to collect unpaid balances from persons responsible for payments. In essence, statements are to be sent out monthly with reminders and notices attached to overdue accounts. Accounts that are 90 days overdue

[2]Section 146-65, RLH 1955, provides that "all hospitals owned or operated by the county of Hawaii may hire private collectors to handle the collection of delinquent accounts." This section does not appear in the recently issued Hawaii Revised Statutes; it was superseded by the enactment of Act 97, SLH 1965, Act 14, SLH 1966, and Act 203, SLH 1967. (See sec. 9, Act 29, SLH 1966.) The present authority of the hospital to hire private collectors to handle the collection of delinquent accounts is thus in doubt.

and are difficult to collect are to be turned over to a collection agency upon the approval of the superintendent of the responsible hospital. The December memorandum initiated a credit procedure for the hospitals. Promissory notes are to be secured for all accounts not paid in full on the discharge of patients. The notes are to provide for monthly payment of not less than $5. Debtors are to be encouraged to settle their accounts as soon as possible. *We recommend that the hospital adhere to these directives.*[3]

Removal of uncollectible State accounts from accounting records. In July 1968, the hospital transferred to an "inactive" file, State accounts receivable totalling $2,572 which it considered uncollectible because the debtors could not be located. None of these accounts has been submitted to the State attorney general, as permitted by section 40-82 HRS, for his review and determination of collectibility and authorization to delete the accounts from the records of the hospital. *We recommend that the hospital, after all collection efforts have been expended, refer to the attorney general, such accounts which it finds difficult to collect for a determination as to their collectibility.* This will relieve the hospital of continually maintaining old accounts receivable on its records.

Contractual reimbursements. At June 30, 1968, claims 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 totaled approximately $58,000. 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:

	Total Claims
Medicare	$55,000
Medicaid	3,000
Total	$58,000

Inventories. *1. Drugs and supplies.* Drugs and supplies inventory totaled $32,349 at June 30, 1968 (valued at cost). The inventory includes a wide variety of items, such as drugs and pharmaceuticals, groceries, and hospital and office supplies.

2. Property. A summary inventory of fixed property items under the control and responsibility of the hospital at June 30, 1968 is as follows:

Land improvements		$ 4,411
Buildings		141,472
Equipment		128,694
		$274,577
Less depreciation accumulated:		
Prior to July 1, 1967	$158,271	
During the year ended June 30, 1968	13,229	171,500
Total property (net)		$103,077

[3]But see footnote 2 above.

All assets are valued at cost, except that donated items are valued at market value estimated at the time of their donations. Land improvements include sewer lines, roads and landscaping. Buildings include the wooden frame, hospital building and three cottages located on the hospital grounds.

Governmental units do not ordinarily recognize depreciation; the cost of acquiring property, once paid for, is considered sunk, and is not recognized in funding and budgeting. However, effective July 1, 1966, the hospital adopted the practice of recording depreciation of property. It did so because depreciation is an allowable expense in computing costs reimbursable by the federal government under the medicare and medicaid programs.

Future plans for capital facilities. Plans are being developed for the construction of a new general hospital to replace the present 52-bed facility. The present hospital is a two-story wooden-frame building which was built in 1940. Due to the physical condition of the building and the lack of adequate fire safety devices, the building is considered to be "non-conforming" to fire standards for hospitals established by the State department of health.

The preliminary plans which have been completed thus far include a project development report prepared by an independent consultant.[4] The report includes the following recommendations:

1. The construction of a 126-bed hospital;
2. Construction to occur in two stages: (a) 90 beds (36 beds for the chronically-ill and 54 for the acutely ill) by 1970; and (b) an additional 36 beds for the chronically-ill by 1980;
3. The phasing-out of existing facilities upon completion of the first 90 beds; and
4. The location of the new hospital within an area which includes the present hospital to a distance of three miles north of it.

Funds totaling $160,000 were appropriated by the State for preliminary plans. The funds were appropriated as follows:

Act 195, 1965 SLH	$ 20,000
Act 38, 1966 SLH	50,000
Act 217, 1967 SLH	90,000
	$160,000

[4]Conway, Ralph H., *Project Development Report, Kona Hospital,* State of Hawaii, June 1968.

The department of health's six-year capital improvements program (covering fiscal years 1969-70 through 1974-75) presented to the 1969 State legislature shows projected fiscal requirements totaling $2,882,000 for the new Kona Hospital, of which $342,000 is being requested for fiscal year 1969-70. The $2,882,000 is in addition to the $160,000 already appropriated. Thus, the total cost of the facility is estimated to exceed $3 million. The new hospital is programmed to be completed by fiscal year 1971-72.[5]

Patients' Trust Fund and Donation Fund

The combined balance sheet for the patients' trust fund and the donation fund administered by the hospital is shown in Table III.

Opinion on balance sheet. In our opinion, the balance sheet (Table III) fairly presents the assets of the patients' trust fund and the donation fund of the hospital at June 30, 1968.

Patients' trust fund. The patients' trust fund consists of monies belonging to the nursing home patients. The monies are held by the hospital for safekeeping during the patients' stay at the hospital.

[5]State of Hawaii, *The Capital Improvements Program, Part II, The Executive Budget for Fiscal Year 1969-70,* p. 130.

TABLE III
BALANCE SHEET
TRUST AND DONATION FUNDS
June 30, 1968

ASSETS		
Cash:		
In bank		$774
On hand		100
Total assets		$874
FUND BALANCES		
Patients trust fund		$388
Donation fund:		
Receipts - cash donations	$3,425	
Expenditures - purchase of equipment	2,939	
Balance of donation fund	$ 486	486
Total fund balances		$874

Donation fund. The donation fund consists of monies received as gifts by the hospital from individuals and organizations. All public hospitals are authorized by section 323-3 HRS to receive, manage and invest donated money. The donation fund is used to purchase equipment and for other purposes specified by the donors.

At the time of our audit, in violation of section 323-3 HRS, the hospital was not maintaining records to reflect the financial transactions of the donation fund. Section 323-3 specifically requires the hospital to maintain suitable books of accounts to record all gifts, the essential facts of the management thereof, and all expenditures from the fund. In addition, the hospital was keeping all monies received (cash and checks) at the hospital rather than in a bank.

We recommended to the hospital that it maintain suitable accounting records as required by statute, and that all monies be deposited in a bank to minimize the risk of theft, misappropriation, or other loss. We are pleased to report that prior to the writing of this report, the hospital adopted our recommendations.

Chapter 6

INTERNAL CONTROL AND SELECTED PROBLEMS

This chapter contains our findings and recommendations regarding the hospital's internal control system and on specific problems and issues reflected by the practices of the Kona Hospital.

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 Kona 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, revenues and expenditures in accordance with generally accepted accounting principles and 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 on one individual controls all phases of a transaction without the interrelated function of a cross-check by some other individual.

Control generally. Where there are a limited number of personnel, the possibility of setting up an ideal system of internal control is severely limited. 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]

[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."

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. Among the instructions was one stating that "all hospitals will follow the department of health perquisites 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.

Certain employees of the hospital receive perquisites such as meal and housing privileges. 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.

Safekeeping of patients' valuables. Patients, other than nursing home patients, occasionally place their valuables in the custody of the hospital. Patients' valuables, which at times include some cash, are placed in individual envelopes and kept in a locked drawer located at the nurses' station. However, all registered nurses have access to the drawer. We do not believe that the nurses' station is a desirable location for the safekeeping of patients' valuables. *We recommend that patients' valuables be kept in the safe located in the business office.* The safe is the most secure receptacle available at the hospital; access to the safe is limited to only a few employees.

Selected Problems

Some of the operational practices existing at the Kona Hospital are similar to those we found at the Kula Sanatorium and the Hilo Hospital when we conducted audits of those institutions. In these instances, our recommendations are generally similar to those which we made in our reports on the audits of the Kula Sanatorium[2] and the Hilo Hospital.[3]

Vending machines. At the time of our preliminary audit in May 1968, the hospital had two vending machines located in the visitors' waiting room. Revenue from these machines was being used by the hospital's employee association. This situation is not unique to the Kona Hospital. Other public institutions and agencies throughout the State do from time to time install vending machines in public buildings

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

and utilize the revenue for the benefit of employees or, in some cases, patients.[4] Revenue generated from the use of space in public buildings (such as from vending machines in public hospitals) is public funds. We do not question the benefits derived from the use of the above funds for employees' activities, but there is neither a statute nor governmental policy which permits such non-operational use of what otherwise is public funds.

We discussed this matter with the hospital and suggested that the hospital consult the administrative director of the Hawaii county hospital system as to the proper treatment of revenue from vending machines to insure system-wide uniformity. During a subsequent visit to complete the audit, we found that the two vending machines had been removed from the hospital's premises. We understand that this action was taken without the knowledge of the administrative director of the Hawaii county hospital system.

We make no judgment as to the desirability of placing vending machines at the hospital for the convenience of the public and the employees. *We do recommend, however, that where vending machines are placed in public buildings such as a public hospital, all revenue therefrom be treated and deposited as hospital revenue and included in the hospital's estimate of revenue for budget purposes.* We are informed that in August 1968, the State department of health requested the State attorney general for an opinion as to the legality of using revenue from vending machines for employee and patient purposes. The attorney general has not as yet rendered such opinion.

[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, we noted that the hospital provided free coffee to its employees. There was no justifiable reason for this gratuity. It constituted an unwarranted preferential treatment of the Kona Hospital employees over other governmental employees. We recommended to the hospital that this practice be discontinued immediately. We are pleased to report that prior to the completion of our audit, the hospital adopted a policy whereby employees are now required to pay for coffee.

Accounting records and documents of prior years. The hospital does not label all of the accounting records and documents in storage. Such a practice may result in excessive manhours spent in search for certain records and documents. In addition, some of these records are more than 20 years old, thus creating storage problems. *We recommend that the hospital immediately label its records and documents of prior years and store them in an orderly manner. We further recommend that the hospital initiate action for the destruction of old records and documents in accordance with prescribed laws and regulations.*

Laundry services. During the fiscal year 1967-68, a private concern in Hilo processed approximately 62 percent of the hospital's laundry. The hospital processed the balance in its own facilities.

The hospital uses the figure 2500 pounds per month as the amount of laundry processed by the hospital in its monthly statistical reports and in computing medicare reimbursable cost. This figure is an estimate and we are informed that the reasonable accuracy of this estimate is tested every six months by actually weighing and recording all laundry processed during the sixth month. However, these records are not retained and, consequently, the accuracy of the 2500 pounds per month estimate cannot be verified.

In our opinion, the hospital ought to keep a running record of the actual weight of laundry it processes. This information is readily obtainable, since all items laundered are in fact actually weighed at the time of launder to prevent overloading the laundry machines.

We recommend that the hospital maintain permanent records of the actual pounds of laundry it processes to enable the hospital to report accurately in its monthly statistical reports and to assist the hospital in computing its medicare reimbursable cost.

Sale of meals. The hospital charges its employees 50 cents for each meal they take at the hospital. Based on the records of the hospital, in fiscal year 1967-68, the total direct cost per meal was $1.48. Direct cost includes salaries, cost of raw food and other expenses directly attributable to the dietary department of the hospital. The raw food cost per meal alone was approximately 53 cents. Obviously, the charge of 50 cents per meal is not quite enough to cover either the total food cost or the raw food 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, on 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 at least cover the raw food cost.*

PART III
SUMMARY

Section 23-4, Hawaii Revised Statutes requires the office of the auditor to conduct post-audits of all transactions and all books and accounts kept by State departments and county agencies. Pursuant to this requirement, the office of the auditor examined the Kona 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.

A summary of our major findings and recommendations is as follows.

Hospital Operating Resources and Expenditures

1. Opinion on financial statement. In our opinion, the hospital's statement of appropriation, expenditures and unencumbered balance as of June 30, 1968, presents fairly the hospital's operating resources, expenditures and unencumbered balance for the fiscal year July 1, 1967 to June 30, 1968.

2. Resources. The State general fund finances the operation and maintenance of the hospital. The amounts required annually are appropriated by the State legislature. All revenue collected by the hospital for services rendered is not earmarked for the hospital's use, but is instead deposited into the State treasury as general fund revenue. For fiscal year 1967-68, the legislature appropriated $359,649 (Act 54, SLH 1967). The appropriation was based on an estimated average daily inpatient population of 35 persons. In addition, because expenditures were outpacing the budget, the hospital secured at various times during the year $15,413 from the Hilo Hospital's special fund which had an excess of receipts over requirements. It also secured $598 from the Maui Memorial Hospital on the governor's recommendation that Maui Memorial's special fund $35,960 surplus be allocated to other Act 97 hospitals for equipment purchases. The hospital was also entitled on June 30, 1968 to reimbursements (under Act 147, SLH 1967 and Act 72, SLH 1968) totaling $3,442 for nightshift differential pay and blue collar salary adjustments and to other reimbursements of $747.

3. Expenditures. The hospital expended during the year the total sum of $374,335. The budget for the year was $359,649. The nature of the $14,686 excess, actual expenditures is summarized, thus:

Expenditure	Actual	Budget	Actual over Budget
Personal services . . .	$267,548	$258,094	$ 9,454
Other current expenses .	97,518	92,883	4,635
Equipment	9,269	8,672	597
Total expenditures .	$374,335	$359,649	$14,686

a. Personal services. Personal services cost $9,454 more than the amount budgeted primarily because of salary increases which resulted when the State department of personnel services, as a part of the revision of the State classification system, reclassified the hospital's nursing and support positions. Personal services items of note are as follows.

1) Failure to encumber overtime for June 1968. The hospital failed to encumber overtime pay of $762 incurred during June 1968. In addition, it failed to encumber split-shift and stand-by pay of $235 incurred during the same month. Failure to encumber these charges against the appropriation authorized for the fiscal year resulted in a reduction of the resources available in the subsequent fiscal year. *We recommend that the hospital charge all obligations, including overtime, split-shift and stand-by costs, against the appropriation for the fiscal year in which the obligations are incurred.*

2) Overtime and other pay. Overtime, split-shift and stand-by pay totaled $9,158, including the unencumbered overtime and other pay mentioned above. This amount exceeded the budget by $4,158. *We recommend that the hospital review its overtime, split-shift and stand-by needs, seek to identify and resolve, where possible, the underlying causes of the excess experienced in fiscal year 1967-68, and annually estimate its requirements with care and properly budget therefor.*

3) Delay in processing payments to private nurses. During the meningitis epidemic that struck the Kona area in February and March of 1968, the hospital obtained the services of four private nurses at a cost totaling $930. However, payments for these services were not made until late August 1968. In our view, there was an inexcusable delay in processing requests for additional funds with which to pay and for payments to be made. *We recommend that the hospital, the department of accounting and general services and the department of budget and finance process requests for additional appropriations and pay for emergency services secured without undue delay.*

b. Other current expenses. Other current expenses exceeded the budget by $4,635. The reasons for this overexpenditure are not clear. However, as early as October 1967 (slightly more than three months after the fiscal year began), the hospital requested $6,315 in additional funds on the basis that the amounts appropriated by the legislature for certain specific items were less than the actual expenditures for those items in the preceding fiscal year. In March 1968, the department of budget and finance approved a fund transfer from the Hilo Hospital in this amount.

However, in approving the request, the State director of finance called upon the superintendent of the Hilo Hospital "to emphasize to all hospital administrators that a legislative appropriation is not to be disregarded as it is law." He further stated, "Hereafter, we expect the hospitals to clear with the department of health before proceeding on a course of action which can have serious detrimental effects. Spending indiscriminately with the casual comment that funds were not budgeted cannot be condoned." We agree.

We recommend that the Kona Hospital, in the future, adhere closely to the amounts of legislative appropriations which are the legal limits of expenditure.

c. *Equipment.* The equipment excess expenditure of $597 was paid for entirely with the money transferred from the Maui Memorial Hospital.

4. Unencumbered balance. On June 30, 1968, the hospital had an unencumbered balance (excess of the total available resources over all expenditures paid and obligated by the hospital in the year) of $5,514. This excess amount lapsed and reverted to the State general fund.

Hospital Revenue

The hospital's statement of revenue for fiscal year ended June 30, 1968, is presented on both the accrual basis and the cash basis of accounting. On the accrual basis, the amounts *earned* for services rendered during the fiscal year are reported as revenue. On the cash basis, those amounts actually *collected* during the fiscal year, without regard to when the amounts were earned, are reported as revenue. The cash basis is used by the State for budgeting and funding purposes.

1. Opinion on revenue statement. In our opinion, the statement of revenue presents fairly the revenue earned (accrual basis) and the revenue collected (cash basis) by the hospital during the fiscal year.

2. Revenue. On the accrual basis, $349,809 was earned during the fiscal year—$286,657 from individual patients, $58,000 from medicare and medicaid, and $5,152 from non-patients for meals and housing.

On the cash basis, a total of $271,706 was collected. Collections from individual patients totaled $253,772. This was $38,150 more than the $215,622 anticipated in the budget. The increase resulted because an estimate of medicare revenue was not included in the 1967-68 budget. It was not included because the medicare program was new when the budget was prepared. Collections for prior year's medicare services totaled $12,900, and collections from non-patients for meals and housing totaled $5,034.

3. State subsidy. The amount by which the State subsidized the hospital during fiscal year 1967-68 is derived by comparing the hospital's total expenditures against its total collections for the year. Such comparison shows that the

State subsidized the hospital to the extent of $102,629, thus:

Total expenditures	$374,335
Total revenue collected ...	271,706
State subsidy	$102,629

The need for State subsidy is readily apparent. Although the hospital has 52 beds, its average daily patient census in fiscal year 1967-68 was 34.3. As a matter of economics, the lower the occupancy rate, the higher is the per patient cost.

The amount of subsidy noted above does not include expenditures made by other government agencies for the hospital during the fiscal year, such as the amounts expended by the State department of budget and finance for hospital employees' fringe benefits, the amounts expended by the county of Hawaii for staff services to the hospital, and the investment costs for capital improvements.

In an effort to bring revenue more in line with expenditures, the State department of health has been studying the matter of restructuring the rates of all Act 97 hospitals, and has recently proposed rate changes for the Hawaii county hospitals.

Assets and Trust Funds

At June 30, 1968, the hospital had under its control the following assets and trust funds: a petty cash fund of $400, accounts receivable of $191,331, contractual reimbursements of $58,000, drugs and supplies of $32,349, land, building and equipment of $103,077, a patients' trust fund and a donation fund.

1. Petty cash fund. The petty cash at the business office is used to give change when payments for services are made and to pay for minor expenses. At one point, the business office, petty cash fund ran low, and $153 was borrowed temporarily from the patients' trust fund. This borrowing was improper, since the trust fund consists of monies belonging to the nursing home patients and not to the hospital. *We recommend that the petty cash fund be replenished on a timely basis, without resort to borrowing monies belonging to private patients.*

There is a change machine located in the visitors' waiting area which provides change for those using the public phone located there. Our count of the cash in January 1969, showed that the machine contained $69 in coins. We believe that this amount is excessive for the intended purpose. *We recommend that the hospital review the cash requirements for the change machine and adjust the amount accordingly.*

2. County accounts receivable. Of the total accounts receivable, $54,901 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. They date back to 1965 and earlier, and many are inactive for reasons of 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. *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 the records those county accounts receivable which are clearly uncollectible.*

3. State accounts receivable. The balance of the receivables totaling $136,430 represents the amount due the State for services rendered since the hospital began operating under State jurisdiction. Approximately 57 percent or $77,596 of the total State receivables were past due for more than 30 days on June 30, 1968. This high rate of delinquency is largely attributable to laxity in enforcing collections and to a rather limited definition of what constitutes a delinquent account. In July and December 1968, the administrative director of the Hawaii county hospital system issued memoranda to all Hawaii county hospitals relating to the establishment of uniform billing and collection procedures. *We recommend that the hospital adhere to these directives.*

In July 1968, the hospital transferred $2,572 of State accounts which it considered uncollectible to an "inactive" file. None of these accounts had been submitted to the State attorney general, as provided by section 40-82 HRS, for his review on collectibility and approval to delete the accounts from the records of the hospital. *We recommend that the hospital, after all collection efforts have been expended, refer to the attorney general, such accounts which it finds difficult to collect for a determination as to their collectibility.*

4. Contractual reimbursements. Contractual reimbursements ($58,000) are claims of the hospital against the federal government for the difference between the reasonable cost of providing services to medicare and medicaid patients and the provisional payments made to the hospital during the fiscal year.

5. Land, buildings and equipment. Land, buildings and equipment total of $103,077 is net after accumulated depreciation of $171,500. Plans are being developed for the construction of a new 126-bed, general hospital to replace the present 52-bed hospital. Funds totaling $160,000 have been appropriated for preliminary plans. The new hospital is programmed to be completed by fiscal year 1971-72 and its cost is estimated to exceed $3 million.

6. Patients' trust and donation funds. In our opinion, the patient and donation funds' balance sheet of June 30, 1968, fairly presents the assets of the patients' trust fund and the donation fund of the hospital at June 30, 1968. The patients' trust fund consists of monies belonging to the nursing home patients, and the donation fund consists of monies received by the hospital as gifts. With respect to the donation fund, the hospital has not been maintaining proper records to reflect the financial transactions of the fund as required by section 323-3 HRS. In addition, the hospital has been keeping the donation monies at the hospital rather than in a bank.

We recommended to the hospital that it maintain suitable accounting records as required by statute, and that all monies be deposited in a bank to minimize the risk of theft, misappropriation, or other loss. Our recommendations were adopted prior to the writing of our report.

Internal Control and Selected Problems

1. Internal control. 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. The small staff at the hospital, however, precludes the structuring of an ideal system of internal control. As long as this condition exists, constant surveillance on the part of the hospital's management is the principal and only practical means of safeguarding the hospital's assets. Two matters related to internal control require some comment.

Non-compliance with perquisite policies. Employees at the hospital enjoy certain perquisites. However, the hospital has failed to comply with the State policy which requires the submission to the State director of health of reports on all employees to whom perquisites are granted. *We recommend that the hospital adhere to the State policy and immediately submit the required perquisite reports to the director of health.*

Safekeeping of patients' valuables. Patients' valuables are currently placed in individual envelopes and locked in a drawer located at the nurses' station. This drawer is accessible to all nurses. *We recommend that patients' valuables be kept in the safe located in the business office.*

2. Selected problems. Certain problems existing at the 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 Kona Hospital are, in these cases, generally similar to those which we made in the audit reports of those hospitals.

a. Vending machines. At the time of our preliminary audit, we noted that revenue from two vending machines located in the visitors' waiting room was being used for the benefit of hospital employees. All revenue generated from the use of space in public buildings constitutes public funds. There is neither a statute nor governmental policy which permits the use of such revenue for employee benefit.

This matter was discussed with the hospital and we suggested that they consult the administrative director of the Hawaii county hospital system as to the proper treatment of the revenue. During a subsequent visit to complete the audit, we found that the two vending machines had been removed from the hospital's premises.

We make no judgment as to the desirability of placing vending machines at the hospital for the convenience of the public and the employees. *We do recommend, however, that where vending machines are placed in public buildings such as a public hospital, all revenue therefrom be treated and deposited as hospital revenue and included in the hospital's estimate of revenue for budget purposes.*

b. Free coffee for employees. At the time of our audit, we noted that the hospital provided free coffee to its employees. We recommended that the hospital discontinue this practice since it gave benefits to its employees not offered to other governmental employees. The hospital has adopted our recommendation and its employees are now required to pay for coffee.

c. Accounting records and documents of prior years. The hospital does not label all of its accounting records and documents in storage. Some of these records are more than 20 years old, thus creating storage problems. *We recommend that the hospital immediately label its records and documents of prior years and store them in an orderly manner. We further recommend that the hospital initiate action for the destruction of old records and documents in accordance with prescribed laws and regulations.*

d. Laundry services. During the fiscal year, a private concern in Hilo processed approximately 62 percent of the hospital's laundry; the balance was processed by the hospital in its own facilities. In its monthly statistical reports and in computing medicare reimbursable costs, the hospital uses the figure 2500 as the estimated number of pounds of laundry it processes monthly in its own facilities. The reasonable accuracy of the figure is tested every six months by actually weighing and recording all the laundry processed during the sixth month. However, the records of the tests are never retained and thus the accuracy of the estimate can never be verified.

The hospital should keep a running record of the actual laundry it processes. This information is readily available since the items laundered are actually weighed at the time of launder to prevent overloading of machines. *We recommend that the hospital maintain permanent records of the actual pounds of laundry it processes to enable the hospital to report accurately in its monthly statistical reports and to assist the hospital in computing the medicare reimbursable cost.*

e. Sale of meals. The hospital employees are currently charged 50 cents for each meal they take at the hospital. This amount is not sufficient to cover either the total direct food cost, which was $1.48 in fiscal year 1967-68, or the raw food cost, which was 53 cents in 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 on 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.*

PART IV
A MEMORANDUM ON THE COMMENTS MADE BY THE AFFECTED AGENCIES

The preliminary draft of this report on the audit of the Kona Hospital was completed in May 1969. We distributed copies of the draft to the superintendent of the hospital, the administrative director of the Hawaii county hospital system and the director of the State department of health for their comments. Copies of our transmittal letters forwarding the draft report are attached as Attachment Nos. 1, 2 and 3. The administrative director of the Hawaii county hospital system was asked to respond on behalf of the hospital. His response is attached as Attachment No. 4. The response of the State director of health is attached as Attachment No. 5.

Generally, the administrative director of the Hawaii county hospital system and the State director of health have expressed agreement with our findings and recommendations. The administrative director, however, has taken exceptions to a few of our findings and recommendations. These exceptions and our comments are as follows.

Safekeeping of Patients' Valuables

In our report, we recommended that patients' valuables be placed in the hospital safe rather than in a drawer at the nurses' station. The administrative director responded as follows:

> "The hospital finds that the nurses station locked drawer is the best location for the storing of patients valuables. The safe combination is known by only two nurses as narcotics are stored there. They must be called back after hours to open the safe for patients valuables if patients are admitted or discharged. Only one nurse on each shift has the key to the nurses station locked drawer, thereby maintaining security and responsibility, as well as convenience."

Our comment. Our recommendation that the patients' valuables be kept in the safe was based on our understanding that all registered nurses had access to the drawer at the nurses' station. If this is not the case and sufficient security can be

maintained by leaving the valuables in the drawer at the nurses' station, we have no objection to that arrangement.

Overtime and other pay. We noted in our report that expenditures for overtime and other pay exceeded the amount budgeted by $4,158. We recommend that the hospital resolve, where possible, the underlying causes of the excess experienced in fiscal year 1967-68, and annually estimate its requirements with care and properly budget therefor. The administrative director responded in part, as follows:

> "The major cause of the 1967-1968 fiscal year overtime costs exceeding the budgeted amount was that many employees who had previously been taking compensatory time off for overtime, requested cash overtime payments, the bulk of overtime being for work on holidays."

Our comment. The administrative director infers that cash overtime payments, in lieu of compensatory time-off by employees, could not be anticipated. We do not agree. Legislation requiring the payment of cash for overtime, except where the employee elects, in writing, to take compensatory time-off in lieu of cash, was enacted by the State legislature in 1966 (effective July 1, 1966). The hospital thus should have anticipated the payment of cash for overtime in its budget for fiscal year 1967-68.

Adherence to legislative appropriations. With respect to the hospital's overexpenditure generally, we recommended that the hospital adhere closely to the amounts of legislative appropriations which are the legal limits of expenditure. The administrative director responded as follows:

> "Certainly the hospital must closely adhere to the legislative appropriations, but if extenuating circumstances occur, such as higher patient census or unforeseen increases in costs of supplies for patients which correspondingly increases the revenues, justification for additional funds is automatically established."

Our comment. First, our audit did not show that the excess of expenditures over the amounts budgeted was caused largely by "extenuating circumstances." Second, the hospital's appropriation for fiscal year 1967-68, was based on an average daily inpatient population of 35, and the hospital's actual experience was 34.3. Third, "unforeseen increases in costs of supplies for patients" does not *automatically* establish justification for additional funds.

CLINTON T. TANIMURA
Auditor

COPY

Attachment No. 1

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

May 16, 1969

Mrs. Alice Furber
Superintendent
Kona Hospital
Kealakekua, Hawaii 96750

Dear Mrs. Furber:

Enclosed is a copy of our preliminary report on the financial audit of the Kona 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 29, 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

Clinton T. Tanimura
Legislative Auditor

Encl.

CLINTON T. TANIMURA
Auditor

COPY

Attachment No. 2

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

May 16, 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 Kona 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 Superintendent of the Kona 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 29, 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 23, 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.

CLINTON T. TANIMURA
Auditor

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Attachment No. 3

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

May 16, 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 Kona 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 Superintendent of the Kona 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 29, 1969. The report will be finalized and released shortly thereafter.

If you wish to discuss the report with us, we shall be pleased to meet with you on or before May 23, 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 Tanimura, Legislative Auditor
Office of the Auditor
State of Hawaii
Honolulu, Hawaii

Dear Mr. Tanimura:

Thank you for allowing us the opportunity to comment on the financial audit of Kona Hospital. Some of your 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 after further discussions with the Department of Health.

1. **Failure to Encumber Overtime for June 1968**

   We agree that all obligations, including overtime, split-shift and stand-by costs should be charged against the appropriation for the fiscal year in which the obligations are incurred. The hospital will be instructed to properly record these encumbrances.

2. **Overtime and Other Pay**

   The hospital will be instructed to estimate its annual overtime, split-shift and stand-by needs with care and properly budget for the costs. Estimates, however, may be incorrect due to unpredictable factors such as Legislative and Personnel Department actions on pay adjustments after the budgets are submitted, or if unusually heavy sick leaves occur because of epidemics and other causes. The major cause of the 1967-68 fiscal year overtime costs exceeding the budgeted amount was that many employees who had previously been taking compensatory time off for overtime, requested cash overtime payments, the bulk of overtime being for work on holidays.

3. **Delay in Processing Payments to Private Nurses**

We agree that undue delays in payment for emergency services should be avoided, through better coordination among the several departments involved. Payment, however, could not be made until an Amended Expenditure Plan was approved by the Department of Finance on *May 31, 1968* and approval received on *July 11, 1968.*

4. **Adherence to Legislative Appropriations**

Certainly the hospital must closely adhere to the legislative appropriations, but if extenuating circumstances occur, such as higher patient census or unforeseen increases in costs of supplies for patients which correspondingly increases the revenues, justification for additional funds is automatically established.

5. **Proposed Rate Increases**

The proposed rates for long term care were 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

The final decision on the proposed rate structures will be made by the Director of Health.

6. **Petty Cash Fund**

We agree that the petty cash fund should be replenished on a regular basis without resorting to borrowing of monies belonging to patients, and the hospital will do so in the usual accepted manner.

7. **Excessive Cash in the Change Machine**

We agree that the hospital should review the cash requirements for the change machine and adjust the amount accordingly. The hospital will be notified to comply with this recommendation.

8. **Collection Procedure**

We concur and will direct the hospital to adhere to the collection procedure memos of July and December 1968.

9. **Removal of Uncollectible State Accounts from Accounting Records**

With reference to Section 40-82 HRS, which permits the Attorney General to review and determine the collectibility and authority to delete the accounts determined to be uncollectible, we have written to the Director of Health requesting method and format on which to implement this provision of the law.

10. **Perquisite Policies**

We concur with your recommendation that the required perquisite reports should be submitted to the Department of Health and this will be done immediately.

11. **Safekeeping of Patients' Valuables**

The hospital finds that the nurses station locked drawer is the best location for the storing of patients valuables. The safe combination is known by only two nurses as narcotics are stored there. They must be called back after hours to open the safe for patients valuables if patients are admitted or discharged. Only one nurse on each shift has the key to the nurses station locked drawer, thereby maintaining security and responsibility, as well as convenience.

12. **Vending Machines**

The Department of Health has requested clarification and guidance of the State Attorney General on this matter. Again in May, 1969, the Director of the Department of Health requested a decision from the Attorney General.

13. **Accounting Records and Documents of Prior Years**

We agree that the hospital's records and documents of prior years should be stored in an orderly manner and will instruct them to do so. On the matter of the destruction of old records and documents, the Department of Health has requested that all Act 97 hospitals develop record control procedures for review and implementation.

14. **Laundry Services**

We agree that permanent records on laundry poundage should be kept on an accurate basis for statistical and reimbursement reports. The hospital will purchase a scale for this purpose as none is available at present.

15. **Sale of Meals**

We are preparing a cost report on meals served in all system hospitals. This report with our recommendations for changes will be submitted to the Director of Health for approval.

May we again thank you for the comprehensive audit of our operations. With the employment of an Administrative Assistant in the next few weeks, we expect to be able to devote more time to the detailed operations of the satellite facilities.

Sincerely,

/s/ Frank E. Keifer

Frank E. Keifer
Administrative Director

FEK:lyu

cc: Walter B. Quisenberry, M.D., Director of Health
Kona Hospital

May 27, 1969

COPY **Attachment No. 5**

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

May 23, 1969

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

Dear Mr. Tanimura:

Re: Financial Audit of Kona Hospital

We are pleased to receive a copy of the financial audit report on Kona Hospital and to note that the overall fiscal procedures and operations generally reflect adequate financial controls and management.

In regard 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 the problem areas on a system-wide basis.

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

Very sincerely,
/s/ Wilbur S. Lummis Jr., M.D.
for WALTER B. QUISENBERRY , M.D.
Director of Health

cc: Mayor of Hawaii
Mr. F. Keifer

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

1965
1. Long and Short Range Programs of the Office of the Auditor, 48 pp. (out of print).
2. A Preliminary Survey of the Problem of Hospital Care in Low Population Areas in the State of Hawaii, 17 pp. (out of print).

1966
1. Procedural Changes for Expediting Implementation of Capital Improvement Projects, 9 pp. (out of print)

1967
1. The Large School: A Preliminary Survey of Its Educational Feasibility for Hawaii, 15 pp.
2. State-City Relationships in Highway Maintenance, and Traffic Control Functions, 28 pp.
3. Manual of Guides of the Office of the Legislative Auditor, v.p.

1969
1. Transcript of Seminar in Planning-Programming-Budgeting for the State of Hawaii, 256 pp.
2. Airports System Financing Through Revenue Bonds, 9 pp.
3. Second Annual Status Report on the Implementation of Act 203, Session Laws of Hawaii 1967 (Relating to State-county Relationships), 13 pp.
4. An Overview of the Governor's 1969-70 Capital Improvements Budget, 61 pp.
5. A Supplementary Report on the Audit of the Hawaii Visitors Bureau, 2 pp.

LEGISLATIVE AUDITOR
IOLANI PALACE
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