

**REPORT ON IMPLEMENTATION BY
THE DEPARTMENT OF HEALTH
OF RECOMMENDATIONS IN
A STUDY OF THE
COUNTY/STATE HOSPITAL PROGRAM**

A Report to the Governor and the Legislature of the State of Hawaii

**Submitted by the
Legislative Auditor of the State of Hawaii
Honolulu, Hawaii**

**Report No. 89-12
January 1989**

FOREWORD

The financial viability of the county/state hospitals and the adequacy of health care for the people served by the hospitals have always been major concerns of the Legislature. In 1987, the Legislature directed the Legislative Auditor to undertake a study of the county/state hospitals. Numerous recommendations were made in the report, *A Study of the County/State Hospital Program*, which was issued by this office in January 1988. Subsequently, in the Supplemental Appropriations Act of 1988, the Legislature asked for a report on the actions taken by the Department of Health to implement the study's recommendations. This report reviews the department's response to the recommendations.

We wish to express our appreciation for the cooperation and assistance extended to us by the personnel of the Department of Health, particularly those at the County/State Hospitals Division and the various hospitals.

Newton Sue
Acting Legislative Auditor
State of Hawaii

January 1989

TABLE OF CONTENTS

| | <i>Page</i> |
|---|-------------|
| Introduction | 1 |
| Recommendations on the Governance of the County/State Hospital Program | 1 |
| Recommendations on the Delivery of Health Care Services | 3 |
| Recommendations on Management of the County/State Hospitals | 6 |
| Recommendations on a Case Study in Poor Management | 7 |
| Recommendations on Financial Management | 11 |
| NOTES..... | 15 |
| AGENCY RESPONSE..... | 17 |
| APPENDIX A | 21 |

**REPORT ON IMPLEMENTATION BY
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A STUDY OF THE COUNTY/STATE HOSPITAL PROGRAM**

Introduction

In 1988, the Office of the Legislative Auditor issued *A Study of the County/State Hospital Program* (Report No. 88-8, January 1988). Subsequently, in Section 88C of the Supplemental Appropriations Act of 1988, the Legislature asked this office to review and report on actions taken by the Department of Health (DOH) to implement the study's recommendations.

This report reviews the response of DOH, dated November 7, 1988, on the actions it took to implement our recommendations and includes our comments on the information provided by the department. It follows the order of recommendations made in the 1988 study. The department's November 7, 1988 response is attached as Appendix A.

Recommendations on the Governance of the County/State Hospital Program

Recommendation

The Director of Health assume the proper responsibilities and authority of a governing authority, differentiating between these and those of the deputy director.

DOH response. The department reports that the by-laws of the governing body distinguish between the responsibilities of the director and the deputy director. The bylaws are updated as necessary to comply with the requirements of agencies such as the Joint Commission on Accreditation of Healthcare Organizations (JCAHO).

Further delineation of duties and responsibilities will be part of the department's reorganization which will change the name of the County/State Hospitals Division to the Division of Community Hospitals. In addition, the department has updated its functional health plan, and the division is hiring a consultant to update, revise, and improve its strategic plan.

The director and the deputy director meet weekly and maintain both formal and informal communications relating to their duties and responsibilities.

Comment. These improvements are a good beginning towards clarifying the respective responsibilities of the Director of Health and the deputy director.

Recommendation

The Director of Health provide written delegations of authority for those responsibilities he wishes to delegate to the deputy director.

DOH response. The department reports that the governing body by-laws serve as the primary documentation to distinguish between the duties of the director and the deputy director for hospital operations. The director and the deputy director are also governed by state rules and policies. The hiring of a consultant to update the policy and procedures manual, improvements to the division's strategic plan, and improvements in the monitoring process should fulfill this recommendation.

Comment. The department is taking steps in the right direction. Further clarification through written delegations of authority should be part of this improvement process.

Recommendation

The Director of Health provide support to the Hospital Management Advisory Committees to assist them in defining their mission and to adopt bylaws. The director also provide them with sufficient orientation to enable them to function effectively as community advisory groups.

DOH response. The department reports that the division's strategic planning consultant will make recommendations for the Management Advisory Committees (MACs). The department's reorganization will also provide additional clarity.

The director and the deputy director have met with MAC representatives and set up other means to open communications. MAC members will be assigned to subcommittees at each hospital to act on specific hospital needs and report back to the MACs and the department. They will meet with the director and the deputy director at least once a month. The MACs have also been meeting in statewide sessions to develop strategies to clarify their mission and bylaws.

MAC representatives have been involved in the recruitment and selection of new administrators for Maui Memorial Hospital and Hilo Hospital.

The department has provided orientation and training to MAC members. All new members have been given an orientation, and each county has its own orientation manual. The division sponsored a week-long workshop by the JCAHO, and MAC members attended the annual Hawaii Healthcare Association meeting which had workshops for trustees and other training sessions.

Comment. It appears that real effort is being made to clarify the function of MACs and to improve communications. A remaining need is the adoption of uniform bylaws.

Recommendations on the Delivery of Health Care Services

Recommendation

The Director of Health clarify the philosophy, mission and goals of the county/state hospital program, including the basic functions to be performed by individual facilities.

DOH response. The department reports that its reorganization and a consultant to revise its strategic plan will clarify the mission, philosophy, and goals of the county/state hospital program, including the basic functions performed by individual facilities. The existing functional plan has been revised by the division to be in sync with the department's new direction.

Comment. These efforts are a good beginning. The reorganization plan and revised functional plan describe a philosophical commitment to meeting community needs. The proposed revisions to the strategic plan will also be helpful.

Recommendation

The Director of Health routinely monitor and evaluate the performance of the county/state hospital program on external surveys and ensure that timely and appropriate actions are taken to upgrade substandard operations.

DOH response. The department reports that the medical director and nursing coordinator have been following up on state licensing and Medicare/Medicaid survey results with the hospitals. The department has been in contact with JCAHO, and a week long educational program was held in October. It is looking into consultant services with a JCAHO subsidiary to assist the division to fulfill JCAHO requirements. The division is also considering contracting out for a core team to provide additional resources. Hospital administrators will be made aware of the need for timely and appropriate actions to correct substandard operations.

Comments. There appears to be a commitment to correcting outstanding deficiencies cited by external survey agencies. Maui Memorial Hospital and Hilo Hospital were recently accredited by the JCAHO. A new sprinkler system has been installed at Honokaa Hospital, the obstetric unit at Maui Memorial Hospital will soon be moving to renovated quarters, and the nursing home at Hilo Hospital has been refurbished.

However, many hospitals are still having difficulty meeting external standards. For example, Honokaa Hospital continues to operate on waivers for its wooden structure and related physical problems. In October 1988, the state licensing agency cited Hilo Hospital for inadequate inpatient psychiatric facilities, noting:

“The milieu of psychiatric unit is depressing and dehumanizing. The wall paint is all peeling, the bathroom has no ventilation and the walls all moldy. The toilet in seclusion

room has no toilet seat and bowl is painted red. The security screens are rusty so the unit is rather dark. There are no comfortable furnitures on unit. The patients' bedrooms are long, narrow wards with iron beds.”¹

Recommendation

The division establish a decisionmaking process to review and approve existing and proposed health care services to ensure that they fall within the program's mission, meet community needs, and ensure quality of care. This process should include research and analysis by administrative and professional staff, and community involvement in identifying health needs and evaluating alternative approaches to meeting these needs.

DOH response. The department reports that revisions of the functional health plan and the division's strategic plan will ensure that a decisionmaking process is established. The department will use the MAC and medical staff programs, and the State Health Planning and Development Agency (SHPDA), to ensure that it fulfills the program's mission, meets community needs, and maintains quality of care. It will also be using administrative staff to help with research and analysis.

Comment. We support these improvements.

Recommendation

The division prioritize the development of adequate primary care services in the communities of Ka'u and Lanai.

DOH response. The department reports that primary care services in both areas will be addressed in the revised strategic plan. It notes that primary care services on Lanai and Ka'u have traditionally been done by the private sector.

The department is communicating on an ongoing basis with Lanai Community Hospital and the current Lanai physician on the need to provide primary care services. It is considering joint venturing with the hospital and the clinic to reduce unnecessary duplication of services, and it hopes to enlarge the lower floor of the hospital to provide better primary care services.

The department is in contact with a member of the Hilo Medical Group regarding primary care services in Ka'u and will be working with this group to ensure that primary care needs are met. In addition, a new ambulance unit is now operational in the Ka'u area.

Comment. These developments represent progress in meeting the communities' health care needs.

Recommendation

The division establish an internal monitoring program to ensure that all facilities meet commonly accepted standards of care. At a minimum, this program should include education and training

of key hospital personnel, internal surveys to ensure routine compliance with external standards, prompt correction of deficiencies, and performance assessments based on the results of external surveys.

DOH response. The department reports that it has decided to contract with a core team consisting of a nurse administrator, a hospital administrator, and a medical director to fulfill this recommendation. The department also sponsored a week-long workshop on JCAHO accreditation requirements, and key hospital staff and MAC members attended the annual Hawaii Healthcare Association meeting. The director and the deputy director have emphasized the importance of timely response and correction of deficiencies. Improvements will also come with the revised strategic plan and new division policies and procedures.

Comments. These are welcome initiatives.

Recommendation

The division evaluate alternative approaches to ensuring quality of care in unaccredited hospitals and report its findings to the Director of Health.

DOH response. The department reports that the director is kept informed about unaccredited facilities by the division and the DOH Hospital and Medical Facilities Branch. In the past, the director was informed verbally about deficient conditions. Now the division will be forwarding copies of deficiencies to the director. The director also instructed the deputy director to develop JCAHO accreditation for all county/state facilities as soon as possible.

Comment. These activities should assist the department to ensure quality of care in the county/state hospitals. In the meantime, attention should be paid to the needs of these facilities for staff support, consulting services, training, equipment, and space so they can routinely meet Medicare certification and DOH licensing standards rather than responding to deficiency notices on an ad hoc basis.

Recommendation

Hospital administrators develop health service plans that focus on the delivery of essential medical services which meet community needs and can be delivered at an acceptable level of care without adversely affecting existing services.

DOH response. The department reports that a key component of the division's new strategic plan will be the delivery of essential medical services to meet community needs. The division has been working with SHPDA, medical staff, and MACs on this issue. The division is also working cooperatively with other health care providers and exploring the possibility of joint venturing to ensure accessibility, availability, and quality of care.

Comment. We support the department's efforts in this area.

Recommendation

Hospital administrators routinely monitor their facilities' compliance with commonly accepted standards of care and promptly correct deficiencies to ensure the safe and effective delivery of services.

DOH response. The department reports that the director, the deputy director, MAC members, and licensing and accrediting agencies all have emphasized to hospital administrators the importance of this recommendation. The division has been working with hospital administrators in providing support from the department and hiring consultants when necessary. Team efforts at Maui Memorial Hospital and Hilo Hospital are assisting these hospitals to receive accreditation.

Comment. We support the department's efforts in this area.

Recommendations on Management of the County/State Hospitals

Recommendation

The division develop systemwide policies and procedures clarifying the respective roles, functions, and responsibilities of the division office and the hospitals. As part of this effort, the division should update its organization chart, functional statements, and develop more meaningful performance measures.

DOH response. The department reports that it is negotiating a contract with a consultant to revise, implement, and improve its statewide policy and procedures manual for division and hospital operations. The division is preparing a reorganization plan which will establish a staff office reporting directly to the deputy director. The revision of the strategic plan and functional plan will also help meet this recommendation.

Comment. We understand that communication between the division and hospital administrators has improved in the past year. Hope has been expressed that role of the division will shift from one of controlling hospitals to assisting them in carrying out decisions of the governing body.

Recommendation

The division provide better leadership and responsiveness by assuming the duties appropriate to a system headquarters such as coordinating operations among the hospitals, initiating better employment practices, undertaking staffing studies, analyzing proposed programs, implementing training programs, giving adequate guidance on all requests and instructions sent to the hospitals, and monitoring hospital operations.

DOH response. The department reports that its reorganization, revisions to the functional plan, plans to revise the strategic plan and the policy and procedures manual, JCAHO workshop,

Hawaii Healthcare Association meeting, and other improvements in the monitoring process are attempts to comply with this recommendation. It is also considering contracting out for a core team of a nurse administrator, a medical director, and an administrator to provide additional resources to complete this recommendation.

Comment. These initial steps will be helpful. There remains a need for a comprehensive staffing study. Staffing disparities (such as workload differences among X-ray technicians) and other personnel problems continue to exist. There is also a need for a comprehensive training plan for key hospital staff.

Some hospital staff continue to express a need for clearer instructions and guidance on requests sent out from the division office. One suggested that division staff spend more time in the field to develop a better appreciation of hospital working environments.

Recommendations on a Case Study in Poor Management

Recommendation

The Department of Health take action to cancel the August 20, 1987 contract between the Director of Health and Hospital Business Management Inc.

DOH response. The department reports that it did not cancel the contract with Hospital Business Management, Inc. (HBM). It revised the existing contract on April 20, 1988 to incorporate the concerns expressed by the Legislative Auditor and the Legislature and may take further action as needed in the future.

Comment. The problems presented in the 1988 study included poor management of the contract which had overgenerous guarantees and compensation for HBM, no guidelines for compensation to HBM, the assumption of overhead costs for HBM, potential violation of patient rights, and expedited payments to HBM. The department's response does not clarify specifically what it has done to correct these problems. The current status of the department's contract and some continuing problems are discussed below.

Current status of HBM contract. The department's revised contract is a "Provisional Settlement Agreement" with HBM which modifies certain provisions in the original contract. HBM was notified in November that the contract will not be renewed when it expires on May 31, 1989.

The settlement agreement eliminates the State's guaranteed monthly minimum payments to HBM and requires the State to pay HBM promptly within 12 days a fee of 37 percent plus excise tax (instead of the prior 35 percent for all "complete" accounts). Completed accounts are

differentiated from “frustrated cases” which are those cases which HBM claims should have been, but were not, referred to HBM. The frustrated cases and other disputed matters are to be submitted to a three-person panel for binding arbitration.

The settlement agreement also requires HBM to reimburse the State for the use of hospital office space and equipment, and clarifies certain referral procedures. The department and HBM are to make an “immediate” accounting of amounts earned by HBM on accounts completed under the original contract through January 31, 1988. Amounts paid as a result of this accounting are to be adjusted upon completion of binding arbitration.

In October 1988, HBM filed a demand for binding arbitration with the American Arbitration Association to resolve disputes arising from the original August 1987 contract and the Provisional Settlement Agreement. HBM claims that the State is depriving HBM of revenues it could have earned by allowing it to perform only a fraction of the services specified in the contract. HBM also claims that the State has failed to honor its obligations under the settlement agreement and continues to deprive the company of revenues. It seeks approximately \$3.5 million in lost revenues plus interest and reasonable attorney’s fees and costs. It also seeks “specific performance” during the remaining terms of the contract, a complete audit of state records, and punitive damages.

In November 1988, the State filed a counterclaim to HBM’s demand for arbitration. The State claims that DOH has complied with the terms of the contract and seeks partial reimbursement on \$480,000 in advance payments made to HBM through January 1988, as well as all other unentitled amounts which have been paid to the company.

The two parties have selected a single arbitrator for the dispute instead of a three-person panel. The first arbitration meeting is tentatively scheduled for late January 1989.

Continuing questions about compensation. The basis for compensating HBM remains unclear. Between September 1987 and November 1988, HBM reported collecting more than \$2.3 million on accounts referred by various hospitals. The company was paid more than \$1.16 million for its work, or approximately 50 percent of the reported collections. Most of the company’s reported collections are from Medicaid qualification services. The largest single collection was for a Medicaid bill of \$105,345, which resulted in a \$40,599 payment to HBM. (It should be noted that Medicaid revenues to hospitals are about 66 percent of what is billed.)

The settlement agreement increased the company’s rate of compensation from 35 percent to 37 percent, and HBM began billing hospitals for 37 percent of reported collections. In June 1988, HBM began billing hospitals 30.1 percent for Medicaid collections, 35 percent for other collections, and two percent of total reported collections for an “office rental surcharge.” Hospitals paid nearly \$24,000 in surcharges to HBM between June and November 1988.

Continued assumption of overhead costs. The division has not yet developed contracts for the rental of hospital office space and equipment to HBM. Hospital administrators report that they are waiting for instructions from the division about how to implement this provision of the settlement agreement. In the meantime, HBM has not been paying rent.

Continued expedited payments. The settlement agreement requires the State to pay HBM's fees for completed accounts "promptly" within 12 days of invoicing. This contrasts with state law which requires vendors to be paid no later than 45 days following the receipt of the statement. This will be reduced to 30 days in 1990.

Continued failure to protect patient confidentiality. The settlement agreement provides for a HBM representative to review all admissions documents to determine which cases should be referred to HBM. Hospitals are not always able to protect the confidentiality of a patient's medical condition. Diagnostic information is not always eliminated in admissions summaries sent to HBM.

In addition, a question has arisen about whether Mahelona Hospital should release admissions information on acute psychiatric patients. Since the hospital only treats psychiatric patients at its acute facility, the release of *any* information on these accounts would reveal the patients' psychiatric condition. At the request of the Director of Health, the Department of the Attorney General issued an opinion which stated that patients' rights to privacy would not be violated "when patients expressly have authorized HBM access to their records."² However, the hospital's administrator has not permitted HBM to begin operations at the facility, citing federal privacy regulations as an additional concern.

Continuing need for guidelines. The original contract states that "all non-insured patients including acute patients becoming ICF [intermediate care facility] who do not have DSSH shall be referred to HBM."³ The settlement agreement permits HBM to review "all admissions documents."⁴ Both provisions are vaguely worded.

There have been numerous disputes over what kinds of accounts should be referred to HBM. The division has not established adequate policies or procedures to assist hospitals in dealing with HBM representatives in this key area. For example, HBM began to solicit information on emergency room and other outpatient accounts but hospitals were unsure whether they were covered by the contract. In response to a request for clarification, the division sent out a memorandum instructing hospitals to cooperate with HBM's request.

Recommendation

Hospitals be instructed in writing and with specific guidelines to audit all transactions with and by HBM, including all transactions at Hilo Hospital during the terms of the pilot project. All reconciliations should be made in terms of the patients actually referred by each hospital and actual revenues received by the hospital.

DOH response. The department reports that auditors were instructed to review all transactions for FY 1988-89 and report on findings. It hired Ernst and Whinney to conduct an audit, and further action will be done by binding arbitration.

Comment. The extent and adequacy of the efforts made by DOH auditors and the accounting firm of Ernst and Whinney cannot be determined at this time. It should be noted that Ernst and Whinney was hired to prepare the department's case for arbitration by reconciling advance payments to HBM with collection fees earned by the company for work conducted between September 1, 1987 and January 31, 1988. This does not cover the entire period for which we recommended an audit. In addition, the accounting firm's scope of work did not include: (1) Honokaa Hospital, Kohala Hospital, and Kau Hospital, (2) nursing home accounts, or (3) non-Medicaid accounts.

HBM has demanded a complete audit of State records relevant to the performance of the contract and the settlement agreement. The department has not counterclaimed for a complete audit of HBM records. And it is not known how an auditor will be selected to carry out any audits ordered as the result of arbitration.

Recommendation

The Department of Human Services be advised to review all Medicaid qualifications handled by HBM to determine whether any violations of Medicaid statutes or rules have occurred.

DOH response. The department says that the Department of Human Services (DHS) has been advised of this recommendation.

Comment. We contacted DHS representatives who report that no investigations are taking place since they themselves made the eligibility decision on all applications handled by HBM.

Recommendation

The Department of Health institute its own qualification assistance capability at the various hospitals with the Department of Human Services cooperating and assisting fully in this endeavor.

DOH response. The department says that the 1988 Legislature established four social worker positions to assist in this program and DHS is willing to provide in-service training. Maui has hired a social worker and the other hospitals are recruiting. The department is working with the

Attorney General to improve its overall collection and credit policies, and it is meeting with various representatives of the private sector who provide services similar to those provided by HBM.

Comment. The department's direction is not clear at this time. It appears that despite the four positions, the department still intends to explore contracting for private Medicaid qualification services. In addition, a pilot collections program has been established in the Department of the Attorney General which encompasses the collection of accounts at DOH. In late 1987, Maui Memorial Hospital was chosen as a test site for the program. The department is thinking of expanding the pilot program to all hospitals.

Before making a decision, the department should fully evaluate the costs and benefits of contracting for various types of collection services and their impact on hospital operations. In the meantime, the department should make full use of the four positions it has been appropriated and initiate a training program with DHS.

Recommendations on Financial Management

Recommendation

The Legislature withdraw special fund status for those hospitals which are not projected to be self-sustaining from hospital-generated revenues beginning with the 1989-90 fiscal year.

DOH response. The department notes that the Legislature did not take this action.

Recommendation

Alternatively, if special funds are continued for those hospitals requiring general fund appropriations, the Legislature specify and the Department of Budget and Finance enforce a budgetary provision that special fund revenues be used for hospital expenses prior to allotment of any general fund subsidies. Excess general fund subsidies should automatically lapse at the end of each fiscal year. Any subsidies allotted should be accounted for separately and not commingled in special fund accounts.

DOH response. The department reports that the 1988 Legislature acted on this by passing Act 326.

Comment. Act 326 amends Section 37-34, HRS, by stating that no general fund appropriation for hospital operating expenses can be made available to hospitals unless the Director of Finance finds that special funds established under Section 27-23, HRS, are insufficient to meet the required lawful operating expenditures of the hospitals. The effect of this amendment is to require the division and hospitals to spend-down their special funds before general funds are released by the Department of Budget and Finance (B&F). B&F is currently enforcing this provision.

There continues to be no way to ensure lapsing of general fund subsidies at the end of each fiscal year. The problem is that once general fund moneys are deposited into special fund accounts, they are commingled with special funds. They can be transferred around the system and used up without the approval of B&F or the Governor. B&F plans to enforce this provision by controlling general fund allotments to hospitals.

Recommendation

The Legislature establish a nonlapsing contingency fund to be used first, to support hospitals which encounter revenue shortfalls within their appropriated ceilings, and second, to allow hospitals with insufficient funds to correct deficiencies cited in certification reviews by DOH, Medicaid/Medicare, and JCAHO. The division should be required to make an annual report to the Legislature on the balance in the fund, describing expenditures made from this fund, and identifying corrections made with such expenditures.

DOH response. The department reports that the Legislature acted on this recommendation by passing Act 326.

Comment. The department did not report on how it is implementing this new statutory requirement. The division continues to operate its administration special fund much as it did in the past.

Recommendation

The division establish divisionwide policy requiring a 60-day average elapsed time for collecting of accounts receivable.

DOH response. The department reports that the 60-day policy has been established as a division objective. It will be included as a policy in the revised strategic plan and the new policy and procedures manual. The division's new computer system (CHIPS) and the attorney general's collections unit will also provide resources for meeting this objective.

Comment. These are favorable developments.

Recommendation

The division establish divisionwide policy requiring annual write-offs of bad debts to be sent to the Attorney General.

DOH response. The department says that the hospitals have been encouraged to write-off bad debts more than annually, and this policy will be formalized in the proposed policy manual. The division is trying to reduce the time qualification for write-offs from two years to 45 days. It is also exploring continuous, instantaneous electronic write-offs on its CHIPS system.

Comment. We support the department's efforts, although we suggest careful review before reducing the time qualification for write-offs to a period as short as 45 days.

Recommendation

The division establish divisionwide policy requiring annual expenditure plans citing equipment and renovation needs based on lifecycle analyses and accreditation reports.

DOH response. The department reports that beginning with the 1990-91 biennial budget, the division will use lifecycle analyses for equipment and renovations and deficiencies pointed out in accreditation reports. The recommendation will also be incorporated in future annual expenditure plans.

Comment. We acknowledge the department's plans to comply with the recommendation.

Recommendation

The Department of Health abolish the unauthorized special fund for county/state division administration, transfer the fund balance to the general fund on June 30, 1988, and submit a general fund appropriation request to the Legislature to fund the division's administrative operations for FY 1988-89.

DOH response. The department reports that this recommendation was acted on by the Legislature through Act 326.

Comment. The department did not describe what actions it has taken to implement Act 326, which created a new division administration special fund. Since the law took effect on July 1, 1988, it is not possible to determine whether excess special funds will be transferred to the general fund.

Recommendation

Beginning in FY 1988-89, DAGS collect the five percent central services fee from special funds if excess revenues are available. However, past liability should not be assessed against the special funds.

DOH response. The department says that this recommendation has not been implemented at this time.

NOTES

1. Hawaii, Department of Health, "Statement of Deficiencies and Plan of Correction: Hilo Hospital," November 3, 1988.
2. Letter from John Wong, Deputy Attorney General to John Lewin, M.D., Director of Health, October 3, 1988.
3. Agreement between John Lewin, Director of Health and J. Michael Hughes, President, Hospital Business Management, Inc., August 20, 1987, p. 8.
4. Provisional Settlement Agreement between John Lewin, M. D., Director, and J. Michael Hughes, President, Hospital Business Management, April 5, 1988, p. 3.

RESPONSE OF THE AFFECTED AGENCY

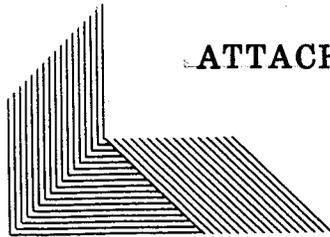
AGENCY RESPONSE

We transmitted a preliminary draft of this report to the Department of Health on January 17, 1989. A copy of the transmittal letter to the department is included as Attachment 1 of this Appendix. The response from the department is included as Attachment 2.

The Department of Health responds that it is encouraged by our recognition of the positive actions taken by the County/State Hospital Division to improve the hospital system. The department adds that planning has been completed for a new psychiatric unit at the Hilo facility. It is also drafting a protocol for complying with Act 326 on the hospital administration fund and the use of special funds before general fund allotments are made. The department will be working with the Department of Budget and Finance on implementing the protocol.

ATTACHMENT 1

THE OFFICE OF THE AUDITOR
STATE OF HAWAII
465 S. KING STREET, RM. 500
HONOLULU, HAWAII 96813



C O P Y

January 17, 1989

Dr. John Lewin
Director of Health
Department of Health
1250 Punchbowl Street
Honolulu, HI 96813

Dear Dr. Lewin:

Enclosed are two copies, numbered 4 and 5, of the preliminary report of **Report on Implementation by the Department of Health of Recommendations in A Study of the County/State Hospital Program**. If you would like to comment on the report, we ask that you indicate by telephone by January 19, 1989 your intentions to do so. If you decide to submit a response, please submit that response by January 26, 1989. We will append the response to the report submitted to the Legislature.

The Governor and the presiding officers of the two houses of the Legislature have also been provided copies of this preliminary report.

Since the report is not in final form and changes may be made, access to this report should be restricted to those individuals whom you might wish to call upon to assist you in reviewing the report. Public release of the report will be made solely by our office and only after the report is published in its final form.

We appreciate the continuing assistance and cooperation extended to us by the staff of the Department of Health.

Sincerely,


Newton Sue
Acting Legislative Auditor

Enclosures

ATTACHMENT 2



JOHN WAIHEE
GOVERNOR OF HAWAII

JOHN C. LEWIN, M.D.
DIRECTOR OF HEALTH

JERRY WALKER
DEPUTY DIRECTOR FOR HOSPITALS

STATE OF HAWAII
DEPARTMENT OF HEALTH

P. O. BOX 3378
HONOLULU, HAWAII 96801

In reply, please refer to:
File: C/S Hosp. 74

January 26, 1989

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OFC. OF THE AUDITOR
STATE OF HAWAII

Mr. Newton Sue
Acting Legislative Auditor
The Office of the Auditor
465 S. King Street, Room 500
Honolulu, Hawaii 96813

Dear Mr. Sue:

The Department of Health is particularly encouraged by the comments made in the "Report on Implementation by the Department of Health of Recommendations in A Study of the County/State Hospital Program" submitted by the Acting Legislative Auditor. Generally, the auditor's comments favorably recognize the many positive actions which the County/State Hospitals Division has taken in the last year to significantly improve the System. In addition to those numerous actions, two points are also noteworthy.

First, that planning has already been completed for a new psychiatric unit at the Hilo facility.

Second, that the Department of Health, and the County/State Hospital Division is drafting a protocol for compliance to Act 326 and will be working with Budget and Finance to effect this protocol.

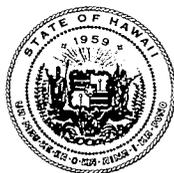
We appreciate this follow-up report and acknowledge our responsibility to continue to improve the County/State Hospitals System.

Very truly yours,

JOHN C. LEWIN, M.D.
Director of Health

APPENDIX

APPENDIX A



JOHN WAIHEE
GOVERNOR OF HAWAII

STATE OF HAWAII
DEPARTMENT OF HEALTH

P. O. BOX 3378
HONOLULU, HAWAII 96801

JOHN C. LEWIN, M.D.
DIRECTOR OF HEALTH

JERRY WALKER
DEPUTY DIRECTOR FOR HOSPITALS

In reply, please refer to:
File: C/S Hosp. JW-43

November 7, 1988

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OFFICE OF THE AUDITOR
STATE OF HAWAII

The Honorable Clinton T. Tanimura
Legislative Auditor
The Office of the Auditor
465 S. King Street, Room 500
Honolulu, HI 96813

Dear Mr. Tanimura:

Attached is the Department of Health's response to your recommendations in a study of the County/State Hospital program (Report No. 88-8, January 1988).

If you have any questions, please contact Mr. Jerry Walker, Deputy Director for Hospitals at 548-7402.

Thank you for allowing us the opportunity to respond to your recommendations.

Very truly yours,

JOHN C. LEWIN, M.D.
Director of Health

Attachment

CHAPTER 5 GOVERNANCE OF THE COUNTY/STATE HOSPITAL PROGRAM

Auditor's Recommendation:

We recommend that the Director of Health do the following:

Assume the proper responsibilities and authority of a governing authority, differentiating between these and those of the Deputy Director.

Department of Health Reply:

- . The governing body by-laws serve as the primary documentation to distinguish the duties between the Director and Deputy Director for hospital operations. They are updated as necessary for compliance with the State licensing Medicare/Medicaid certification, Joint Commission on Accreditation of Healthcare Organization (JCAHO) accreditation and other legal requirements which are imposed upon us from external and internal agencies. The review of the by-laws is done with the assistance of the Deputy Attorney General assigned to County/State Hospitals Division and also with the assistance of our malpractice carrier.
- . Further delineation of duties and responsibilities for County/State Hospitals Division will be part of the Department of Health's reorganization. The name of the County/State Hospitals Division will be changed to the Division of Community Hospitals to reflect its proper area of responsibilities.
- . The Department of Health has revised its functional plans to include the County/State Hospitals Division which reflect an updated emphasis for the future.
- . The County/State Hospitals Division is in the process of hiring a consultant to update revise, and improve the Division's strategic plan. The strategic plan will have a revised philosophy, mission, goals and objectives for County/State Hospitals.
- . The Deputy Director for Hospitals meets weekly with the Director of Health, along with other Deputies of Health.
- . The Deputy meets with the Director of Health weekly. The Deputy meets immediately with the Director when emergencies arise.

- . The Director and Deputy maintain both formal and informal verbal communications regarding their duties and responsibilities.
- . The duties and responsibilities of the Deputy Director are divided into two specific areas: (a) multi-hospital system and (b) State Division.

Auditor's Recommendation:

Provide written delegation of authority for those responsibilities he wishes to delegate to the Deputy Director.

Department of Health Reply:

- . The governing body by-laws serve as the primary documentation to distinguish the duties between the Director and Deputy for hospital operations. They are updated as necessary for compliance with the State licensing, Medicare/Medicaid certification, JCAHO accreditation and other legal requirements which are imposed upon us from external and internal agencies. The review of the by-laws is done with the assistance of the Attorney General and malpractice carrier. Also, the Director and Deputy are members of the Department of Health governed by all of the other appropriate rules, regulations, statutes, policies and procedures, etc. Most important is that we provide two separate and distinct functions--that of a multi-hospital system and that of a governmental agency.
- . We are also in the process of hiring a consultant to update the policy and procedures manual for County/State operations which will cover many of the concerns expressed by the Legislative Auditor.
- . Also, when there is a conflict between the governing body by-laws and existing State rules and regulations, the latter shall prevail.
- . We are in the process of completing negotiations for a consultant to update and improve our strategic plan which will more clearly fulfill the recommendation.
- . The Division has been working on a number of things to improve the monitoring process through our budgeting, auditing personnel and other external agencies.

Auditor's Recommendation:

Provide support to the Hospital Management Advisory Committees to assist them in defining their mission to adopt by-laws. And also provide them with sufficient orientation to enable them to function effectively as community advisory groups.

Department of Health Reply:

- . The consultants hired for the strategic plan will also help the Management Advisory Committee (MAC) in fulfilling their need in defining the mission of the Division and hospitals as well. Those recommendations will be up to the MAC to consider and implement.
- . The Director of Health has also initiated reorganization plans for the Department to include the hospitals, which will provide additional clarity.
- . The Division is completing the negotiation process for a consultant which will review, update, and improve the existing strategic plan which will focus on mission, philosophy, goals and objectives, etc.
- . MAC representatives have been directly involved in advising the Director regarding the recruitment and selection of new administrators for Maui Memorial and Hilo Hospitals.
- . The Director and Deputy have met with representatives from the MACs and have set up other means to open communications between the MACs and Deputy Director with regard to hospital operations. An existing MAC member will be assigned to a hospital to form a subcommittee to act on specific hospital needs which will report back to that MAC and the DOH. The members will also be meeting with the Deputy Director/Director or both at least once a month. This does not supersede the existing MAC setup nor their mission.
- . The various MACs met in a collective statewide session in July, 1988, after this report was issued and have developed new strategies to better clarify its mission and by-laws. The collective statewide MAC will also be meeting again during November to address this requirement. County MACS meet collectively in this fashion at least twice per year.
- . The Department of Health has provided the following orientation:

- (a) All new MAC members have been given an orientation session on the roles and responsibilities of a State of Hawaii Board member. Each county has their own orientation manual which is the responsibility of the MAC Chairman and hospitals in that area.
 - (b) During October, the County/State Hospitals Division sponsored a week-long workshop put on by the JCAHO which provided technical and pertinent information on the operation of a hospital and their role and functions as an advisory trustee.
 - (c) The MAC members were attendees at the annual Hawaii Healthcare Association meeting (10/88) and they attended various workshops for trustees and other training sessions on hospital operation. Also, reference material is provided by HHA which are also shared with MAC members.
- . With the completion of the reorganization, the strategic plan for the Division, the adoption of revised by-laws and the new orientation programs, this should fulfill the recommendation.

CHAPTER 6 THE DELIVERY OF HEALTH CARE SERVICES

Auditor's Recommendation:

Clarify the philosophy, mission, and goals of the County/State program, including the basic functions to be performed by individual facilities.

Department of Health Reply:

- . The reorganization of the Department of Health which includes the County/State Hospitals Division.
- . The hiring of a consultant to improve update and revise existing strategic plan which will cover and clarify the mission, philosophy, goals and objectives of the County/State program to include the basic functions performed by the individual facilities.
- . The Division has updated and revised the existing functional plan to be in sync with the new direction of the Health Department.

- . The Division has also been working closely with the State Health Planning and Development Agency (SHPDA) on all proposed changes and maintaining good communications with representatives from affected areas.

Auditor's Recommendation:

Routinely monitor and evaluate the performance of the County/State hospital program on external surveys, and ensure that timely and appropriate actions are taken to upgrade substandard operations.

Department of Health Reply:

- . Medical Director and Nursing Coordinator have been following up on State licensing and Medicare/Medicaid survey results with the hospitals and with the hospital licensing and certification staff. Other Division and Department personnel are utilized as necessary for legal matters for facilities, physical plant, building, environmental hazards, etc.
- . Have been in contact with the JCAHO. A week-long educational program was held in October. This covered all of the major health care topics.
- . The Deputy Director, while in Chicago in September, contacted a subsidiary of the Joint Commission to look into consultant services to assist the Division and hospitals in fulfilling Joint Commission requirements.

Future actions to complete this recommendation.

- . The Division is currently considering contracting out for a core team which would consist of a nurse administrator, a medical director, and an administrator to provide the additional resources to complete this recommendation.
- . The hospital administrators and contractors will be made aware of the need for timely and appropriate actions to correct substandard operations.

Auditor's Recommendation:

Establish a decision-making process to review and approve existing and proposed health care services to ensure that they fall within the program's mission, meet community needs, and ensure quality of care. This process should include research and analysis by administrative and professional staff, and community involvement in identifying health needs and evaluating alternative approaches to meeting these needs.

Department of Health Reply:

- . The Division is in the process of negotiating a contract to update, improve and revise the existing strategic plan. This plan will ensure that the decision-making process is established to review and improve existing and proposed health care services. We will also utilize the MAC and medical staff programs and to be in contact with SHPDA to ensure that we fulfill the program's mission, meet community's needs and ensure that we maintain quality of care.
- . The functional plan for the Division has also been revised to be in sync with this recommendation. The Division is also part of the DOH's reorganization in which it will change its name to better reflect its purpose and mission.
- . We will be utilizing administrative staff to help prepare research and analysis. We will also gain input from the community for the strategic plan. Will also continue to improve involvement of the MAC committees and other members in the communities. When initiating planning for any of our facilities, we will ensure that this process contains evaluating alternative approaches to meet this requirement.

Auditor's Recommendation:

Prioritize the development of adequate primary care services in the community of Lanai.

Department of Health Reply:

- . Currently, the provision of primary care services for the island of Lanai has traditionally been done by the private sector in consultation with Castle and Cooke through their San Francisco Office which is headed by their medical director for health services. Since the

report has been published, the Director, the Deputy, representatives from Lanai Hospital and the Division have had on-going communications with Dr. Carey, the present Lanai physician, regarding the need to provide adequate primary care services for that island.

- . With the advent of new workers and expected increase in population because of hotel guests, Dr. Carey has been recruiting for his second physician which he hopes to have by the end of this year.
- . We have also been talking to Dr. Carey regarding the possibility of more joint venturing between the hospital and the clinic to cut down on unnecessary duplication of services. Some of these areas are in pharmacy, laboratory, specialty services, etc.
- . The Department of Health is submitting monies this coming year to enlarge the lower floor of Lanai Hospital to house existing DOH and other Department programs to provide better primary care support services. We must also realize that more than 90 percent of the island of Lanai is owned by Castle and Cooke and many of the things done there must be done in concert with them.

Auditor's Recommendation:

Prioritize the development of adequate primary care services in the community of Kau.

Department of Health Reply:

- . The provision of primary care in the Kau area has traditionally been the responsibility of the private sector. It is only when the private sector is unable to provide adequate services does the State bring in its resources. Once this need has been fulfilled, then the State withdraws its services. As with Lanai, we have been in contact with Dr. Kitagawa, who is a member of the Hilo Medical Group on the on-going need to provide primary care services in this area. As a point of information, the Hilo Medical Group's office is leased from Kau Hospital; so we are working more and more with them to ensure that the primary care needs are adequately met. Dr. Kitagawa has been actively recruiting for a second position and once filled, the primary care needs will be fulfilled. She has the ability to rely on Hilo Medical Group for all of their

specialty services to make sure that that area is covered.

- . Since the last Legislative session, an ACLS ambulance is now operational in the Kau area, which has improved the emergency services a hundred fold.

To wrap up the two areas with the updated, revised and improved strategic plan, we will ensure that the primary care services in these areas are both addressed and at the conclusion of that report, a copy will be forwarded to you. Also, we will ensure that all individuals affected will be able to provide input (the community, the medical staff, the plantations, the unions, Division staff, and other health care providers).

Auditor's Recommendation:

Establish an internal monitoring program to ensure that all facilities meet commonly accepted standards of care. At a minimum, this program should include education and training of key hospital personnel, internal surveys to ensure routine compliance with external standards, prompt correction of deficiencies, and performance assessment based on the results of external surveys.

Department of Health Reply:

- . We have decided it would be more appropriate to contract a core team consisting of a nurse administrator, a hospital administrator, and a medical director to fulfill this recommendation. We have also addressed and provided additional information regarding these functions in an earlier recommendation.
- . The JCAHO conducted a week-long workshop on all of the latest Joint Commission requirements. Many of the key medical staff, division staff, hospital staff, MAC members, and DOH's State licensing staff participated in this workshop.
- . Key members of our hospital staff and MAC members attended the Annual Hawaii Healthcare Association meeting held in October to attend workshops on trustees, financial liability, risk management, quality control, quality assurance, to mention a few in providing the needed training.
- . The Director and Deputy have emphasized the importance of timely response and correction of cited deficiencies

be it licensing, accreditation, or certification.

- . Revising, updating and improving our existing strategic plan which will identify some of our weaknesses. With this information, we can correct the weaknesses which will fulfill this recommendation.
- . Additionally, we will be hiring a consultant for our Division policy and procedures which will also bring about additional improvements.

Auditor's Recommendation:

Evaluate alternative approaches to ensuring quality of care in unaccredited hospitals and report its findings to the Director of Health.

Department of Health Reply:

- . The Director of Health is informed by the County/State Hospital's Division regarding unaccredited hospitals and by another branch of the Department of Health, the Hospital and Medical Facilities Branch. As a matter of information, our hospitals receive licensure from the State, certification office for Medicare/Medicaid and receive accreditation from the Joint Commission. At this point, only four of the facilities are accredited, and the means of communications with the Director is no different from licensing, certification or accreditation. In the past, the Division has kept the Director verbally informed of any substandard or deficient conditions in facilities. The Division will now be forwarding copies of these deficiencies to the Director for his information and action. However, the Director has directed the Deputy to develop JCAHO accreditation for all County/State facilities as soon as possible.

Auditor's Recommendation:

Develop health service plans that focus on the delivery of essential medical services which meet community needs and can be delivered at an acceptable level of care without adversely affecting existing services.

Department of Health Reply:

- . The County/State Hospitals Division is currently in the process of hiring a consultant to update, improve, and

revise its existing strategic plan. One of the key components of this strategic plan will be to focus on the delivery of essential medical services to meet community needs and be financially sound.

- . The Division has been working with SHPDA to keep them informed of our planning recommendations in the development in the continuance of the medical services we provide. We are asking for community involvement and support, input from medical staff, preparing position papers and the MAC for final fulfillment of this need.
- . Have been communicating with other health care providers who are currently seeking to come in to areas previously covered by County/State. We are working cooperatively together to ensure that accessibility, availability, and quality of care are enhanced in the potential final decisions. Cost containment is also an essential part of these planned changes, which must also be public processes. We are continuously exploring the possibilities of joint venturing in the fulfillment of a variety of health care needs which can be more efficiently or effectively be provided by private sector participation.

Auditor's Recommendation:

Routinely monitor their facilities' compliance with commonly accepted standards of care and promptly correct deficiencies to ensure the safe and effective delivery of services.

Department of Health Reply:

- . The Director, the Deputy, the MAC members and all of the licensing and accreditation agencies have emphasized the importance to the hospital administrators in ensuring that this recommendation is fulfilled. The Division has been working with hospital administrators in providing support from our agency as well as hiring consultants when necessary. A few examples of individuals or entities within the DOH providing such support are our medical director, our director of nursing, our personnel office, the DOH's Hospital and Medical Facilities Branch, the Department of Accounting and General Services, to mention a few. Two examples of how hospital administrators are fulfilling this recommendation follow:

- (a) Maui Memorial Hospital in November, 1987, had received a tentatively adverse decision on their accreditation. In October, 1988, Maui was granted accreditation for three years with some contingencies. Administrator Alvis Carr, upon arriving on this job did an assessment, gathered all of his key personnel involved with the deficiencies and put into action a plan, which, when completed, enabled us to assure the Joint Commission that we were fulfilling of our accreditation requirements.
- (b) Hilo Hospital united all of its forces to change its tentative adverse decision for accreditation. In mid-November, we will receive word from the Joint Commission regarding their efforts. At this time, we are very positive that Hilo Hospital will also receive certification.
- . You can also talk to Dr. John Peyton, Medical Director of the Division, who has been heavily involved with our long term care and rural hospitals in providing assistance as a liaison for the Hospital and Medical Facilities Branch in the areas of the quality assurance plans, medical staff functions, etc.

CHAPTER 7 MANAGEMENT OF THE COUNTY/STATE HOSPITALS

Auditor's Recommendation:

Develop systemwide policies and procedures clarifying the respective roles, functions, and responsibilities of the Division Office and the hospitals. As part of this effort, the Division Office should update its organization chart, functional statements, and develop more meaningful performance measures.

Department of Health Reply:

- . We have been in the process of negotiating a contract with Charles Hardy to revise, implement and improve our existing statewide policy and procedures manual for the Division and Hospitals operations.
- . The Division will also be forwarding a reorganization plan which will take the Division Office, with the exception of the Division Chief and Secretary, and establish a staff office which will report

directly to the Deputy Director. A trade-off transfer position will be used to establish a supervisor for this new office.

- . We are also completing the contract process for a consultant to update, improve and revise our existing strategic plan.
- . DOH reorganization.
- . Revised functional plan.

Auditor's Recommendation:

Provide better leadership and responsiveness by assuming the duties appropriate to a system headquarters such as coordinating operations among the hospitals, initiating better employment practices, undertaking staffing studies, analyzing proposed programs, implementing training programs, giving adequate guidance on all request and instructions sent to the hospitals, and monitoring hospital operations.

Department of Health Reply:

- . The reorganization of the Department of Health which includes the County/State Hospitals Division.
- . The functional plan for the Division has also been revised to be in sync with this recommendation.
- . The Division is in the process of negotiating a contract to update, improve and revise the existing strategic plan. This plan will ensure that the decision-making process is established to review and improve existing and proposed health care services.
- . We are in the process of hiring a consultant to update the policy and procedures manual for County/State operations.
- . The JCAHO conducted a week-long workshop on all of the latest Joint Commission requirements. Many of the key medical staff, division staff, hospital staff, MAC members and DOH's licensing staff participated in this workshop.
- . Key members of our hospital staff and MAC members attended the Annual Hawaii Healthcare Association meeting in October. Topics such as trustees, financial

liability, risk management, quality control, quality assurance were discussed.

- . The Division has taken action to improve the monitoring process through our budgeting, auditing personnel and other external agencies.
- . The Division is currently considering contracting out for a core team which would consist of a nurse administrator, a medical director, and an administrator to provide the additional resources to complete this recommendation.

CHAPTER 8 A CASE STUDY IN POOR MANAGEMENT

Auditor's Recommendation:

The Department of Health take action to cancel the August 20, 1987, contract between the Director of Health and Hospital Business Management, Inc.

Department of Health Reply:

- . The Department of Health did not cancel the contract with HBM itself, but instead revised the existing contract on April 20, 1988 which incorporated all the concerns expressed by the Legislative Auditor and the Legislature. Further action may be taken as necessary in the near future.

Auditor's Recommendation:

The hospitals be instructed in writing and with specific guidelines to audit all transactions with and by HBM, including all transactions at Hilo Hospital during the term of the pilot project. All reconciliations should be made in terms of the patients actually referred by each hospital and actual revenues received by the hospital.

Department of Health Reply:

- . All auditors were instructed to review all transactions for FY 88-89 of HBM and report said findings.
- . Department of Health hired Ernst & Whinney to conduct an audit. All accounts referred to HBM from the inception of the 1987 contract until January 31 were

included and further action will be done by binding arbitration. All will be in terms of actual revenues collected by the hospitals.

Auditor's Recommendation:

The Department of Human Services be advised to review all Medicaid qualifications handled by HBM to determine whether any violations of Medicaid statutes or rules have occurred.

Department of Health Reply:

- . The Department of Human Services has been advised of recommendations made by the Legislative Auditor regarding HBM which are currently on-going as of the time of this report.

Auditor's Recommendation:

The Department of Health institute its own qualification assistance capability at the various hospitals with the Department of Human Services cooperating and assisting fully in this endeavor.

Department of Health Reply:

- . The 1988 Legislature established four social worker positions for Hilo Hospital, Kona Hospital, Maui Memorial and Kauai Veterans Memorial Hospital (KVMH) to assist in this program. We have contacted the Department of Human Services and they have stated they are willing to provide in-service training to the four social workers and will fully cooperate in this endeavor. Currently, Maui Memorial Hospital has hired their social worker and is in the process of contacting DHS for training. Kona and Hilo Hospitals have established their positions and are recruiting for their social workers. KVMH has just completed its establishment of its positions and will be recruiting shortly. We are having difficulty throughout our system in recruiting social workers.
- . We have been working with the Attorney General in improving our overall collection and credit policies.
- . We have been meeting with various representatives, from the private sector who now provide similar Medicaid assistance programs to the one contracted with HBM.

CHAPTER 9 FINANCIAL MANAGEMENT OF THE COUNTY/STATE HOSPITAL SYSTEM

Auditor's Recommendation:

The Legislature withdraw special fund status for those hospitals which are not projected to be self-sustaining from hospital-generated revenues beginning with the 1989-90 fiscal year.

Department of Health Reply:

The 1988 Legislature took no legislative action on this recommendation.

Auditor's Recommendation:

Alternatively, if special funds are continued for those hospitals requiring general fund appropriations, the Legislature specify and the Department of Budget and Finance enforce a budgetary provision that special fund revenues be used for hospital expenses prior to allotment of any general fund subsidies. Excess general fund subsidies should automatically lapse at the end of each fiscal year. Any subsidies allotted should be accounted for separately and not committed in special fund accounts.

Department of Health Reply:

Recommendations were acted upon by the 1988 Legislature which resulted in the passage of Act 326.

Auditor's Recommendation:

The Legislature establish a nonlapsing contingency fund to be used first, to support hospitals which encounter revenue shortfalls within their appropriated ceilings, and second, to allow hospitals with insufficient funds to correct deficiencies cited in certification reviews by DOH, Medicare/Medicaid, and JCAHO. The Division should be required to make an annual report to the Legislature on the balance in the fund, describing expenditures made from this fund, and identifying corrections made with such expenditures.

Department of Health Reply:

Recommendations were acted upon by the 1988 Legislature which resulted in the passage of Act 326.

Auditor's Recommendation:

The County/State Hospitals Division administration establish divisionwide policy requiring: 60-day average elapsed time for collecting of accounts receivable.

Department of Health Reply:

- . Done; the Deputy Director in the past several administrators' meeting has established the lowering of accounts receivable to 60 days as an objective of the Division. It will also be included in the revised strategic plan.
- . The hiring of a consultant to assist the Division in formalizing its policies and procedures will formulize this policy as well.
- . Two significant resources will provide the means for the hospitals to meet this 60-day policy. The first is the CHIPS project which will enable the hospitals to speed billing and follow-up billings. The on-line access will also enable hospital staff to concentrate more of their time in collection versus accounting and billing. The second significant resource is the Attorney General's Collections Unit which currently is in a pilot project, both the Attorney General's Office and the Department of Health are optimistic that their services will be available to all of the County/State Hospitals. The combination of these two significant forces will allow the County/State Hospitals to meet our 60-day collections policy.
- . One more significant item that will enable the County/State Hospitals to meet its 60-day goal is a change in the statutes from two years to 45 days for a write-off of uncollectible accounts receivable. If the statute is changed, the County/State Hospital will be nearing the flexibility private hospitals currently enjoy. When each hospital can write-off accounts on its own without the Attorney General's intervention will parity be achieved.

Auditor's Recommendation:

The County/State Hospitals Division administration establish divisionwide policy requiring annual write-offs of bad debts to be sent to Attorney General.

Department of Health Reply:

- . Done; the County/State Hospitals have been encouraged to write-off bad debts more than annually. The policy has not been formalized as others have not been, but this policy will be as part of the County/State Hospital Division's policy manual project for which a consultant will be hired.
- . The Division is also involved in an effort to reduce the time qualification for write-off from two years to 45 days. Couple this with the intervention of the Attorney General's Office Collection Unit into the Division's CHIPS project, and the possibility of continuous electronic write-offs instantaneously can become a reality.

Auditor's Recommendation:

The County/State Hospitals Division administration establish divisionwide policy requiring annual expenditure plans citing equipment and renovation needs based on lifecycle analyses and accreditation reports.

Department of Health Reply:

- . Recommendation is being acted upon starting with this 1990-91 biennial budget, with the Division using the lifecycle analyses for equipment and renovations and deficiencies pointed out in the accreditation reports. Beginning with FY 90's annual expenditure plan, the recommendation will also be incorporated.

Auditor's Recommendation:

The Department of Health abolish the unauthorized special fund for County/State Hospitals Division administration, transfer the fund balance to the general fund on June 30, 1988, and submit a general fund appropriation request to the Legislature to finance the Division's administrative operations for FY 1988-89.

Department of Health Reply:

This was acted upon by the 1988 Legislature through Act 326.

Auditor's Recommendation:

Beginning in FY 1988-89, DAGS collect the five percent services fee from special funds if excess revenues are available. However, past liability should not be assessed against the special funds.

Department of Health Reply:

At this time, this has not been implemented.