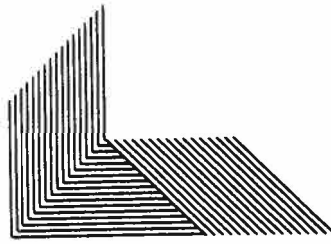


THE OFFICE OF THE AUDITOR  
STATE OF HAWAII  
485 S. KING STREET, RM. 500  
HONOLULU, HAWAII 96813



February 4, 1989

ADDENDUM TO:

**The Report on Implementation by the Department of Health of  
Recommendations in a Study of the County/State Hospital Program**

Due to an oversight, the response of the Department of Health, dated November 7, 1988, which reports on the actions it took to implement the recommendations made in the study, was not included as Appendix A of the report. Please add the enclosed Appendix A to the report as well as the corrected Table of Contents.

## TABLE OF CONTENTS

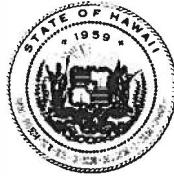
	<i>Page</i>
Introduction .....	1
Recommendations on the Governance of the County/State Hospital Program .....	1
Recommendations on the Delivery of Health Care Services .....	3
Recommendations on Management of the County/State Hospitals .....	6
Recommendations on a Case Study in Poor Management .....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

---

## APPENDIX

---

APPENDIX A



JOHN WAIHEE  
GOVERNOR OF HAWAII

JOHN C. LEWIN, M.O.  
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. JW-43

November 7, 1988

RECEIVED

Nov 7 10 42 AM '88

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.