
Follow-Up Report on a Financial Audit of the Department of Health

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

THE AUDITOR
STATE OF HAWAII

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Submitted by

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State Auditor

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Introduction

The Office of the Auditor issues a wide variety of reports and studies recommending improvements in government operations. In response to growing interest in the impact of our audits, we have expanded our follow-up program to include a systematic review of selected findings and recommendations of previous audit reports. We revisit the subject agencies to verify and assess any progress made in addressing prior audit findings and recommendations. Government auditing standards require an audit follow-up process to determine whether an auditee has taken timely and appropriate corrective actions on findings and recommendations from previous audits.

The purpose of this report is to describe actions taken by the Department of Health with respect to certain recommendations in our December 1992 *Financial Audit of the Department of Health*, Report No. 92-30. We hope that the information provided in this report will assist policy makers in ensuring effective, efficient, and accountable programs.

Background

Our 1992 audit found that the department's contracting practices failed to assure that legislatively mandated services were provided to the public in a manner that safeguarded the interests of the department, service providers, and recipients of services. We also found some weaknesses in the department's financial management. We made a number of recommendations for improvement.

Approach to Follow-Up

As a follow-up of our December 1992 report, we reviewed the department's letter to the Auditor of November 23, 1993, which provided information concerning actions taken on our recommendations. We then conducted fieldwork at the department to gather additional information necessary for this report. Our work was performed from December 1994 to March 1995.

The following is our overall assessment of progress by the department, followed by a description of each of our previous recommendations, actions reported by the department in its 1993 letter to us, and the results of our recent fieldwork.

Summary of Follow-Up

Our overall assessment is that the department has made progress in implementing our recommendations concerning clarifying and complying with contract payment terms, transferring receipts due from special revenue fund accounts into the general fund, and performing monthly bank reconciliations.

However, the department still needs improvements in some areas. The department needs to ensure the timely execution of purchase of service (POS) contracts, develop written contract monitoring standards for its divisions, deposit and record receipts in a timely manner, transfer *all* receipts due into the general fund, and comply with the Department of Accounting and General Services' (DAGS) requirements on reporting equipment acquisitions.

Recommendation from 1992 Report

In our 1992 report we recommended that the department take steps necessary to ensure that contracts for services are properly executed before delivery of those services by contractors is scheduled.

Implementation as reported in the department's letter

In its November 1993 letter to the Auditor, the department reported that it had taken steps to implement timely execution of purchase of service (POS) contracts.

Results of our fieldwork

In our follow-up fieldwork, we found that contracts for services still failed to be properly executed before contractors delivered those services.

Recommendation from 1992 Report

We recommended that contracts executed by the Alcohol and Drug Abuse Division contain clear payment terms and that the department comply with the terms.

Implementation as reported in the department's letter

The department reported that current contracts contain payment terms based on reimbursement for actual expenditures.

Results of our fieldwork

We found that contracts executed by the Alcohol and Drug Abuse Division contained clear payment terms and that the department was complying with these terms.

**Recommendation
from 1992 Report**

We recommended that the department develop written contract monitoring standards as guidelines for its divisions on how contracts should be monitored and how monitoring activities should be documented.

***Implementation as
reported in the
department's letter***

The department reported that a committee had been meeting to establish uniform guidelines for contract monitoring. Contract monitoring consists of (1) program monitoring and (2) fiscal monitoring. The department said that contract monitoring standards would be implemented in phases and fiscal monitoring guidelines would be used during the 1994-95 fiscal year.

***Results of our
fieldwork***

We found that the department has not developed written contract monitoring standards as guidelines for its divisions on how contracts should be monitored and how monitoring activities should be documented. There is no evidence of a committee meeting for such a purpose. One meeting of department management took place. However, no decisions or actions were taken on program and fiscal monitoring of contracts.

**Recommendation
from 1992 Report**

We recommended that receipts should be deposited in the state treasury and recorded in the State's accounting records daily.

***Implementation as
reported in the
department's letter***

The department reported that it was striving to deposit receipts in a timely manner but that it was difficult to ensure total compliance.

***Results of our
fieldwork***

We found no specific steps taken by the department to remedy the problem of untimely deposit and recording of receipts. Our tests found that receipts are not being deposited daily and as a result, not being recorded in the State's accounting records on a daily basis. Delays as long as 240 days have occurred.

**Recommendation
from 1992 Report**

We recommended that the department should immediately transfer to the state general fund the cash balances of certain special revenue accounts. These accounts were comprised of reimbursements from users of the family planning and water pollution programs. We recommended that future reimbursements under these programs should be deposited directly into the general fund.

Implementation as reported in the department's letter

The department reported that it was budgeting and expending the program income from family planning receipts in HTH 530 as required by federal law. The department also reported that it would deposit water pollution reimbursements into the state general fund.

Results of our fieldwork

We found that the department did not transfer the account balance from the family planning program to the general fund. The balance consisted of reimbursements collected in connection with the program. Also, the department did not deposit those reimbursements currently being collected directly into the general fund.

As for the \$149,304 balance in the water pollution account as of June 30, 1992, the department spent approximately \$75,000 and transferred approximately \$54,000 to the general fund on June 30, 1994. Approximately \$20,000 remains in the account. No reimbursements are currently being collected in connection with this program.

Recommendation from 1992 Report

We recommended that the Developmental Disabilities Division perform monthly bank reconciliations of its checking account.

Implementation as reported in the department's letter

The department reported that the division implemented a computerized system of reconciliation and was now regularly reconciling the bank statements on a monthly basis.

Results of our fieldwork

We found that the division is now reconciling the bank statements on a monthly basis.

Recommendation from 1992 Report

We recommended that the department comply with the Department of Accounting and General Services' (DAGS) requirements that ensure reporting of all equipment acquisitions to DAGS on a timely basis.

Implementation as reported in the department's letter

The department reported that it is striving to meet this requirement but that it is extremely difficult to ensure total compliance.

Results of our fieldwork

We found that the department has taken steps to address this problem. However, some branches are still not complying with department administrative directives to submit the equipment acquisition reports to DAGS on a timely basis.

Conclusion

Since our 1992 audit, the Department of Health has made progress in some of its contracting practices and in the handling of its finances.

However, the department still needs to ensure the timely execution of purchase of service (POS) contracts and develop written contract monitoring standards. Timely contract execution and sound monitoring practices are important to ensure proper services are contracted for, and satisfactorily provided.

The department also needs to deposit and record receipts in a timely manner, transfer to the state treasury *all* receipts due the general fund, and to comply with the Department of Accounting and General Services' (DAGS) requirements on reporting equipment acquisitions. It is important that cash and equipment be recorded in the State's accounting records accurately and in a timely manner.

We acknowledge the progress made and we urge the department to take the steps necessary to address those areas in which improvement is still needed.