

OVERVIEW

THE AUDITOR
STATE OF HAWAII

Financial Audit of the Maui Memorial Hospital and Hana Medical Center

Summary

The Office of the Auditor and the certified public accounting firm of Deloitte & Touche LLP conducted a financial audit of the Maui Memorial Hospital and Hana Medical Center for the fiscal year July 1, 1994 to June 30, 1995. The audit examined the financial records and systems of accounting and internal controls and tested these for compliance with applicable laws and regulations.

In the opinion of Deloitte & Touche LLP, the financial statements present fairly the Maui Memorial Hospital and Hana Medical Center's financial position and their results of operations for the fiscal year ended June 30, 1995. These statements are in conformity with generally accepted accounting principles.

As defined in the report on the internal control structure, Deloitte & Touche LLP noted no material weaknesses in the internal control structure and its operation. It also noted, with respect to items tested, that the hospital and center have complied with applicable laws and regulations.

We found, however, that the Maui Memorial Hospital could improve its business office operations and security procedures by implementing or revising certain operating procedures. More specifically, cash discounts granted to two insurers may not be authorized or based upon sound reasoning. We estimate these discounts cost the hospital about \$3 million in lost revenues. Revenue and collection practices need to be improved. The hospital owes the state general fund almost \$16 million and the ability to pay off the debt rests on improving the hospital's revenue and collections. The hospital's utilization review practices should be improved to help contain costs and increase revenues. Internal financial reporting is inadequate. Management needs timely and useful financial information.

We also found that long-term care patients are now occupying acute care beds. Left unchecked, this practice may have serious financial implications. Finally, hospital security procedures should be improved. Security procedures in a hospital should provide a measure of safety for patients and employees, and prevent the loss of hospital assets.

Recommendations and Response

We recommend that the Division of Community Hospitals and the hospital determine the propriety of discounts to insurers. We also recommend that the hospital consider pursuing collection of the discounted amounts.

We recommend that the hospital take steps to improve its revenue and collection practices. The hospital should ensure that patients are billed for all services and supplies by recording requisition information in patient billing records. It should continue to work with the division to improve automated billing procedures and develop electronic billing capabilities. It should obtain and verify insurance coverage for all outpatients and patients treated and discharged by the emergency room. The hospital should prepare patient bills soon after discharge and make sensible payment arrangements for balances due. Additionally, the hospital should verify all insurer payments.

We recommend the hospital expand the role of the utilization review process as a means to contain costs and improve revenues. We also recommend that the hospital prepare budgets and financial reports which include monthly financial statements, comparisons of budgets to departmental activities, cash flow forecasts, and other performance measures.

We further recommend that the division and the hospital develop plans to meet the needs of long-term care patients and determine the fiscal impact of such plans. We also recommend that the hospital strengthen its security procedures by limiting employees' entry and exit to specified doors, limiting use of emergency exits to their designated purpose, requiring all hospital employees to wear identification badges while on duty, and requiring outside contractors to wear visitors' badges and notify the security guards of their schedules.

The department generally concurs with our findings and plans to use our report as a guide for improvement. The department states that it will seriously consider our recommendations and use them to better improve the management and operation of Maui Memorial Hospital/Hana Medical Center. The department believes that converting the Division of Community Hospitals from a division within the Department of Health to a public benefit corporation for community hospitals will enhance its ability to solve problems specific to the hospital.

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