Report No. 98-15 April 1998

OVERVIEW

THE AUDITOR
STATE OF HAWAII

Audit of the Program of All-Inclusive Care for the Elderly (PACE) Hawaii

Summary

The Office of the Auditor conducted a fiscal and management audit of the State's Program of All-Inclusive Care for the Elderly (PACE) Hawaii pursuant to Section 68, Act 328, Session Laws of Hawaii 1997. The auditor was directed to conduct an analysis of the program's personnel and fiscal accountability, accounting and reporting procedures, and disbursement and procurement procedures.

Health care providers and policy makers are being challenged to provide high quality care for the growing number of elderly in an environment of shrinking resources. One program that has shown potential in other states to address the needs of the frail elder population is the Program for All-Inclusive Care for the Elderly, or PACE. Originally developed by the On Lok Senior Health Service Program in San Francisco, PACE is a community-based, managed care system that uses a proactive, interdisciplinary team approach to provide long term health and social services to the elderly. PACE's comprehensive delivery of services is coupled with a capitated reimbursement system from Medicare and Medicaid that involves waivers from both federal programs.

The success of the On Lok program led to congressional authorization to replicate the PACE program. In 1991, Hawaii's Department of Health obtained state funding to become a PACE replication site. Subsequently in 1992, the Legislature authorized a five year demonstration program, PACE Hawaii at Maluhia, to determine the viability of the PACE concept for Hawaii. In 1997, the original demonstration period was extended by the Legislature for another five years to 2002.

We found that despite six years of effort, PACE Hawaii has not been able to demonstrate its viability. PACE Hawaii has yet to implement the full fledged PACE model. Moreover, even if that model were in place, PACE Hawaii lacks sufficient management controls to demonstrate that a state-sponsored PACE replication program is viable.

Nationally, PACE replication programs have taken two to four years to achieve dual waiver status, with two years being most frequent. PACE Hawaii after six years still operates under only the single Medicaid waiver. Inconsistent support from the Department of Human Services due to conflicting priorities delayed the implementation of the Medicaid waiver until 1995. Once the waiver was in place, Medicaid funding limitations prevented the program from expanding to pursue the Medicare waiver. A legislative appropriation in 1997 for PACE Hawaii resulted in increased Medicaid support and PACE Hawaii reports that it should now be in a position to pursue the Medicare waiver.

We also found that PACE Hawaii's management controls are insufficient and cannot demonstrate that a state-sponsored PACE replication program is viable. PACE Hawaii has focused on establishing the PACE program and not on the broader and legislatively mandated objective of testing the viability of the PACE concept in Hawaii. Further, PACE Hawaii is failing to adequately identify and assess the impact of the program on the State.

For example, PACE Hawaii does not identify all meal and rent costs in reporting expenditures. Failure to identify all program costs can skew results, which means inaccurate reporting of program expenditures relative to revenues. PACE Hawaii could not prove the soundness of critical elements of its program, such as the Medicaid payment rate. Similarly, it could not demonstrate a break even point prior to 1997.

Finally, PACE Hawaii has failed to identify the full impact of a state-sponsored program to the State. The agency's reports on program costs reflect the State's involvement only as the source of Medicaid funds. The reports do not properly acknowledge the additional state funding needed by PACE Hawaii to cover its full program costs. In addition, PACE Hawaii has failed to adequately explain the consequences to the State as a result of the full risk for health care services that will be assumed by PACE Hawaii and ultimately the State of Hawaii resulting from the dual waiver system. That is, coverage of all long term care costs for PACE clients are promised when they enroll. As a full fledged PACE program, the agency would be required to establish risk reserves to demonstrate fiscal soundness.

Recommendations and Response

We recommended that the Legislature not approve any further expansion of the PACE Hawaii program until the program can demonstrate that its objectives are sufficiently met to warrant continued support. In addition, we recommended that the Legislature require PACE Hawaii to report key information to allow for proper evaluation.

The Hawaii Health Systems Corporation responded that it acknowledges and concurs with our assessment of PACE Hawaii's current status that viability has yet to be demonstrated. The corporation did indicate that several recommendations pertaining to the reporting requirements to the Legislature would be implemented. The corporation disagreed with our conclusions concerning PACE Hawaii's lack of management controls. However upon review, we believe that our concerns are valid and stand by our assessment that PACE Hawaii's controls are insufficient to adequately document its performance.

The Department of Human Services elected not to formally respond to our report.

Marion M. Higa
State Auditor
State of Hawaii

Office of the Auditor
465 South King Street, Room 500
Honolulu, Hawaii 96813
(808) 587-0800
FAX (808) 587-0830