

OVERVIEW

Financial Audit of the John A. Burns School of Medicine of the University of Hawaii

Report No. 03-02, February 2003

Summary

The Office of the Auditor and the certified public accounting firm of Deloitte & Touche LLP conducted a financial audit of the John A. Burns School of Medicine of the University of Hawaii for the fiscal year July 1, 2001 to June 30, 2002. The audit examined the financial records and transactions of the school; reviewed the related systems of accounting and internal controls; and tested transactions, systems, and procedures for compliance with laws and regulations.

We found deficiencies in the internal control practices of the school. The school's administration and management of its contracts with health care organizations that provide training and medical services are deficient. The contracts require the organizations to reimburse the school for salary, fringe benefit, and professional malpractice insurance premium costs of faculty providing medical services for the respective organizations while conducting training.

We found that all of the contracts, 28 during FY2001-02, were signed and executed subsequent to the contract start date. School faculty provided services for at least four months and approximately \$2.3 million in expenses were incurred, before the health care organizations could be billed. As a result, the school's cash flow was negatively impacted and interest that could have been earned on the amounts outstanding was lost. Also, the performance of services in the absence of executed contracts could expose the school to potential disagreements with the health care organizations and legal risks.

We also found that the school does not complete final reconciliations of the amounts due from the health care organizations in a timely manner. As of mid-October 2002, the final reconciliations for FY2001-02 were not completed, and bills that would cover the final month of service, as well as any necessary adjustments, had not been sent out. Here also, the school's cash flow was negatively impacted as funds remained outstanding for about four months and any potential interest income was lost.

Finally, we found that the school does not comply with University of Hawaii policies and procedures regarding conflict of interest situations involving school faculty. University faculty are encouraged to promote the state's cultural and economic development by utilizing their special abilities and skills in research, teaching, or other areas over and above their university positions. However, limits are placed on such outside employment to ensure that employment does not interfere with the faculty's primary obligation to the university.

University faculty are required to submit disclosure forms and outside employment forms. We found that a significant portion of these forms were either not



completed or were not submitted in a timely manner. We also found that the policies and procedures were not enforced by school administrators. By not enforcing the requirement for submitting disclosure forms and outside employment forms, potential conflict of interest situations which interfere with an employee's obligation to the school may not be identified or adequately resolved. Employees could spend too much time supplementing their income with outside activities at the expense of their responsibilities to the school. Also, in cases where research is funded by non-university sources, the sponsor may even sanction the university, if appropriate, because of a conflict of interest.

Recommendations and Response

We recommend that the school revise the way it handles contract negotiations with health care organizations, and commence services only after contracts are finalized and executed. The school should also review the process used to prepare the final contract reconciliations and ensure that the final bills are sent out in a timely manner.

We also recommend that the school enforce policies, procedures, and deadlines for completion and submission of the annual disclosure forms and outside employment forms.

The university agrees with our recommendations and responded that it has already taken steps to implement some of our recommendations.

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