

# OVERVIEW

THE AUDITOR  
STATE OF HAWAII

## A Study of the Department of Health's Administration of Contracts for Purchases of Service for Persons With Developmental Disabilities

### Summary

In reviewing the Department of Health's contracts for services for persons with developmental disabilities, we found that the department's approach to funding each contract appears arbitrary and its execution of contracts is not timely.

Developmental disabilities are chronic conditions that substantially limit a person's ability to function in daily activities. The department serves persons with developmental disabilities directly or through contracts with private providers. The department executed 32 purchase of service contracts for the program in FY1991-92 at a cost of about \$9.6 million. Three branches of the department—the Waimano Training School and Hospital Branch, the Community Services for Developmental Disabilities Branch, and the Children with Special Needs Branch—are responsible for services to persons with developmental disabilities.

We found that contract amounts vary widely among providers. The department does not know the true costs of services. It bases contract amounts not on expected costs but on across-the-board inflationary increases for each provider based on the provider's previous contract amount. The department's "unit cost" calculations are not useful.

We also found that the department is not executing contracts and making payments in a timely manner. This puts the provider and the department at risk, reduces providers' cash flow, and could interfere with client services. Inconsistency among the three branches in monitoring for legal and contract compliance weakens management information and confuses providers. In addition, the department needs a clearer idea of the number of persons with developmental disabilities in Hawaii. Finally, there have been problems in the department's new consolidated purchase of service initiative (CPOS) to provide client driven services. The problems include insufficient knowledge of what the services should cost and unclear instructions to providers.

Following national trends, the department is attempting to develop a client-based approach to services. It is also moving from provider-specific legislative appropriations for purchases of service under Chapter 42, Hawaii Revised Statutes, to lump sum legislative appropriations under the new Chapter 42D.

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## Recommendations and Response

To meet these challenges and address problems raised in our report, we recommend that the Legislature should consider requiring the department to develop a payment system for purchases of service for persons with developmental disabilities based on identifying reasonable, equitable, and appropriate costs. The director of health should make sure that steps are taken to ensure timely contracting and should develop uniform departmental policies and procedures for contract monitoring. The appropriate department officials should work to more precisely identify the target population and clarify the CPOS program.

The Department of Health did not respond specifically to our recommendations but attributed many problems to (1) the lack of standards for services, (2) no decision on which services are to be provided by the department and which by private providers, and (3) the inability to develop unit costs because of resistance from providers. The department acknowledges inconsistencies in funding but says that it is not wilfully acting arbitrarily. It challenges a part of our finding on contract monitoring and questions the value of doing more work on population estimates.

The council agrees with us that providers need equitable payments, that contract timeliness is a problem, that CPOS is troublesome, and that more reliable population estimates are needed.

The commission says that our report is not faulty in its content but that we should have recommended a cost calculation method.

We are concerned that the department as well as the State Planning Council on Developmental Disabilities and the Commission on Persons with Disabilities all commented to the effect that the department needs outside assistance in developing a better payment system. The State Auditor or an outside contractor is suggested. There appears to be a common perception among the agencies responsible for the state's program for persons with developmental disabilities that the department is unable to carry out its responsibilities. We believe that the department *has to assume* the duty and obligation to set standards of service, determine the nature of services to be provided, and set equitable and reasonable payment rates.

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