

OVERVIEW

Study of Privatizing Adult Mental Health Program Services

Report No. 99-11, March 1999

Summary

The Department of Health's Adult Mental Health Division is responsible for administering a comprehensive mental health system to care for and improve the mental health of individuals 18 years of age and older. The division provides an array of direct services to help people function in common activities of daily living through state community mental health centers and contracts with private providers. The division is appropriated about \$19.5 million each year of which \$7.4 million is used for private provider contracts. The 1998 Legislature requested a study to examine the extent to which direct services currently provided in the adult mental health program (HTH 420) could be assumed by private providers.

In this study, we use the definition of privatization set forth by the U.S. General Accounting Office, that is, any process aimed at shifting functions and responsibilities, in whole or in part, from the government to the private sector. The hiring of private-sector firms or nonprofit organizations to provide goods or services for the government through contracts is the most common form of privatization.

A key to the successful privatization of government services is the use of a systematic decision-making process to guide actions taken. Such a process includes an analysis of various factors determinative of the success of privatization efforts. These factors include: 1) Realistic and measurable goals and criteria; 2) Availability of competition; 3) An accurate cost analysis; 4) State employee and union support; 5) Safeguards to mitigate risks; 6) Adequate management controls, monitoring and evaluation; and 7) Controls for maintaining and monitoring quality of service.

Our assessment of whether privatization of current services could be successful is inconclusive because the information and data necessary to perform proper analyses were lacking. For example, the Adult Mental Health Division lacked reliable and complete data necessary to conduct a proper cost analysis. We found insufficient controls over the recording and tracking of staff time as well as inadequacies in the division's computer system.

We also found that the division's existing efforts to manage contracts and coordinate with private providers were inadequate and could not support further privatization. Contract monitoring is inconsistent, performance measures are inadequate for proper evaluation of contractors, and contractual requirements are not enforced. More than half of the division's contracts have not received on-site monitoring visits. We found no evidence of any program evaluation system or program evaluation reports by contractors. The division also permitted contractors to submit financial reports several months late, in violation of contract requirements. Finally, the division's lack of proper operational plans contributes to a poorly integrated mental health system and ineffective use of private providers.



Recommendations and Response

We recommended that the Department of Health report to the Legislature regarding steps taken to improve contract administration practices such as designating a contract administrator, improving monitoring, establishing adequate performance measures, and executing contracts in a timely manner. The department should also ensure contractors are held accountable. We also recommended that the division establish a consistent contract monitoring process, consider the inclusion of a liquidated damages provision, execute contracts on time, and develop operational plans that guide operations toward achieving goals.

The health department responded that its interpretation of privatization of services differed from that used in the report, that there were advantages to having a limited number of vendors, and that the department's efforts to restructure services has been met by strong resistance from its own staff. In addition the department disagreed with a number of our findings and claims to have taken corrective action to address others, but otherwise did not address the report's specific findings and recommendations. Finally, the department took exception to our comments about limiting our access to its information.

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