

**EVALUATION OF HAWAII'S  
GRANTS-IN-AID, SUBSIDIES, AND  
PURCHASES OF SERVICE PROGRAM**

**Chapter 42, Hawaii Revised Statutes**

**A Report to the Governor and the Legislature of the State of Hawaii**

**Submitted by the  
Legislative Auditor of the State of Hawaii  
Honolulu, Hawaii**

**Report No. 89-11  
January 1989**

## FOREWORD

The Supplemental Appropriations Act of 1988 requested the Legislative Auditor to study aspects of grants-in-aid and purchases of service contracts authorized by Chapter 42, HRS.

In response to the request, we examined the administration of Chapter 42 by the Department of Budget and Finance. We also examined the operations of the Department of Health's Mental Health Division and the Department of Human Services' Public Welfare Division since they oversee a significant proportion of the grants-in-aid and purchase of service contracts. Other executive agencies and the Judiciary were reviewed on a more general basis.

We wish to acknowledge the cooperation and assistance extended to us by personnel of the Department of Budget and Finance and the following state agencies: Judiciary, Department of Health, Department of Human Services, Department of Corrections, Executive Office on Aging, Office of Community Services, State Foundation on Culture and the Arts, and Department of Education. We would also like to acknowledge the cooperation and assistance of the Health and Community Services Council of Hawaii.

Newton Sue  
Acting Legislative Auditor  
State of Hawaii

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## Chapter 1

### INTRODUCTION

This study was undertaken in response to Sections 65, 91, and 331A of the Supplemental Appropriations Act of 1988 which requested the Legislative Auditor to study aspects of grants-in-aid and purchases of service contracts authorized by Chapter 42, HRS. Chapter 42 establishes qualifying standards for private organizations applying for public funds and prescribes procedures for the review of applications and the expenditure of funds.

This introductory chapter summarizes the legislation mandating the study and describes the objectives, scope, and organization of this report.

#### **Legislation Requesting the Study**

Section 331A of Act 390, SLH 1988, requires the study to include the following:

- “1. An evaluation of chapter 42, HRS, to determine if it provides adequate guidelines for the effective and efficient administration of all activities covered under the chapter;
- “2. An evaluation of the administrative rules on grants-in-aid and purchase of service contracts as administered by the department of budget and finance;
- “3. An evaluation of the application process for new or expanding services;
- “4. An evaluation of the request for proposal (RFP) process;
- “5. An evaluation of the review process currently in place, with special emphasis placed on the methods used to evaluate the providers’ effectiveness and efficiency in providing the service for which they were contracted; and
- “6. An analysis and evaluation of selected grants-in-aid and purchase of service contracts. This shall include, but not be limited to:
  - a. A determination of any duplication of efforts; and
  - b. A determination of the cost effectiveness of a particular provider compared to other public or private providers of similar services.”

Section 65 of the act requires the Legislative Auditor to conduct financial and performance audits of a sample of total expenditures for purchases of mental health services under the HTH 401 program category.

Section 91 requires the Legislative Auditor to conduct financial and performance audits of a sample of total expenditures for purchases of services to individuals and families under the SOC 111 program category.

## **Objectives**

The objectives of this study are:

1. To evaluate the efficiency and effectiveness of the implementation of Chapter 42.
2. To evaluate a sample of purchases of service in mental health and services to individuals and families to determine compliance with the terms of the contracts in expending appropriated funds and to evaluate the adequacy of monitoring by agencies of the private providers.
3. To the extent possible, to evaluate selected grants-in-aid and purchase of service contracts in certain service areas to determine the relative cost-effectiveness of the services provided.
4. To evaluate Chapter 42 and the accompanying rules, to determine if they provide adequate guidelines for the effective and efficient administration of activities covered under the chapter.
5. To identify problems in the Chapter 42 process and recommend improvements.

## **Scope**

The report covers the administration of Chapter 42 by the Department of Budget and Finance. We also specifically examined the operations of the Department of Health's Mental Health Division and the Department of Human Services' Public Welfare Division since they oversee a significant proportion of the grants-in-aid and purchase of service contracts. Other agencies reviewed on a more general basis included the Department of Education, State Foundation on Culture and the Arts, Executive Office on Aging, Office of Community Service, and Department of Corrections. Our review encompassed some general issues relating to duplication and cost-effectiveness. We also reviewed the Chapter 42 process of the Judiciary, and the largest purchaser of services in the Judiciary, the First Circuit Family Court. Descriptions of the responsibilities of the agencies for Chapter 42 are provided in Appendix A.

We did not directly evaluate the performance of the private agencies providing purchased services. Instead, we assessed the adequacy of the monitoring and evaluations performed by the two supervising agencies--the Department of Health and the Department of Human Services.

We reviewed a sample of contracts which had been selected for the financial audit and examined additional contracts as appropriate.

The financial audits were conducted by the certified public accounting firm of Coopers & Lybrand on a sample of about 10 percent of the providers receiving appropriations from the programs of community based services for mental health (HTH 401) and social services to individual and families (SOC III). For reasons described in Chapter 3, the auditors could not develop financial statements which reflect the actual cost incurred by the providers for the services contracted and instead developed a schedule listing appropriations, expenditures, and other information provided by the departments. The schedule is displayed in Appendix B.

Although the legislation called for financial audits on FY 1988-89 expenditures, it was more useful to review FY 1987-88 expenditures because more complete expenditure information is available for that year.

### **Organization of the Report**

This report consists of three chapters. Chapter 1 is this introductory chapter. Chapter 2 provides background information. Chapter 3 contains our evaluation of the Chapter 42 process.



## Chapter 2

### BACKGROUND

Appropriations of public funds to private agencies are generally governed by Chapter 42, HRS, which sets standards and procedures for the appropriation of funds to private organizations. This chapter provides background on the use of private agencies to deliver public services in the United States and Hawaii, describes current statutory requirements for funding private organizations, and describes the Chapter 42 process as administered by the executive and judicial branches.

#### **Private Delivery of Public Services in the United States**

The use of private organizations to deliver services for government has emerged as a major national issue during this decade. The term “privatization” is now used to refer to “the use of the private sector in government management and delivery of public services.”<sup>1</sup> By far, the most common form of privatization in state government is contracting out for purchase of service. Other forms of privatization include vouchers, grants, subsidies, and volunteerism. At times, privatization also denotes a philosophical and political concept which advocates the use of the private sector to provide many of the services normally provided by the government.

**Privatization trends for state governments in the 1980s.** Local governments have a history of contracting with the private sector to provide such services as solid waste collection, street cleaning and repair, and ambulance services. States have been slower to privatize although this is beginning to change. In recent years, privatization feasibility studies and privatization legislation have been developed in some states, including Virginia, Texas, Wisconsin, and Connecticut.

A recent review of state privatization efforts categorized the reasons states privatize service. *First*, privatization is viewed as a cost saving measure by those who believe that the private sector can deliver services more cheaply and efficiently than government through economies of scale or competition among providers. *Second*, privatization is viewed as an expedient answer to emergency situations such as a state freeze on hiring or when a state has to meet certain deadlines. *Third*, privatization may be considered a management and productivity tool because

the private sector has less red tape and bureaucracy and because it is easier for the private sector to make changes in technology and workforce. *Fourth*, privatization is seen as a way to cut “big government” and to promote the ideology of “less government, the better.”<sup>2</sup>

Several studies indicate that the trend toward privatization and state contracting is likely to continue. However, definitive information about when and how to effectively privatize services lags behind the growth of the practice.

### **Use of Private Organizations in Hawaii**

Hawaii has used private agencies to provide public services for at least two decades. The growth in privatization led to the constitutional amendment that serves as the basis for the enactment of Chapter 42.

**State grants and purchases of service for mental health services.** Act 213, SLH 1965, authorized the Department of Health (DOH) to establish community mental health and mental retardation programs “to increase the effectiveness of the total state program for the prevention, care and treatment of the mentally ill and mentally retarded.” Among other aspects, the act appropriated \$60,000 for purchases of private mental retardation services and \$30,000 for grants to private agencies. The department was authorized to decide which agencies would receive the state grants.

The Department of Health did not extensively purchase mental health services from private agencies until the early 1980s. In 1976, the Mental Health Division had only 16 contracts valued at \$760,000.<sup>3</sup> A decade later, it had 180 contracts worth \$8.4 million.

The dramatic increase in purchases of service began in 1983 as part of a nationwide trend of providing alternatives for service delivery. The division’s funding request for purchases of service and grants-in-aid amounted to \$523,923 in FY 1982-83.<sup>4</sup> A year later, it jumped to \$3.4 million and has continued to climb since then.

**Purchase of social services.** The 1972 Revenue Sharing Act prompted the State of Hawaii to implement a formal program of purchasing social services from private nonprofit and public agencies. The act set a ceiling on federal financial participation for certain social service programs. The new ceiling for Hawaii was estimated to be four times what it had been receiving. A governor’s task force was established to explore different ways to take advantage of the increased federal funds.

The task force believed that developing a mechanism for purchases of service would allow the state to:

- . “Generate more federal dollars without additional state monies, since private donations were permitted for matching federal dollars for purchased services;
- . “Offer its client population a greater number of services or more specialized services; and
- . “Develop a more flexible service delivery system.”<sup>5</sup>

In 1973, about 45 contracts worth \$6.5 million were executed with private organizations to start the new purchases of service program. Services were purchased for such programs as child care, services to adults, community-based services to the mentally retarded, foster care for children, and services to drug addicts and alcoholics. Prior to 1973, only child care services had been purchased, with the majority of services being directly delivered by the department.

**Constitutional amendment.** Beginning in the mid 1970s, the Legislature grew concerned about the significant increases in state appropriations to private organizations. Many of the private organizations were initially able to obtain donations as the local share of federal matching programs, but some of them were beginning to appeal to the Legislature for state funds to meet the matching requirement. Increasing requests for public support by private organizations created a recurring dilemma for the Legislature over which requests to support and the appropriate levels of support.

Legislative leaders presented this problem to the 1978 Constitutional Convention. A constitutional amendment was subsequently adopted by the convention and ratified by the electorate which stated that: “No grant of public money or property shall be made except pursuant to standards provided by law.”

### **Provisions of Chapter 42, HRS**

In 1981, the Legislature enacted Act 207, codified as Chapter 42, HRS, to implement the constitutional requirement. Amendments were made to the chapter in 1982, 1984, and 1985, but these changes clarified rather than altered the basic substance of the law. In this section, we summarize the current statutory requirements.

Chapter 42 applies to the executive and judicial branches of state government. The Director of Finance has primary responsibility to ensure compliance with the chapter for the executive branch, and the Administrative Director of the Courts has the same responsibility for the Judiciary. Each county is also required to establish standards for the grant of public money or property.

**Types of requests and appropriations.** The law defines three different types of requests and appropriations: grant, subsidy, and purchase of service. A grant is an award of public funds to an organization, generally on a one-time basis, based on merit or need, to stimulate and support activities of the recipient for a specified public purpose.

A subsidy is an appropriation of public funds to a specified organization which enables the recipient to provide services or goods to the general public or specified members of the general public at a lower price.

A purchase of service is an appropriation of public funds for the provision of services by an organization to specific members of the general public on behalf of a public agency to fulfill a public purpose. Payments for such services must be substantially equal in value to the services provided. Excluded from this definition are purchases of service for court-appointed attorneys for an indigent, the professional services of individuals in private business or professions, and services subject to the competitive bidding requirements of Chapter 103, HRS.

**Qualifying standards.** An organization applying for a grant, subsidy, or purchase of service agreement must meet all of the following standards: (1) be a profit organization incorporated in Hawaii or a nonprofit organization exempt from federal income tax; (2) in the case of a nonprofit organization, have a governing board whose members have no material conflict of interest and serve without compensation; (3) have bylaws or policies which describe the manner in which business is conducted and policies relating to nepotism and management of potential conflict of interest situations; (4) have at least one year's experience with the project or in the program area for which the request is being made, provided that an exception may be granted when the organization applying for the contract has demonstrated the necessary experience in the program area; and (5) meet any applicable government requirements for licensing and accreditation.

**Procedures for review of applications.** Generally, the review of requests for funding is to be part of the budget review process of the executive branch and the Judiciary. Every agency anticipating the need to purchase services must identify the services needed and then solicit proposals from potential providers. If the agency fails to receive proposals from providers who can satisfactorily provide the services, the agency may submit proposed budget requests with information on the types of services solicited and the approximate costs of the various services.

Each request for funding from a private provider must be submitted to the Director of Finance or the Administrative Director of the Courts, and the appropriate agency in each branch reviews and analyzes the request in terms of the objectives to be achieved, alternatives by which to achieve the objectives, and the respective costs, benefits, and effectiveness of the alternatives.

When personnel costs are included in whole or in part, the agency must determine the reasonableness of the personnel classification and compensation plans. The agency must then prepare a statement of its findings and recommendations for each request. Requests recommended for approval are to be included in the agency's budget request to the Governor or the Chief Justice.

The Governor and the Chief Justice then review the findings and recommendations of the agencies and incorporate into their respective budgets all requests recommended for funding by the Legislature. Those requests not recommended for funding are to be summarized in a separate report to the Legislature, together with the statements of findings and recommendations. A copy of the statement must be provided to the private organization applying for funds.

If an organization has not submitted an application to the executive branch or the Judiciary but submits it directly to the Legislature, the chairperson of the appropriate legislative standing committee is required to refer the application to the appropriate agency for review. The agency, in turn, is required to submit a statement of its findings and recommendations to the committee within 15 days.

**Appropriations.** Should the Legislature decide to appropriate funds for a request that has not been included in the budget of the executive branch or the Judiciary, it may do so by separate bill after the request has been referred to the appropriate agency for review. The bill must specify whether a grant, subsidy, or purchase of service is being made, name the recipient in the case of a grant or subsidy, and define the public purpose to be served by the appropriation. Funds for purchases of services may be appropriated to the agencies without naming the specific providers.

**Conditions and contracts for receipt of funds.** Organizations authorized to receive funds must agree to comply with certain specified conditions which include: (1) having persons qualified to perform the activity being funded; (2) refraining from using public funds for salary or benefit increases unless the increases are agreed to in the contract with the organization; (3) complying with non-discrimination laws; (4) refraining from using public funds for entertainment or perquisites; (5) complying with other requirements as may be prescribed to ensure adherence to applicable laws; and (6) allowing the State to have access to their records for monitoring and evaluation purposes.

Appropriations cannot be released unless a contract is executed between the agency and the private organization. Each contract must specify that the State will not be held liable for any acts of the organization, and the organization must require signed waivers from participants in

its program holding the State harmless from liability. All contracts must be reviewed by the Attorney General, on behalf of the executive agencies, and the Administrative Director of the Courts, on behalf of the Judiciary, for conformance with public purpose and legislative intent.

The release of funds is subject to the allotment system generally applicable to all legislative appropriations.

**Monitoring and evaluation.** Every grant, subsidy, or purchase of service agreement must be monitored by the appropriate agency for compliance with statutory requirements, public purpose and legislative intent. An annual evaluation is also required of each grant, subsidy, or purchase of service agreement to determine its continued eligibility and whether the intended results have been attained.

### **The Chapter 42 Process**

This section describes the Chapter 42 process as it is administered by the executive branch and the Judiciary through their rules and administrative policies.

**The executive branch.** The Department of Budget and Finance (B&F) administers Chapter 42 for the executive branch. It develops and implements administrative rules (Title 6, Chapter 3) relating to the chapter, issues forms, sets general procedures and requirements, and serves as the overall coordinator of the process.

**Budget development and submittal process.** The Chapter 42 process generally coincides with the development of the biennial executive budget. A public notice soliciting requests for funding from private agencies is published after the legislative session of each even-numbered year. During supplemental budget years, no formal process is in place to receive requests from private agencies for funding. Instead, requests must be made directly to the Legislature.

**Solicitation of requests.** The Director of Finance initiates the process by notifying executive agencies of an intent to publish a public notice that requests for proposals for grants, subsidies, and purchases of service will be accepted from private agencies. Agencies desiring to purchase services must submit a list of services to B&F to be included in the public notice, designate an agency coordinator, and develop a request for proposal (RFP) for distribution to interested private agencies. The RFP must contain the following information:

- . program or service being solicited;
- . scope of the program or service being solicited;
- . any requirements or qualifications that an organization must meet in order to submit a proposal, in addition to the chapter 42, HRS, requirements;

- . objectives of the program or service;
- . performance requirements;
- . criteria by which proposals submitted will be reviewed and evaluated; and
- . criteria by which the performance of the contract will be monitored and evaluated.

For the 1989-91 biennium, the Governor added a new requirement that a cost benefit analysis be performed prior to publishing the public notice. Each department had to submit an analysis for each service it planned to contract out comparing the cost of a particular service by the public sector versus the private sector. The analyses had to be approved by B&F.

B&F compiles the listing of RFPs for inclusion in the public notice. The notice also announces the deadline for submission of all requests and where to pick up RFPs and request forms. Private organizations usually have between six weeks to two months to submit their requests.

Each request must be submitted to B&F on B&F forms. Once received, each request is given a B&F log number so that it can be tracked along the process. Each organization must submit four copies of the following:

- . completed application;
- . tax exemption certification, if non-profit;
- . articles of incorporation;
- . financial statement of the organization;
- . by-laws and policies; and
- . applicable licenses.

Requests that do not meet B&F standards or that lack the necessary documentation are returned. Two copies of each completed request are sent to the appropriate agency for further review. Each state agency must then return one copy of the request to B&F to certify that the agency has received a copy of the request.

Agencies can request additional information and documentation from applicants. Most agencies have developed application forms in addition to B&F forms which must be completed by organizations requesting funds.

*Review of requests.* The requests are reviewed twice. B&F staff check the applications initially to determine whether all sets of forms and documentation are complete. Incomplete applications are set aside and providers are asked to provide the additional material. Requests for exemptions are also reviewed at this time.

A second and more thorough review is performed by the appropriate agencies to assure compliance with Chapter 42 standards and to check the completeness of the submittal and

continuing eligibility to apply for funds, among other aspects. In addition, each request must be reviewed to determine the “efficiency and effectiveness of the program in achieving the objectives of the State.” A summary of findings and recommendations is developed for each request. All requests recommended for funding must be included in the agency’s budget request to the Governor. B&F compiles the summary of findings and recommendations for submission to the Legislature. It has not made any changes to agency recommendations in recent years.

*Submittal of requests to the Legislature.* B&F submits two copies of each proposal, the summary of findings and recommendations, along with the executive budget to the Legislature.

*Budget execution process.* Before B&F releases funds, the administering agency must certify that it had reviewed the request as required by Chapter 42. In 1987, a number of line-item appropriations to private organizations were vetoed by the Governor because documentation of an agency review could not be found.

The agencies develop RFPs and solicit proposals for those appropriations without designated providers. Each agency negotiates with providers and develops contracts. Most of them have some type of model contract which is modified to meet specific needs. Each agency’s attorney must approve each contract as to form. At the end of each fiscal year, providers are required to submit a variance report on B&F forms to report differences between budgeted costs and actual costs. Based on these forms and other information they have gathered, state agencies must fill out B&F monitoring and evaluation forms to meet the monitoring and annual evaluation requirements of Chapter 42.

**The Judiciary.** The purchase of service program for the Judiciary is administered by the Office of the Administrative Director of the Courts. The office is responsible for developing the administrative rules which implement Chapter 42 within the Judiciary. It also develops forms and is overall coordinator of the process.

The Judiciary’s administrative rules, Title 22, Subtitle 1, Part I and its procedures establish the following process and requirements for developing and executing budgets for grants, subsidies, and purchases of service.

*Budget development and submittal process.* Like the executive branch, the Chapter 42 process of the Judiciary has generally coincided with the development of the biennial budget.

*Solicitation of requests.* The Judiciary’s budget office submits a draft of proposed RFPs to program units for review. The program units are allowed to suggest changes to the RFPs, but final approval of changes still rests with the budget office.

Once the RFPs have been finalized, the Judiciary fiscal office publishes the request for proposal notice in the local newspapers and provides information packets and application forms to applicants. The fiscal office also handles receipt and distribution of proposals to the programs.

Two copies of each request must be submitted to the Administrative Director of the Courts along with two copies of the following:

- . by-laws or policies describing the manner in which business is conducted;
- . applicable licenses;
- . most recent financial statement; and
- . organizational structure, personnel structure, and compensation plan for all employees.

*Review of requests.* The program units review the proposals and make their recommendations to the budget office. The program units must keep their recommendations within their budget ceilings which are set by the budget office. However, the Judiciary's 1989-91 budget preparation policies for the fiscal biennium allowed program units to request additional funds which exceeded their original budget ceilings if there were additional services they wanted to provide.

*Submittal of requests to the Legislature.* The budget office summarizes the findings and recommendations for all the Judiciary programs and submits a summary report to the Legislature, along with its regular budget submittal. Unlike the executive branch, it does not submit the proposals received in the RFP process.

*Budget execution process.* The budget office requires private agencies which have not submitted an application, but received funds directly from the Legislature, to submit applications for the record. Program units responsible for specific contracts reassess their current needs and adjustments may be made to the allocation. Program staff negotiate with providers and develop contracts using a stock contract, with specific program descriptions and compensation provisions added in. The staff attorney for the Judiciary then approves the contracts as to form.

Judiciary rules require quarterly monitoring of contract providers. In addition, it has contracted with a private research consultant to "assess the impact of the purchase of service program in attaining Judiciary objectives and goals for Family Court, Adult Probation, and Public Guardianship Programs."<sup>6</sup> The evaluation is ongoing, and has been performed annually for three years.



## Chapter 3

### OVERALL ASSESSMENT OF THE CHAPTER 42 PROCESS

This chapter evaluates the implementation of Chapter 42 and provides recommendations to improve the process.

#### **Summary of Findings**

We find that although state agencies have made improvements in implementing the process, there are several deficiencies which impair its efficiency and effectiveness. We find as follows:

1. The growth in appropriations under Chapter 42 raises important operational and policy issues concerning the capability of state agencies to manage private providers and the degree of state commitment to privatize.
2. There is inadequate communication and coordination among state agencies in the implementation of the statute.
3. The efficiency of the process is hampered by questionable procedures and confusion about certain aspects of the statute.
4. The monitoring performed on contracts is generally inadequate.

#### **Growth in Appropriations**

In recent years, there have been significant increases in appropriations to private organizations, primarily for purchases of service. Between FY 1985-86 and FY 1986-87, appropriations for grants, subsidies, and purchases of service grew 10 percent, from \$32 million to \$35 million.<sup>1</sup> Between FY 1987-88 and FY 1988-89, appropriations grew 25 percent, from about \$41 million to \$51 million. A historical breakdown of the increases by program category is provided in Appendix C.

Contributing to the increases have been legislative supplements to agency budget recommendations. As Table 3.1 indicates, the Legislature added 13 percent to agency recommendations for FY 1987-88 and 37 percent for FY 1988-89.

Table 3.1

Comparison of Departmental Recommendations  
and Legislative Appropriations for Grants, Subsidies, and Purchase of Service  
1987-89 Fiscal Biennium

	FY 1987-88 Dept. Rec.	FY 1987-88 Leg. Appro.	% Increase	FY 1988-89 Dept. Rec.	FY 1988-89 Leg. Appro.	% Increase
Employment						
LBR 903	3,569,295	3,808,256	7%	3,569,295	4,754,035	33%
SOC 802	1,304,963	1,304,963	0%	1,338,821	1,503,959	12%
Health	17,338,077	17,293,100	0%	17,729,474	20,699,799	17%
Social Services						
SOC 111	6,779,952	8,695,932	28%	6,780,426	9,938,364	47%
GOV 602	3,279,329	3,921,589	20%	3,278,353	4,370,396	33%
BED 225	0	0	NA	0	205,600	NA
Education	510,265	631,246	24%	510,265	702,048	38%
Culture & Rec	2,024,065	3,881,565	92%	2,024,065	6,654,993	229%
Public Safety	1,223,988	1,125,755	-8%	1,260,146	1,256,796	0%
Economic Development	0	0	NA	0	635,000	NA
Judiciary	<u>2,899,150</u>	<u>3,203,895</u>	11%	<u>3,144,549</u>	<u>3,680,914</u>	17%
Grand Total	<u>38,929,084</u>	<u>43,866,301</u>	13%	<u>39,635,394</u>	<u>54,401,904</u>	37%

Sources: 1986 Departmental Priority Summaries of Recommendations for Grants, Subsidies and Purchases of Service; 1988 Supplemental Appropriations Act and Budget Worksheets.

These supplements appear to be prompted in part by direct requests to the Legislature by private organizations. Chapter 42 allows requests to be made either through the regular applications process or through direct requests to the Legislature. Requests which are approved through the regular Chapter 42 applications process are included in agency recommendations. Organizations whose requests are not included in agency recommendations can still appeal directly to the Legislature for funds.

Coinciding with the growth in appropriations has been an increase in demand for state funds by private agencies. In 1984, B&F received over 550 requests for funding. This number grew to 650 in 1986. In 1988, the number of requests rose to over 700. The total amount of the requests received by B&F for FY 1989-90 was nearly \$90 million, twice the amount requested for FY 1987-88.

**Concerns about growth.** The growth in requests and appropriations give rise to at least two concerns. *First*, the growth in appropriations may be placing a strain on departments' ability to manage additional responsibilities effectively. *Second*, as purchase of service programs grow larger, a policy issue emerges as to how far the State intends to privatize.

*Management of private providers is a concern.* For FY 1988-89, the Legislature added about \$10 million for grants, subsidies, and purchases of services over the prior fiscal year. Whether these funds went largely to pay for increases in state costs for purchased services or whether the increases funded a significant expansion in the number of units of service provided could not be determined. Indications are, however, that at least some of the increases were for expansion of services.

It is not clear that the agencies are able to manage the additional responsibilities given to them. Each contract requires resources for contract development and administration, which includes contract negotiation, preparation, execution, monitoring, and evaluation. If the growth in contracting responsibilities exceeds the resources available to manage them, then the efficiency and effectiveness of the contracting process is adversely affected.

There is concern that without limits to the number and amount of appropriations to private organizations, the purchase of service system may be getting too large for some agencies to manage effectively. As will be shown later, some agencies are already having difficulty in adequately monitoring the contracts they have. Unless growth in appropriations is limited or there is a mechanism to assure that agencies have adequate resources to manage additional responsibilities, problems in ensuring accountability of providers and maintaining the integrity of the process will not be alleviated.

Some agencies suggest that a set percentage of appropriations should be allocated to administrative costs. We do not believe that this would be an appropriate mechanism. It would simply result in increases in administrative costs paralleling increases in overall appropriations. Increases in appropriations do not always result in additional administrative responsibility. Increases in administrative costs should be justified by specific increases in workload which cannot be adequately handled within current resources.

*Growth raises policy question.* As the use and amount of purchases of service increase, a major policy issue is whether the state should privatize to the full extent possible or whether it should place limits on growth. There is currently no state policy which explicitly deals with the level of the State's commitment and desire to privatize.

Many state officials we interviewed were concerned about the increases in appropriations because the amount of state money being appropriated to private organizations is almost equivalent to the entire budget of some state departments. They believe that some of the services might be more appropriately delivered by state agencies.

Some departments are beginning to initiate measures on their own to control the growth of their purchase of service programs. For example, the DOH Mental Health Division developed several initiatives in 1988 to curb the growth of its purchases of service program which between 1976 and 1988, had grown from 16 contracts worth \$760,000 to over 100 contracts worth \$11 million. Among other actions, the division did the following: (1) in planning for the POS budget for the 1989-91 fiscal biennium, the division re-examined the value of services purchased from the private sector and decided to discontinue contracts worth almost \$1 million and directly deliver the services; and (2) the division reduced the number of RFPs issued by 37 percent, from 171 in 1986 to 108 in 1988.

Increases in appropriations may not pose a problem if the increases are based on a sound decision-making process, if services provided are cost-effective, if there are adequate resources to pay for and effectively manage a larger system, and if it is the State's policy to encourage the use of the private sector to provide public services. These issues must be addressed to determine whether funds appropriated are efficiently and effectively meeting the public purpose intended by the Legislature.

### **Inadequate Communication and Coordination**

Chapter 42 provides B&F with rulemaking authority to develop procedures and guidelines to assist executive agencies in complying with the requirements of the statute. B&F also has considerable authority to set budget policies for grants, subsidies, and purchases of service. These responsibilities give B&F a key role as the coordinator for the process in the executive branch.

Implementation of the statute has been hindered by delays, confusion, and problems in coordination. There is a need for B&F to be more timely in communicating changes in budget policies, to clarify certain policies which may contradict the intent of Chapter 42, and to facilitate better communication and coordination among departments.

**B&F budget policies.** The Chapter 42 process for the fiscal biennium 1989-91 was initiated in June of 1988, when the governor sent a memorandum to all executive departments reminding them that “the original intent of purchasing services from the private sector was to secure the most cost-beneficial method of providing services for which the State is responsible to provide.”<sup>2</sup> In keeping with this intent, the governor required that a cost-benefit analysis be performed prior to the solicitation of proposals. Because of the additional time needed for the analysis, the Governor decided to separate the recommendations for funding of grants, subsidies, and purchases of service from the departmental executive budget requests.

No budget ceilings were imposed at the outset of the formulation process. Agencies were given from mid-October to November 10 to review proposals and develop initial lump-sum recommendations.

*Instructions for preparing the cost comparison.* The cost benefit analysis was to be a comparison between the costs of delivering a service by the public sector versus the private sector. With the analysis, departments could then decide who should deliver the service. Other considerations such as quality issues were also to be considered in making the final determination. Unless exempted, all agencies requesting proposals were required to complete the cost comparisons for approval by B&F. Once approved, the RFP could then be published in the public notice.

To explain the new requirement, B&F called a meeting in late June and informed agencies that a cost comparison would be required by July 18. However, the departments did not receive specific instructions on carrying out the analysis until the end of July. In the interim, the agencies were not clear on what was required, and at least one agency delayed development of its analyses until the instructions came out. After the instructions were issued at the end of July, a new deadline was set for mid-August.

The idea of making cost comparisons has merit, but the value of the exercise could be enhanced. More timely instructions and manageable deadlines would improve the utility of the analyses. More detailed guidelines on the mechanics of completing the analyses would generate comparable data among agencies so that cost comparisons could be made for similar services purchased by different agencies.

It should be noted that B&F’s directive also included agencies like the Executive Office on Aging which is restricted from providing services directly under federal law, and the State Foundation on Culture and the Arts which does not provide any services directly. The cost comparisons were largely a pro forma exercise for these agencies.

Cost comparisons can be extremely useful if adequate time is allowed to properly develop and implement the analyses. If B&F plans to require future cost comparisons, it should allow

more time and more agency input to develop adequate guidelines and to train agency staff in developing the analyses to ensure some consistency and quality control. B&F should also try to make the analyses more relevant to the differing needs and situations of various agencies.

*Late budget ceilings and inconsistent guidelines.* Initially, B&F did not impose budget ceilings for Chapter 42 requests. After agencies submitted their Chapter 42 budget recommendations to B&F on November 10, the total executive branch recommendations amounted to \$63.4 million for FY 1989-90, an increase of more than 45 percent over the current general fund appropriation levels.

B&F determined that such an increase could not be accommodated. In late November, B&F set departmental purchase of service and grant-in-aid ceilings at 5 percent over FY 1988-89 appropriation levels or at agency recommended levels, whichever was lower, and it set subsidy ceilings at agency recommended levels.

The setting of budget ceilings this late in the budget formulation process meant that agencies had to recalculate the budget a second time, adding an unnecessary step to the process. To keep budget increases at more moderate levels, B&F could instruct agencies early on to develop alternate budgets showing priorities at different funding levels.

*Guidelines discourage competition.* One intent of Chapter 42 is to set up a request for proposal process which is competitive. This same philosophy lies behind the cost analyses required by the Governor. However, B&F recently prohibited departments from recommending funding for new providers unless current providers are deemed "ineligible" to receive funds. Current target groups for services also have to be maintained. In effect, the B&F restrictions maintain only current services, current service providers, and current budget levels, with increases for inflation. The result is to limit the competition intended by the statute.

Moreover, B&F's policies may contradict its own competitive review criteria. B&F rules require all agencies preparing a request for proposal to include "criteria by which proposals submitted will be reviewed and evaluated."<sup>3</sup> These criteria have to be made known to providers during the RFP phase of the process. In carrying out this rule, for example, the Office of Community Services' information packet to providers states that "(a)pplications which are complete and conform to the...requirements will be subjected to a *competitive review* [emphasis added] and evaluation by a panel selected by the OCS."<sup>4</sup> However, such a review is precluded when current service providers are highly favored to receive continued funding while funding is closed to most new providers.

**Communication and coordination among state agencies.** There continues to be a need for better communication and coordination among state agencies. Agencies are unclear about what

others are doing and operate to a large extent in a void. This can cause confusion among providers who have contracts with several agencies and lead to inefficient and ineffective practices.

Currently, there is no systematic process whereby all departments can share information about all aspects of the contracting process--from procedures, resources, and attorney generals' advice to coordinating the collection of data for needs assessment and setting comparable unit costs for similar services. All agencies would benefit from such exchanges, but this is particularly true for those who contract with the same private agencies providing similar services. One key area where increased coordination would show valuable results is in the setting of standard unit costs.

*Lack of standard unit costs.* There are currently no set standards for what are reasonable unit costs for various services and there are indications that a broad range of compensation packages may exist among agencies for comparable services.

For example, a review of contracts revealed that both the Department of Human Services (DHS) and the Department of Health (DOH) contract with the same provider for emergency shelter services which include individual, group and/or family counseling, and other therapeutic activities. Despite the apparent similarity in services, the provider receives \$52.91 per day from DHS compared with only \$21.72 from the DOH.

In another case, both agencies contract out with the same provider for child abuse services. The DHS contract provides for nonresidential treatment and counseling services for families with children who have been or are prone to being abused or neglected. A range of service activities are included in the scope of the contract including outreach, crisis intervention, assessment, and individual and group treatment and counseling. The DOH contract provides primary prevention services for child abuse and neglect to at-risk parents through weekly self-help group sessions. Although the scope of the DHS contract appears more encompassing, the cost per unit hour is significantly lower. DHS pays \$38.08 per hour compared to DOH's rate of \$47.12.

Differences are also found between the Judiciary and the DOH. Both contract with the same provider to serve victims and initiators of physical and/or sexual abuse. Both contracts appear to call for comparable services. The DOH contract also includes a community services component which is not in the Judiciary contract. Excluding the community services portion, the DOH contract costs approximately \$383 per client while the Judiciary's contract costs about 58 percent more at \$606 per client.<sup>5</sup> If the cost of the community services component is included, the DOH's cost increases to \$519 per client which is still appreciably lower than the Judiciary contract.

We also found a considerable range of costs for similar services purchased by a single agency. For example, a review by mental health division staff revealed that unit costs for particular services fluctuated from \$20 to \$40 in one service category, from \$30 to \$60 in another and from \$65 to \$113 in a third instance.<sup>6</sup>

It may be that unknown distinguishing characteristics account for the differences and that some variation may be warranted. However, these examples point to the unevenness in payment systems which can result from an uncoordinated approach. B&F could assist agencies in a review of unit costs which have been negotiated for comparable services and develop a more systematic and standardized process for determining reasonable unit costs.

*Attempts to improve communication and coordination.* The need to improve communication and coordination has been recognized. In 1985, the contracts administrator for DHS established an informal, voluntary task force made up of representatives from many agencies, including the Judiciary, to discuss ways of improving the Chapter 42 process. However, the task force became inactive when the DHS administrator changed positions the following year.

In 1987, the Health and Community Services Council established a voluntary ad hoc committee to examine ways to improve the implementation of Chapter 42. Many state agencies were represented on the committee, although this time the Judiciary did not participate. The committee is still in existence, but it is not currently active.

These voluntary committees have been too tenuous to implement long-term improvements which require broad representation and continuity.

The governor's ad hoc task force on human services is providing a good start in improving coordination among certain state human service agencies. The task force developed joint application forms in 1988 to identify how much providers are requesting from each agency. However, the objectives of the task force are broader than coordinating their purchases of service program. Furthermore, the task force does not include other agencies, like the Judiciary and the Executive Office on Aging, which contract with many of the same providers.

B&F is in the best position to lead the coordination of efforts. It should reassess its role in the Chapter 42 process and determine how it can most effectively coordinate the implementation of the statute. In its review, B&F should consult with line agencies to obtain their suggestions and identify their problems and concerns.

A formal mechanism such as a Chapter 42 advisory committee should be established to improve communication and coordination among agencies involved in implementing the chapter. The advisory committee should consist of representatives from all state agencies involved in the chapter. The committee could review B&F procedures and policies relating to Chapter 42 and provide input and advice as well as serve as a vehicle to exchange information.

## **Problems Which Hamper the Efficiency of the Process**

We find that there are several problems which impede the efficiency of the process. These include concerns related to unnecessary procedures and confusion about the statute.

**Unnecessary preliminary review.** One aspect of B&F's administrative rules may be unnecessary and could be eliminated to make the process more efficient.

A rule requires B&F to perform an initial review of proposals before forwarding them to the appropriate agencies. This preliminary review entails examining the applications for completeness and determining whether they meet the standards of Chapter 42. Incomplete applications are set aside and providers are contacted to submit missing data or documents. This step can delay the process a week or more.

According to B&F rules, the agencies have ultimate responsibility to assure completeness of the request and compliance with Chapter 42 standards. The preliminary review by B&F is unnecessary since the agencies are ultimately responsible for compliance and providers must meet agency standards or needs.

B&F, with the aid of line agencies, should review its rules to eliminate those provisions which make the process less efficient.

**Confusion about the statute.** There are at least two areas of confusion about the statute. One relates to differing interpretations about the definitions and the other relates to uncertainty about the relationship between Chapter 42 and Chapter 103. This confusion could result in inefficiencies.

*Differing interpretations of definitions.* In interviews with staff from a number of state departments, it became apparent that state officials differ on what distinguishes grants from purchases of service.

Some agency staff say that grants are appropriations given to private agencies on a one-time basis, while purchases of service are appropriations given on a continuing basis and in response to RFP. This interpretation differed from the interpretation we received from the Department of the Attorney General. According to the Attorney General, a grant "is essentially a gift, albeit made with certain conditions which the grantee must satisfy."<sup>7</sup> The State does not receive any direct benefit in return for its funds although a segment of the public may receive direct benefit. A purchase of service situation occurs when a state agency is required or authorized to provide a service but chooses to purchase those services from a nongovernmental agency.

This interpretation of the statute is based on different criteria than those used by some agencies in distinguishing between grants and purchases of service. The agencies look primarily at the duration of the state-provider relationship. The Attorney General examines whether the funds are for a state function and whether the provider is standing in the place of the state.

The difficulty is more than semantic because the criteria used will determine how a particular appropriation will be categorized. Purchases of service and grants are handled differently. More requirements and procedures are imposed on purchase of service requests than grant requests. There should be agreement among the agencies on how each is to be defined.

We believe that the Attorney General's opinion needs to be clarified to other agencies. B&F, in coordination with the Attorney General's office and the state agencies involved in the Chapter 42 process, should develop clear written guidelines to provide uniform guidance to distinguish between grants, subsidies, and purchases of service.

*Uncertainty about the relationship with Chapter 103.* Chapter 103, HRS, relates to competitive bidding procedures and requirements for procuring services or other items from the private sector. The relationship between Chapter 103 and Chapter 42 is also unclear to some agencies.

Chapter 103 allows an exemption from the competitive bid requirements if it can be shown that the provider is the sole source or only one able to provide a service. An exemption must be requested by the contracting agency, and approval must be granted from DAGS. In some instances, it would seem that certain Chapter 42 requests could be processed as a "sole source" to bypass the RFP process. The uncertainty of some agencies about the applicability of Chapter 103 has led to questions about whether certain purchases of service could be handled as sole source contracts.

We asked the Department of the Attorney General to describe the circumstances under which a state agency could contract services under Chapter 103 instead of Chapter 42. The opinion described two possible distinctions. One might be that "an appropriation subject to Chapter 42 will specify that the funds appropriated are to be expended as grants, subsidies, or purchases of services, whereas money expended pursuant to Chapter 103 is appropriated generally for agency operations without referring to Chapter 103 or use of its procedures."<sup>8</sup> A second distinction might be that "appropriations used for Chapter 103 expenditures are prompted by state agencies, whereas appropriations for Chapter 42 are initiated by private entities."<sup>9</sup>

Another point to be considered in distinguishing between Chapter 103 and Chapter 42 is that Chapter 103 applies when an agency contracts for services for itself whereas Chapter 42 applies when an agency contracts for services to be provided to the public. In Chapter 103 the agency is the client; in Chapter 42 the public is the client. We recommend that B&F, DAGS, and the Attorney General's office review the relationship between Chapter 42 and Chapter 103, consult with agencies on their concerns, and if needed, present recommendations to the Legislature on possible amendments to the statute to clarify the relationship.

### **Inadequate Monitoring**

Chapter 42 requires that each grant, subsidy or purchase of service agreement be monitored by the contracting agency to ensure compliance with the statute, the public purpose and legislative intent. Any provider found to be in violation of the statute or the terms of their contract is prohibited from receiving funds for five years.

B&F requires all agencies with Chapter 42 appropriations to annually file monitoring and evaluation reports on each of its contracts. The forms are standardized by B&F and cover the minimal requirements of Chapter 42.

Proper monitoring should include periodic financial and performance progress reports from providers along with periodic on-site reviews of internal controls, financial records, and performance to verify the data in the progress reports.

Written progress reports provide indicators of how well a program is working and signal potential problems. The on-site reviews are necessary to verify the data being reported, to review the internal controls and recordkeeping system of the agency, and to identify and resolve problems in a timely manner. To implement the procedures effectively and efficiently, there should be an adequate number of trained monitors since the quality of monitoring in large part rests with the quality of monitors.

**Review of agency monitoring programs.** All state agencies reviewed have some type of monitoring program ranging from completing B&F monitoring and evaluation forms to elaborate monitoring protocols. However, because agencies do not always verify the data derived from monitoring forms completed by the providers, the monitoring is generally inadequate.

*Department of Human Services and Department of Health.* We reviewed a sample of contracts which had been executed by the DOH Mental Health Division and the DHS Public Welfare Division during FY 1987-88 to determine the adequacy of fiscal and performance monitoring. As part of the assessment of fiscal monitoring, financial records of providers were tested in addition to evaluating reviews by the agency.

*Generally inadequate fiscal monitoring.* Section 42-1, HRS, states that payments for purchases of service shall be substantially equal in value to the services provided. In making this determination, a basic requirement is to obtain information on the actual cost incurred by providers for the services contracted. This information will not only enable the departments to evaluate the financial results of current contracts but will provide a sound financial basis from which future contracts can be negotiated.

In order to obtain actual cost information, the departments require providers to submit a final report containing, among other information, the actual expenditures by cost categories for each

contract. Additionally, the departments' policies and procedures manuals require fiscal monitoring of providers by annual on-site visits by departmental personnel to determine the extent to which providers are in compliance with the fiscal requirements of contracts.

An examination of the accounting records and financial reporting of the selected providers listed in Appendix B, by our financial auditors, Coopers and Lybrand, found that providers generally do not report actual expenditures incurred for the services contracted. Of the 12 providers examined, only one provider, Kapiolani Medical Center for Women and Children, reported actual expenditures. The other 11 providers reported amounts that were close to or equal to the contract budget and these amounts were not verifiable as actual expenditures incurred. These providers were found by the financial auditors to have problems in making proper cost allocations to purchase of service activities.

We believe that the departments should make every effort to monitor contracts in a manner that will ensure the proper reporting of actual costs incurred by providers for the services contracted. This could be achieved with annual on-site visits. These visits should check for compliance and also provide education and guidance to those providers who may need assistance, especially in the area of making cost allocations to purchase of service activities. Although we understand that the DOH has been conducting on-site visits to review the financial aspects of its contracts, such visits have not resulted in proper reporting of actual cost information. The DHS has not performed on-site visits to review financial aspects for several years.

*DOH does not follow performance monitoring protocols.* Within the DOH Mental Health Division, performance monitoring and evaluation activities are decentralized and carried out by three program offices and nine mental health centers statewide. The division's program monitoring protocols require contractors to submit quarterly progress reports and a year-end report describing their performance of services outlined in the contract. Two on-site visits are also required during the first year of the contract, one during the second quarter and one during the fourth quarter. For two-year contracts, at least one site visit is required during the second year of the contract.

Inspection guidelines require monitors to participate in the review and interview key personnel, complete a "requirement inventory" when reviewing requirements, examine written documentation for verification of scope of services, evaluate personnel and client/service records, and tour sites where services are provided, as appropriate. At the end of each visit, an exit interview must be performed to review preliminary impressions and recommendations with the program administrator. Any deficiencies noted are recorded and contractors have 30 days to file their plans for corrective action.

The degree to which the centers complied with the foregoing requirements varied greatly. We found three problem areas. *First*, with the exception of the Windward Oahu Community Mental Health Center, no center complied with the department's protocols for two on-site monitoring visits during the first contract year. One unit did not monitor any contracts at all, and others monitored only some of their contracts. Moreover, 23 percent of the *initial* visits for two-year contracts were not performed in the first year but in the second year of the contract. *Second*, some units did not write inspection reports on a timely basis. We found instances where inspection reports had not been written and submitted to the providers six months after the inspection visit. *Third*, contractors often did not submit plans for remedial action and their quarterly reports as required.

Problems can best be resolved through early identification of deficiencies. Inspection visits made at the end of the fiscal year lose their value and may allow deficiencies to worsen. Poor monitoring makes it difficult to implement division initiatives to strengthen contractual obligations. One division policy says that a two-year contract does not necessarily guarantee continued funding during the second year if contractors fail to meet certain standards. Implementation of this policy would require monitoring visits to be initiated early to determine compliance to division requirements.

Units attribute shortcomings in their monitoring programs to insufficient staffing. While this appears to be part of the problem, many of the deficiencies stem from inadequate oversight and direction by the division's central office. No one in the central office is specifically responsible for ensuring that units conform to the protocols established. As a result, there is little or no accountability.

There are indications that staffing at the central office has also not kept pace with increases in workload. Although purchase of service contracts have increased from 16 contracts valued at \$760,000 in 1976 to well over 100 contracts worth \$11 million in 1988, manpower at the division's central office has dropped during this period from 36.5 positions to 34.5 positions.<sup>10</sup> Despite the establishment of extensive monitoring protocols, the division's ability to exercise the kind of oversight necessary for a strong, responsive, and coherent program may be limited by the available resources.

To address weaknesses in monitoring and other aspects of the contracting process, the division has developed plans to consolidate the contracting process at the division's central office. This includes RFP development, contract preparation, monitoring, and evaluation. The plan entails forming three teams, each consisting of an accountant and two program specialists. This proposal would relieve program staff of the monitoring function and enable them to focus their

efforts on servicing clients. Funding to implement these new procedures has not yet been acquired, however.

*DHS complying with performance monitoring protocols.* The DHS Public Welfare Division has undertaken a three-pronged approach to program monitoring. *First*, program monitors perform desk reviews of quarterly and annual reports from providers. *Second*, providers complete a self appraisal questionnaire which lists 20 questions aimed at determining provider compliance with the terms of the contract. *Third*, the program monitors make at least one on-site visit to each provider annually. During the on-site visit, monitors review some 14 documents, including documentation of client meetings, conference minutes, and client case records. The program administrator and staff are interviewed to gain an overall understanding of program achievements.

Our review of a selected sample of contracts executed during FY 1987-88 revealed that DHS appears to be complying with its performance monitoring protocols. However, because fiscal monitoring by DHS is almost non-existent, quality of the overall monitoring program is weakened.

*Judiciary and Department of Corrections.* The Judiciary has not made progress in ensuring that all its programs have effective fiscal and performance monitoring programs. We found that the First Circuit Family Court has not developed a systematic process to perform on-site fiscal and performance monitoring. The program staff will usually only visit providers when problems are reported. The court's fiscal office cannot verify expenditure data being reported by providers because no review is made of providers' financial records.

The Department of Corrections also does not have a well-defined monitoring program. There is no systematic procedure for on-site fiscal or program monitoring. Standard department progress report forms have not been developed. Written information on the progress of programs is not readily available.

**Impact of inadequate monitoring on program evaluation.** Deficiencies in monitoring programs undermine the entire Chapter 42 process. Compliance to contract and statutory provisions cannot be accurately verified when monitoring programs are inadequate. There are also other far reaching effects.

Chapter 42 mandates that each grant, subsidy, or purchase of service agreement be evaluated annually "to determine its continued eligibility and whether the grant, subsidy or purchase of service agreement attained the intended results in the manner contemplated."

At a minimum, executive agencies must complete B&F evaluation forms annually. These reports are based on year-end variance reports prepared by providers. In addition, state agencies sometimes perform other types of more comprehensive evaluations of the impact of various programs.

When agencies do not verify the accuracy of data, their evaluation of the performance of providers is questionable. This is especially true when agencies rely heavily on provider reports to develop their evaluations.

The quality of evaluations in turn affects the quality of planning and needs assessment. As one agency stated, “(e)valuation is important for planning purposes and to provide a basis for determining how future funds should be allocated.”<sup>11</sup> The planning process for purchases of service is both the starting and ending point in the Chapter 42 process. At the start of the process, needs must be assessed before RFPs are solicited to determine departmental priorities and strategies. At the end of the process, an evaluation of the performance of providers establishes the basis to determine whether a particular service, a particular provider, or a particular approach should be continued. Evaluations based on inaccurate data raise questions about the benefits of privatization, the effectiveness of such programs, and the appropriate level of funding for such programs.

In many service areas, there are contracts with more than one provider for the same service. Agencies may evaluate each provider individually, but the net impact of the entire program is not usually assessed. For instance, DHS has 11 contracts with nine private organizations to provide emergency shelters. DHS monitored the performance and evaluated the results achieved by the nine providers. However, because it did not review the emergency shelter program as a whole, its ability to determine whether the objectives of the overall program have been met is hampered.

The Judiciary is unique in contracting for an ongoing evaluation of its entire purchase of service program. Three annual reports have been issued to date. The objective of the Judiciary’s purchases of service program is to reduce recidivism.<sup>12</sup> It hopes that as additional evaluations are completed, longitudinal data will be available to show the long-term impact of its purchases of service program in meeting its overall objective.

The Judiciary’s experience in contracting for program evaluation should be monitored and reviewed to determine whether it would be cost effective and useful to expand this type of comprehensive evaluation to other state programs. One advantage of having a purchase of service program evaluated as a whole is that it can show the impact of the programs both collectively and individually. A potential problem may be that a useful and cost effective evaluation cannot be developed to meet the needs of some state programs.

Overall, monitoring programs need to be reviewed and strengthened. Agencies should share information about their monitoring programs and continue to work toward addressing and improving weaknesses in their programs. Improvement of monitoring must be made a priority

for all agencies administering purchase of service contracts to ensure the integrity of the process and accurate data for future planning.

### ***Recommendations***

*We recommend that:*

1. *With respect to addressing operational and policy issues relating to growth in appropriations:*
  - . *The Legislature, together with state agencies, identify the resources needed to adequately manage purchases of service programs.*
  - . *A state policy be developed to establish guidelines on the extent of state privatization activities.*
2. *The Department of Budget and Finance undertake the following:*
  - . *Reassess its role in the Chapter 42 process and determine how it can more effectively lead and coordinate the implementation of the statute. To assist B&F in its efforts, a Chapter 42 advisory committee should be established to improve communication and coordination among agencies involved in implementing the statute.*
  - . *With the aid of line agencies, review its rules to eliminate provisions which make the process less efficient. This should include eliminating the requirement for a preliminary review of requests by B&F.*
  - . *In coordination with the Attorney General's office and state agencies, develop clear written guidelines which distinguish between grants, subsidies, and purchases of service.*
  - . *Together with DAGS and the Department of the Attorney General, review the relationship between Chapter 42 and Chapter 103, and present clarifications to the various agencies.*
3. *The agencies involved in purchases of service review and strengthen their financial and performance monitoring and evaluation programs.*

## NOTES

### Chapter 2

1. Chi, Keon S., *Privatization and Contracting For State Services: A Guide*, Lexington, The Council of State Governments, 1988, p. 1.
2. *Ibid.*, p. 3.
3. These statistics were obtained from a proposed RFP manual being developed by the Mental Health Division.
4. The \$523,923 represents the department's request and excludes \$1.7 million added on by the Legislature.
5. Booz, Allen & Hamilton, *Evaluation of the Purchase of Service Program*, San Francisco, 1977, p. 1.
6. SMS Research and Marketing Services, *An Evaluation of the Purchase of Service Program, Judiciary, State of Hawaii*, 1986-87, Vol. I, November 1987, p. 10.

### Chapter 3

1. These totals only include appropriations to executive agencies and exclude funds for the Judiciary.
2. "Requests for Grants, Subsidies, and Purchases of Service for the Fiscal Biennium 1989-91," memorandum from the Honorable John Waihee to all department heads, June 17, 1988.
3. Hawaii, Title 6, Department of Budget and Finance, Chapter 3, Grants, Subsidies, and Purchases of Service, 6-3-5.1(a).
4. Attachment to "Request for Proposals (RFP) for Fiscal Biennium 89-91," memorandum from Walter W. F. Choy to all interested applicants, August 31, 1988.
5. The cost per client was derived by dividing the value of the contract by the number of clients to be served as specified in the DOH and the Judiciary contracts.
6. "RFP Review Information," memorandum from RFP Unit Cost Group to the interim chief, Mental Health Division, May 20, 1988.

7. Letter from Diane Erickson, Deputy Attorney General, to Donna Fujimoto-Saka, Office of the Legislative Auditor, December 2, 1988, p. 2.
8. *Ibid.*, p. 2.
9. *Ibid.*, pp. 2-3.
10. From November 30, 1976 and June 30, 1988 organization charts for the Department of Health, Mental Health Division, Program Support Services and Center Administration Services.
11. Excerpted from the DHS Public Welfare Division purchase of service manual.
12. SMS Research and Marketing Services, *An Evaluation of the Purchase of Service Program, Judiciary, State of Hawaii*, 1986-87, p. 10.

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**RESPONSES OF THE AFFECTED AGENCIES**

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## COMMENTS ON AGENCY RESPONSES

A preliminary draft of this report was transmitted on January 9, 1989 to the Department of Budget and Finance, the Department of Health, the Department of Human Services, and the Judiciary. A copy of the preliminary draft was also sent to the Department of Labor and Industrial Relations upon its request. A copy of the transmittal letter to the Department of Budget and Finance is included as Attachment 1. Similar letters were sent to the other departments. The departments' responses are included as Attachments 2, 3, 4, and 5.

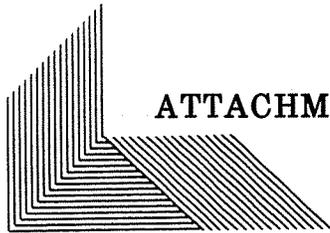
The Department of Budget and Finance stated that the recommendations in the report appeared to be reasonable and that the recommendations specific to the department could be reviewed and discussed with the appropriate state agencies.

The three departments which comprise the Governor's Sub-Cabinet Task Force on Human Services/Resources--Department of Health, Department of Human Services, and Department of Labor and Industrial Relations--issued a joint response to the preliminary report. The members of the task force generally agreed with the findings and recommendations of the report. The Department of Health and the Department of Human Services submitted clarifying statements on their monitoring program.

The Judiciary generally agrees that the report accurately describes the Judiciary's purchase of services protocol. However, it disagreed with our finding that its staff visits providers only when problems are reported. It said that this was true only for administrative staff and that probation officers maintain periodic contact with the providers.

The Developmental Disabilities Division within the Department of Health also submitted comments to bring out other factors which it believes will impact on the future of purchase of service contracts.

THE OFFICE OF THE AUDITOR  
STATE OF HAWAII  
465 S. KING STREET, RM. 500  
HONOLULU, HAWAII 96813



ATTACHMENT 1

January 9, 1989

*COPY*

Mr. Yukio Takemoto, Director  
Department of Budget and Finance  
State Capitol, Room 411  
Honolulu, HI 96813

Dear Mr. Takemoto:

Enclosed are two copies, Nos. 4 and 5 of our preliminary report on the **Evaluation of Hawaii's Grants-in-Aid, Subsidies, and Purchases of Service Program, Chapter 42, Hawaii Revised Statutes.**

In view of your department's responsibilities relating to implementing Chapter 42, we invite your comments on the report. If you decide to submit comments, we ask that you (1) notify us by telephone of this intention by January 11, 1989, and (2) submit your written comments by January 19, 1989, so that they can be included in the final report.

Since the report is not in final form and there could be changes to the report, access to it should be restricted to those persons whom you might wish to call upon to assist you in reviewing the report. The only other parties who have been provided with copies of this preliminary report are the Governor, the Chief Justice of the Supreme Court, the presiding officers of the Legislature, the Director of the Department of Human Services, and the Director of the Department of Health. Public release of the report will be made solely by our office and only after the report is published in its final form and submitted to the Legislature.

We appreciate the assistance and cooperation extended to us during the course of the study.

Sincerely,

Newton Sue  
Acting Legislative Auditor

Enclosures

JOHN WAIHEE  
GOVERNOR

## ATTACHMENT 2



YUKIO TAKEMOTO  
DIRECTOR

ROBERT P. TAKUSHI  
DEPUTY DIRECTOR

THOMAS I. YAMASHIRO  
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM  
HAWAII PUBLIC EMPLOYEES HEALTH FUND  
OFFICE OF THE PUBLIC DEFENDER  
PUBLIC UTILITIES COMMISSION

STATE OF HAWAII  
DEPARTMENT OF BUDGET AND FINANCE  
STATE CAPITOL

P.O. BOX 150  
HONOLULU, HAWAII 96810-0150

DIVISIONS:  
BUDGET, PLANNING AND MANAGEMENT  
ELECTRONIC DATA PROCESSING  
FINANCE  
TELECOMMUNICATIONS

January 24, 1989

RECEIVED

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OFFICE OF THE AUDITOR  
STATE OF HAWAII

Mr. Newton Sue  
Acting Legislative Auditor  
The Office of the Auditor  
465 South King Street, Room 500  
Honolulu, Hawaii 96813

Dear Mr. Sue:

Thank you for the opportunity to comment on your preliminary report on the "Evaluation of Hawaii's Grants-in-Aid, Subsidies, and Purchases of Service Program, Chapter 42, Hawaii Revised Statutes."

With respect to the overall report, although the concerns expressed are understandable, some of the actions taken by the B&F were intended to address broader policy considerations. These actions subsequently had an impact on the Chapter 42 process.

The recommendations in your report appear to be reasonable. However, any state policy developed to establish guidelines on the extent of state privatization activities must include the legislature in view of the authority and the inclination of the legislature to appropriate higher levels of funding for private agencies than are contained in the executive budget.

With respect to the recommendations specific to the B&F, the issues raised can be reviewed and discussed with the appropriate State agencies.

Review of the preliminary report revealed a technical error on page 11, regarding the transmittal of the two copies of completed requests from the Department of Budget and Finance (B&F) to the reviewing State agency. Your report indicates that "each state agency must then return one copy of the request to B&F to certify that the agency has received a copy of the request."

Each time B&F sends the two completed copies of a private agency's request to a State agency, two copies of a transmittal memo listing the requests by the B&F log number and agency name accompany the requests. At the time the requests are delivered to the State agency, the original transmittal memo is signed by the receiving

agency as an acknowledgement that the requests were received. The copy of the transmittal memo is retained by the State agency as a file copy. As such, the State agency returns the original transmittal memo, not a copy of the private agency's request as indicated on page 11.

Thank you for the opportunity to review and comment on your preliminary report regarding the Chapter 42, HRS, Grants, Subsidies, and Purchases of Service process.

Sincerely,

A handwritten signature in black ink, appearing to read 'Yukio Takemoto', with a stylized flourish extending to the right.

YUKIO TAKEMOTO

ATTACHMENT 3



WINONA E. RUBIN  
DIRECTOR

ALFRED K. SUGA  
DEPUTY DIRECTOR

MERWYN S. JONES  
DEPUTY DIRECTOR

STATE OF HAWAII  
DEPARTMENT OF HUMAN SERVICES

P.O. Box 339  
Honolulu, Hawaii 96809

January 20, 1989

RECEIVED

JAN 23 1 42 PM '89

OFF. OF THE AUDITOR  
STATE OF HAWAII

Mr. Newton Sue  
Acting Legislative Auditor  
Office of the Auditor  
465 South King Street, Rm. 500  
Honolulu, Hawaii 96813

Dear Mr. Sue:

**RE: RESPONSE TO THE EVALUATION OF HAWAII'S GRANTS-IN-AID,  
SUBSIDIES, AND PURCHASES OF SERVICE PROGRAM, CHAPTER 42,  
HAWAII REVISED STATUTES**

After a review of the evaluation report, members of the Governor's Sub-Cabinet Task Force on Human Services/Resources (Department of Human Services, Department of Health, and Department of Labor and Industrial Relations) felt that both Chapters 1 and 2 were very well written and factual. One area of clarification needed relates to the exemption process on page 16. As the report now stands, it indicates that requests for exemptions are reviewed, but it does not describe what the process entails and who makes the final decision.

In chapter 3, which reviewed the findings of the evaluation, we have the following comments:

- On pages 15-16, we concur with the finding that most of the growth in the appropriations for Purchases of Service (POS) are due to legislative add-ons. Because the POS add-ons occur late in the budgetary process, departments may have difficulty in incorporating them into their plans and priorities. It is this concern which prompts the Task Force members to recommend that Section (5) of Chapter 42 be reviewed and amended so that a more comprehensive and effective method can be developed to take into consideration functional plans and departmental priorities. Such plans and priorities can provide direction to vendors, clarification of types of services needed and locating where the services are needed.

- On page 17, we concur with the finding that a set percentage of appropriations is an inappropriate mechanism to fund administrative costs related to POS. However, we feel that this area should be looked at closely as part of the justification process because the POS add-ons occur late in the legislative process, "administrative percentage rates" may be one way of addressing the need for additional administrative costs.
- On page 18, paragraph 2, the statement is made that some State Officials believe that some of the services might more appropriately be provided by state agencies. We would like to note that agencies would need additional resources in order to be able to accomplish this.
- On page 19, we concur that the ceiling was set too late in the process.
- On page 21, we agree with the observation that there is no systematic way of sharing information among the agencies, and we also concur that one way to correct that would be to establish an advisory committee to assist Budget and Finance in that process.
- On page 22, we agree with the finding that Budget and Finance could be of assistance in helping to develop a more systematic and standardized process for determining reasonable unit costs.
- On page 24, we concur with the finding for the need to re-evaluate Chapters 42 and 103.
- On page 29, we agree with the auditor's finding that the Judiciary's method of contracting evaluations for POS contracts be reviewed.
- Finally, on page 30, we generally concur with all of the recommendations in the auditor's report.

Specific findings which directly apply to the Department of Health and the Department of Human Services, which need further clarification in order to correct potentially unwarranted or negative impressions, are addressed below:

**DEPARTMENT OF HEALTH**

- On page 26, which states that "DOH does not follow performance monitoring protocols", the following perspective is offered:

Each contract is developed and negotiated with the specific service requirements of each service area in mind. Monitoring and field review of all contracts, as indicated in your report consist of both fiscal/programmatic scopes of service review. The latter includes the review of client records to not only verify the number of hours and type of services/activities received, but also the appropriations of those services. The lack of uniform number of reviews is not non-compliance, but a deficiency in the mechanics of a process.

On page 27, which refers to the lack of centralized direction, the following clarification is offered:

The development and implementation of the Division's monitoring processes were done at the "central level. Necessary training and orientation was also developed and provided at the "central" level. The original protocol as developed was a decentralized process. Because the priorities of the division have shifted and demands and array of services increased, it is true that as noted in the last paragraph on page 27, we have now shifted our focus to developing a centralized process primarily to "free up" our services units to do what they should be doing...providing services to the chronically mentally ill.

#### DEPARTMENT OF HUMAN SERVICES

- On page 25, the department concurs with the finding that there is inadequate fiscal monitoring at this time. However, it should also be mentioned that the department had identified this weakness in prior years and attempts have been made to address this problem area as evidenced by its departmental reorganization efforts to create an Evaluation Office and to request funds to establish temporary auditor positions.
- On page 29, exception is taken with the finding that "the Emergency Shelter Programs are not looked at as a whole". Departmental staff indicate that the overall perspective and review of the area is currently done by program development staff with input from the Purchase of Service Staff and the Branch Staff.

The Human Services/Resources Task Force would like to thank you for the opportunity to comment on this evaluation report.

We realize that the Chapter 42 process is complex and hope that your report will assist in streamlining the process towards facilitating our efforts to more appropriately redirect our POS activities within the priorities of the human services and human resources arena.

Sincerely,



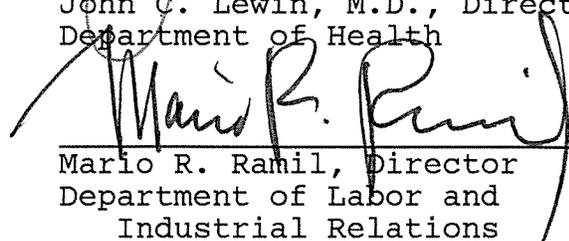
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Winona E. Rubin, Director  
Department of Human Services



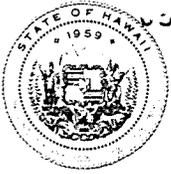
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John C. Lewin, M.D., Director  
Department of Health



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Mario R. Ramil, Director  
Department of Labor and  
Industrial Relations



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## ATTACHMENT 4

RECEIVED

JAN 19 11 02 AM '89

OFFICE OF THE AUDITOR  
STATE OF HAWAIIOffice of the Administrative Director of the Courts  
The Judiciary • State of Hawaii

Post Office Box 2560 Honolulu, Hawaii 96804

Herman Lum  
Chief JusticeJanice Wolf  
Administrative DirectorTom Okuda  
Deputy Director

January 19, 1989

Mr. Newton Sue  
Acting Legislative Auditor  
The Office of the Auditor  
State of Hawaii  
465 S. King St. #500  
Honolulu, HI 96813

Dear Mr. Sue:

The Judiciary has reviewed the preliminary report and wishes to submit our comments on the Evaluation of Hawaii's Grants-in-Aid, Subsidies, and Purchase of Services Program, Chapter 42, Hawaii Revised Statutes.

In general, we believe that the report accurately reflects the Judiciary's purchase of services protocol. However, we would like to clarify certain statements in this report.

First, we would like to respond to the following language (on page 28) which states as follows:

The Judiciary has not made progress in ensuring that all its programs have effective fiscal and performance monitoring programs. We found that the Family Court First Circuit has not developed a systematic process to perform on-site fiscal and performance monitoring.

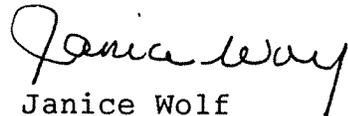
The Judiciary believes that we are addressing these issues through our contract with the SMS Research & Marketing Services, Inc. and the creation of a Program Evaluation section within our Budget and Fiscal Office. We expect that SMS will develop a formalized system for evaluation of all Judiciary programs based upon empirical research methodology. It is further anticipated that the Judiciary's Program Evaluation office will implement this process. We feel that it is more effective to conduct centralized program evaluations at the Administrative level than to have the respective users (i.e., Family Court, First Circuit) perform independent audits at their level.

Mr. Newton Sue  
January 19, 1989  
Page two

We also wish to clarify the report's statement that the "staff only visits providers when problems are reported." We respectfully disagree with this statement as the liaison probation officers within the Family Court, First Circuit, are responsible for maintaining periodic contacts with the minors and placement agencies (providers). It is correct to state, however, that the Family Court's administrative staff will only visit the providers when problems which exceed the authority of the liaison probation officers are reported or when administrative issues are in question.

Thank you for the opportunity to comment on your draft.

Sincerely yours,

A handwritten signature in cursive script that reads "Janice Wolf".

Janice Wolf  
Administrative Director

ATTACHMENT 5

JOHN WAIHEE  
GOVERNOR OF HAWAII



RECEIVED

JOHN C. LEWIN, M.D.  
DIRECTOR OF HEALTH

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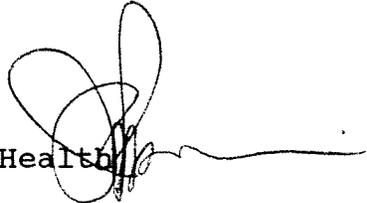
OFFICE OF THE AUDITOR  
STATE OF HAWAII

STATE OF HAWAII  
DEPARTMENT OF HEALTH  
DEVELOPMENTAL DISABILITIES DIVISION

P.O. BOX 3378  
HONOLULU, HAWAII 96801

January 17, 1989

TO: The Office of the Auditor

THROUGH: John C. Lewin, M.D., Director of Health 

FROM: Developmental Disabilities Division, Dept. of Health

SUBJECT: Comments on the preliminary report on the Evaluation of Hawaii's Grant-In-Aid, Subsidies, and Purchase of Service Program, Chapter 42, Hawaii Revised Statutes.

Thank you for providing us the opportunity to respond to the preliminary report.

The comprehensive report certainly addressed the major issues which the agencies have long recognized and felt the need to remedy. We wish to also bring out other factors which are emerging and will certainly impact on the future of purchase of services contracts.

1. The private agencies are now indicating that the appropriations are insufficient to pay adequate salaries for staff retention. Therefore, unless salaries are comparable to State employees, they will not be able to provide the quality services, nor will they be able to continue serving the numbers as in the past.

While the direct care staff salaries are certainly very low, the top management and other administrative staff are often times paid higher than State employees with comparable responsibilities. This issue will again raise appropriations in purchase of services.

2. Because the private providers are usually locked into previous appropriations with a percent increase through the regular budget process, (i.e., Biennium 1989-91 with a 5% increase on current level) they have no recourse but to go to the Legislature for increased funding. Hence the marked increase through the years.

3. At times, the Legislature appropriates funds for services against the agency's recommendation. Once appropriated as purchase of services, the appropriations continue. The lack of any guidelines for State policy will proliferate legislative appropriations for purchase of services, grant-in-aid, and subsidies.
4. The unevenness in payment to providers is a problem which the Division is attempting to address. But again, we are looking at the services for the developmentally disabled only and not the entire spectrum of similar services purchased by other programs and agencies. We will welcome any assistance Budget and Finance can offer to develop a more systematic and standardized process for determining unit costs.

While State privatization activities have been an expedient way to meet the program needs, we are finding that private providers continue to pick and choose the clients they wish to serve and the State is left with the most difficult and those no one wants to serve. At the same time, private providers are insisting that because the State is not providing the services, they are needed to do the job.

We wanted to offer our comments as to our experiences with Chapter 42 as support to your preliminary recommendations and to add other issues which may not have been discussed during your study.



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## APPENDICES

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## APPENDIX A

### Description of State Agencies Reviewed

#### **Department of Health**

The Department of Health (DOH) has an array of programs which administer grant, subsidy, and purchase of service appropriations ranging from purchasing services for family planning and the developmentally disabled to subsidies to private hospitals. Our review focused on the Department of Health's Mental Health Division (MHD) which provides mental health and substance abuse services. The division handles the largest amount of purchase of service appropriations and contractors among all DOH programs.

The division chief, with administrative support from the division's central administrative services and program support services sections, has the overall responsibility for managing, directing, planning and coordinating operations of the organization. Contracting responsibilities are operationally decentralized among nine mental health centers and three central program offices which are given considerable latitude in determining service area needs, developing and preparing contracts, and monitoring and evaluating performance. These units also directly provide some services.

The MHD's FY 1988-89 budget for purchases of services amounted to over \$11 million, nearly one-third of the division's operating budget of \$35.8 million. Contracted services include preventive education and screening, emergency and crisis intervention, diagnostic and outpatient treatment, and partial short-term hospitalization.

#### **Department of Human Services**

The Department of Human Services (DHS) purchases services in the areas of vocational rehabilitation and services to individuals and families. Our review focused on the purchases of services for individuals and families which is administered by the Public Welfare Division (PWD).

The division's program development office provides staff support to the PWD administrator in program planning and budgeting, monitoring and evaluation, and assessment of human service needs. Within the program development office, the purchases of service unit assumes the day-to-day duties of negotiating, executing and managing the purchase of service contracts. The unit also is responsible for evaluating provider effectiveness and determining if providers are complying with the terms and conditions of Chapter 42.

During the FY 1988-89, DHS's appropriation for purchases of service for individuals and families amounted to \$9.9 million. Purchased services were in such areas as child protection, emergency shelter placement, child day care, social rehabilitation, and spouse abuse.

## **State Foundation on Culture and the Arts**

The State Foundation on Culture and the Arts (SFCA) is administered by an executive director assisted by a seven member staff, including an accountant and contracts administrator. SCFC does not implement any culture and arts projects. Rather, it provides financial assistance to individuals, groups and private organizations that propose and implement projects. In general, SFCA's functions are to solicit requests for funding, evaluate proposals received, negotiate and award contracts, and monitor and evaluate the effectiveness of the projects which it sponsors.

For the fiscal biennium 1987-89, SFCA entered into 134 contracts with some 79 providers in such areas as arts in education, community arts, ethnic heritage and folk arts, humanities, literary arts, media arts, performing arts, and visual arts.

## **Executive Office on Aging**

The Executive Office on Aging (EOA) is responsible for planning, program development, and advocacy on behalf of Hawaii's elderly. The office oversees and coordinates programs mandated by the Older Americans' Act of 1965, as amended, as well as Chapter 349, HRS, as amended.

Under federal law, the EOA cannot provide services directly to the public unless specifically exempted. Thus, most services funded by EOA are contracted out.

The Chapter 42 process is administered within the EOA by the Community Assistance and Program Management Division with support from the Planning and Administrative Services division. Four county agencies on aging are also involved in the process.

The EOA's FY 1988-89 budget for purchases of services, grants, and subsidies amounted to about \$4.4 million. It has four major contracts with the four county agencies on aging which in turn subcontract with local private and public agencies to provide services. Contracted services include transportation, legal services, multipurpose senior center services, and information and referral services.

## **Office of Community Services**

The Office of Community Services (OCS) was established in 1985 by Act 305, SLH 1985. The Act combined the former Hawaii Office of Economic Opportunity, the State Immigrant Services Office, and the Progressive Neighborhoods Program. It also transferred the function of administering federal funds for refugees in the State to OCS.

OCS does not deliver any services directly but rather administers contracts with private agencies servicing OCS clients. By statute, the office also has a major planning emphasis to establish statewide goals and objectives relating to refugees, immigrants, and disadvantaged persons.

The Chapter 42 process within OCS is coordinated by the special assistant to the director. Program specialists assigned to the various service areas develop contracts and monitor providers.

During FY 1988-89, OCS administered about \$4.8 million in purchase of service appropriations. Among its more notable contract responsibilities is handling the federal Community Service Block Grant funds which are specifically designated for local community action programs.

### **The Judiciary**

The purchase of service program for the Judiciary is administered by the Office of the Administrative Director of the Courts. The office is responsible for developing the administrative rules which implement Chapter 42 within the Judiciary.

Most of the Judiciary's contracts and purchases of service appropriations are administered by the family courts, especially the First Circuit Family Court. Total purchase of service appropriations for the Judiciary through the 1988 Supplemental Appropriations Act was about \$3.7 million for FY 1988-89. Appropriations of the First Circuit Family Court accounted for about 60 percent of the Judiciary's total POS budget for the biennium. The Judiciary contracts with various private agencies to provide such services as shelter, substance abuse, and counseling to adults and juveniles who come in contact with the judicial system.

### **Department of Corrections**

The Department of Corrections (DOC) was established by Act 339, SLH 1987. The 1989-91 fiscal biennium budget process marked the first time the DOC had to implement the Chapter 42 process for the corrections program. The responsibility for preparing the purchase of service budget and developing contracts rests with the Corrections Division Program Planning Office. The facilities, such as the Oahu Correctional Facility, are responsible for day to day monitoring of providers.

The department's budget for purchases of service budget for FY 1988-89 amounted to \$1.3 million. Its various facilities contract for such services as substance abuse treatment, sex abuse treatment, and psychiatric counseling for inmates.

### **Department of Education**

The Department of Education's (DOE) purchase of service program is directed towards assisting disadvantaged children by providing them with special kinds of services such as drop-out prevention and acquisition of language arts skills.

The budget branch administers the department's purchase of service program. It develops the purchase of service budget, prioritizes projects, and processes and approves all required forms and contract agreements. The DOE district offices handle needs assessment studies, requests for and evaluation of proposals, program and fiscal monitoring, and payment of invoices.

In FY 1987-88, the DOE entered into seven contracts amounting to approximately \$631,000. Of the seven contracts, six were for the purpose of providing services in designated schools in the Honolulu, Leeward, Hawaii and Maui districts. The other contract was to provide statewide workshops on Asian and Pacific studies.

## APPENDIX B

### DEPARTMENT OF HEALTH

Schedule of purchase of service contracts  
for selected private agencies  
for the year ended June 30, 1988

Provider	Contract Number	Contract Period		Appropriation	Contract Amount	Expenditure	Encumbrance	Transfer In (Out)	Lapse of Appropriated Balance
		From	To						
Alcoholic Rehabilitation Services of Hawaii, Inc.	88-41	7-1-87	6-30-88	\$ 52,515	\$ 51,084	\$ 47,752	\$ 3,332	\$ -	\$ 1,431
	88-42	7-1-87	6-30-88	32,500	30,810	30,710	100	-	1,690
	88-123	7-1-87	1-31-88	169,833	126,984	126,984	-	(37,421)	5,428
	88-169	3-1-88	6-30-88	-	24,512	18,228	6,284	24,512	-
				<u>254,848</u>	<u>233,390</u>	<u>223,674</u>	<u>9,716</u>	<u>(12,909)</u>	<u>8,549</u>
Child and Family Service	88-26	7-1-88	6-30-88	199,472	189,767	166,893	22,874	-	9,705
	88-32	7-1-88	6-30-88	62,189	58,955	58,855	100	-	3,234
	88-38	7-1-88	6-30-88	75,993	72,041	65,695	6,346	-	3,952
	88-45	7-1-87	6-30-88	24,911	23,616	22,516	1,100	-	1,295
	88-56	7-1-87	6-30-88	54,072	51,520	48,595	2,925	-	2,552
	88-57	7-1-87	6-30-88	31,025	30,972	29,509	1,463	-	53
	88-89	7-1-87	6-30-88	17,829	16,902	11,468	5,434	-	927
	88-93	7-1-87	6-30-88	27,560	27,519	26,639	880	-	41
	88-108	7-1-87	6-30-88	20,107	19,061	15,636	3,425	-	1,046
	88-109	7-1-87	6-30-88	20,717	19,640	19,195	445	-	1,077
	88-113	7-1-87	6-30-88	18,180	17,235	15,890	1,345	-	945
	88-114	7-1-87	6-30-88	53,878	51,077	46,588	4,489	-	2,801
				<u>605,933</u>	<u>578,305</u>	<u>527,479</u>	<u>50,826</u>	<u>-</u>	<u>27,628</u>
	Hilo Transitional Services, Inc.	88-01	7-1-87	6-30-88	80,000	75,840	69,697	6,143	-
88-03		7-1-87	6-30-88	32,000	31,984	29,265	2,719	-	16
88-04		7-1-87	6-30-88	45,000	42,660	39,177	3,483	-	2,340
88-05		7-1-87	6-30-88	28,288	26,817	24,623	2,194	-	1,471
88-06		7-1-87	6-30-88	20,000	18,960	11,072	7,888	-	1,040
				<u>205,288</u>	<u>196,261</u>	<u>173,834</u>	<u>22,427</u>	<u>-</u>	<u>9,027</u>
The House, Inc.	88-80	7-1-87	6-30-88	50,125	47,518	43,553	3,965	-	2,607
	88-84	7-1-87	6-30-88	12,734	12,072	10,903	1,169	-	662
	88-98	7-1-87	6-30-88	48,793	46,256	42,507	3,749	-	2,537
	88-105	7-1-87	6-30-88	96,034	95,876	87,891	7,985	-	158
	88-160	1-1-87	6-30-88	58,760	58,760	48,964	9,796	-	-
				<u>266,446</u>	<u>260,482</u>	<u>233,818</u>	<u>26,664</u>	<u>-</u>	<u>5,964</u>

DEPARTMENT OF HEALTH

Schedule of purchase of service contracts  
for selected private agencies  
for the year ended June 30, 1988

Provider	Contract Number	Contract Period		Appropriation	Contract Amount	Expenditure	Encumbrance	Transfer In (Out)	Lapse of Appropriated Balance
		From	To						
The Institute for Family Enrichment	88-61	7-1-87	6-30-88	\$ 98,665	\$ 93,534	\$ 92,049	\$ 1,485	\$ -	\$ 5,131
	88-94	7-1-87	6-30-88	27,240	25,824	25,724	100	-	1,416
	88-118	7-1-87	6-30-88	94,047	89,157	86,207	2,950	-	4,890
				<u>219,952</u>	<u>208,515</u>	<u>203,980</u>	<u>4,535</u>	-	<u>11,437</u>
Maui Youth & Family Services, Inc.	88-65	7-1-87	6-30-88	43,670	43,670	35,189	8,481	-	-
	88-72	7-1-87	6-30-88	31,819	30,164	27,471	2,693	-	1,655
	88-78	7-1-87	6-30-88	22,753	22,753	21,470	1,283	-	-
	88-132	7-1-87	6-30-88	23,148	23,148	15,432	7,716	-	-
				<u>121,390</u>	<u>119,735</u>	<u>99,562</u>	<u>20,173</u>	-	<u>1,655</u>
The Salvation Army Addiction Treatment Facility	88-48	7-1-87	6-30-88	57,408	56,035	52,624	3,411	-	1,373
	88-88	7-1-87	6-30-88	86,418	83,588	79,530	4,058	-	2,830
	88-128	7-1-87	6-30-88	580,858	561,736	522,526	39,210	-	19,122
				<u>724,684</u>	<u>701,359</u>	<u>654,680</u>	<u>46,679</u>	-	<u>23,325</u>
The Salvation Army Resident Treatment Facilities for Children and Youth	88-83	7-1-87	6-30-88	28,956	27,450	22,446	5,004	-	1,506
	88-87	7-1-87	6-30-88	17,452	16,544	16,444	100	-	908
				<u>46,408</u>	<u>43,994</u>	<u>38,890</u>	<u>5,104</u>	-	<u>2,414</u>
Serenity House, Inc.	88-107	7-1-87	6-30-88	38,977	37,222	33,274	3,948	-	1,755
	88-237	6-15-87	5-14-88	101,652	64,597	32,294	32,303	-	37,055
				<u>140,629</u>	<u>101,819</u>	<u>65,568</u>	<u>36,251</u>	-	<u>38,810</u>
			<u>\$2,585,578</u>	<u>\$2,443,860</u>	<u>\$2,221,485</u>	<u>\$222,375</u>	<u>\$(12,909)</u>	<u>\$128,809</u>	

Source: Department of Health, Administrative Services Office.

DEPARTMENT OF HUMAN SERVICES  
 Schedule of purchase of service contracts  
 for selected private agencies  
 for the year ended June 30, 1988

Provider	Contract Number	Contract Period		Appropriation	Contract Amount	Expenditure	Encumbrance	Lapse of Appropriated Balance
		From	To					
Child and Family Service	88-937	7-1-87	6-30-88	\$ 125,000	\$ 125,000	\$ 125,000	\$ -	\$ -
	88-941	7-1-87	6-30-88	171,857	171,857	171,857	-	-
	88-942	7-1-87	6-30-88	118,841	118,841	118,841	-	-
	88-944	7-1-87	6-30-88	319,014	319,014	319,014	-	-
	88-946	7-1-87	6-30-88	52,058	52,058	51,999	59	-
	88-947	7-1-87	6-30-88	48,150	48,150	48,150	-	-
	88-954	7-1-87	6-30-88	28,878	28,878	28,878	-	-
	88-977	7-1-87	6-30-88	259,164	259,164	259,164	-	-
	88-981	7-1-87	6-30-88	40,000	40,000	38,653	1,347	-
	88-982	7-1-87	6-30-88	90,000	90,000	85,372	4,628	-
	88-983	7-1-87	6-30-88	143,435	143,435	140,438	2,997	-
	88-1033	7-1-87	6-30-88	55,000	50,474	50,474	-	4,526
				<u>1,451,397</u>	<u>1,446,871</u>	<u>1,437,840</u>	<u>9,031</u>	<u>4,526</u>
Kapiolani Medical Center for Women & Children	88-966	7-1-87	6-30-88	449,814	449,814	444,447	5,367	-
Rainbow School	88-932	7-1-87	6-30-88	260,064	255,110	254,463	647	4,954
Seagull Schools, Inc.	88-933	7-1-87	6-30-88	<u>166,800</u>	<u>157,620</u>	<u>156,211</u>	<u>1,409</u>	<u>9,180</u>
			<u>\$2,328,075</u>	<u>\$2,309,415</u>	<u>\$2,292,961</u>	<u>\$16,454</u>	<u>\$18,660</u>	

Source: Department of Human Services, Fiscal Accounting Office.

APPENDIX C

APPROPRIATIONS FOR GRANTS, SUBSIDIES, AND PURCHASES OF SERVICE\*  
FISCAL YEARS 1985 THROUGH 1989

	FY 1984-85	FY 1985-86	% INC	FY 1986-87	% INC	FY 1987-88	% INC	FY 1988-89	% INC
EXECUTIVE									
EMPLOYMENT									
SOC 802	332,694	1,088,541	227%	1,157,533	6%	1,304,963	13%	1,503,959	15%
LBR 902	18,000	47,575	164%	137,254	189%	0	-100%	0	NA
LBR 903	0	0	NA	0	NA	3,808,256	NA	4,754,035	25%
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SUB-TOTAL	350,694	1,136,116	224%	1,294,787	14%	5,113,219	295%	6,257,994	22%
HEALTH									
HTH 121	0	25,292	NA	180,091	612%	130,091	-28%	130,091	0%
HTH 151	163,000	165,516	2%	176,109	6%	170,359	-3%	221,866	30%
HTH 160	0	163,395	NA	173,200	6%	204,700	18%	225,170	10%
HTH 170	149,120	167,867	13%	178,611	6%	178,611	0%	196,111	10%
HTH 185	907,461	956,487	5%	973,168	2%	929,725	-4%	1,008,772	9%
HTH 801	141,510	631,513	346%	676,114	7%	802,431	19%	1,055,906	32%
HTH 401	5,327,732	7,275,504	37%	7,771,451	7%	9,648,192	24%	11,309,795	17%
HTH 500	360,923	1,150,527	219%	1,276,880	11%	1,377,875	8%	1,445,205	5%
HTH 501	1,895,146	1,936,355	2%	2,060,283	6%	2,740,890	33%	3,440,257	26%
HTH 511	0	311,561	NA	441,172	42%	864,000	96%	891,000	3%
HTH 908	54,600	55,613	2%	59,173	6%	59,173	0%	121,573	105%
HTH 907	117,189	184,271	57%	878,465	377%	187,053	-79%	187,053	0%
SUB 601	0	962,159	NA	1,259,043	31%	0	-100%	467,000	NA
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SUB-TOTAL	9,116,681	13,986,060	53%	16,103,760	15%	17,293,100	7%	20,699,799	20%
SOCIAL SERVICES									
SOC 111	4,936,086	6,408,690	30%	6,253,864	-2%	8,695,932	39%	9,938,364	14%
GOV 860	1,082,584	3,440,113	218%	3,430,070	0%	0	-100%	0	NA
GOV 602	317,904	3,093,052	873%	3,342,092	8%	3,921,589	17%	4,370,396	11%
GOV 803	159,950	204,321	28%	214,871	5%	0	-100%	0	NA
SOC 904	0	0	NA	506,789	NA	0	-100%	0	NA
BED 225	0	0	NA	0	NA	0	NA	205,600	NA
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SUB-TOTAL	6,496,524	13,146,176	102%	13,747,686	5%	12,617,521	-8%	14,514,360	15%
EDUCATION									
EDN 106	100,000	0	-100%	0	NA	54,657	NA	88,657	62%
EDN 108	331,443	468,745	41%	511,188	9%	527,276	3%	564,078	7%
EDN 205	0	0	NA	0	NA	0	NA	0	NA
EDN 207	43,682	46,347	6%	49,313	6%	49,313	0%	49,313	0%
EDN 303	0	0	NA	11,210	NA	0	-100%	0	NA
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SUB-TOTAL	475,125	515,092	8%	571,711	11%	631,246	10%	702,048	11%

	FY 1984-85	FY 1985-86	% INC	FY 1986-87	% INC	FY 1987-88	% INC	FY 1988-89	% INC
=====									
CULTURE & REC									
AGS 881	963,139	2,143,143	123%	2,197,345	3%	3,881,565	77%	6,268,191	61%
LNR 806	0	0	NA	0	NA	0	NA	386,802	NA
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SUB-TOTAL	963,139	2,143,143	123%	2,197,345	3%	3,881,565	77%	6,654,993	71%
PUBLIC SAFETY									
SOC 401	0	0	NA	0	NA	36,400	NA	38,200	5%
SOC 403	0	0	NA	0	NA	0	NA	38,755	NA
SOC 405	0	0	NA	0	NA	7,122	NA	7,478	5%
SOC 406	0	0	NA	0	NA	4,680	NA	4,914	5%
SOC 407	128,139	513,617	301%	546,488	6%	855,547	57%	937,305	10%
SOC 408	0	0	NA	0	NA	7,500	NA	7,835	4%
SOC 409	0	198,834	NA	211,560	6%	214,506	1%	222,309	4%
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SUB-TOTAL	128,139	712,451	456%	758,048	6%	1,125,755	49%	1,256,796	12%
GOVERNMENT-WIDE									
GOV 100	63,702	0	-100%	0	NA	0	NA	0	NA
GOV 102	178,657	0	-100%	0	NA	0	NA	0	NA
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SUB-TOTAL	242,359	0	(1)	0	NA	0	NA	0	NA
ECONOMIC DEVELOPMENT									
BED 102	0	0	NA	0	NA	0	NA	250,000	NA
BED 113	0	0	NA	0	NA	0	NA	385,000	NA
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SUB-TOTAL	0	0	NA	0	NA	0	NA	635,000	NA
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EXECUTIVE TOTAL	17,772,661	31,639,038	78%	34,673,337	10%	40,662,406	17%	50,720,990	25%
=====									
JUDICIARY									
JUD 111	NA	NA	NA	NA	NA	243,837	NA	313,263	28%
JUD 112	NA	NA	NA	NA	NA	2,596,786	NA	2,958,222	14%
JUD 201	NA	NA	NA	NA	NA	363,272	NA	409,429	13%
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SUB-TOTAL	NA	NA	NA	NA	NA	3,203,895	NA	3,680,914	15%
=====									
JUDICIARY TOTAL	NA	NA	NA	NA	NA	3,203,895	NA	3,680,914	0
=====									
GRAND TOTAL	17,772,661	31,639,038	78%	34,673,337	10%	43,866,301	27%	54,401,904	24%
G FUNDS									
G FUNDS	12,064,770	22,763,852	89%	25,845,863	14%	35,686,292	38%	46,173,194	29%
F FUNDS	5,707,891	8,875,186	55%	8,827,474	-1%	8,180,009	-7%	8,228,710	1%

## **\*NOTE TO APPENDIX C**

The appropriations listed are derived from the appropriations acts of 1984 through 1988 and related budget worksheets. There are limitations to this data. These amounts probably understate the total funds actually appropriated. There are at least two factors which strongly suggest this.

First, we find that especially prior to FY 1986, not all purchase of service funds were separately displayed in the budget. For example, in FY 1985, the GOV 602 purchase of service appropriation was listed as \$317,904 in a budget provision. However, additional purchase of service funds were included in the operating budget and not displayed. According to EOA financial records, the actual total GOV 602 purchase of service and grant-in-aid appropriation that year amounted to \$2.8 million.

Second, direct appropriations to providers in the appropriations act are not the only way that private agencies receive funds. Various bills have been enacted which either designate funds to private agencies or may contain funds which state agencies can use to purchase services. Examples of this are Act 210, Act 211, and Act 294, 1988 Hawaii Session Laws. Also, capital improvement grants are provided through the Capital Improvements Acts. For example, the 1987 Capital Improvements Act appropriated \$1.5 million to the Waianae Coast Comprehensive Health Center.

On the other hand, the amounts in the appropriation acts probably overstate the amounts provided to private agencies slightly in that the appropriations included funds for both public and private agencies. However, funds to public agencies do not appear to account for a significant proportion of total appropriations.

These factors reduce the precision with which increases in appropriations to private agencies can be determined. However, it is still useful to examine the amounts named in the appropriations act to obtain a general measure of the appropriations and increases.