

# OVERVIEW

THE AUDITOR  
STATE OF HAWAII

## Audit of the Administration of the Purchase of Service System

### Summary

In anticipation of the scheduled end of the State's purchase of service system as provided by Chapter 42D, Hawaii Revised Statutes, the 1995 Legislature requested the Office of the Auditor to conduct an audit of the system and to make recommendations, including proposed legislation, to improve or replace the statute. Chapter 42D, Grants, Subsidies, and Purchases of Service, governs the procurement of health and human services in Hawaii. Initially enacted in 1981 as Chapter 42, the statute was amended several times before being repealed and replaced with Chapter 42D in 1991.

Purchase of service (POS) is the expenditure of public funds for services provided by a private organization for a government agency or program to members of the public. Services contracted for under Chapter 42D, include services to children and youth, the economically disadvantaged, the mentally and physically challenged the elderly, and others.

Proper administration of purchase of service contracts has been a long standing problem for a majority of the departments in the State. Our office has pointed out in past audits that the administration of POS contracts is deficient in several areas. Some of these problems include the untimely execution of contracts, late payments to providers, and insufficient monitoring and evaluation of POS contracts. In our current audit, we found the administration of POS contracts under Chapter 42D to be plagued with numerous problems. Chapter 42D fails to designate a central authoritative agency responsible for the administration of POS contracts. We found both the Executive Coordinating Council and the Advisory Council to be ineffective and unnecessary. Confusion also exists over the "drop dead" provisions of the law. The law is also deficient, vague, unclear and promotes inconsistency. In addition, we found the new procurement law, Chapter 103D, Hawaii Revised Statutes, duplicates efforts of Chapter 42D and can be more efficient and effective in handling the administration of POS contracts.

### Recommendations and Responses

We recommended that the Legislature amend Chapter 42D so that it applies to grants and subsidies only and clarify the confusing "drop dead" provisions. In addition, we recommended that the Legislature eliminate the provisions for the Executive Coordinating Council and the Advisory Council.



We also recommended that the Legislature amend Chapter 103D, the Hawaii Public Procurement Code, to delete reference to purchases of services in Chapter 42D and include the procurement of all services. The State Procurement Office should assume the leadership role in assisting and instructing departments on the purchase of health and human services under Chapter 103D.

The Department of Budget and Finance generally agrees with the findings and recommendations of our report. The department did offer one point of technical clarification.

The Office of State Planning responded that the findings of our report are similar to those that the Office of State Planning presented to the Legislature in 1994 and 1995. The Office of State Planning agreed with many of the findings of our report but did not agree with some of the assumptions. These assumptions dealt with the activities of the POST team, duplicative POS contracts, and the inability of the State to determine what services it has received for its money.

The Judiciary did not submit any comments on the findings and recommendations of our report. However, it did note that a draft monitoring and evaluation plan for purchases of services has been developed for the Judiciary.

We noted that none of the affected agencies disagreed with our findings that there is no oversight of Chapter 42D and coordination efforts are almost nonexistent. This area is of great concern because without effective leadership, oversight and coordination the possibility for waste and duplication exists. We believe that efforts to improve the coordination of services must be improved as well as efforts to ensure that contracted services are in fact provided. Chapter 103D offers a better alternative for improving the State's purchase of health and human services, for procuring these services should be treated no differently than other state acquisitions.

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