Follow-Up Report on a Study of the Department of Health's Administration of Contracts for Purchases of Service for Persons with Developmental Disabilities

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

THE AUDITOR
STATE OF HAWAII

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Submitted by

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Introduction

The Office of the Auditor issues a wide variety of reports and studies recommending improvements in government operations. In response to growing interest in the impact of our audits, we have expanded our follow-up program to include a systematic review of selected findings and recommendations of previous audit reports. We revisit the subject agencies to verify and assess any progress made in addressing prior audit findings and recommendations. Government auditing standards require an audit follow-up process to determine whether an auditee has taken timely and appropriate corrective actions on findings and recommendations from previous reports.

The purpose of this report is to describe actions taken by the Department of Health (DOH) with respect to certain recommendations in our December 1992 report, *A Study of the Department of Health's Administration of Contracts for Purchases of Service for Persons With Developmental Disabilities,* Report No. 92-32. We hope that the information provided in this report will assist policy makers in ensuring effective, efficient, and accountable programs.

Background

Developmental disabilities are chronic conditions that substantially limit a person's ability to function in daily activities. Depending on their severity, conditions such as autism, mental retardation, and combined impairments of vision and hearing can be developmental disabilities.

Three branches of DOH provide services to persons with developmental disabilities: (1) the Waimano Training School and Hospital Branch, (2) the Community Services for Developmental Disabilities Branch (both within the Developmental Disabilities Division), and (3) the Children with Special Needs Branch (within the Family Health Services Division). All three branches come under the department's Personal Health Services Administration.

Services are provided directly or through contracts with private providers. The services include early intervention, adult day programs, homemaker services, residential services, and others. In our 1992 study, we found that the department's approach to funding providers of services appeared arbitrary. Contract amounts were based on across-the-board inflationary increases of prior contracts rather than on expected costs.

In addition, we found that DOH was not executing and implementing its purchase of service contracts in a timely manner; contracts and payments to providers were often delayed. Further, contract monitoring for legal compliance was inconsistent among the three branches. We also found that the department needed to develop better estimates of the number of persons with developmental disabilities and improve its consolidated purchase of service program. We made a number of recommendations for improvement.

This follow-up report focuses on actions taken on the recommendations we directed to the department. Our 1992 report also made the following recommendation: the Legislature should consider requiring DOH to develop a payment system for purchases of service for persons with developmental disabilities, a system based on reasonable, equitable, and appropriate costs.

The Legislature has not established such a requirement. However, in response to our concerns, the Developmental Disabilities Division asked the National Association of State Directors of Developmental Disabilities Services, Inc. to assist the division to establish criteria for paying for community services. Based on the association's 1993 report *Paying for Community Services in Hawaii*, the division has developed a model budget approach to assure sufficient staffing for all providers and all clients. For example, for adult day programs the department has established a client to staff ratio of 4.5 to 1. It has set fixed dollar amounts that it will pay to providers per year per client for salaries, taxes, fringe benefits, net operating costs, and administrative costs. The model budget results in a "unit price" of $7,064 per client for each fiscal year. This will apply to all adult day program providers and will be incorporated in the department's requests for proposals.

Approach to Follow-Up

As a follow-up of our 1992 report, we reviewed DOH's letter to the Auditor of November 18, 1993, which provided information concerning actions taken. We then conducted fieldwork at the department to gather additional information necessary for this report. Our work was performed from January 1995 through March 1995.

The following is our overall assessment of progress by the department, followed by a description of each of our previous recommendations, actions reported by the department in its 1993 letter to us, and the results of our recent fieldwork.

Summary of Follow-Up

Our overall assessment is that DOH has made progress in ensuring timely contracts, estimating the number of persons with developmental disabilities, and improving the consolidated purchase of service program. However, the department has not yet developed written contract monitoring standards for its divisions.

Recommendation from 1992 Report

In our 1992 report, we recommended that the director of health ensure that the Developmental Disabilities Division and the Family Health Services Division take the necessary steps to execute all purchase of service contracts in advance of their effective date and to ensure prompt payment following contract execution.

Implementation as reported in the department's letter

In its 1993 letter to the Auditor, the department reported that it had restructured the time lines for requests for proposals and the contract process, including new contract boiler plates, two-year contracting, and revised tracking systems. The department said there were some outstanding contracts due to delays by contractors in signing or when contract terms were under negotiation. Payments were timely.

Results of our fieldwork

In our follow-up fieldwork, we reviewed all of the department's contracts for developmental disabilities services for fiscal biennium 1993-95 (all contracts are now for two years) and related logs. We found that DOH has improved its timeliness.

Our 1992 study examined 23 developmental disabilities contracts and found that only 3 were executed by their effective date. In our follow-up, we reviewed 26 contracts. Although the department does not document the exact date of execution, we concluded on the basis of available information, that 16 of the 26 contracts were executed by their effective date. Six of the 10 remaining contracts were not executed by their effective date apparently due to delays by providers in signing and returning the contracts. Another four were not executed by their effective date evidently because of delays by the department or the attorney general.

We also found that all first payments to providers were made within approximately 30 days of contract execution. This meets the department's standard contract requirement. However, because some contracts are still not being *executed* on time, first payments for these are still made several weeks after the contract's effective date.

Recommendation from 1992 Report

Our 1992 report recommended that the director of health should develop uniform departmental policies and procedures for contract monitoring.

Implementation as reported in the department's letter

The department reported that a committee of various program staff was formed to establish uniform policies and procedures for contract monitoring. During the interim, divisions with already established procedures will continue to follow the policies and procedures in place.

Results of our fieldwork

We found that DOH has not developed written contract monitoring standards for its divisions as guidelines for monitoring contracts and documenting contract administration. We also found no evidence of a committee as reported by the department. Department management appears to have met only once to discuss monitoring but took no action on developing standards.

Recommendation from 1992 Report

In 1992 we recommended that the department's Personal Health Services Administration should work with the Developmental Disabilities Division, the Family Health Services Division, and the State Planning Council on Developmental Disabilities to identify the target population and to clarify the consolidated purchase of service program.

Implementation as reported in the department's letter

In its letter, DOH reported that firm data on the target population does not exist. We were informed that the agencies base their planning on nationally accepted estimates of given populations. Concerning the consolidated purchase of service program, the department said the Developmental Disabilities Division has formed a committee, including the developmental disabilities council, to set program standards.

Results of our fieldwork

Target population

In our 1992 study, we found the department's data on persons with developmental disabilities to be unreliable. Estimates on the numbers of these persons varied widely, making it difficult to assess the need for services or the level of services being provided. The Developmental Disabilities Division estimated about 11,000 persons and the State Planning Council on Developmental Disabilities (council) between 10,000 and 20,000. The division and the council based their estimates on different sources.

In our follow-up, we found the division has made progress in determining the number of people with developmental disabilities. Both the division and the council are now using data presented in a 1994 report, *Hawaii at the Crossroads: Opportunities to Improve Developmental Disabilities Services* by the Human Services Research Institute (HSRI) in Oregon. The HSRI study was prepared for the council and reflects the council's categories and estimates of the number of persons with developmental disabilities needing services. The division's current estimate of 8,128 persons with developmental disabilities needing services is still about 4,000 lower than the council's. However, this simply reflects the division's exclusion of persons with mental illness, who are served by other agencies.

Consolidated purchase of service program

In our follow-up, we also found that the department has made good progress in clarifying the consolidated purchase of service (CPOS) program. This program is designed to be flexible, client-driven, and highly individualized. It is intended to fill gaps in services such as transportation, recreation, medical and dental needs, and social skills. Clients and their families or other representatives identify and prioritize the services. In its original concept, the CPOS provider was required to coordinate, supervise, and support the services.

In our 1992 study, we found that DOH lacked sufficient knowledge for this initiative to work. The department did not know in advance what clients the provider would serve, what services would be provided, and what the services should cost.

Our follow-up found that the CPOS program is now called Partnerships in Community Living (PICL). The department has made progress in identifying clients, services, and costs.

The PICL program is similar to CPOS except that it no longer requires the provider to coordinate or provide case management because this would duplicate the functions of the department's social workers. Instead, the provider must facilitate the acquisition of products and services, payment for them, or both. The department defines acquisition as the process of exploring, purchasing, and/or linking the client with the supplier of services or products.

PICL services must be "last dollar" services. That is, a client is eligible for PICL services only after all potential resources—such as contributions by the client and family, entitlements, other government programs, and voluntary community resources—have been explored and exhausted. PICL services can include companion services, recreation activities, transportation, books and reading material, language tutoring, and others.

The Developmental Disabilities Division will now determine the cost of PICL services by allocating a uniform, fixed number of dollars to each provider for each client. Under the new system, providers will be responsible for allocating these moneys according to the client's needs. The division developed this approach based on the report, *Paying for Community Services in Hawaii* (mentioned above).

Conclusion

We conclude that since our 1992 study, the Department of Health has made progress in improving the administration of its contracts for purchases of service for persons with developmental disabilities. Contracts appear to be more timely. In addition, the department implemented several of our recommendations with respect to identifying the target population and clarifying the consolidated purchase of service program.

However, the department needs to ensure that *all* contracts are executed before their effective date. As pointed out in our 1992 study, contract execution after services begin should be prohibited since the contract establishes legal rights and obligations of the parties. Furthermore, delays in contract execution will delay payments to providers.

We also urge the department to develop written contract monitoring standards for its divisions as we recommended in our 1992 study. Without this guidance, consistency in monitoring will be difficult to achieve. Finally, we encourage the department to improve its tracking system to accurately reflect and document the date of contract execution.