

Office of the Auditor General
Performance Audit Report

**Selected Community Health-Related
Contracts and Grants**

Michigan Department of Health and Human Services

September 2015



The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

Article IV, Section 53 of the Michigan Constitution



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Report Summary

Performance Audit

Selected Community Health-Related Contracts and Grants

Michigan Department of Health and Human Services (MDHHS)

Report Number:
391-0135-14

Released:
September 2015

MDHHS enters into contract and grant agreements for various community health-related goods and services. These include laboratory testing supplies and vaccines, diabetes prevention services, and substance abuse services. The Grants and Purchasing Division is responsible for ensuring that contract and grant agreements are developed, approved, and processed according to applicable laws, rules, regulations, policies, and procedures. During the 20 months of our audit period, MDHHS recorded \$369 million in contract and grant agreement expenditures.

Audit Objective			Conclusion
Objective #1: To assess the effectiveness of MDHHS's efforts to ensure that it awarded contracts and grants in accordance with certain State policies.			Effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
MDHHS should improve its controls over the administration of contracts and grants to help ensure that it awards them in accordance with MDHHS policies and procedures (Finding #1).		X	Agrees

Audit Objective			Conclusion
Objective #2: To assess the effectiveness of MDHHS's efforts to monitor and evaluate the performance of contractors and grantees.			Effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
MDHHS did not always complete the required written post-project evaluation of contractor and grantee performance (Finding #2).		X	Agrees

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<http://audgen.michigan.gov>

Office of the Auditor General
201 N. Washington Square, Sixth Floor
Lansing, Michigan 48913

Doug A. Ringler, CPA, CIA
Auditor General

Laura J. Hirst, CPA
Deputy Auditor General



OAG

Office of the Auditor General

201 N. Washington Square, Sixth Floor • Lansing, Michigan 48913 • Phone: (517) 334-8050 • <http://audgen.michigan.gov>

Doug A. Ringler, CPA, CIA
Auditor General

September 4, 2015

Mr. Nick Lyon, Director
Michigan Department of Health and Human Services
Capitol View Building
Lansing, Michigan

Dear Mr. Lyon:

I am pleased to provide this performance audit report on Selected Community Health-Related Contracts and Grants, Michigan Department of Health and Human Services.

We organize our findings and observations by audit objective. Your agency provided preliminary responses to the recommendations at the end of our fieldwork. The *Michigan Compiled Laws* and administrative procedures require an audited agency to develop a plan to comply with the recommendations and submit it within 60 days of the date above to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

A handwritten signature in black ink that reads "Doug Ringler". The signature is written in a cursive, flowing style.

Doug Ringler
Auditor General

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AUDIT OBJECTIVES, CONCLUSIONS, FINDINGS, AND OBSERVATIONS

AWARDING CONTRACTS AND GRANTS IN ACCORDANCE WITH STATE POLICIES

BACKGROUND

The Grants and Purchasing Division is responsible for ensuring that contract* and grant* agreements are developed, approved, and processed according to applicable laws, rules, regulations, policies, and procedures. The Division uses its Contract Tracking System for recording and monitoring* all contracts and grants, except those paid through the Community Health Automated Medicaid Processing System (CHAMPS). For those contracts for which the Michigan Department of Health and Human Services (MDHHS) does not have delegated purchasing authority, the Department of Technology, Management, and Budget (DTMB) retains authority and is responsible for selecting providers and entering into contracts for goods and services.

Our audit did not include contract and grant agreements with community mental health organizations, local health departments, and the Office of Services to the Aging.

AUDIT OBJECTIVE

To assess the effectiveness* of MDHHS's efforts to ensure that it awarded contracts and grants in accordance with certain State policies.

CONCLUSION

Effective.

FACTORS IMPACTING CONCLUSION

- We randomly sampled 60 contracts and grants and identified no instances of improper classification.
- All reviewed contract and grant agreements received State Administrative Board approval when necessary.
- MDHHS used a competitive selection process to choose contractors and grantees.
- During the selection process, MDHHS considered prior performance of the contractor or grantee.
- Reportable condition* regarding improved controls over contract and grant administration.

* See glossary at end of report for definition.

FINDING #1

Improved controls are needed over contract and grant administration.

MDHHS should improve its controls over the administration of contracts and grants to help ensure that it awards them in accordance with MDHHS policies and procedures.

Updating policies and procedures and providing training to the personnel responsible for administering contracts and grants would help ensure that they are properly classified, processed, and authorized. Our prior audit report, issued in 2010, disclosed that the Department of Community Health (DCH) had not established training requirements or ensured that it provided training to its contract and grant agreement administrators*. MDHHS acknowledged that, because of staffing limitations, it has not established a training curriculum or a training monitoring system.

We reviewed MDHHS's contract and grant awarding processes and noted:

- a. Departmental operating policies and procedures were not comprehensive and had not been updated since 2008. For example, policies and procedures did not identify who is responsible for classifying the contracts and grants. Also, updates to departmental operating policies and procedures were not always provided to MDHHS employees responsible for awarding the contracts and grants.
- b. Contract and grant agreements were not signed by MDHHS management prior to their start dates. Our review of 26 contracts and 33 grants identified 7 contracts and 24 grants that were signed between 6 and 363 days late. The following table summarizes the number of days the contract or grant agreements were signed after their start date:

Number of Days Agreements Were Signed After Start Date	Contracts	Grants
6 to 10 days	0	3
11 to 29 days	1	11
30 to 74 days	5	9
218 days	0	1
363 days	1	0
Total	<u>7 (27%)</u>	<u>24 (73%)</u>

Section IV.B of MDHHS Contract Management Section Policies and Procedures requires MDHHS to sign agreements prior to their start dates. To properly protect the financial interest of the State, MDHHS should ensure that both it and the contractor or grantee sign agreements prior to their effective date.

* See glossary at end of report for definition.

RECOMMENDATION

We recommend that MDHHS improve its controls over the administration of contracts and grants to help ensure that it awards them in accordance with MDHHS policies and procedures.

**AGENCY
PRELIMINARY
RESPONSE**

MDHHS provided us with the following response:

MDHHS agrees that it should improve its controls over the administration of contracts and grants to help ensure that it awards the contracts and grants in accordance with MDHHS policies and procedures. MDHHS will review its existing controls over the administration of contracts and grants, including a review of existing policies and procedures, and update as necessary.

MONITORING AND EVALUATING CONTRACTOR AND GRANTEE PERFORMANCE

AUDIT OBJECTIVE

To assess the effectiveness of MDHHS's efforts to monitor and evaluate the performance of contractors and grantees.

CONCLUSION

Effective.

**FACTORS
IMPACTING
CONCLUSION**

- Contract and grant agreements sufficiently identified required deliverables and associated time frames.
- Contract and grant agreement administrators sufficiently monitored and evaluated agreements to help ensure the likelihood of goods and services being completed or provided in a timely and successful manner.
- Contract and grant agreement administrators sufficiently reviewed documentation supporting requests for payment before payments were made.
- Reportable condition regarding post-project evaluations of contractor and grantee performance.

FINDING #2

Post-project evaluations could help ensure that contractors and grantees meet their obligations.

MDHHS did not always complete the required written post-project evaluation of contractor and grantee performance. Conducting a post-project performance evaluation could help identify whether contractors and grantees met MDHHS's expectations.

Our review of 5 contracts and 9 grants disclosed that MDHHS did not complete a written post-project evaluation for 3 contracts and 6 grants. Post-project evaluations could be used to determine whether to award future contracts and grants to the contractor or grantee. Evaluations could also help identify specific performance criteria to assist MDHHS in developing future performance-based agreements.

Section III.J of MDHHS Contract Management Section Policies and Procedures requires agreement administrators to complete a written post-project or post-agreement evaluation that highlights agreement objectives and results, noting any special circumstances, improvements for the future, and lessons learned.

RECOMMENDATION

We recommend that MDHHS complete the required written post-project evaluation of contractor and grantee performance.

AGENCY PRELIMINARY RESPONSE

MDHHS provided us with the following response:

MDHHS agrees that it should ensure that the required written post-project evaluation of contractor and grantee performance is completed in accordance with MDHHS policies and procedures to identify whether contractors and grantees met MDHHS's expectations. MDHHS will communicate to its contract and grant administrators the requirement to complete a written post-project evaluation for contract and grant agreements.

DESCRIPTION

During our audit period, the Grants and Purchasing Division was a unit within DCH's Bureau of Budget and Purchasing. Executive Order No. 2015-4 created MDHHS, combining the former Department of Human Services and DCH into one principal department effective April 10, 2015.

MDHHS enters into contract and grant agreements with numerous entities, including healthcare facilities, service organizations, foundations, and other not-for-profit organizations as well as local units of government. These agreements are for various community health-related goods and services, including laboratory testing supplies and vaccines, diabetes prevention services, and substance abuse services. DTMB delegated to MDHHS the authority to enter into contracts for most goods and services costing less than \$25,000 and grants of any amount.

MDHHS program areas are responsible for developing written requests to acquire needed goods or services, evaluating the resulting bids or proposals, awarding contracts or grants, preparing contract and grant agreements with well-defined statements of work and performance and reporting requirements, and monitoring and evaluating contractor and grantee performance. The Grants and Purchasing Division provides technical assistance and training related to these functions to the program areas.

AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

AUDIT SCOPE

To examine the program and other records related to selected MDHHS community health-related contracts and grants. We conducted this performance audit* in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Included within the scope of our audit was \$369 million of contract and grant agreement expenditures incurred during our audit period. Our audit did not include \$2.2 billion in expenditures related to contract and grant agreements with community mental health organizations, local health departments, and the Office of Services to the Aging.

PERIOD

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered the period October 1, 2012 through May 31, 2014.

METHODOLOGY

We conducted a preliminary survey of contract and grant agreement processing to formulate a basis for defining the audit objectives and scope. During our preliminary survey, we:

- Interviewed contracting and program staff to obtain an understanding of the contract and grant agreement processes.
- Reviewed applicable laws, rules, regulations, policies, procedures, manuals, and guidelines.
- Reviewed records for selected contracts and grants and analyzed contract and grant agreement information recorded in the Contract Tracking System.

* See glossary at end of report for definition.

OBJECTIVE #1

To assess the effectiveness of MDHHS's efforts to ensure that it awarded contracts and grants in accordance with certain State policies.

To accomplish our first objective, we:

- Interviewed MDHHS staff to obtain information regarding the processes and procedures used to select contractors and grantees.
- Made inquiries of MDHHS management regarding the establishment of training requirements for contract and grant agreement administrators.
- Reviewed 60 contract and grant agreements and supporting documentation to determine whether:
 - MDHHS obtained State Administrative Board approval, when applicable, for the 14 agreements we evaluated.
 - MDHHS used a competitive selection process to select contractors or grantees for the 56 agreements we evaluated for which this requirement was applicable.
 - MDHHS considered contractor or grantee prior performance before entering into a new agreement for all 10 agreements we evaluated for which this requirement was applicable.
 - Contract and grant agreement administrators were free of conflicts of interest for all agreements we evaluated.

OBJECTIVE #2

To assess the effectiveness of MDHHS's efforts to monitor and evaluate the performance of contractors and grantees.

To accomplish our second objective, we:

- Interviewed MDHHS staff regarding the processes and procedures used to monitor and evaluate contractor and grantee performance.
- Reviewed 60 contract and grant agreements and supporting documentation to determine whether:
 - MDHHS appropriately monitored and evaluated activities, including verification of reported performance and financial data, for the 14 agreements we evaluated for which this requirement was applicable.

- MDHHS assessed requests for payment from contractors and grantees for the 14 agreements we evaluated for which this requirement was applicable.

CONCLUSIONS

We base our conclusions on our audit efforts and the resulting material conditions* and reportable conditions.

When selecting activities or programs for audit, we direct our efforts based on risk and opportunities to improve State government operations. Consequently, we prepare our performance audit reports on an exception basis.

AGENCY RESPONSES

Our audit report contains 2 findings and 2 corresponding recommendations. MDHHS's preliminary response indicates that it agrees with both recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion at the end of our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require an audited agency to develop a plan to comply with the recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

PRIOR AUDIT FOLLOW-UP

We released our prior performance audit of Selected Service-Related Contracts and Grant Agreements, Department of Community Health (391-0135-08), in October 2010. DCH complied with 2 of the 5 prior audit recommendations. We rewrote 2 prior audit recommendations for inclusion in Finding #1 of this audit report and determined that 1 prior audit recommendation was no longer applicable.

* See glossary at end of report for definition.

GLOSSARY OF ABBREVIATIONS AND TERMS

administrator	The individual responsible for managing the contract or grant agreement.
contract	A legally binding agreement between the State and a contractor to purchase specific goods or services at an agreed-upon price.
DCH	Department of Community Health.
DTMB	Department of Technology, Management, and Budget.
effectiveness	Success in achieving mission and goals.
grant	An agreement to award money to a local unit of government or nonprofit entity for goods or services that directly benefit the grant recipient.
material condition	A matter that, in the auditor's judgment, is more severe than a reportable condition and could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.
MDHHS	Michigan Department of Health and Human Services.
monitoring	Ongoing reviews of contractor or grantee activities to ensure that the responsibilities of the contract or grant are performed satisfactorily.
performance audit	An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.
reportable condition	A matter that, in the auditor's judgment, is less severe than a material condition and falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the audit objectives; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit

objectives; significant violations of provisions of contract or grant agreements; and significant abuse that has occurred or is likely to have occurred.

