



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



THOMAS H. McTAVISH, C.P.A.
AUDITOR GENERAL

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Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit

Human Service Contracting

Department of Human Services

Report Number:
431-0110-05

Released:
April 2008

The Department of Human Services (DHS) contracts to provide a wide range of human services for its clients, such as counseling, emergency shelter, and domestic abuse services. The Office of Contracts and Rate Setting (OCRS) within DHS provides general oversight of the human service contracting process. During fiscal year 2005-06, human service contract payments processed through the Contract Tracking and Payment System (Contract System) totaled \$278 million.

Audit Objective:

To assess the effectiveness of DHS's process for developing human service contracts.

Audit Conclusion:

We concluded that DHS's process for developing human service contracts was moderately effective. We noted two material conditions (Findings 1 and 2) and three reportable conditions (Findings 3 through 5).

Material Conditions:

DHS did not ensure timely execution of its human service contracts (Finding 1).

DHS had not established management control to ensure that it executed contracts when purchasing services for clients (Finding 2).

Reportable Conditions:

DHS could improve its process for developing human service contracts by ensuring that the contracts clearly define contractor services and evaluation criteria

and that contract budgets are complete and reasonable (Finding 3).

DHS had not developed a formal policy that defined when and for what service types criminal background checks and educational qualifications should be required as a part of a human service contract (Finding 4).

DHS did not establish training requirements for or provide sufficient training to its contracting staff (Finding 5).

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Audit Objective:

To assess the effectiveness of DHS's process for selecting human service contractors.

Audit Conclusion:

We concluded that DHS's process for selecting human service contractors was moderately effective. We noted one material condition (Finding 6) and one reportable condition (Finding 7).

Material Condition:

DHS had not established effective management control over its human service contractor selection process (Finding 6).

Reportable Condition:

DHS had not established a conflict of interest policy for all of its programs and community collaborative members. In addition, DHS did not ensure that all staff performing contracting functions were aware of their responsibility to report instances of potential or actual conflicts of interest with human service contractors and did not annually require staff to document whether they have conflicts of interest or not. (Finding 7)

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Audit Objective:

To assess the effectiveness of DHS's efforts to monitor and evaluate human service contractors.

Audit Conclusion:

We concluded that DHS's efforts to monitor and evaluate human service contractors were not effective. We noted one material condition (Finding 8) and two reportable conditions (Findings 9 and 10).

Material Condition:

DHS did not effectively monitor contractor billings (Finding 8).

Reportable Conditions:

DHS could improve its contracting process by developing a departmentwide process to monitor and evaluate human service contracts (Finding 9).

OCRS did not identify to local office staff those individuals approved to provide counseling services to DHS clients (Finding 10).

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Agency Response:

Our audit report contains 10 findings and 11 corresponding recommendations. DHS's preliminary response indicates that it agrees with 10 recommendations and disagrees with 1 recommendation.

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



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April 16, 2008

Mr. Ismael Ahmed, Director
Department of Human Services
Grand Tower
Lansing, Michigan

Dear Mr. Ahmed:

This is our report on the performance audit of Human Service Contracting, Department of Human Services.

This report contains our report summary; description; audit objectives, scope, and methodology and agency responses; comments, findings, recommendations, and agency preliminary responses; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

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

AUDITOR GENERAL

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GLOSSARY

Glossary of Acronyms and Terms

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Description

The Department of Human Services (DHS) has delegated authority from the Department of Management and Budget to contract* for human services for its clients. This delegated authority is for unlimited dollar amounts for human service purchases and up to \$95,000 for training purchases. Human service contracting* is used to provide treatment and material aid to the economically underprivileged and socially deprived and includes a wide range of services, such as counseling, emergency shelter, domestic abuse services, and foster care of youth. DHS contracts for human services with entities and individuals throughout the State, including educational organizations, other governmental units, and social service agencies, to provide services to its clients. DHS has designated the Office of Contracts and Rate Setting (OCRS), Bureau of Administrative Services, as the unit responsible for general oversight of the human service contracting process. However, DHS delegates significant contracting functions to its various units.

The units and staff with primary roles in the contracting process include OCRS, contract coordinators*, contract administrators* within central bureaus and local offices, and the DHS Office of Internal Audit. DHS has seven central bureaus that perform contracting functions, including Adult and Family Services, Children's Services, Community Action and Economic Opportunity, Interagency and Community Services, Juvenile Justice, Legal Affairs and Financial Integrity, and Field Operations. There also is a network of over 100 local offices around the State, with at least one office in each county that performs contracting functions. In December 2005, DHS reorganized its Field Operations and restructured the roles and responsibilities of the former zone offices, which were downsized and are now regional service delivery centers. The former zone office contract coordinator function has been incorporated into the responsibilities of the regional service delivery center.

OCRS is responsible for ensuring that the contract is legal, that it does not violate State or federal policy, and that it contains required standard provisions. OCRS's duties include providing technical assistance and training, developing various standardized service descriptions and contract templates, reviewing final contract language and budgets, and securing DHS signatures on completed contracts and distributing them after all approvals and reviews are completed.

* See glossary at end of report for definition.

Contract administrators can be found in both central bureaus and local offices. In addition to activities that may be shared with the contract coordinators, contract administrators' responsibilities include identifying services to be purchased, determining whether a contract must be bid, approving contractor* billings, and monitoring* expenditures and services received to ensure that they are consistent with the contract terms. In local offices, the contract administrators usually perform these functions in addition to their primary assignment, such as being a program manager.

Contract coordinators are responsible for general oversight of the contracting process for local offices within their regions. The contract coordinators may assist the contract administrators in various ways, including developing bid documents and contracts, chairing rating committees, and monitoring contractors.

The DHS Office of Internal Audit is responsible for providing independent audits of DHS programs and operations, including audits of local office operations and human service contractors. Audits may be the result of a complaint or a referral or may be required by DHS or federal policy. The Office of Internal Audit also completes desk reviews of audit reports for all human service contractors required to submit such reports.

The DHS Contract Tracking and Payment System (Contract System) contains records of contract information to assist in monitoring the status of each contract. It is the primary system for making payments to vendors providing services under a human service contract. Other systems used for certain types of contract payments include the Model Payment System* and the Relational Standard Accounting and Reporting System* (R*STARS). DHS processes vendor and client payments through other systems, including the Local Accounting System Replacement (LASR).

During the period October 1, 2001 through April 26, 2005, OCRS processed an annual average of 2,242 DHS human service contracts. Of these contracts, 1,416 were new agreements and the remaining 826 were the extension of existing contracts. OCRS had 11 staff positions as of September 30, 2005. During fiscal year 2005-06, human service contract payments processed through the Contract System totaled \$278 million.

* See glossary at end of report for definition.

Audit Objectives, Scope, and Methodology and Agency Responses

Audit Objectives

Our performance audit* of Human Service Contracting, Department of Human Services (DHS), had the following objectives:

1. To assess the effectiveness* of DHS's process for developing human service contracts.
2. To assess the effectiveness of DHS's process for selecting human service contractors.
3. To assess the effectiveness of DHS's efforts to monitor and evaluate human service contractors.

Audit Scope

Our audit scope was to examine the records and processes of human service contracting. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances. Our audit procedures, conducted from April 2005 through March 2006, generally covered the period October 2002 through September 2005.

Audit Methodology

We conducted a preliminary review of DHS's contracting processes to gain an understanding of contracting activities within DHS to form a basis for selecting the contracting activities to audit. Our preliminary review included interviews with various contracting staff; reviews of DHS policies and procedures manuals, policy letters and memorandums, and applicable statutes; reviews of recent audits and other examinations of DHS contracting processes; analyses of available data to determine the nature and extent of contracting; and reviews of various payment systems that can be used to make contract payments.

* See glossary at end of report for definition.

As a result of our preliminary review, we excluded from our audit the DHS Purchasing Section within the Bureau of Administrative Services because it has had a review by and is subject to oversight through Purchasing Operations within the Department of Management and Budget for contract amounts over \$25,000. We also excluded from our audit the human service foster care related contracts because they were audited in our performance audit of the Children's Foster Care Program, Department of Human Services (43-278-03), released in August 2005, and DHS was in the process of a systemwide review of the foster care contracts.

To accomplish our audit objectives, we selected a sample of 81 contract files to review. These were selected both as a random sample and as a risk-based judgmental sample. We developed standard interview forms and file review work sheets to be used during our visits to the human service contracting locations that were responsible for managing the contracts selected as our sample. We conducted 29 interviews and reviewed 38 contract files at 27 local office locations visited. We conducted 17 interviews and reviewed 43 contract files at 6 central bureaus within DHS.

In connection with our first objective, we conducted interviews with contracting staff to obtain information regarding procedures used by the staff for developing contracts. We reviewed a sample of contract files to determine compliance with established policies and procedures for contract development, such as standard and exception formats, clarity of services descriptions and evaluation criteria, and contract budgets. We also reviewed information related to the use of DHS's counseling contractor directory and the training materials and training provided to contracting staff. In addition, we performed data analysis of contract information and reviewed payments made through various DHS payment systems.

In connection with our second objective, we conducted interviews with contracting staff to obtain information regarding procedures for selecting human service contractors, such as various bid requirements and processes, documentation of exceptions to bid requirements, and processes to verify contractor credentials and to obtain background checks. We reviewed a sample of contract files to determine whether bid requirements were followed, exceptions were documented, and contractor credentials were verified and background checks were obtained when appropriate. We also reviewed State and DHS guidance and policies related to notification and reporting of conflicts of interest and analyzed contracting data.

In connection with our third objective, we conducted interviews with contracting staff to obtain information regarding procedures to monitor and evaluate whether contractors have provided services as required by the contract. Monitoring and evaluation information is used to verify the validity of requested contract payments and to determine if a contract should be extended. We reviewed a sample of contract files to determine whether they contained documentation indicating that the contracts had been monitored and evaluated and payments were properly approved. In addition, we performed data analysis of payments made through various DHS payment systems.

We use a risk and opportunity based approach when selecting activities or programs to be audited. Accordingly, our audit efforts are focused on activities or programs having the greatest probability for needing improvement as identified through a preliminary review. By design, our limited audit resources are used to identify where and how improvements can be made. Consequently, our performance audit reports are prepared on an exception basis.

Agency Responses

Our audit report contains 10 findings and 11 corresponding recommendations. DHS's preliminary response indicates that it agrees with 10 recommendations and disagrees with 1 recommendation.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to 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 DHS to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

COMMENTS, FINDINGS, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSES

EFFECTIVENESS OF PROCESS FOR DEVELOPING HUMAN SERVICE CONTRACTS

Background: The Department of Human Services (DHS) assigns significant contracting functions, including developing the contract and negotiating contract terms with the contractor, to contract administrators located in its central bureaus and local offices. In an oversight capacity, contract analysts within the Office of Contracts and Rate Setting (OCRS) review contracts and the associated budgets to ensure that the contract is legal, that it does not violate State or federal policy, and that it contains required standard provisions. Strong central oversight of contracts is essential to ensure that contracts are developed to maximize value for the State, to maintain the integrity of the contracting process, and to ensure high-quality services to clients.

COMMENT

Audit Objective: To assess the effectiveness of DHS's process for developing human service contracts.

Audit Conclusion: **We concluded that DHS's process for developing human service contracts was moderately effective.** Our assessment disclosed two material conditions*. DHS did not ensure timely execution of its human service contracts (Finding 1). Also, DHS had not established management control* to ensure that it executed contracts when purchasing services for clients (Finding 2).

Our assessment also disclosed reportable conditions* related to contract development, contractor background checks and educational qualifications, and contracting of staff training (Findings 3 through 5).

FINDING

1. Contract Timeliness

DHS did not ensure timely execution of its human service contracts. As a result, DHS permitted contractors to provide services to clients and incur costs without executed contracts*. DHS subsequently reimbursed contractors for these costs after executing the contracts.

* See glossary at end of report for definition.

Department of Management and Budget (DMB) Administrative Guide procedures 510.15 and 620.01 require that all parties execute contracts before services begin and expenses are incurred. This ensures that DHS and the contractor understand the expectations of the contract and that DHS or its clients are not exposed to unnecessary risks, such as liability and confidentiality concerns.

DHS uses the Contract Tracking and Payment System (Contract System) to record information pertaining to the contract process. The Contract System contains data fields for DHS to record the contract effective date* and end date and the dates that both parties signed the contract. DHS required contracts to be signed first by the contractor and then by a DHS designee. The DHS designee must sign the contract and OCRS must distribute* the contract in order for the Contract System to process payments. However, DHS allowed contractors to provide services and incur costs before executing contracts. DHS subsequently reimbursed the contractors for these services following the execution of the contracts.

We analyzed data within the Contract System and also reviewed a sample of 10 counseling contracts. We noted:

- a. DHS did not execute contracts in a timely manner.

We compared the effective dates and the executed dates of contracts on the Contract System and noted that, of the 4,005 contracts included in our analysis, DHS executed 1,252 (31.3%) contracts more than 30 days after the effective date cited in the contract. The table below displays the range of days late for these 1,252 contracts:

Range of Days Late	Number of Late Contracts	Percentage of	
		Late Contracts	All Contracts
31 to 60	489	39.1%	12.2%
61 to 100	660	52.7%	16.5%
Over 100	103	8.2%	2.6%
Total	1,252	100.0%	31.3%

* See glossary at end of report for definition.

- b. DHS reimbursed contractors for services that the contractors provided before DHS executed the contracts.

We analyzed payment detail and service periods for 10 of the 4,005 contracts with the greatest number of days between the effective date and the executed date of the contract. DHS made 110 individual payments on these 10 contracts totaling \$1,044,025. Forty (36.4%) of these 110 payments had service periods before the dates that DHS executed the contracts. DHS reimbursed contractors \$548,344 for these 40 payments.

We also reviewed payment detail for 3 counseling contracts executed more than 30 days after the effective dates. We reviewed 31 individual payments and noted that 21 (67.7%) had service periods before the dates that DHS executed the contracts. DHS subsequently reimbursed these contractors a total of \$9,118 for services provided and costs incurred in the period when there was no signed contract.

Although DHS Contract Policy Manual item 100 states that services should not be delivered until a contract has been fully executed, DHS informed us that it reimbursed contractors for costs they had incurred before contract execution because it wanted to ensure continued services to clients. DHS did not determine the reason for late contracting; however, staff provided various possible explanations for contracting delays, including communication problems, a complex and fragmented process, and late annual planning budget allocations for the succeeding contracting year.

RECOMMENDATION

We recommend that DHS ensure timely execution of its human service contracts.

AGENCY PRELIMINARY RESPONSE

DHS agrees with the recommendation. DHS informed us that it will implement corrective action.

FINDING

2. Contract Execution and Payment Processing

DHS had not established management control to ensure that it executed contracts when purchasing services for clients. As a result, DHS was not in compliance with DHS and State contracting policies. We identified payments to approximately 290 vendors for \$12.9 million that lacked contracts.

OCRS maintains the Contract System to record contracts with and payments to human service contractors. DHS requires contracts to be executed for all human service purchases that exceed \$2,500 to any one provider in a fiscal year. In addition, DMB contract policy requires agencies to use approved contracting procedures and the State Administrative Board requires approval of all contracts and grants of \$25,000 or more.

We obtained and analyzed selected payments not processed through the Contract System and noted that DHS made the following payments to human service providers without a contract:

a. Medical Transportation

In fiscal year 2003-04, we noted payments for medical transportation to 88 providers totaling \$3,411,545. Eleven of the 88 providers were paid more than \$100,000 each. In fiscal year 2004-05, we noted payments to 90 providers totaling \$3,657,253. Ten of the 90 providers were paid more than \$100,000 each.

b. Regional Detention Support Services* (RDSS)

In fiscal year 2003-04, we noted payments for RDSS to 65 providers totaling \$580,060. In the first eight months of fiscal year 2004-05, we noted payments for RDSS to 36 providers totaling \$300,047. Payments to 5 of the 65 providers and 1 of the 36 providers exceeded the State Administrative Board approval threshold of \$25,000 for fiscal years 2003-04 and 2004-05, respectively.

c. Guardianship and Mentoring Services

In fiscal year 2004-05, we noted local office payments to 25 providers totaling \$163,992 for guardianship services. We also noted payments to one provider

* See glossary at end of report for definition.

for mentoring services totaling \$5,415 in fiscal year 2003-04 and \$4,700 in the first eight months of fiscal year 2004-05.

d. Other Services

We noted payments to 135 providers totaling \$2,203,132 in fiscal year 2003-04 and payments to 117 providers totaling \$1,611,584 in the first eight months of fiscal year 2004-05 that appeared to be for medical and psychological evaluations or examinations. DHS should review these services to determine if they require a contract.

Improving management control to periodically analyze payments that are processed through the various systems would assist DHS in identifying areas in need of contract development.

RECOMMENDATION

We recommend that DHS establish management control to ensure that it executes contracts when purchasing services for clients.

AGENCY PRELIMINARY RESPONSE

DHS agrees with the recommendation. DHS informed us that it will take corrective action and stated that it has taken some steps to do so by developing contracts in the areas identified.

FINDING

3. Contract Development

DHS could improve its process for developing human service contracts by ensuring that the contracts clearly define contractor services and evaluation criteria and that contract budgets are complete and reasonable. Such improvement would assist DHS in monitoring for quality of service, contractor performance, and appropriate expenditure of public funds.

OCRS ensures that the contract is legal, that it does not violate State or federal policy, and that it contains required standard provisions. OCRS also reviews the contract for clarity and makes recommendations for changes. However, the contract administrators are not required to make OCRS recommended changes even though the lack of clarity may negatively impact contract enforceability.

In our review of 71 human service contracts, we identified 30 (42.3%) that were deficient in one or more areas. Specifically, our review disclosed:

a. Eight (11.3%) of the 71 contracts reviewed did not contain proper service descriptions. A contract service description provides the detailed activities a contractor is to perform under the contract. For example:

- (1) One contract required the contractor to perform several activities, including a requirement for the contractor to contact community service providers to obtain resources for certain youth to attain postsecondary education opportunities. However, in our review of the contract payments, we determined that the contractor also provided direct services to youth, including assisting them in developing individual educational plans. As a result, DHS paid for services that were not included in the contract.
- (2) One contract provided for several different types of services, including intervention, placement, and community education. The contract defined a unit of service for each of the services in one-minute increments. As a result, total service units ranged from 6,075 to 74,844 for each of the services. Generally, the use of one-minute increments would not provide a basis for accurate and reliable reporting and monitoring of services.
- (3) One contract required the contractor to provide training. Although the contract required the contractor to convene one or more training sessions with a minimum of 30 attendees, the contract did not specify the length of time for training sessions. The estimated cost for each of the three budgeted training sessions exceeded \$20,000.

DHS's contract policy states that the contract service description is to detail the service and how the service will be measured and documented. This is necessary so that there is no disagreement over what tasks are required by the contract.

b. Seventeen (23.9%) of the 71 contracts reviewed had contract evaluation criteria that were too general, not related to the services provided, not quantified, or not measurable. Quantified and meaningful evaluation criteria are essential to provide useful and reliable measurements of whether the

contractor provided the contracted services and to what level and how effective those services were in producing desired changes.

For example, in one contract, DHS established quantified evaluation criteria that were to measure the status of the contractor's former clients six months or more after they left the contractor's program. However, the contractor lacked the ability to obtain client information necessary to perform the evaluation for all clients served. As a result, the contractor reported 100% achievement of the evaluation criteria for clients served based on results for only 8 of its 18 clients. The contractor had no information to document the status of the remaining 10 (55.6%) clients.

Other examples of imprecise evaluation criteria within contracts included requiring the contractor to provide training to a "sufficient" number of clients but not defining "sufficient"; requiring the contractor to "increase participation" but not establishing the current level of participation or defining the desired participation increase; and requiring the contractor to adhere to the contract's service description and program philosophy but not defining either the method to measure the degree of adherence or the acceptable level of compliance.

The National State Auditors Association's "Best Practices in Contracting for Services" indicates that contracts should provide for specific measurable deliverables and performance standards.

- c. Sixteen (30.2%) of the 53 contract budgets reviewed (for the 71 contracts) either were incomplete or contained questionable or unreasonable items. A contract budget details the contractor's costs to provide the service and is required for DHS's actual cost* and unit rate* contracts.

An example of an incomplete contract budget was found in a contract that was for a provider to administer a program; however, the budget contained no provisions for salaries or administrative costs for the contractor to administer the program.

Examples of questionable or unreasonable budget items were a \$55,300 budget item for a contractor's human resources staff that was

* See glossary at end of report for definition.

included as both a direct cost as well as an indirect cost and a budget item that included a monthly square foot rental rate that was 22.9% higher than an example of a marginally high monthly square foot rate included in OCRS budget training material. In addition, this contract also provided for 20 telephones, although it included only six positions to provide services to DHS.

DHS delegates responsibility for negotiating contract budgets to its contract administrators who must use their experience and best judgment as to what constitutes a reasonable cost. However, they may have little experience and training in contracting and, consequently, have a minimal basis for determining what constitutes a reasonable cost (Finding 5). In addition, because contract administration may not be their primary assignment, it could take a prolonged time before they develop a reliable sense of what is a reasonable budget cost.

Developing tools, such as desk aids, that provide guidance on reasonable costs for various categories would assist contractors and contract administrators in developing the initial contract budgets. In addition, the tools would assist OCRS contract analysts in reviewing these budgets to ensure that the budgets are reasonable in relation to the service to be provided.

RECOMMENDATION

We recommend that DHS improve its process for developing human service contracts by ensuring that the contracts clearly define contractor services and evaluation criteria and that contract budgets are complete and reasonable.

AGENCY PRELIMINARY RESPONSE

DHS agrees with the recommendation. DHS informed us that it will initiate corrective action.

FINDING

4. Contractor Background Checks and Educational Qualifications

DHS had not developed a formal policy that defined when and for what service types criminal background checks and educational qualifications should be required as a part of a human service contract. Without such a formal policy, DHS increased its risk that contractors who provided services to clients were inappropriate and unqualified to provide those services.

DHS contracts for services that require contractors to have close contact with vulnerable populations, such as children, the elderly, or the impaired, and the services may occur in nonpublic settings, such as a client home. DHS clients are referred to these contractors for services, and the clients rely on DHS to ensure the quality of the service and the propriety of the providers. Contractors with a personal history of criminal conduct or those who lack adequate educational qualifications may not be suitable for providing contract services.

We reviewed 81 contracts developed by central bureau or local office staff to determine whether criminal background check provisions and educational qualification requirements had been included when such provisions and requirements appeared reasonable in our judgment, based on the type or locale of the service and the vulnerability of the client population receiving those services. We noted:

- a. DHS contracts that provided for services to vulnerable populations did not always include a criminal background check provision.

For 49 (60.5%) of the 81 contracts reviewed, we concluded that requiring a criminal background check provision to be included in the contract appeared reasonable based on the service locale or client vulnerability. However, we determined that 32 (65.3%) of the 49 contracts did not have such a criminal background check provision. Examples of contracted services being provided with no criminal background check provision in the contract included home visits and other home-based services, youth mentoring, tutoring, guardianship, overnight trips with youth, and services for delinquent youth.

- b. DHS contracts did not always contain specific educational qualification requirements for contractors necessary to provide the services.

For 59 (72.8%) of the 81 contracts reviewed, we concluded that requiring an educational qualification requirement to be included in the contract appeared reasonable based on the service being provided. However, we determined that 19 (32.2%) of the 59 contracts did not have such an educational qualification requirement. Examples of contracted services being provided with no educational qualification requirement included screening and case management services for delinquent youth, day treatment services, and various educational training for families.

Of the remaining 40 contracts, 2 contained a licensure requirement and 38 contained an educational qualification requirement for at least one of the services provided. However, we identified 18 (47.4%) of the 38 for which adding higher or more detailed qualification requirements appeared reasonable.

In determining our expectations for the qualifications to be included in the contracts, we used guidance for the practice of social work contained in Sections 333.18501 et seq. of the *Michigan Compiled Laws* and *Michigan Administrative Code* R 338.291 et seq.

- c. DHS contracts did not adequately address criminal background checks or qualifications for services performed by subcontractors.

Three of the 81 contracts reviewed required the contractors to act on behalf of DHS to administer local programs. The contractors were to select subcontractors to provide direct services to clients, including summer tutoring programs for children, in-home respite care, and transportation services. However, these contracts lacked provisions regarding contractor criminal background checks or qualifications. DHS informed us that a subcontracts* clause within the general provisions* section of its contracts which states that subcontractors are subject to all provisions of the contract, including criminal background checks, was sufficient. However, because the contracts lacked provisions for contractor criminal background checks or qualifications, the subcontracts clause would not apply.

RECOMMENDATION

We recommend that DHS develop a formal policy that defines when and for what service types criminal background checks and educational qualifications should be required as a part of a human service contract.

AGENCY PRELIMINARY RESPONSE

DHS agrees with the recommendation. DHS informed us that it began including criminal background check language in all human service contract formats in 2007 and stated that it will take further corrective action to develop a Statewide policy.

* See glossary at end of report for definition.

FINDING

5. Contracting of Staff Training

DHS did not establish training requirements for or provide sufficient training to its contracting staff. As a result, DHS could not ensure that staff assigned to perform these functions had the requisite knowledge to perform their contracting responsibilities.

Section 2-18.1 of the *Michigan Civil Service Commission Rules* assigns the primary responsibility for staff training to agency management. Also, the National State Auditors Association's "Best Practices in Contracting for Services" indicates that contracting staff should have the necessary training to properly manage the contract.

We reviewed DHS policy and procedure manuals and contract training materials and analyzed available formal training documentation. We noted:

- a. DHS did not develop a contract training policy that designated mandatory training for its contracting staff. In addition, DHS did not develop or maintain a process to identify all staff performing contracting functions or to track training that had been provided. Such a policy and process would ensure that newly assigned contracting staff obtained the necessary training prior to assuming duties and assist OCRS in identifying staff in need of additional training.

We reviewed the hard copy sign-in sheets for formal training that OCRS provided during fiscal years 2002-03 through 2004-05. We determined that 24 (29.3%) of 82 local office contracting staff had no documented formal training for that period.

In addition, we reviewed training provided to 13 staff with less than three years of experience and noted a wide range of documented formal training. For example, we noted that 2 staff members had 19 hours of documented formal training, 4 staff members had no documented formal training, and 7 staff members had between 4 and 12 hours of documented formal training. We also identified 18 contracting staff from 5 central bureaus who had no formal documented training during the same period. We were not able to identify other central bureau contracting staff who may need training because DHS did not develop a process to identify all staff with contracting responsibilities.

- b. DHS did not develop and offer training in certain essential contracting areas.

DHS contract training modules addressed numerous contracting activities, including general contracting processes, fiscal reviews, amendment processing, and competitive bidding and rating. However, DHS did not develop specific training modules for other essential areas, such as monitoring contracts and approving contractor billings.

We conducted 46 interviews with central bureau and local office contracting staff. During our interviews, contracting staff indicated a need for monitoring training and expressed concerns regarding reviewing and approving contractor billings (Finding 8). In addition, confusion on the part of some staff regarding the conflict of interest policy and forms or their applicability to contracting activities indicates a need for training in this area (Finding 7). Adequate training is essential to ensure that contracting staff possess the knowledge and judgment required to effectively perform contracting functions.

RECOMMENDATION

We recommend that DHS establish training requirements for and provide sufficient training to its contracting staff.

AGENCY PRELIMINARY RESPONSE

DHS agrees with the recommendation. DHS informed us that it will initiate corrective action.

EFFECTIVENESS OF PROCESS FOR SELECTING HUMAN SERVICE CONTRACTORS

COMMENT

Audit Objective: To assess the effectiveness of DHS's process for selecting human service contractors.

Audit Conclusion: We concluded that DHS's process for selecting human service contractors was moderately effective. Our assessment disclosed one material condition. DHS had not established effective management control over its human

service contractor selection process (Finding 6). Our assessment also disclosed one reportable condition related to conflict of interest (Finding 7).

FINDING

6. Contractor Selection Process and Documentation

DHS had not established effective management control over its human service contractor selection process. As a result, DHS could not always demonstrate that contractors were fairly selected and that it obtained the best value to the State.

Depending upon the contract value, human service contracts may require a competitive selection method consisting of either a formal competitive bid with bidders submitting formal bid documents or an expedited bid in which contracting staff informally contact potential bidders to obtain bid quotes. If a valid reason existed to select the contractor using the sole source* method, DHS required contracting staff to submit a competitive bid exception request form (CM-4533). DMB Administrative Guide procedure 510.13, which was effective for the period reviewed, identified the following valid sole source conditions: (1) the service is available from only one source, (2) the service must be compatible with current services, (3) it would not be economically feasible for another vendor to perform the service, and (4) a single vendor is uniquely qualified.

Twenty-six (36.6%) of the 71 contracts reviewed required a competitive selection method or sole source justification. The remaining contracts did not require a competitive selection process because they were below the bid threshold or were fair market rate contracts. Of the 26 contracts, we noted that 19 (73.1%) contracts required formal competitive bidding, 2 (7.7%) contracts required an expedited bid process, and 5 (19.2%) contracts required sole source justification. We reviewed

* See glossary at end of report for definition.

these contract files to determine whether documentation was available to support the propriety of the selection of the human service contractors. We noted:

a. DHS did not adequately document compliance with policy for its selection of human service contractors:

(1) For 8 (42.1%) of the 19 competitively bid contracts, DHS could not locate the bid documentation* or the bid documentation was incomplete. The following table details the results of our contract file review:

Required Documentation	Files Lacking Documentation
Request for quote* package	4
Potential bidders contacted	8
Copies of submitted bids	2
Evidence of fiscal review	8
Composite rating form	7
Names of raters	7
Number of bids and range of scores	6
Copy of award notification letters	7

DHS Contract Policy Manual item 201 requires contracting staff to retain all documentation of the competitive bid process and the decisions made during the process in a file for six years. However, contract administrators for 4 of the 8 contracts informed us that someone else was responsible for maintaining the bid documents. For 3 of these 4 contracts, local office staff stated that they believed central office staff had the responsibility for maintaining the documentation.

(2) For 1 of the 2 expedited bid requests, DHS did not comply with policy. DHS L-Letter* L-04-074 established DHS policy for expedited bidding on contracts valued between \$10,000 and \$25,000. It required contract administrators to identify and contact a minimum of 3 qualified contractors to obtain proposals and to document this on an expedited solicited bid award form (FIA-3837). However, we noted that the contractor selection did not occur as documented on the form. Documents contained in the

* See glossary at end of report for definition.

contract file maintained by the contract administrator indicated that a DHS contracted employee actually selected the contractor and not the DHS contract administrator who attested to the expedited bid by signing the form. In addition, the date that the selection occurred was before the attested date on the form. DHS had no assurance that staff had actually contacted the other individuals identified on the form as potential bidders. Because this individual was not properly selected, DHS had no assurance that the contractor selected was the best value to the State.

- (3) For 2 of the 5 sole source contracts, DHS did not award the contracts in accordance with DMB Administrative Guide procedure 510.13, which was effective for the period reviewed. For the first request, the reason provided on the competitive bid exception request was that the contractor was the only entity that could provide the required service. However, other providers were available to provide the service and DHS awarded both the prior and subsequent contracts through a competitive process with the same contractor receiving the prior contract but a new contractor receiving the subsequent contract.

For the second request, the justification submitted by the contract administrator indicated that the contractor had ownership rights to the training material that the contractor was to provide. However, upon further review of the contract file and in discussion with the contract administrator, we determined that no such ownership right existed and the contractor provided different training than stated in the contract.

- b. DHS contracting staff did not verify or utilize all relevant information during the contractor selection process.

During our interviews, contract administrators provided various responses regarding verification of contractor credentials and qualifications. For example, contract administrators indicated that they did not verify contractor credentials or qualifications unless they performed an on-site monitoring visit (12 responses); they did not verify credentials or qualifications (7 responses); they relied upon others to verify credentials or qualifications (2 responses); and they did not know if credentials or qualifications were verified (8 responses).

Also, contract administrators did not always use prior contractor evaluation reports or DHS Office of Internal Audit reports during the contractor selection process. For 1 of the 19 competitively bid contracts, DHS continued to contract with the same contractor even though a review of the prior contract performed by the DHS Office of Internal Audit indicated significant problems. We noted similar problems with the contractor during our review of the current contract. Contract administrators stated that they believed they could use a report only if similar reports were available for all bidders or that they were not aware of the existence of Office of Internal Audit reports.

RECOMMENDATION

We recommend that DHS establish effective management control over its human service contractor selection process.

AGENCY PRELIMINARY RESPONSE

DHS agrees with the recommendation. DHS informed us that it will initiate corrective action.

FINDING

7. Conflict of Interest

DHS had not established a conflict of interest policy for all of its programs and community collaborative members. In addition, DHS did not ensure that all staff performing contracting functions were aware of their responsibility to report instances of potential or actual conflicts of interest with human service contractors and did not annually require staff to document whether they have conflicts of interest or not. As a result, DHS cannot ensure that its staff have identified and resolved potential or actual conflicts of interest in the contracting process.

Executive Directive No. 2003-1 and Section 2-8 of the *Michigan Civil Service Commission Rules* establish ethical standards of conduct for State employees and require State agencies to enforce the standards. Also, Section 2-8 and DHS policy and procedure manuals provide for an annual notification to all employees regarding the requirements and reporting of actual or potential conflicts of interest by employees and the supervisors of employees who have certain contracting, purchasing, regulatory, monitoring, and auditing responsibilities over entities or persons providing contracted services.

We conducted interviews with DHS contracting staff and reviewed DHS policies and procedures related to human service contracting and noted:

- a. DHS did not prohibit community collaborative members from engaging in conflicts of interest with regard to DHS contracts. Also, DHS did not provide guidance to its contract administrators on how to ensure that conflicts of interest do not occur when contracting with community collaborative members.

Community collaboratives are local groups composed of public and private sector representatives from human service agencies that address various family support needs. Community collaborative members may include a local health department, a community mental health board, an intermediate school district, a local DHS office, and various other private sector and consumer representatives. Community collaboratives establish the agenda for their respective communities, including identifying the needs of and services for the community.

We reviewed the membership and contracts for five community collaboratives and noted that, in all five instances, some community collaborative members received contracts from DHS for services that they may also have decided the need for those services. Local office contract administrators informed us that they had concerns that potential or actual conflicts of interest could occur when community collaborative members are allowed to both decide upon the services needed and then bid or vote to select themselves to provide the contracted services. For example, one local office contract administrator informed us that the community collaborative determined the services and selected the contractors for DHS contracts. The community collaborative then gave the information to the DHS contract administrator to prepare the contracts.

DHS has established standards for the Strong Families/Safe Children Program in the use of community collaboratives through the issuance of various L-Letters to local offices. DHS stated in these L-Letters that members may not bid on any services for which they voted on the decision to purchase and each agency is limited to a single vote on issues related to the Strong Families/Safe Children Program funds regardless of the number of agency representatives on the community collaborative. However, DHS did not issue guidance to contract administrators on how to ensure that community collaboratives were

following these standards. In addition, DHS did not issue similar standards for other programs that community collaboratives' decisions may affect.

- b. DHS did not require that all contracting staff complete a conflict of interest form annually.

Section 2-8.3 of the *Michigan Civil Service Commission Rules* requires State employees to report all personal or financial interests in any entity with which the employee has direct contact while performing official functions. DHS Employee Handbook Manual item 10 provides for the annual completion of a conflict of interest form, i.e., a financial and/or personal interest statement form (DHS-397), by staff involved in certain contracting activities. Upon annual notification, the policy directs that employees are to determine whether they occupy positions that require completion of the form and, if applicable, they are to complete and submit the form to their supervisor within 14 days of notification.

In our interviews with central bureau and local office contracting staff, we determined that some contracting staff could not recall receiving the annual notification to complete a conflict of interest form, provided inconsistent responses regarding when the policy applied, or believed the policy did not apply to work they performed. In addition, staff believed that they were not required to file a conflict of interest form unless they believed a conflict existed.

RECOMMENDATIONS

We recommend that DHS establish a conflict of interest policy for all of its programs and community collaborative members.

We also recommend that DHS ensure that all staff performing contracting functions are aware of their responsibility to report instances of potential or actual conflicts of interest with human service contractors and annually require staff to document whether they have conflicts of interest or not.

AGENCY PRELIMINARY RESPONSE

DHS agrees with both recommendations. DHS informed us that it will initiate corrective action. DHS also informed us that it annually issues directives to staff

requiring the submission of conflict of interest statements and stated that it will clarify the requirement related to their use.

EFFECTIVENESS OF EFFORTS TO MONITOR AND EVALUATE HUMAN SERVICE CONTRACTORS

COMMENT

Audit Objective: To assess the effectiveness of DHS's efforts to monitor and evaluate human service contractors.

Audit Conclusion: **We concluded that DHS's efforts to monitor and evaluate human service contractors were not effective.** Our assessment disclosed one material condition. DHS did not effectively monitor contractor billings (Finding 8). Our assessment also disclosed two reportable conditions related to contract monitoring and evaluation (Finding 9) and counseling contract notification (Finding 10).

FINDING

8. Contractor Billings

DHS did not effectively monitor contractor billings. As a result, DHS could not always ensure that it had appropriately reimbursed contractors for their services.

Effective monitoring of contractor billings includes assessing and documenting the reasonableness of the expenditures billed in relation to the activities performed for the billing. DHS Administrative Handbook Manual item 436 states that contract administrators are responsible for reviewing and approving the contractor billings, including ensuring that billings are comparable to monitored activities and in accordance with the contract terms.

Item 436 does not include guidance on the methods that the contract administrator is required to use to ensure that contractor billings are comparable to monitored activities. Further, contract administrators stated that they considered the payment approval process for actual cost contracts difficult because they believed they could verify the contractors' services or costs only through on-site monitoring. Examples of contract terms that provide a mechanism to assist monitoring include requiring contractors to submit documentation along with the monthly billing, such as reports or lists of clients served; requiring contractors to submit other periodic

written reports to the contract administrator or another entity; or requiring contractors to report in-person to various individuals or groups.

We conducted 46 interviews with central bureau and local office staff to identify their processes to monitor services and approve contractor billings. We also tested contractor billings and associated supporting documentation for 71 sample contracts.

Our review disclosed:

- a. DHS contract administrators did not always obtain and maintain supporting documentation for approving contractor billings.

Of the 71 payment billings we tested, 39 (54.9%) lacked sufficient supporting documentation. These payments represented 37 actual cost and 2 unit rate contracts. Contract file documentation usually consisted of the statement of expenditures form (FIA-3469) or an alternate billing form with minimal or no documentation to support services in relation to the amounts billed. DHS staff informed us that methods used to verify contractor billings in lieu of monthly reports included on-site monitoring, review of other required periodic reports, and frequent informal contact with the contractor. However, we found that these methods either were not documented in the contract file or were not always effective. For example, although DHS contract administrators frequently stated that they had monitored services through informal contacts with contractors, such as telephone calls and unscheduled site visits or meetings, contract files seldom contained documentation of these contacts. Consequently, we could not determine if this was an effective method of monitoring services to approve contractor billings.

- b. DHS contract administrators did not always adequately review contractor billings and other related contract documentation. As a result, DHS overpaid three actual cost contracts that we reviewed:

- (1) For the first contract, DHS approved contractor billings that incorrectly billed indirect costs. For actual cost contracts, DHS reimburses contractors for their actual costs incurred to provide the services and for indirect costs calculated as a percentage of the actual costs. However, we noted that the contractor billed indirect costs monthly against the

budgeted contract amount and not against actual costs incurred. Because the actual costs related to the contract were substantially below the budgeted costs, we estimate that DHS overpaid the contractor at least \$22,822 for indirect costs in fiscal year 2003-04 and \$20,856 in fiscal year 2004-05.

- (2) For the second contract, DHS approved contractor billings without obtaining supporting documentation. Instead, the contract administrator reviewed the contractor's documentation during an annual on-site visit. We reviewed the on-site visit report and documentation of invoices examined by the contract administrator during the visit. We noted that DHS reimbursed the contractor for payments made to two different subcontractors that provided the same service. In addition, 1 of the 2 subcontracted entities had not been included as a subcontractor in the approved contract. We estimated that DHS overpaid the contractor \$58,795, which represented 5.5% of the total contract amount, for the unapproved subcontractor's services.
- (3) For the third contract, DHS relied upon the contractor's one-sheet summary work sheet of hours and mileage for that month to approve the contractor's billings. However, we noted that for two of the monthly billings the contract file contained additional support submitted by the contractor that detailed the daily hours and mileage for the month. Based on this additional support, we estimated that DHS overpaid the contractor \$517 for these two months. We could not determine if there were additional overpayments for the remaining months because the contract file lacked additional support documentation.

RECOMMENDATION

We recommend that DHS effectively monitor contractor billings.

AGENCY PRELIMINARY RESPONSE

DHS agrees with the recommendation. DHS informed us that it will initiate corrective action.

FINDING

9. Contract Monitoring and Evaluation

DHS could improve its contracting process by developing a departmentwide process to monitor and evaluate human service contracts.

Because of DHS's decentralized contracting process, central bureaus and local offices are responsible for developing their own monitoring schedules and tools. A departmentwide process to monitor and evaluate contracts would provide guidance on the level of monitoring and preferred methods based on contract or contractor risk characteristics, identify tools to measure and assess contractor performance, and provide a mechanism to ensure that results are coordinated and shared between DHS bureaus and units.

DMB Administrative Guide procedure 510.08 states that contract monitoring is necessary to successfully complete a contract. Further, it states that effective oversight by a contract administrator will increase the probability that contract services are responsibly provided. The Office of Federal Procurement Policy's "Best Practices for Collecting and Using Current and Past Performance Information" states that current performance assessment is a basic best practice for good contract management.

We reviewed DHS policies and procedures and conducted 46 interviews with central bureau and local office staff to inquire about their processes for monitoring and the tools used, as well as their processes for evaluating contractor performance. In addition, as part of our review of 71 contract files, we determined if evidence of monitoring or evaluation was present in the files. We noted:

- a. DHS had not established a written departmentwide policy or procedure to guide contracting staff in contract monitoring, evaluation, and documentation.

We found that most central bureaus have cyclical on-site monitoring plans that ranged from semiannually to approximately every 3 or 3.5 years. However, these monitoring plans were not always based on risk factors associated with contract characteristics, such as the contractor's past performance and experience. In addition, the on-site monitoring tools used did not always contain a fiscal review of the contract expenditures.

Local office staff informed us that often on-site monitoring did not occur as planned because of staff shortages. They expressed concerns regarding the lack of departmentwide policy and procedural guidance regarding on-site monitoring, such as who is responsible for performing it and how it is to be accomplished. In addition, for 2 of our sample contracts, contracting staff did not document that they had decided not to renew contracts because of contractor performance issues.

Although programmatic considerations may impact the frequency and type of monitoring plans for different contracts, a departmentwide monitoring policy and guidance based on risk factors associated with contract characteristics would improve overall contract monitoring. Documenting the evaluation of contractor performance would assist DHS in ensuring that it received full value for the funds expended on the contract.

- b. DHS had not established a process to centrally collect monitoring results and to make these results available to all contracting staff in DHS.

DHS contractors may provide services at several locations throughout the State and have multiple contracts with different units in DHS for various programs. We determined that 34.5% of the contractors in our sample population had five or more different types of contracts with DHS for the period 2001 through 2005.

Although an individual unit may have completed monitoring activities for the contract under its responsibility, there is no requirement or process established to make these monitoring results available to all interested parties. For example, we noted that, for one sample contract, the local office performed a formal on-site review that disclosed serious concerns. The local office did not forward a copy of the report to either OCRS or the Office of Internal Audit at the time of our review even though both the contractor and some subcontractors had additional contracts with other DHS units.

- c. Contract administrators did not always document an evaluation of contractor services before extending contracts.

The majority of local office contracting staff (25 of 29 interviewed) stated that contract evaluations either were informal and not documented in the contract

file or were not performed before extending the contract. Twenty-three (32.4%) of the 71 contracts in our sample had been extended. We noted that there was no documented evaluation of contractor services for 20 (87.0%) of the 23 contracts.

Extensive use of contract extensions without evaluating contractor performance may not ensure the best value to DHS clients and the State.

- d. DHS did not establish a process to ensure that it processed contract payments through the Contract System when required.

In fiscal year 2003-04, we noted payments processed through the Relational Standard Accounting and Reporting System (R*STARS) totaling \$939,000 that included child welfare, prosecutorial, and foster care parent training services.

In fiscal year 2004-05, we noted payments processed through the Local Accounting System Replacement (LASR) totaling \$98,600 that included counseling services and mentoring services.

Establishing a process to periodically analyze payments that are processed through various DHS systems would reduce the potential for duplicate payments on existing human service contracts.

RECOMMENDATION

We recommend that DHS improve its contracting process by developing a departmentwide process to monitor and evaluate human service contracts.

AGENCY PRELIMINARY RESPONSE

DHS agrees with the recommendation. DHS informed us that it has created the Office of Monitoring and Internal Control, which will address the finding.

FINDING

10. Counseling Contract Notification

OCRS did not identify to local office staff those individuals approved to provide counseling services to DHS clients. As a result, DHS could not ensure that local

office staff effectively monitored that clients received services from qualified individuals.

DHS L-Letters L-03-165 and L-04-029 required prospective counseling contractors, which include private agencies and individuals, to submit credentials (copy of license and academic degree) and background clearances (Central Registry clearance and National Child Protection Act clearance) for each individual who would be providing counseling services under the contract. Following contract execution, OCRS entered the name of the approved counseling contractor onto a counseling directory housed on the DHS Intranet. DHS local office staff used the directory to identify approved counseling contractors in order to refer clients to approved counselors for services.

We reviewed a sample of 10 counseling contracts. Of the 10 contracts, 6 represented private agencies and 4 represented individual counseling contractors. OCRS verified the credentials for 60 individuals to provide services through the 6 private agency contracts. However, we noted that OCRS listed the name of the contracted private agency on the counseling directory rather than the names of the individuals who worked at the private agency that it had approved. As a result, local office staff who use the directory to identify counselors to refer clients to would not be able to always verify that services had actually been provided by the approved individual providers within the contracted private agency. We determined that 207 (52.1%) of the 397 counseling contracts effective as of April 1, 2004 were with private agencies.

RECOMMENDATION

We recommend that OCRS identify to local office staff those individuals approved to provide counseling services to DHS clients.

AGENCY PRELIMINARY RESPONSE

DHS disagrees with the recommendation. DHS stated that counseling contracts include language which prohibits the provider from having counseling services provided by nonapproved therapists and provides for repayment of funds if the provider is not compliant with the prohibition.

OFFICE OF THE AUDITOR GENERAL EPILOGUE

DHS disagrees with the recommendation and relies upon the contract language to provide assurance and recourse for contractor compliance. Generally, relying on the contractor to enforce the contract requirements is not an effective control. Providing the detailed information of approved therapists to the local offices would allow DHS to be proactive in ensuring that the therapists providing services to DHS clients meet licensing and academic degree requirements and have had the necessary background clearance.

GLOSSARY

Glossary of Acronyms and Terms

actual cost	Reimbursement of the actual expenditures, made in accordance with the contract budget, in providing contract services up to a maximum amount specified in the contract.
bid documentation	Material required to support contractor selection for a competitively bid contract, including a copy of the request for quote package, a list of potential bidders, a copy of each bid submitted, fiscal review documentation, a composite rating form, a record of the raters' names, a record of the number of bids and the range of scores, and a copy of all award notification letters.
contract	A promise to perform a duty for consideration.
contract administrator	Individual assigned the responsibility to administer the contract.
contract coordinator	Position responsible for monitoring contracts, overseeing development of contracts, and providing technical assistance to contract administrators.
Contract System	Contract Tracking and Payment System.
contractor	The business, organization, or individual with whom DHS enters into a contract to purchase services.
DHS	Department of Human Services.
distribute	To mail the contract to appropriate parties in order for payments to commence.
DMB	Department of Management and Budget.
effective date	The begin date cited in the contract.

effectiveness	Program success in achieving mission and goals.
executed contract	A contract that is signed by both parties to the contract.
general provisions	A section of the contract that contains the provisions required by law or State policy to be in all DHS contracts.
human service contracting	The contracting for direct human services that are concerned with providing treatment and material aid to the economically underprivileged and socially deprived.
L-Letter	DHS's method to communicate policy to its local offices.
management control	The plan of organization, methods, and procedures adopted by management to provide reasonable assurance that goals are met; resources are used in compliance with laws and regulations; valid and reliable data is obtained and reported; and resources are safeguarded against waste, loss, and misuse.
material condition	A reportable condition that 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.
Model Payment System	DHS system that processes Adult Services, Adult Foster Care, Adult Home Help, and Child Foster Care payments.
monitoring	Ongoing reviews of the contractor's activities to ensure that the responsibilities of the contract are being performed satisfactorily, including the approval of billings.
OCRS	Office of Contracts and Rate Setting.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the

performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.

Regional Detention Support Services (RDSS)

A program administered by DHS, through its Bureau of Juvenile Justice, and county circuit courts that provides alternatives to jail and secure detention for juvenile offenders who have been arrested and are awaiting a hearing and/or placement.

Relational Standard Accounting and Reporting System (R*STARS)

The State's comprehensive financial information system that provides for accounting and financial reporting within the Michigan Administrative Information Network's (MAIN's) Financial Administration and Control System (FACS).

reportable condition

A matter that, in the auditor's judgment, represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.

request for quote

A formal system through which DHS writes specifications of the service(s) to be purchased and requests bidders to submit a proposed price to provide the service(s).

sole source

The selection of a contractor without using the competitive bid (request for proposal [RFP]/request for quote [RFQ]) process or as the only bidder that responds to the RFP/RFQ.

subcontract

An agreement signed by a contractor and a third party for the purposes of allowing the third party to provide a part of the responsibilities of the contractor.

unit rate

Payment of a fixed rate for each unit of service as defined in the contract.

