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AUDITOR GENERAL

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– Article IV, Section 53 of the Michigan Constitution

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September 29, 2011

Ms. Maura D. Corrigan, Director
Department of Human Services
Grand Tower
Lansing, Michigan

Dear Ms. Corrigan:

This is our report on our follow-up of the 4 material conditions (Findings 1, 2, 6, and 8) and 4 corresponding recommendations reported in the performance audit of Human Service Contracting, Department of Human Services. That audit report was issued and distributed in April 2008. Additional copies are available on request or at <<http://www.audgen.michigan.gov>>.

Our follow-up disclosed that the Department of Human Services had complied with 2 recommendations and had not complied with 2 recommendations.

If you have any questions, please call me or Scott M. Strong, C.P.A., C.I.A., Deputy Auditor General.

Michigan Auditor General

AUDITOR GENERAL

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HUMAN SERVICE CONTRACTING DEPARTMENT OF HUMAN SERVICES FOLLOW-UP REPORT

INTRODUCTION

This report contains the results of our follow-up of the material conditions* and corresponding recommendations and the agency's preliminary responses as reported in our performance audit* of Human Service Contracting, Department of Human Services (DHS) (431-0110-05), which was issued and distributed in April 2008. That audit report included 4 material conditions (Findings 1, 2, 6, and 8) and 6 other reportable conditions*.

PURPOSE OF FOLLOW-UP

The purpose of this follow-up was to determine whether DHS has taken appropriate corrective measures in response to the 4 material conditions and 4 corresponding recommendations.

BACKGROUND

DHS has delegated authority from the Department of Technology, 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

* See glossary at end of report for definition.

Division of Logistics and Rate Setting (DLRS) 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 DLRS and contract administrators* within DHS central program offices and over 100 local offices around the State. Other DHS units involved in the contracting process include the Division of Adult and Family Policy, Children's Services, the Bureau of Community Action, Interagency and Community Services, Field Services, and Legal Services.

DLRS 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. DLRS'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.

Contract administrators' responsibilities include identifying services to be purchased, 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.

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 DHS uses for making payments to vendors providing services under a human service contract. The Relational Standard Accounting and Reporting System* (R*STARS) is another system that DHS uses for certain types of contract payments.

DLRS had 19 staff positions as of August 2, 2011. During the period June 1, 2009 through May 31, 2011, DLRS processed 1,920 DHS human service contracts. During the same period, human service contract payments processed through the Contract System totaled \$725.5 million.

** See glossary at end of report for definition.*

SCOPE

Our fieldwork was conducted from May to August 2011. We interviewed DHS personnel and reviewed DHS's corrective action plans to determine the status of compliance with our recommendations for Findings 1, 2, 6, and 8. We reviewed DHS policies and legislation to determine whether there were any changes since our performance audit of Human Service Contracting issued in April 2008. We performed data analysis of contract information within the Contract System. We analyzed DHS expenditure data from R*STARS and compared it to contract information within the Contract System. We tested a sample of contract files to determine whether DHS staff followed bid requirements, documented exceptions, and used contractor credentials when establishing contracts. We also tested contract files to determine that contracting staff reviewed and approved contractor billings for payment. We conducted interviews with contracting staff to obtain information regarding DHS procedures to monitor and evaluate whether contractors had provided services as required by the contract.

FOLLOW-UP RESULTS

EFFECTIVENESS* OF PROCESS FOR DEVELOPING HUMAN SERVICE CONTRACTS

RECOMMENDATION AND RESPONSE AS REPORTED IN APRIL 2008:

1. Contract Timeliness

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.

FOLLOW-UP CONCLUSION

We concluded that DHS had not complied with this recommendation.

DHS reassigned some of the contract administrators' responsibilities related to bid documentation* to DLRS staff in an attempt to improve contract timeliness. DHS also increased the number of DLRS staff. However, our follow-up disclosed:

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

We compared the effective date* and the executed contract* date within the Contract System for contracts processed during the period June 1, 2009 through May 31, 2011. We noted that, of the 1,730 contracts included in our analysis, DHS executed 374 (21.6%) contracts more than 30 days after the

* See glossary at end of report for definition.

effective date cited in the contract. The following table displays the range of days late for these 374 contracts:

Range of Days Late	Number of Late Contracts	Percentage of	
		Late Contracts	All Contracts
31 to 60	226	60.4%	13.1%
61 to 100	72	19.3%	4.2%
Over 100	76	20.3%	4.4%
Total	374	100.0%	21.6%

DHS made some improvement in its timely execution since the prior report. We noted in the prior report that DHS executed 31.3% of the contracts more than 30 days after the effective date cited in the contract.

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

We analyzed payment detail and service periods for 10 of the 1,730 contracts with the greatest number of days between the effective date and the executed date of the contract. DHS did not make payments on 3 of these contracts. However, DHS made 85 individual payments on the other 7 contracts totaling \$7,772,796. Fifty-three (62.4%) of these 85 payments had service periods before the dates that DHS executed the contracts. DHS reimbursed contractors \$4,572,563 for these 53 payments.

DHS did not improve on payments related to untimely contracts since the prior report. We noted in the prior report that DHS made 110 individual payments totaling \$1,044,025 for the 10 contracts with the greatest number of days between the effective date and the executed date of the contract. 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.

RECOMMENDATION AND RESPONSE AS REPORTED IN APRIL 2008:

2. Contract Execution and Payment Processing

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.

FOLLOW-UP CONCLUSION

We concluded that DHS had not complied with this recommendation.

We determined that a significant amount of payments without a contract still existed. Our analysis of payments that were not processed through the Contract System from June 1, 2009 through May 31, 2011 noted that DHS made the following payments to human service providers without a contract:

a. **Medical Transportation**

We noted payments to 239 providers totaling \$7,029,371 for medical transportation. Eighteen of the 239 providers were paid more than \$100,000 each.

b. **Regional Detention Support Services* (RDSS)**

We noted payments to 3 providers totaling \$2,208 for RDSS.

c. **Guardianship and Mentoring Services**

We noted payments to one provider totaling \$19,389 for guardianship services. We also noted payments to 12 providers totaling \$7,840 for mentoring services.

* See glossary at end of report for definition.

d. Other Services

We noted payments to 62 providers totaling \$786,024. The descriptions of most of these payments indicated that they were for medical, dental, and psychological evaluations or examinations. DHS should review these services to determine if they require a contract.

**EFFECTIVENESS OF PROCESS FOR
SELECTING HUMAN SERVICE CONTRACTORS**

RECOMMENDATION AND RESPONSE AS REPORTED IN APRIL 2008:

6. Contractor Selection Process and Documentation

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.

FOLLOW-UP CONCLUSION

We concluded that DHS had complied with this recommendation.

Our follow-up disclosed that DHS developed and implemented Contract Policy Manual item 109 (Rating Committee), which requires the bid rating committee chairperson to ensure that contract administrators retain all necessary rating material. This policy also requires the contract administrators to retain certain bid documentation within the contract files. We reviewed contract files and determined that for 11 formal bid* and 3 informal bid* contracts, DHS maintained all the required bid documentation within the contract files related to the human service contractor selection process. In addition, DHS had obtained and utilized contractor credentials in the evaluation of the contractors' ability to provide the necessary

* See glossary at end of report for definition.

services required by contracts. Further, nine contract administrators informed us that contractor credentials are used during the contractor selection process.

EFFECTIVENESS OF EFFORTS TO MONITOR AND EVALUATE HUMAN SERVICE CONTRACTORS

RECOMMENDATION AND RESPONSE AS REPORTED IN APRIL 2008:

8. Contractor Billings

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.

FOLLOW-UP CONCLUSION

We concluded that DHS had complied with this recommendation.

Our follow-up disclosed:

- a. DHS developed and implemented Contract Policy Manual item 101, which requires contract administrators to review billings to ensure that appropriate units of service were delivered in accordance with the contract and to approve billings and monitor expenditures.
- b. DHS developed and implemented a Contract Compliance Assurance Guide that requires those areas administering contracts to prepare an annual monitoring plan for purposes of performing on-site visits to contractors. During the visits, DHS staff are required to review samples of billings to determine that the expenditures billed to DHS are reasonable and supported by the activities performed by the contractor.
- c. For 22 contractor billings we reviewed, DHS staff performed the necessary monitoring activities to ensure that contractor billings were reasonable and supported.

GLOSSARY

Glossary of Acronyms and Terms

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 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.
DLRS	Division of Logistics and Rate Setting.
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.
formal bid	Formally known as competitively bid, this is a competitive award process 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). The award is recommended to the lowest responsive and responsible bidder, based solely on the response to the criteria set forth in the invitation to bid.

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.

informal bid

Formally known as expedited bid, this is an informal solicitation or request for information in which price quotations are obtained from vendors without formal bidding. This process is used only when statutes do not require formal sealed bids, such as for small or emergency purchases, but price competition is desired.

invitation to bid

A formal request to prospective vendors soliciting price quotations or bids. It contains, or incorporates by reference, the specifications or scope of work and all contractual terms and conditions.

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.

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.
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.

