

Michigan Department of Human Services  
Performance Audit of Human Service Contracting  
October 2002 through September 2005

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SUMMARY

- I. Recommendations Complied With
  - 2b, 4
- II. Recommendations Agreed With
  - A. To be Complied With
    - 1a, 1b, 2a, 2b, 2c, 2d, 3, 5, 6a, 6b, 7a, 7b, 8a, 8b, 9a, 9b, 9c, 9d
  - B. Budget Considerations
    - 10
- III. Recommendations Disagreed With
  - 10
- IV. Findings Disagreed With
  - None



**Department of Human Services**  
**Corrective Action Plan and Status of the Audit Recommendations**  
**Performance Audit of Human Service Contracting**  
**October 2002-September 2005**  
**Report Issued April 16, 2008**

OAG Audit Finding	Responsible Administration	Proposed Implementation Date	Corrective Action/Update	Status
<b>Finding 01—Contract Timeliness (material weakness)</b>				
<b>The OAG recommends that DHS ensure timely execution of its human services contracts.</b>				
a. DHS did not execute contracts in a timely manner.	CAO	10/01/2008	DHS is in the process of reorganizing the Division of Contracts and Rate Setting to add staff and revise processing requirements.	open
b. DHS reimbursed contractors for services that the contractors provided before execution of the contracts.	CAO	10/01/2008	DHS does not reimburse contractors in advance of full execution of a contract. Improved timeliness of contract execution is anticipated to address issues of service provision in advance of contract execution.	open
<b>Finding 02—Contract Execution and Payment Processing</b>				
<b>The OAG recommends that DHS establish management control to ensure that it executes contracts when purchasing services for clients.</b>				
a. DHS had not established management control to ensure that it executed contracts when purchasing services for contracts. DHS requires contracts to be executed for all human service purchases that exceed \$2,500 to any one provider in a fiscal year. In fiscal year 2003-2004 the auditor 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 2004-2005, the auditor noted payments to 90 providers totaling \$3,657,253. Ten of the 90 providers were paid more than \$100,000 each.	FO	10/01/2009	Wayne, Oakland, and Macomb counties are in the process of gathering statistical information necessary for the RFP. When the survey will concludes, the results will be analyzed. The next steps include developing the RFP, putting it out for bid, and selecting the contractor(s).	open
b. DHS had not established management control to ensure that it executed contracts when purchasing services for contracts. DHS requires contracts to be executed for all human service purchases that exceed \$2,500 to any one provider in a fiscal year. In fiscal year 2003-2004, the auditor noted payments for RDSS to 65 providers totaling \$580,060. In the first eight months of fiscal year 2004-2005, the auditor noted payments for RDSS to 36 providers totaling \$300,047. Payment to 5 of the 65 and 1 of the 36 providers exceeded the State Administrative Board approval threshold of \$25,000.	BJJ	implemented	In February of 2007 DHS established contracts with Michigan Counties regarding the RDSS program. County RDSS contracts are monitored by the RDSS Manager and the RDSS Analyst. The RDSS payments are required to meet DHS contract and RDSS program eligibility criteria.	closed
c. DHS had not established management control to ensure that it executed contracts when purchasing services for contracts. DHS requires contracts to be executed for all human service purchases that exceed \$2,500 to any one provider in a fiscal year. In fiscal year 2003-2004, the auditor noted local office payments to 25 providers totaling \$163,992 for guardianship services. The auditor also noted payments to one provider for mentoring services totaling \$5,415 in fiscal year 2003-2004 and \$4,700 in the first eight months of fiscal year 2004-2005.	FO	10/01/2008	DHS will establish management controls to ensure that any issued payments that exceed DHS or DMB guidelines are periodically reviewed to ensure that an existing contract is in place. This will be developed by 10/1/2008.	open
d. The OAG noted payments to 135 providers totaling \$2,203,132 in fiscal year 2003-2004, and payments to 117 providers totaling \$1,611,584 in the first eight months of fiscal year 2004-2005 that appeared to be for medical and psychological evaluations or examinations. DHS should review these services to determine if they require a contract.	FO	10/01/2008	Field Operations will review payments for the medical and psychological evaluations or examinations to determine if contracts are required in accordance with DHS and DMB requirements; and if that is the case, contracts will be executed as needed. A workgroup has been formed to discuss how best to proceed.	open

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 DCRS – Division of Contracts and Rate Setting  
 DUS – Department of Human Services

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OMIC – Monitoring and Internal Control  
 RDSS – Regional Detention Support Services  
 RFP – Request for Proposal



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<b>Finding 03—Contract Development</b>				
The OAG recommends that DHS improve its processes 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.				
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.	CAO	10/01/2008	The reorganization of the Division of Contracts and Rate Setting to add staff and change processes will increase the Division's capability to oversee contract development. Furthermore, DCRS staff will develop service descriptions for the review of field and program units.	open
<b>Finding 04—Contractor Background Checks and Educational Qualifications</b>				
The OAG recommends that DHS develop a formal policy that defined when and for what service types criminal background checks and educational qualifications should be required as part of a human service contract.				
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 part of a human service contract.	CAO	implemented	Currently, all human service contracts developed include requirements related to criminal background checks. DCRS staff have been directed to assure that all contracts identify educational requirements for staff providing professional services in human service contracts.	closed
<b>Finding 05—Contracting of Staff Training</b>				
The OAG recommends that DHS establish training requirements for or provide sufficient training to its contracting staff.				
DHS did not establish training requirements for or provide sufficient training to its contracting staff.	CAO	10/01/2008	The reorganization of the Division of Contracts and Rate Setting will increase the Division's capability to target training since contract development will be completed exclusively by that staff.	open
<b>Finding 06—Contractor Selection Process and Documentation (material weakness)</b>				
The OAG recommends that DHS establish effective management control over its human service contractor selection process.				
a. DHS did not adequately document compliance with policy for its selection of human service contractors (i.e., bid documentation could not be located or was incomplete).	CAO	10/01/2008	Bid chairs will be required to confirm that bid documentation is completed and on file as part of their duties.	open
b. DHS contracting staff did not verify or utilize all relevant information during the contractor selection process (i.e., did not verify credentials or qualifications, did not use prior contractor evaluation reports, or internal audit reports).	OMIC	01/01/2009	OMIC will write, assist in implementation, and monitor a department-wide contractor monitoring policy. This policy will require each administration that issues human service contracts to develop monitoring plans. These plans must address the monitoring of contractors who administer DHS contracts. Also, an monitoring plan must be developed by administrations that monitor contract, billing and payment processes. OMIC will periodically review implementation and progress of the plans to ensure that monitoring procedures are performed timely and in accordance with established plans.  In addition, a preaward contract monitoring checklist is being developed to ensure certain functions have been performed before the contract is executed.	open

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<b>Finding 07— Conflict of Interest</b>				
The OAG recommends that DHS (1) establish a conflict of interest policy for all its programs and community collaborative members, (2) 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 (3) annually require staff to document whether they have conflicts of interest or not.				
a. DHS had not established a conflict of interest policy for all of its programs and community collaborative members. DHS did not prohibit community collaborative members from engaging in conflicts of interest with regard to DHS contacts. Also, DHS did not provide guidance to its contractors on how to ensure that conflicts of interest do not occur when contracting with community collaborative members.	FO	10/01/2008	DHS will develop a conflict of interest policy for community collaborative members, which applies to all programs.	open
b. 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.	CAO	01/01/2009	DHS annually releases a department wide communication directing staff to complete forms confirming that they do not have a conflict of interest. DHS will assure that future issuances clarify that the form must be completed by all staff with contracting responsibility (developing, payment authorization, administration, etc.).	open
<b>Finding 08— Contractor Billings (material weakness)</b>				
The OAG recommends that DHS effectively monitor contractor billings.				
a. DHS contract administrators did not always obtain and maintain supporting documentation for approving contractor billings. Contract documentation usually consisted of the Statement of Expenditures (DHS-3469) or an alternate billing form minimal or not documentation to support services in relation to the amounts billed. DHS staff informed the auditors that methods used to verify contractor billings in lieu of monthly reports included on-site monitoring, review of other required reports, and frequent informal contact with the contractor. However, these methods were not documented in the contract file or were not effective.	OMIC	01/01/2009	<p>OMIC will write, assist in implementation, and monitor a department-wide contractor monitoring policy. The policy is expected to be in place by October 1, 2009. In addition, OMIC will provide training and is developing a Contractor Monitoring Manual as a supplement to the policy. Training will occur after the policy and manual have been completed.</p> <p>The policy will require each administration that issues human service contracts to develop monitoring plans which must address the monitoring of contractors. OMIC will periodically review implementation and progress of the plans to ensure that monitoring procedures are performed timely and in accordance with established plans.</p> <p>As part of the monitoring plan, each administration will be required to establish steps to monitor the contract process which includes:</p> <ul style="list-style-type: none"> <li>▪ Documentation of contractor evaluation prior to extending services</li> <li>▪ Procedure for processing contract payments through the contract system</li> <li>▪ Review of billings and other documentation before payment is made</li> <li>▪ Support documentation for approval of billings</li> <li>▪ Verification or utilization of relevant information for contractor selection</li> </ul> <p>Contract administrators will be responsible for retaining adequate documentation, reviewing the billings and obtaining appropriate approvals.</p>	open

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b. DHS contract administrators did not always adequately review contractor billings and other related contract documentation. <ol style="list-style-type: none"> <li>1. DHS approved contractor billings that incorrectly billed indirect costs. The contractor billed indirect costs monthly against the budgeted contract amount and not the against the actual costs incurred.</li> <li>2. DHS approved contractor billings without obtaining supporting documentation. Instead the contract administrator during an annual on-site visit. DHS reimbursed the contractor for payments made to two subcontractors that provided the same service. One subcontractor was not included as a subcontractor in the contract.</li> <li>3. DHS relied on the contractor's one-sheet summary worksheet of hours and mileage for the month to approve the contractor billings. For two of the monthly billings the contract file contained additional support documentation submitted by the contractor that detailed the daily hours and mileage for</li> </ol>	OMIC	01/01/2009	See response to Finding 8a.	open
<b>Finding 09—Contract Monitoring and Evaluation</b>				
<b>The OAG recommends that DHS improve its contracting process by developing a department-wide process to monitor and evaluate human service contracts.</b>				
a. DHS had not established a written department-wide policy or procedure to guide contracting staff in contract monitoring, evaluation, and documentation.	OMIC	01/01/2009	See response to Finding 8a.	open
b. DHS had not established a process to centrally collect monitoring results and to make these results available to all contracting staff in DHS.	OMIC	01/01/2009	OMIC will write a department-wide monitoring policy. This policy will require each administration that issues human service contracts to develop monitoring plans. A contractor monitoring manual will be developed to guide staff in monitoring, evaluating, and documenting the contract process and the monitoring of contractors.	open
c. DHS contract administrators did not always document an evaluation of contractor services before extending contracts.	OMIC	01/01/2009	See response to Finding 8a.	open
d. DHS did not establish a process to ensure that it processed contract payments through the Contract System when required.	OMIC	01/01/2009	See response to Finding 8a.	open
<b>Finding 10—Counseling Contract Notification</b>				
<b>The OAG recommends that DHS identify to local office staff those individuals approved to provide counseling services to DHS clients.</b>				
O CRS did not identify to local office staff those individuals approved to provide counseling services to DHS clients.	CAO	n/a	DHS has contract language that precludes providers from using therapists not approved by the Department and provides for repayment of funds if the provision is violated. There is insufficient staffing within DCRS to maintain current listings of all therapists approved to provide services.	closed