



STATE OF MICHIGAN  
DEPARTMENT OF COMMUNITY HEALTH  
LANSING

RICK SNYDER  
GOVERNOR

OLGA DAZZO  
DIRECTOR

April 15, 2011

Mr. Doug Ringler  
Office of Internal Audit Services  
Office of the State Budget  
George W. Romney Building  
111 South Capitol, 6<sup>th</sup> Floor  
Lansing, Michigan 48913

Dear Mr. Ringler:

In accordance with the State of Michigan, Financial Management Guide, Part VII, attached are the final summary table identifying our responses and corrective action plans to address recommendations contained within the Office of the Auditor General's Performance Audit of Selected Service-Related Contracts and Grant Agreements, Department of Community Health.

Questions regarding the summary table or corrective action plans should be directed to me at (517) 373-1508 or Myerspa@michigan.gov.

Sincerely,

Pam Myers

Pam Myers, Director  
DCH Office of Audit

Enclosure

cc: Office of the Auditor General  
House Fiscal Agency  
Senate Fiscal Agency  
Executive Office  
DCH, Olga Dazzo  
DCH, Nick Lyon

House Appropriations Committee  
House Standing Committee  
Senate Appropriations Committee  
Senate Standing Committee  
DCH, Kurt Krause

PERFORMANCE AUDIT OF  
SELECTED SERVICE-RELATED  
CONTRACTS AND GRANT AGREEMENTS

DEPARTMENT OF COMMUNITY HEALTH

October 2010

AUDIT RESPONSE

Approved: \_\_\_\_\_ Olga Dazzo  
Olga Dazzo, Director  
Department of Community Health

Date: \_\_\_\_\_



## **AUDIT REPORT SUMMARY**

DEPARTMENT: Community Health

AUDIT PERIOD: October 1, 2006 through August 14, 2008

REPORT DATED: October 2010

### **DISPOSITION OF AUDIT RECOMMENDATIONS**

<u>CITATIONS COMPLIED WITH</u>	<u>CITATIONS TO BE COMPLIED WITH</u>	<u>CITATIONS WILL NOT COMPLY WITH</u>
	1. FY12	
	2. June 2011	
	3. FY12	
	4. June 2011	
	5. FY12	

**Audit Response  
Performance Audit  
Selected Service-Related Contracts and Grants Agreements  
Department of Community Health  
October 1, 2006 through August 14, 2008**

Recommendation 1:      Contract and Grant Agreement Development

We recommend that DCH improve its controls for ensuring the sufficient development and timely completion of detailed performance-based service contracts and grant agreements.

Response:

DCH agreed with the recommendation to improve its controls for ensuring the sufficient development and timely completion of the detailed performance-based service contracts and grant agreements. For grant agreements beginning October 1, 2010, DCH requires the use of MDCH's detailed Statement of Work for all grant agreements and has reiterated the DCH requirement that all agreements must be signed prior to the start date of the agreement. The grant agreement instructions emphasize that significant changes in scope of work, timelines, and deliverables in addition to changes in funding and agreement period must be reflected in an amendment. As DCH migrates to an electronic grants management system over the next two years, additional detailed performance objectives and outcomes are required. For contracts, the Grants and Purchasing Division continue to utilize the required Department of Technology, Management and Budget contract templates and provide guidelines to contract managers on the contract change notice criteria and process to ensure that all necessary contract changes are captured in a contract amendment. DCH will be including guidelines in the FY 11/12 Standard Agreement guidelines for contract administrators on how to use consistent funding methodologies and criteria to document contractor's performance using the agreement monitoring tool that is already in the guidelines. The FY 11/12 Standard Agreement guidelines will be issued in early April 2011 for grant agreements that will begin October 1, 2011. DCH does incorporate penalties for failing to meet the minimum performance standards, where feasible.

Recommendation 2:      Contract and Grant Agreement Administrator Training

We recommend that DCH establish training requirements for and ensure that it provides training to its contract and grant administrators.

Response:

DCH agreed with the recommendation to establish training requirements for and ensure that it provides training opportunities to its grant and contract administrators. Subsequent to the audit period, its Grants and Purchasing Division teamed with the Department of Management and Budget, Purchasing Operations to sponsor contract management, contract administration and work statement development training sessions for all contract and grant administrators within DCH. These trainings continue to be available on a periodic basis for new contract and agreement administrators. Additional contract and grant agreement administrator training is available and provided by the federal grant programs for the federal grant awards received by DCH. The Grants and Purchasing Division will establish a training curriculum and monitoring system for DCH's contract and grant agreement administrators by June 30, 2011. Due to staffing limitations and significant daily workloads, the Grants and Purchasing Division will not be able

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to directly provide most of the training. The manager overseeing each contract and grant agreement administrator is responsible for ensuring that the contract and grant agreement administrator comply with monitoring and evaluation requirements for the contracts and/or grant agreements that he or she administers.

Recommendation 3: Contract and Grant Awarding Processes

We recommend that DCH improve its controls over its contract and grant awarding processes.

Response:

DCH agreed with the recommendation to improve controls over our contract and grant awarding processes. DCH continues to evaluate each purchase request for grants and contracts to ensure that the appropriate purchasing requirements and processes are adhered to in accordance with State and Federal requirements. DCH will be including the guidelines in the FY 11/12 Standard Agreement guidelines for contract administrators on how to use consistent funding methodologies and criteria to ensure fair and equitable awards and how to document contractor's performance using the agreement monitoring tool that is already in the guidelines. The FY 11/12 Standard Agreement guidelines will be issued in early April for grant agreements that will begin October 1, 2011.

Recommendation 4: Conflict of Interest Disclosure

We recommend that DCH establish effective controls for ensuring that employees involved in the selection, monitoring, and evaluation of contractors and grantees are free of conflicts of interest.

Response:

DCH agreed with the recommendation to establish effective controls for ensuring that employees involved in the selection, monitoring and evaluation of contractors and grantees are free from conflicts of interest. While DCH's Human Resources Office obtained annual disclosure forms and updates for some DCH employees during the period of the audit, they did not verify that all employees responded to the annual disclosure request. As a result, the Department's Human Resources Office plans to issue a new request for annual disclosure forms in compliance with Civil Service Rules, by June 2011 and will verify that it has received a disclosure from each employee. As new employees are hired, they are required to sign the form for placement in their personnel files.

Recommendation 5: Contract and Grant Agreement Monitoring and Evaluation

We recommend that DCH establish sufficient controls to ensure that its contract and grant agreement administrators sufficiently monitor and evaluate DCH's contracts and grant agreements.

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Response:

DCH agreed with the recommendation to ensure that its contract and grant administrators appropriately monitor and evaluate and document the monitoring and evaluation of DCH's contracts and grant agreements. In prior audits, DCH was sited for not processing grant payments timely and as a result revised its process to require the direct submission of all grant payment requests to the DCH Accounting Division for processing. If there were any programmatic deficiencies or failed performance or some other exception by the contractor that would require an adjustment in their payment, it was the responsibility of the contract or grant agreement administrator to advise Accounting of the need for an adjustment in a subsequent period. DCH's current standard practice for contract and grant agreement payments provides for a post review of the contract and grant agreement payment requests by the contract or grant agreement administrators and subsequent period adjustments. Through recent subrecipient monitoring efforts, DCH has begun performing more thorough reviews of contracts and grantees and their subcontractors and subgrantees using subrecipient monitoring tools that were developed by the DCH's audit staff in conjunction with the federal requirements on subrecipient monitoring. For all non-MI E-Grants grant agreements, the Department will include monitoring and evaluation expectations and documentation guidelines in the FY 11/12 Standard Agreement Guidelines that will be issued in April 2011. For all MI E-Grants grant agreements including the Local Health Departments' Comprehensive Agreements, Master Agreements, etc. the electronic system has an established business flow for approval of financial and program reports and captures the documents electronically linking them to the specific grantee's grant agreement record.