

Internal Audit Report

**State of Michigan
Department of Corrections
Michigan Prisoner Reentry Initiative
Contracting Practices
February 2011**



Office of Internal Audit Services

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February 22, 2011

TO: Richard M. McKeon
Acting Director, Michigan Department of Corrections

FROM: Doug Ringler, Director *Doug Ringler*
Office of Internal Audit Services

SUBJECT: Internal Audit Report – Michigan Prisoner Reentry Initiative Contracting Practices

This document contains our audit report of the Department of Corrections (DOC), Michigan Prisoner Reentry Initiative (MPRI) contracting practices.

In addition to the 10 findings and 15 corresponding recommendations contained within, this report also includes the program description and background information; scope, methodology, management responses, and noteworthy accomplishments. We segregated our findings and recommendations by audit objective. We obtained the management responses from department staff subsequent to our audit field work.

Summary of significant issues, conclusions, findings

We believe four of our findings are material in nature:

- DOC did not ensure that staff fully described contract changes requests and their justification when requesting approval from appropriate authorities. See Finding #1.
- DOC did not effectively monitor MPRI contracts to ensure that contractors fulfilled DOC's expectations in an acceptable and satisfactory fashion, and that the contracts were necessary. See Finding #7.
- DOC did not ensure that MPRI contractors effectively developed subcontracts and monitored their subcontractors. See Finding #8.
- DOC did not ensure that its staff obtained and reviewed invoices and necessary supporting documentation to ensure that contractor charges were eligible, authorized, fair and accurate. See Finding #9.

I appreciate the professional courtesy extended by your staff during the course of this project. We stand ready to provide counsel regarding appropriate corrective actions to help mitigate the risks identified in the findings.

cc: John E. Nixon Nancy Duncan Connie MacKenzie
Russ Marlan Gary Manns Ken Brzozowski Barry Wickman

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Agency Description and Background Information

The Department of Corrections (DOC) implemented the Michigan Prisoner Reentry Initiative (MPRI) in 2005 to significantly reduce crime and enhance public safety by implementing a seamless system of services for offenders from the time they enter into prison through their transition, reintegration, and aftercare in their communities.

DOC established the Offender Reentry Services Section (ORSS) to coordinate the implementation of MPRI with department staff, community agencies, and the public. ORSS is responsible for initiating and monitoring certain offender reentry contracts. DOC's Bureau of Fiscal Management (BFM) provides oversight over the contracting and contract monitoring processes.

In March 2010, DOC reorganized and placed ORSS under the Office of Community Alternatives, which is within the Executive Bureau.

For fiscal year (FY) 2010, DOC budgeted \$43.8 million for MPRI contracts as follows:

Comprehensive Plan Services

\$27 million for contracts with administrative agencies who serve as fiduciary agents and subcontract with other agencies to provide MPRI services within a geographic region. Of the \$27 million, administrative agencies retained \$4.3 million for operations support expenditures. The remaining \$22.7 million was for comprehensive plan services provided through subcontractors, which related to residential stability, employment readiness, social support, and behavioral health.

Special Need Services

\$10.4 million for contracts with agencies that expand statewide services for the special needs population including mentally ill, developmentally disabled, youth, or medically fragile offenders.

Risk Reduction Services

\$4.5 million for contracts with agencies that expand risk reduction services such as substance abuse treatment, sex offender treatment, parole supervision, and day reporting.

Capacity Building

\$1.9 million for contracts with agencies that provide capacity building and technical assistance services. These agencies help DOC with strategic planning, public education and outreach, statewide training, and enhancing the MPRI data collection system.

Audit Scope, Methodology, and Noteworthy Accomplishments

Audit Scope

Our audit focused on DOC's practices related to contracting for certain MPRI support services including comprehensive plan services; services to special needs population; risk reduction services; and capacity building and technical assistance. Our audit procedures, conducted from October 2009 through September 2010, generally covered the period October 1, 2005 through February 28, 2010.

Audit Methodology

To gain an understanding of DOC's MPRI contracting practices, we interviewed DOC staff and reviewed departmental policies and program information.

To assess the effectiveness of DOC's processes for developing MPRI contracts and selecting contractors, we reviewed DOC and Department of Technology, Management and Budget (DTMB) policies and procedures related to procurement, contract development, solicitation, and evaluation of bid proposals. We interviewed DOC and DTMB staff. We judgmentally selected a sample of nine MPRI contracts to test compliance with procurement procedures, and to examine the contractual requirements and other related documentation.

To assess the effectiveness of DOC's efforts to monitor and evaluate MPRI contracts, we reviewed DOC and DTMB policies and procedures related to contract monitoring. We interviewed DOC staff, and we examined documentation relating to DOC's monitoring practices for a sample of ten MPRI contracts.

We included the following contracts in our review:

<u>Vendor</u>	<u>Type</u>	<u>Contract Period</u>
Area Community Services Employment/ Training Council	Comprehensive Plan	10/01/09 – 09/30/12
Capital Area Michigan Works	Comprehensive Plan	10/01/09 – 09/30/12
Hillsdale Intermediate School District	Comprehensive Plan	10/01/09 – 09/30/12
United Way of Southeastern Michigan	Comprehensive Plan	10/01/09 – 09/30/12
Lifeways	Special Needs	10/01/05 – 09/30/09
Professional Consulting Services	Special Needs	10/01/09 – 09/30/12
New Creations - Male (formerly T.O.P.S.)	Risk Reduction	10/01/05 – 09/30/10
New Creations - Female (formerly T.O.P.S.)	Risk Reduction	10/01/05 – 09/30/10
Goodwill (Employment/Residential Detroit)*	Risk Reduction	10/01/05 – 09/30/10
Michigan Council on Crime & Delinquency	Capacity Building	09/24/07 – 09/23/10

* included in audit objective #2 only

Noteworthy Accomplishments

DOC changed the FY 2010 comprehensive plan contracts to require administrative agencies to work with DOC to develop performance indicators and measures in terms of achieving the outcome of public safety. DOC also restructured the administrative agency FY 2011 funding requests to include performance targets including input measures, intermediate outcome measures and end outcome measures for many of the MPRI services.

In October 2010, DOC initiated the Lean Process Improvement Project for obtaining direct human service contracts under DOC's authority. The goal of the project was to design a more efficient procurement process, increase consistency and standardization in contracts department-wide, and decrease process cycle time.

During our audit fieldwork, DOC made various improvements to its contract development and monitoring processes.

Objectives, Conclusions, Findings, Recommendations, and Management Responses

Effectiveness of Developing MPRI Contracts and Selecting Contractors

Background

DTMB - Procurement and Real Estate Services Administration possesses the authority to procure goods and services for the State. DTMB delegated the authority to procure human services and medical services to individual State departments through the Administrative Guide to State Government Procedure 0510.15.

Each of the comprehensive plan, special needs, and risk reduction-type contracts that we selected for review were procured by DOC under their delegated authority. The capacity building contract that we selected for review was procured through DTMB.

Audit Objective #1

To assess the effectiveness of the DOC processes for developing MPRI contracts and selecting contractors.

Conclusion

We concluded that the DOC processes for developing MPRI contracts and selecting contractors were not effective. We identified one material condition concerning contract changes and advance requests. We also identified five additional reportable conditions.

FINDING #1

Contract Changes and Advance Requests

DOC did not ensure that staff fully described requested contract changes and their justification when requesting approval from the DOC Director, and/or DTMB-Procurement and Real Estate Services Administration and the State Administrative Board. Also, DOC did not always obtain DTMB approval for advances to contractors as required.

We noted the following:

a. Capacity Building Contract

DOC staff did not fully disclose the purpose of a contract amendment and the expected deliverables on the DTMB justification forms that it submitted to DTMB and/or the State Administrative Board regarding a capacity building contract.

A purchase request form submitted in August 2008 stated that \$679,800 of additional funding was necessary to make up for the loss of foundation grant funds that the contractor was using to support their work under the contract. However, we found that the deliverables described in the purchase request form did not match the deliverables described in the funding application filed with the foundation in November 2007. The primary objective listed on the funding

application was to obtain funding for the contractor to hire three specialists. Documentation obtained from departmental emails indicated that the change order was primarily for other services that DOC wanted the contractor to perform. The additional services that DOC wanted were not described on the change request form or the contract amendment.

b. Risk Reduction Contracts

DOC staff did not disclose rate increases, changes in pricing methods, or the reasons for them on four of five contract change requests for two risk reduction contracts. The contracts and amendments totaled approximately \$2.7 million over a five year period.

DOC solicited bids and awarded two contracts for services relating to male and female day reporting, based upon a unit rate per day. Within the first year of the contract, DOC amended the male day reporting contract twice to reflect a rate increase from \$17.46/day to \$38.50/day. Eight months later, DOC amended the contract to a cost reimbursement basis.

Within the first year of the contract, DOC also amended the female day reporting contract to reflect a rate increase from \$31.99/day to \$45.54/day. Eight months later, DOC amended the contract to a cost reimbursement basis.

c. Special Needs Contracts

1. DOC staff did not fully disclose rate increases, added services, retroactive charges, or increased administrative costs on eight change requests for a special needs statewide contract. The original contract was for one year and totaled approximately \$2.4 million. Contract amendments increased the funding for three additional years and adjusted the contract amount to approximately \$16 million.

DOC solicited bids and awarded a one-year statewide contract for special need services. During the first year of the contract, DOC amended the service fee schedule. Starting the second year of the contract, DOC renewed the contract and added additional service areas to the contract. During year two of the contract, DOC amended the service fee schedule. During the third year, DOC retroactively amended the contract to allow billing for services not previously included. To start the fourth year, DOC renewed the contract and amended the service fee schedule. During year four of the contract, DOC approved a significant increase for administrative cost and allowed retroactive billing.

To justify the amendment requests, DOC staff repeated the impact and cost savings statements that they used to justify the original contract. DOC staff also attached appendixes such as fee schedules to the amendment requests. However, DOC staff did not disclose that the changes involved rate increases, additional services, retroactive payments, and increased administrative costs.

2. DOC made contract advances totaling \$964,910 to two vendors that provided services to special needs offenders; however, these contracts were not included on the advance exception request letters that DOC submitted to, and were approved by DTMB.

The Administrative Guide to State Government Procedure 1270.03 allows for the payment of contract advances under certain conditions, if prior approval is obtained from DTMB.

The lack of complete disclosure of the purpose and impact of the contract changes may have precluded approvers from providing appropriate scrutiny over the requested changes. Also, the approvers may not have approved the contract changes, and/or may have required re-bidding of the contracts to ensure competitive pricing and fairness to all original bidders. In addition, DOC may not be able to effectively enforce the contracts, because the contract changes were not adequately described in the contract amendments.

We noted that the DOC contract/amendment justification form did not require staff to explain the description, purpose, and expected outcomes of the requested amendments. Staff also informed us that it is sometimes difficult to fully disclose details of the change and the rationale for them on the forms due to space limitations. DOC's form did not instruct staff to attach additional documentation to the forms if necessary.

Recommendation

We recommend that DOC ensure the propriety of contract changes by ensuring that staff fully describe requested changes and their justification when requesting approval from the DOC Director and/or DTMB and the State Administrative Board.

In addition, we recommend that DOC obtain DTMB approval for advances to contractors as required.

Management Response

DOC agrees that the contract/amendment justification form (the Purchasing Request Form, or PRF) could be improved by inclusion of instructions that provided additional guidance on details to be incorporated into the justification summary, and allowed the writer to attach additional pages as necessary in support of the PRF. Under the Lean Process Improvement Project for procurement processes, the PRF form will be revised to provide the recommended instructions. DOC annually requests authorization for cash advances through the State Budget Office. DOC did receive an authorization letter for FY 2009; however, the letter did not include the specific contract cited by the auditors.

FINDING #2

Approved Program Rules for Comprehensive Plan Services

DOC had not fully developed program rules or guidance for its comprehensive plan for administrative agencies and subcontractors to follow when providing services to

offenders. In addition, DOC had not established a process that includes appropriate management or leadership team review and approval of the rules or guidance.

For FY 2010, DOC awarded \$27 million to administrative agencies and subcontractors to provide comprehensive plan services to offenders. DOC staff provided guidance to the administrative agencies, as concerns regarding certain services or costs were brought to DOC's attention. In addition, DOC included a basic list of unallowable costs in the contracts. However, DOC had not established rules or guidance to address other key aspects of these contracts, including:

- Rules or guidance to ensure that subcontractors only bill for services to an offender that DOC field agents have authorized.
- Rules or guidance regarding how long or how often offenders may participate in residential, employment readiness, and transportation assistance programs.
- Rules or guidance for procuring and paying for services when offender non-participation or low participation exists.
- Rules or guidance for procuring and paying for reserved capacity such as empty apartment units.

DOC staff informed us that it is difficult to establish rules until questions or issues present themselves and the challenge with establishing firm but flexible rules, because of varying offender needs. We noted that DOC staff had not taken sufficient steps to familiarize themselves with comprehensive plan service activities, because they had not obtained and reviewed subcontracts, conducted performance reviews, and required adequate supporting documentation for invoices.

Without including a clearly defined, approved set of program rules or guidance in the contracts, DOC cannot ensure that administrative agencies and their subcontractors are aware of DOC management's expectations.

Recommendation

We recommend that DOC fully develop program rules or guidance for its comprehensive plan administrative agencies and subcontractors to follow when providing MPRI services to offenders.

We also recommend that DOC establish a process in which appropriate management or leadership teams review and approve the program rules or guidance.

Management Response

DOC agrees. Although FY 2010 program rules addressed allowable services and were improved in 2010 to provide greater detail for FY 2011, DOC agrees that rules did not provide guidance on all of the aspects cited by the auditors.

For 2011 DOC is continuing to evaluate and improve its MPRI related procedures and processes, including the establishment of rules to:

- *Ensure that contractors only bill for offender services that have been referred by DOC field agents.*
- *Set forth allowable duration and frequency of offender participation in residential, employment and transportation assistance programs.*
- *Specify standards and processes for procuring and paying for services when there is low or no offender participation, or for reserved capacity such as empty apartment units.*

FINDING #3

Approved Program Rules for Administrative Agency Operations Support

DOC had not established approved program rules or guidance for funds that it awarded to administrative agencies for operations support. In addition, DOC did not always adequately scrutinize these funding requests before awarding the funding. As a result, DOC did not ensure that State funds used for administrative agency operations support were appropriate and reasonable.

For FY 2010, DOC awarded \$4.3 million to administrative agencies for operations support. Operations support includes expenditures for items such as community coordinators; administrative personnel; public education and outreach; supplies and materials; and travel. During our review of these contracts, we noted:

- a. DOC did not establish work-hour limits or compensation reimbursement limits for positions it funded. DOC funded a community coordinator position as one full-time position for \$100,000. DOC also awarded funding to the administrative agency for this same person to serve as the community coordinator for two federal grants for an additional \$30,000. Through other inquiries, we learned that this person also served as a paid executive director of a non-profit agency.

DOC should consider establishing reimbursement limits pertaining to funded positions. DOC should also limit funding for any person to one full-time position. In addition, DOC should also require administrative agencies to ensure that fully-funded, full-time positions each provide 2,080 hours.

- b. DOC had not established rules for other administrative charges. For example, DOC informed us of an instance in which an administrative agency planned to expend monies for out-of-state training. DOC should establish rules or restrictions for administrative charges similar to those that pertain to State operations.

Recommendation

We recommend that DOC establish approved program rules or guidance for funds that it awards to administrative agencies for operations support.

We also recommend that DOC adequately scrutinize funding requests for administrative agency operation support expenditures before it awards funding.

Management Response

DOC agrees that there were no program rules or guidance that established work-hour limits or compensation reimbursement limits for positions it funded, and that such rules should be established. DOC will issue a program rule that limits DOC funding to 1.0 full-time position per individual, but allows funding from other sources for hours in excess of the equivalent to 1.0 position, with prior approval.

In May 2010, DOC notified all administrative agencies that prior approval must be obtained for out-of-state travel for which reimbursement with state funds would be sought, and specified criteria for approval consistent with procedures pertaining to state operations.

DOC agrees that program rules or guidance on MPRI operations support funding is necessary under the current reimbursement-for-expenses model. Guidance was in place for development of FY 2010 MPRI comprehensive plans, improved for FY 2011 comprehensive planning process, and will be reviewed and improved for FY 2012 comprehensive plans.

DOC incorporated various existing financial procedures into a Financial Guide that was distributed for comment to all MPRI Administrative Agencies in October 2010. The Financial Guide is being revised and expanded, and will be reissued by March 2011.

FINDING #4

Obtaining Supplemental Information from Bidders and Contractors

DOC did not obtain supplemental information from bidders and contractors that could assist DOC with identifying possible irregularities prior to awarding contracts or throughout contract periods. As a result, DOC did not take the opportunity to identify potential issues such as overlapping funding sources, unexpended fund balances, potential conflicts of interest, unstable financial viability, weaknesses in the financial controls or practices, or to verify information contained within bids.

We obtained and reviewed available supplemental information for some of the MPRI contractors and noted:

a. Disclosure of Funding Sources

A not-for-profit agency contractor received funding from a federal grant in addition to the funding it received from DOC, for staff that DOC fully funded. After we brought this to management's attention, DOC adjusted the contractor's billings to recover a \$13,500 overpayment and adjusted the contractor's authorized budget.

DOC had not required bidders and contractors to report all funding sources for services that are funded by DOC.

b. Financial Statements

A not-for-profit contractor's financial statements showed that the contractor collected excess revenues from DOC totaling \$479,000 over a two-year period.

Because DOC had not obtained contractors' financial statements, DOC was unaware that this contractor's MPRI revenues significantly exceeded its MPRI-related expenditures and had not taken steps to resolve the funding disparity.

c. Form 990s, Return of Organization Exempt from Income Tax

A not-for-profit contractor that was responsible for reviewing the progress of MPRI administrative agencies had a board director who also served as the community coordinator for one of the administrative agencies.

While this may not have created a conflict of interest, information such as the names and compensation of officers, directors, trustees, and key employees is available on the federal Form 990 as are the names of key contributors. Obtaining Form 990s from contractors that are required to file the form may help DOC to identify potential conflicts of interest, verify compensation information for positions that DOC funds, and identify potential overlapping funding sources.

Recommendation

We recommend that DOC take steps to identify possible contractor irregularities prior to awarding contracts and throughout the contract period by requiring bidders and contractors to:

- a. Disclose amounts that they receive from other funding sources for services pertaining to the bid or contract.
- b. Provide copies of financial audits covering their organization or programs.
- c. Provide federal Form 990 Return of Organization Exempt from Income Tax from contractors who are required to file the form.

Management Response

DOC agrees that contractors should provide the specified disclosures and documents from bidders when awarding contracts and from contractors throughout the contract period. However, the DOC disagrees that the process used during this audit period was not effective, nor was it wholly DOC's process. The Invitation to Bid was processed according to Department of Technology, Management and Budget (DTMB) procurement procedures. Further, in FY 2010, DOC collected programmatic and financial audits from contractors and inquired about other funding sources for costs funded under MPRI.

For FY 2012, this information will be used to identify possible contractor irregularities when awarding contract annual funding. Regarding future bids, DOC will consult with

DTMB to make changes to Request for Proposal boilerplate language within Article 5 - Required Bidder Information requiring bidders to disclose the results of financial audits, provide federal Form 990, when appropriate, and disclose alternative funding sources pertaining to this bid, for which DOC will evaluate in determining bid-awards.

FINDING #5

Joint Evaluation Committee (JEC) Member Selection

DOC did not always comply with the Administrative Guide to State Government, because some JEC members had direct supervisory responsibility over other JEC members.

We reviewed the JEC member selection process for eight contracts. For one of the special needs contracts, we found that two of the five JEC members who evaluated the contract proposal had a direct supervisory relationship over two other JEC voting members.

Administrative Guide Procedure 0510.34 states that no person representing the requesting agency may serve on a JEC as a voting member if they are in a direct supervisory relationship to another JEC voting member. DTMB Purchasing Operations may grant exceptions to this requirement; however, DOC did not request an exception.

This requirement is in place to ensure that the subordinate person's ability to objectively review the proposal is not unduly influenced due to supervisory pressure and scrutiny.

Recommendation

We recommend that DOC ensure that it complies with the State policies regarding JEC member selection.

Management Response

DOC agrees and will ensure that an exception is sought and granted prior to a supervisor and subordinate serving on the same JEC. Through the Lean Process Improvement Project, JEC procedures will include the necessary instructions.

FINDING #6

Comprehensive Plan Funding Allocation and Adjustment Processes

DOC had not established a documented governance or oversight process to review and evaluate comprehensive plan funding allocations and significant adjustments to funding categories. As a result, DOC cannot ensure that it awarded comprehensive plan funding using processes that bear integrity, and are founded on appropriate criteria and decision making.

For FY 2010, DOC awarded \$27 million to 18 comprehensive plan contractors. During our review of those contracts we noted:

- a. DOC had not established a governance process to review and evaluate comprehensive plan funding allocations.

DOC obtained its MPRI comprehensive plan services through a competitive bid process. Once DOC received bids, a joint evaluation committee evaluated the bids and recommended an administrative agency for each of the 18 geographic areas. Because the bid proposals received from successful bidders exceeded the amount that DOC had available to award, ORSS staff informed us that they determined the contract awards for each successful bidder based on several factors including current capacity, MPRI parolee population demographics, needs of returning offenders, cost differences between regions, and other factors.

DOC could enhance the credibility and integrity associated with comprehensive plan funding allocations by creating a documented governance process to review and evaluate the allocations before submitting the contracts to the DOC Director for approval.

- b. DOC had not established an oversight process to review and evaluate significant adjustments to funding categories.

Section 2.14.1 of the DOC's comprehensive plan contracts requires DOC to approve all funding adjustment requests that shift funding for a service category by more than 10%.

An ORSS program manager approved several FY 2010 adjustments that shifted funds between service categories by more than 10%. For example, we noted a \$67,000 adjustment. We did not find evidence that the adjustments were reviewed and approved by a higher level of ORSS management.

DOC could improve its process for making significant funding adjustments by creating a documented oversight process to review and evaluate the adjustments and the reason for DOC's decision.

Recommendation

We recommend that DOC establish a documented governance or oversight process to review and evaluate comprehensive plan funding allocations and significant adjustments to funding categories.

Management Response

DOC agrees with the recommendation and established a system to document the comprehensive plan review process for FY 2010, improved the process for FY 2011, and will continue to be evaluated and improved for FY 2012.

ORSS works with DOC's Bureau of Fiscal Management to review fund adjustments with the authority to shift funding residing with the DOC's contract compliance inspector. Changes resulting in contract increases have always been reviewed by the appropriate administrators overseeing offender reentry services and fiscal management. DOC also implemented an improved methodology for setting FY 2011 annual funding levels for MPRI contracts. DOC will develop a written procedure to document the annual comprehensive plan review process and the budget adjustment request process.

Effectiveness of Monitoring and Evaluating MPRI Contracts

Audit Objective #2

To assess the effectiveness of the Department of Corrections efforts to monitor and evaluate MPRI contracts.

Conclusion

We concluded that the Department of Corrections efforts to monitor and evaluate MPRI contracts were not effective. We identified three material conditions concerning contract compliance monitoring, subcontractor monitoring, and invoice review and approval. We identified one reportable condition concerning data collection and reporting capacity.

FINDING #7

Contract Compliance Monitoring

DOC did not effectively monitor MPRI contracts to ensure that contractors fulfilled DOC's expectations in an acceptable and satisfactory fashion, and that the contracts were necessary.

The Administrative Guide to State Government Procedure 0510.37 describes the duties and responsibilities of the Contract Compliance Inspector. The Inspector is responsible to ensure successful completion of a contract including:

- Maintaining accurate and thorough documentation including contract compliance reports and vendor performance data.
- Monitoring contracts to ensure compliance with all contract provisions.
- Monitoring progress of work to ensure that services are performed according to the quality, quantity, timeframes and manner specified in the contract.
- Reviewing and approving contract deliverables.
- Ensuring that vendor payments are commensurate with the level of goods and services received.
- Reporting vendor performance in MAIN, both positive and negative comments.
- Holding regularly scheduled meetings with the contractor to review progress and document results.

In addition, Section 8 of DOC's direct human service contracts required DOC to conduct performance reviews of the contractor quarterly, semi-annually or annually, to

assess quality, timeliness, completion of work, accuracy of billings, customer service, completion and submission of required paperwork, etc.

ORSS informed us that they did not have sufficient staff to conduct effective contract monitoring and performance evaluation of contractors. We also noted that various DOC units shared responsibility for certain contract compliance inspector duties, but the duties of each unit were not clearly defined and assigned.

For FY 2010, DOC budgeted \$43.8 million for MPRI contracts. During our review of contracts, we noted the following weaknesses:

Program Areas Impacted:	DOC did not:
Special Needs, Risk Reduction, Comprehensive Plans	Assess the quality, timeliness, and effectiveness of services provided. This could be done through surveys of offenders and DOC field agents.
Special Needs, Risk Reduction (fee-for-service contracts)	Verify that billed services were provided to offenders. This could be done by tracing billings to offender case records. Ensure that the contractor provided the full realm of required services. This could be done by reviewing the contractor's processes.
Risk Reduction, Comprehensive Plans (cost reimbursement basis contracts)	Verify that contractors' billings for salaries and other administrative costs were commensurate with the level of service provided. This could be done by reviewing personnel and financial records.
Special Needs	Assess the quality of offenders' case management plans that were developed by the contractor. This could be done through peer reviews of case management plans. Verify that services were provided according to the offender's prescribed plan. This could be done by comparing offender file information to the offenders' plan. Assess the quality of the contractor's capacity development efforts. This could be done by reviewing progress reports.
Risk Reduction	Assess the quality and thoroughness of programs. This could be done by reviewing the contractor's program manuals. Verify that the contractor submitted required reports to DOC.

	<p>Ensure that the services provided by the contractors were coordinated through the appropriate administrative agencies.</p> <p>Determine that the contract pricing structure was cost effective. This could be done by reviewing program participation and utilization rates. For example, our review of the October 2009 invoice and supporting documentation for one risk reduction contract disclosed that DOC was fully funding a contractor's day reporting program but only a portion of the participants were DOC offenders. DOC or its fiscal agent had only referred 18 of the 26 female offenders listed on the attendance sheets. Of the 18 offenders, only 12 attended sessions during the period. We noted similar underutilization and non-participation for another risk reduction contract. After we brought this to DOC's attention, DOC cancelled the two contracts for which DOC had budgeted \$550,000 for FY 2010.</p>
Capacity Building	<p>Ensure that the contractor provided required deliverables including:</p> <ul style="list-style-type: none"> -Plans of action -Training to the 18 comprehensive plan administrative agencies on how to perform subcontractor performance reviews -Site visits at each of the 18 administrative agencies.

DOC could employ many of the above monitoring techniques by using sampling methods.

Recommendation

We recommend that DOC clearly define and assign responsibility to ensure that DOC staff effectively monitor MPRI contractors for fulfillment of DOC's expectations in an acceptable and satisfactory fashion, and that the contracts were necessary.

Management Response

The DOC agrees with this recommendation and has increased staff within the ORSS to properly monitor contracts, discontinued risk reduction contracts, and strengthened contract development and monitoring processes for the capacity building, special needs, and comprehensive plan contracts under ORSS management.

DOC improved the MPRI comprehensive planning process for FY 2011 contracts by developing and disseminating detailed program guidance on allowable MPRI program costs and program performance targets, and conducting annual contractor training in the summer 2010. DOC developed improved programmatic and financial review protocols for conducting on-site reviews of MPRI contractors with advice from the

auditors. Financial site visits were made to all MPRI administrative agencies by the end of December, 2010. Program site visits are underway and are scheduled to be complete by April, 2011.

DOC strengthened its contract development and monitoring for the capacity-building contract by working with auditors to successfully implement improved work planning, billing review, and verification protocols. DOC successfully closed-out the risk reduction contracts (T.O.P.S and Goodwill) by March, 2010.

FINDING #8

Subcontractor Monitoring

DOC did not ensure that MPRI contractors effectively developed subcontracts and monitored their subcontractors. As a result, DOC staff were not familiar with MPRI subcontractors' scope of services, performance requirements, and billing structures.

For FY 2010, DOC budgeted at least \$22.7 million that was passed through to subcontractors. We noted the following by program area:

a. Comprehensive Plans, Capacity Building, and Special Needs

1. DOC did not obtain and review subcontracts prior to commencement of work so that it could, if necessary:
 - Instruct the contractor to clarify the subcontractors' performance requirements.
 - Instruct the contractor to clarify documentation requirements for subcontractors' monthly invoicing.
 - Instruct the contractor to remove services listed in the subcontracts that are not allowed or not preferred.
 - Assess the need for the subcontractor's services and/or disapprove the subcontract.
 - Identify unfavorable pricing and instruct the contractor to bid or re-bid and/or disapprove the subcontract.
 - Assess the subcontractor's ability to provide the desired services and/or disapprove the subcontract.
 - Clarify guidance concerning unallowed or non-preferred MPRI services.

When the contractors provided subcontracts upon our request, we, along with DOC staff, questioned whether the pricing was fair and whether the services were necessary.

Provisions of each contract required the contractors to submit copies of all subcontracts to DOC for review. The contracts also reserved the State's right to disapprove funding for subcontract provisions.

2. DOC did not obtain and review documentation to verify that subcontractors were selected on a competitive basis.

The contracts required the contractors to select subcontractors on a competitive basis to the extent practicable.

DOC could perform this task on a sample of subcontracts or those that it determines to be of higher-risk for each contractor.

b. Comprehensive Plans

1. DOC did not obtain and review required on-site review reports that contractors prepared of their subcontractors so that it could, if necessary:

- Provide guidance to contractors concerning their on-site reviews of subcontractors' quality of work, timeliness, completion of work, and cost-effectiveness.
- Monitor contractor follow up of subcontractor deficiencies.
- Take action to address common subcontractor deficiencies.

Provisions of the comprehensive plan contracts required the contractors to at least annually conduct formal on-site reviews of each subcontractor's operations and fiscal administration. The contractors were also required to provide copies of the site review reports to the State, to include review of compliance with financial requirements, programmatic requirements, and progress in resolving deficiencies.

Once DOC obtains the on-site review reports, DOC should conduct steps to obtain assurance that information provided in the contractor's on-site reports of subcontractors is complete, reliable, and accurate. DOC could perform this task on a sample of subcontracts or those that it determines to be of higher-risk for each contractor.

2. DOC did not require contractors to periodically submit subcontractor invoices and/or other supporting documentation to demonstrate that the contractors had determined whether their subcontractors' monthly charges were eligible, authorized, fair, and accurate. DOC should require contractors to obtain and review information from subcontractors such as lists of offenders served; dates, types, and locations of services, cost of services, and referral information. DOC should require contractors to periodically submit this information to DOC for each subcontractor to provide proof that the contractors reviewed and appropriately approved the subcontractors' monthly charges.

When contractors submitted this information along with their invoices, DOC was able to question some subcontractor charges.

DOC staff informed us that they did not have sufficient staff to ensure that contractors were effectively developing subcontracts and monitoring their subcontractors. We also noted that various DOC units shared responsibility for certain contract compliance inspector duties, but the duties of each unit were not clearly defined and assigned.

Recommendation

We recommend that DOC clearly define and assign responsibility to ensure that DOC obtains subcontracts, subcontractor bid information, subcontractor monitoring reports, and subcontractor invoices from MPRI contractors to ensure that the contractors effectively developed subcontracts and monitored their subcontractors.

Management Response

DOC agrees that subcontracts, a selected sampling of subcontractor bid information, and subcontractor monitoring reports should be obtained from MPRI contractors. For regular review of monthly MPRI reimbursement requests, DOC requires that agencies submit copies of detailed general ledgers together with summary spreadsheets that identify expenditures by subcontractor or service category, and that detailed invoices be submitted only as needed. This approach enables DOC to more readily identify duplicate billings, excessive charges, and other issues that may arise. Additionally, during financial site visits, DOC staff review sampled expenditures for each subcontract and trace supporting documentation to the original CFJ-140 request for services to ensure that the services were requested, approved, and paid in compliance with the contract or subcontract. Further, in 2010, DOC hired and assigned to ORSS two contract monitors who are obtaining and reviewing subcontracts and subcontractor monitoring reports.

DOC has developed a draft written procedure to formalize the subcontract review and approval process which incorporates the review criteria recommended by the auditors for use on reviewing FY 2011 subcontracts.

FINDING #9

Invoice Review and Approval

DOC did not ensure that its staff obtained and reviewed invoices and necessary supporting documentation to ensure that contractor charges were eligible, authorized, fair and accurate.

For FY 2010, DOC budgeted \$43.8 million for MPRI contracts. Our review disclosed:

a. Comprehensive Plan Invoices

DOC has not required the contractors to submit information identifying each subcontractor and the amount paid to them for each service category.

When contractors submitted general ledger expenditure data for each subcontractor by service category level, DOC was able to more effectively review, analyze, and evaluate the contractor's invoices.

The average monthly FY 2010 billings for the four contractors that we selected for review ranged from \$102,000 to \$545,000 per month, of which approximately 90% was passed through to subcontractors.

b. Special Need Invoices

DOC did not review special needs contractor monthly invoices and supporting documentation to ensure that the listed offenders were eligible and billed at the proper rate. DOC staff should review internal records to verify the offenders' eligibility and billing category.

The average FY 2009 monthly billing for one contractor was approximately \$467,000. The average FY 2010 monthly billing for the other contractor was approximately \$700,000.

c. Risk Reduction Invoices

DOC did not review the monthly invoices for one risk reduction contract to ensure that the listed offenders met the minimum participation requirements prior to billing. DOC should review OMNI to verify that the offenders met the minimum participation requirements.

The average FY 2010 monthly billing for the contract was approximately \$15,000.

d. Capacity Building Invoices

DOC did not require the capacity building contractor to submit supporting documentation along with their monthly invoices. When the contractor provided this information because of our review, we, along with DOC staff, questioned whether the invoiced items were commensurate with the level of goods and service received and whether the contractor's organizational hourly rates, which were as high as \$350 per hour, were reasonable.

The contract required the contractor to submit invoices that showed the level of detail reasonably necessary to ensure that the invoice was fair and accurate, including hours worked and hourly billing rates for services performed on a time and materials basis. DOC should enforce the contract and require the contractor to submit information that identifies who provided the service, the type of service provided, dates of services, location of service, and progress reports related to the contract service categories, including services provided by subcontractors.

The average FY 2010 monthly billing for the contract was approximately \$54,000.

We noted that various DOC units shared responsibility for certain contract compliance inspector duties, but the duties of each unit were not clearly defined or assigned, particularly relating to offender eligibility verifications and enforcement of invoicing requirements.

Recommendation

We recommend that DOC clearly define and assign responsibility to ensure that DOC staff obtain and review general ledgers, invoices and other necessary supporting documentation to ensure that contractor charges were eligible, authorized, fair, and accurate.

Management Response

DOC agrees that staff roles and responsibilities, while not ill-defined, could be more clearly defined through a written document. DOC's Offender Reentry Services Section and Financial Services Section are developing procedures that will more clearly assign relative roles and responsibilities.

However, MPRI monthly contractor invoices are reviewed upon receipt for accuracy, adequacy of documentation, and allowability of costs under comprehensive plans and the MPRI contract. Financial Services Section confirms invoice accuracy, collects supporting documentation, analyzes records to identify duplicate billings, and identifies potential areas of conflict with the contract or comprehensive plan. ORSS cross-checks referral information and determines allowability of invoiced expenses.

DOC is developing a written procedure to formalize MPRI invoice processing in support of effective contract management and timely invoice processing.

FINDING #10**Data Collection and Reporting Capacity**

DOC had not established the capacity to collect and report data related to services provided to offenders by MPRI contractors and subcontractors. As a result, DOC is limited in its ability to monitor and report statistics relating to delivered services and to evaluate the cost-effectiveness of each service component.

In order to establish data collection and reporting capacity, DOC needs to identify and define the monitoring and reporting needs of management and other interested parties. DOC informed us that it established a workgroup to develop a system-wide management information system. DOC also informed us that in the interim, administrative agencies have begun their own effort to create a small scale, short-term information system to collect some basic information concerning contractor performance.

DOC should continue its efforts to build its capacity to collect and report data relating to services provided to offenders by contractors and subcontractors such as:

- Number of offenders served (i.e. referred, admitted, discharged) by program component.
- Number of offender readmissions to program component.
- Number of program components utilized by offenders.
- Cost per offender served by program component.
- Length of time offenders spent in a program component.

Recommendation

We recommend that DOC continue its efforts to establish the capacity to collect and report data related to services provided to offenders by MPRI contractors and subcontractors.

Management Response

DOC agrees. The DOC is in the process of enhancing its departmental database in two key areas:

- a. *Enhanced Case Management System – Web-based application will allow contractors to enter service utilization and cost data for contract-funded services.*
- b. *Development of a Management Information System – Development of reports used by contractors and the DOC to monitor service utilization and cost. DOC will have the capability to create reports by contractor for billing review and approval.*