



Suzanne Flynn
Multnomah County Auditor

501 S.E. Hawthorne, Room 601
Portland, Oregon 97214
Telephone (503) 988-3320
Telefax (503) 988-3019
www.multnomah.lib.or.us/aud

Audit Follow-Up Report #5 July, 2003 Contracted Human Services

The County has made progress toward implementing some key recommendations made in the 2000 audit. However, fiscal monitoring and formal program evaluation are not being performed at a level consistent with good business practice, resulting in decreased accountability. Also, management participation and leadership in implementing recommended changes has not been consistent.

Background

The Auditor's Office issued its report, *Contracted Human Services: Build Successful Contracting Relationships*, in March 2000. The purpose of the audit was to assess the management of a key County business function: administration of the contracted human service delivery system.

The audit focused on contracting processes and the County's relationships with contractors. We did not review specific contracts, except as samples, nor did we assess the quality of services being carried out by contractors.

The 2000 audit reported that the County's financial commitment to contracted human services had increased significantly since 1980 when policy-makers decided that whenever possible, services would be provided by contractors. By FY02, expenditures for contracted services had grown to \$168 million (does not include human service programs administered by the Department of Community Justice).

During the audit, we found that the County had never established a comprehensive plan for delivering contracted human services. This prevented the implementation of an effective service system.

Original Audit Recommendations

The 2000 audit recommended that a formal, strategic framework was needed to strengthen the human service contracting system. We further recommended that the framework include processes for ongoing fiscal monitoring and program evaluation, as well as continual system improvement.

The chart below summarizes the framework recommended in the 2000 audit report.

Exhibit 1: Strategic framework model for delivery of contracted human services

KEY ELEMENTS	SYSTEM COMPONENTS
Philosophy and Vision	<ul style="list-style-type: none"> • Goals and values • Principles to guide contracting • Clarification of the role of competition
System Management	<ul style="list-style-type: none"> • Consistent monitoring and evaluation of contracts • Technical assistance for contactors • Mechanism for conflict resolution • Forum for dialogue with contractors • Clear, fair, efficient contracting processes
System Roles and Responsibilities	<ul style="list-style-type: none"> • Mutual accountability and responsibility • Clear definition of the difference between vendor and partner • Defined approaches to partnership
Community Planning Structures	<ul style="list-style-type: none"> • Planning processes that identify need, resources, and priorities • Policy objectives that are linked to purchasing decisions • Process for client and community input • Use of evaluation and monitoring information

We recommended that responsibility for the implementation and maintenance of the strategic framework be assigned to a single entity or position. We saw it as particularly important that this responsibility be at a high level of authority. We also stressed the need to develop the data support necessary to increase stability and accountability and to improve the County’s management of its human service business.

Response to the 2000 audit

The County Chair agreed that there was a “need for a more uniform, understandable strategic framework within which to operate,” and assigned responsibility for the implementation of the contracting framework to the Director of the former Department of Support Services. The Chair also noted that the County’s Human Services Contract Policy Team was meeting regularly to examine many of the concerns raised in the audit.

In February 2001, the Contract Policy Team presented their policy recommendations for improving human services contracting processes to the Board of County Commissioners. Their report noted that “with minor modifications, (they had) adopted the Auditor’s framework as the elements to be addressed by this report.” The Board accepted the Policy Team report and passed Resolution 01-066 adopting their recommendations.

A second group, the Contract Process Team, had also been meeting while the audit was underway. Convened by the County Purchasing Manager, this team consisted of department fiscal and contracting specialists directly responsible for the administration of the County’s human service contracts. Their objective was to improve contracting processes. They have continued to meet regularly, although their role has expanded to include all County contracting processes.

Follow-up Scope and Methodology

After reviewing the current status of human services contracting, we determined that follow-up tasks would focus on these four areas of concern identified in the 2000 audit report:

- 1) Fiscal monitoring of contracts
- 2) Formal program evaluation of contracted services
- 3) Management’s role in addressing the concerns identified in the 2000 audit report
- 4) Impact of the lead agency model of contracting

For the 2000 audit, we had defined human services as those activities that “promote the physical, mental, and emotional health of individual residents and improve the quality of life of families and communities.”

Departments covered in the audit included the departments of Community and Family Services, Aging and Disability Services, Community Justice, and Health, as well as the centralized Purchasing and Contracts Administration offices. Due to organizational changes that occurred after the audit was issued, the departments and offices covered in the follow-up include: the departments of County Human Services, Community Justice, and Health, as well as the Office of School and Community Partnerships and the Central Procurement and Contract Administration.

General follow-up activities included:

- interviews with key staff in all pertinent departments and offices, including central Finance Office staff
- review of department and general County procurement and contracting procedures
- review of current state and County ordinances and administrative procedures
- analysis of the implementation of recommendations in the 2000 audit report
- review of current proven practice guidance for public sector administration of human service contracts
- review of the 2001 *Human Services Contracts Policy Team Final Report and Recommendations*
- review of the Contract Process Team charter, meeting minutes, reports, and documents
- review of the 2001 Qualified Vendor Status Application (QVSA) white paper
- review of new administrative procedures and guidelines implemented since the 2000 audit report
- review of departments' contract boilerplate language
- review of the County's first executed partnership contract
- review of fiscal monitoring procedures and instruments from human service departments and the County's central fiscal division
- review of program evaluation procedures, efforts, and results
- analysis of data regarding the currently executed human services expenditure contracts

This audit follow-up was included in our FY03 audit schedule and was conducted in accordance with generally accepted government auditing standards.

Historical Overview

In 1980, officials in the Department of Human Services (DHS) presented a White Paper on the future of County human services. At that time, DHS was the single department responsible for the County's public health, social service, and mental health and addiction services programs.

The White Paper was a pivotal report that set the stage for how services would be delivered. The report documented the growth of the human service system since the formation of the Department in 1974 and identified the strategies DHS would use to shift more programs to contracted service delivery.

By 1984, most direct services were contracted out to community-based providers. After that, the County's primary role was to design and manage the system, purchase services, administer and monitor contracts, and evaluate the quality of care.

During the 1980s and 1990s, control of nearly all state and federally funded programs was shifted to counties. The state also began closing institutions for the mentally ill and developmentally disabled and returning responsibility for the care of those individuals to local communities. The result was a significant increase in the County's human service budget. The *2002 Financial Condition Report* issued by the Auditor's Office noted that revenues for social services (i.e. programs for mental health, developmental disabilities, youth, housing, services for the elderly) and health programs increased from \$104 million in FY93 to \$229 million in FY02 (measured in constant dollars).

Concern over the County's contracted human service delivery system has prompted a number of studies and reports since the 1980 White Paper. Of particular note are the 1993 Task Force report, *Public/Private Partnerships: Human Services Contracting* and the 1999 report from the Contracts Improvement Steering Committee. Along with the White Paper, these documents provided the historical context in which the 2000 audit was conducted and laid the groundwork for the contracting processes currently in place.

Accomplishments

- 1) The Contract Process Team (CPT) has met regularly to work on contracting problems since being established by charter in November 1999. The County has benefited from the shared expertise of CPT members and their efforts to bring about improvements.
- 2) The CPT developed a dispute resolution process that is now included in all County contracts. Some CPT members report that they gained more understanding of how to prevent conflicts by going through the exercise of developing such a process.
- 3) The CPT drafted a new administrative policy [referred to as PUR 6] to guide the development, writing, monitoring, and evaluation of partnership contracts. Once adopted, this new procedure will include a comprehensive checklist for contract development.
- 4) The Department of County Human Services (DCHS) developed the first partnership contract executed with a community-based agency. This contract incorporated many of the elements of a strong partnership contract suggested by proven practice standards.

Areas of Concern

Determining Financial Soundness

Financial soundness of contractors is not routinely determined or regularly scrutinized. Fiscal monitoring of contracts is not performed by all departments. When fiscal monitoring is carried out, it may not be done with the frequency and thoroughness required.

Establishing the financial and administrative capacity of contractors and carrying out fiscal monitoring are prudent practices. They allow the County to assess the financial viability of contractors. Without oversight, the County risks the possible failure of contractors to meet their obligations, including delivering the services they have agreed to provide. Fiscal monitoring is also a requirement of federal and state grantors.

The County does not determine the administrative and fiscal capacity of potential human service contractors. Contractors are no longer required to complete the Qualified Vendor Status Application (QVSA). The QVSA process was used at the time of the 2000 audit to pre-qualify contractors. It was a comprehensive tool used to screen the administrative and fiscal capacity of contractors to ensure they had adequate financial controls and systems in place.

The QVSA also made the contracting process more efficient. Before the development of the QVSA, contractors were required to establish their administrative capacity each time they submitted a proposal instead of doing so during a single prequalification process. However, one concern with the QVSA prequalification process noted by the County was the potential exclusion of start-up, small, and specialized agencies from the bidding process due to their limited administrative infrastructure.

Fiscal monitoring is occurring inconsistently throughout the County or is not being conducted at all. Budget cutting priorities and the reorganization of departments have reduced the number of staff available to carry out fiscal monitoring at the level and frequency needed. In addition, the introduction of multiple county-wide initiatives has impacted the time and resources available for carrying out monitoring activities.

Generally, the work priorities for department fiscal monitoring staff have been to compile information for contractors' federally required financial audits and to follow up on problems reported in those audits. These priorities further limit the time available to staff for conducting comprehensive fiscal monitoring reviews of contractors' accounting practices and financial records.

The Department of County Human Services (DCHS) fiscal monitoring staff attempt to conduct comprehensive site reviews every two years, particularly for those contracts over \$50,000 (approximately 180 contracts in FY03), but they are not able to meet that schedule at the current staffing level. The number of fiscal monitoring

full-time-equivalent employees (FTE) has been reduced in the FY04 budget from 1.5 to 1.0 FTE, a change that will further impact the ability of DCHS to maintain the desired level of fiscal monitoring and continue meeting federal grantor requirements.

DCHS administers most of the County's human services contracts and was responsible for developing the *Contractor Fiscal Policy and Procedures Manual* and for administering the QVSA process. DCHS is also the only department with a fiscal monitoring tool to review the financial and administrative capacity of contractors. To maintain these efforts, staffing must be sufficient.

Although the QVSA is no longer used, DCHS has now incorporated many of the former QVSA requirements into their Requests for Proposals (RFPs) for those contracts executed after FY03.

Health Department personnel are currently developing a fiscal monitoring process to ensure compliance with federal requirements. They have received technical assistance from the Finance Office, DCHS, and the state, and they hope to implement new procedures in FY04. However, those federal fiscal monitoring requirements may not provide the level of oversight we recommend, such as establishing contractor administrative and financial capacity and conducting onsite reviews.

The Health Department's overall management of contracts has improved since the 2000 audit. The Department has implemented a number of changes to increase the efficiency of contracting, and they have taken initial steps to improve fiscal monitoring.

The Office of School and Community Partnerships (OSCP) no longer has the staff capacity to conduct onsite fiscal monitoring. Department personnel stated that preparation of information for each contractor's federally required financial audit and follow-up have also become the OSCP fiscal monitoring priority. Formal program monitoring with site visits occurs in 10-15% of contracts, but staff acknowledged that those are not the thorough reviews of contractors' financial stability and accounting records that they would like to see performed.

OSCP uses a general contract monitoring instrument that rates contractors in seven areas, including "fiscal concerns" to spot early warning signs of any contractor's financial problems. The Department has also incorporated some of the former QVSA requirements into their RFPs.

The Department of Community Justice (DCJ) currently conducts fiscal reviews that include onsite visits whenever problems are identified or suspected. DCJ had found the QVSA to be beneficial and had formed an agreement with DCHS to provide fiscal monitoring of those contractors who had qualified under the QVSA. Since termination of the QVSA, regularly scheduled onsite fiscal monitoring reviews of all human service contractors have not occurred. However, staff indicated they would be willing to incorporate QVSA requirements into upcoming RFPs.

Finance Office staff acknowledged that fiscal monitoring weaknesses exist and has asked departments to work to improve their ability to fulfill the requirement for fiscal monitoring. The Finance Office is also providing training and technical assistance to departments, but sees the inconsistencies of fiscal monitoring practices across the County as a general concern.

Formal Program Evaluation

Formal program evaluation of services provided by contractors is not being conducted. Program evaluation processes that allow for ongoing, formal assessment of service outcomes are important tools for measuring contractor performance, program effectiveness, and the legitimacy of service strategies.

DCHS currently does not have the staff or the resources to perform formal evaluation, although less structured program monitoring by program staff is taking place. The department from which DCHS was established included an evaluation unit. In FY00, that unit was comprised of 19.5 FTE responsible for "data collection, program management information reports, and program evaluation services." The evaluations performed ranged

“from short, grant specific projects to multi-year, cross departmental systems evaluation.” Evaluation capacity was reduced in each subsequent fiscal year and then eliminated in the Department by the beginning of FY03.

Health Department: Thorough, formal program evaluations do not occur, but less-structured program monitoring is carried out. Program staff conducts performance monitoring through monthly reports from vendors and periodic site visits.

OSCP: Budget cutting priorities have meant that evaluations are no longer possible. Administrative services were cut at mid year in FY03, forcing the termination of the Department’s service level agreement with the County’s central evaluation unit to evaluate a few of OSCP’s contracted programs.

DCJ is currently the only human service department with an active evaluation function. Staff states that the Department is committed to maintaining their program evaluation function. Currently, three formal evaluations of programs are underway. DCJ also develops and monitors performance measures for every contract executed and distributes regular reports on program utilization, success, and other performance indicators.

Leadership and Support

Implementation of important recommended changes has not received the consistent management support and leadership needed to successfully resolve problems identified in the 2000 audit.

Expenditures for County human services have doubled in the past ten years. Nearly all of these services are provided by contractors. Leadership and decision making authority are essential to mitigate the risks associated with contracted service delivery.

Management leadership and guidance in implementing the human services contracting framework has not been a priority. Responsibility for implementation was assigned to a high level of authority under Resolution 01-066, but that responsibility has essentially shifted to the Contract Process Team (CPT). Although the CPT has successfully developed some components of the framework, they may not have the authority to compel departments to adopt policies or comply with new procedures without management support and leadership.

The purpose of the audit recommendation to assign responsibility for implementation of the framework at a high level of authority was to increase stability and accountability. Placing responsibility for implementation of the framework at a high level would more likely create important organizational buy-in. Department personnel we spoke to suggested that a number of emerging enterprise-wide initiatives have shifted the focus to competing County priorities.

Lead-agency model

The lead-agency model of contracting for services may reduce accountability and add administrative costs. In some cases, the County contracts with a primary organization to provide a variety of services. That primary organization can then sub-contract with other agencies to provide some of those services, and in doing so, takes on responsibility for the administration of sub-contracts. This is referred to as the “lead-agency” model of contracting.

The lead-agency model has provided some extra administrative challenges for the County. In one case, the contract with the lead agency was rescinded because of unresolved problems between the lead agency and its sub-contractors. Staff indicated that it was not always possible to assist with resolving problems because the only contractual relationship was with the lead agency, not the sub-contractor.

Using a lead agency may create more administrative layers when the agency uses sub-contractors and may delay payment to those sub-contractors. Also, the County may not have a good mechanism in place to monitor whether lead agencies are providing effective oversight of sub-contractors.

FOLLOW-UP RECOMMENDATIONS

- 1) To mitigate the risk of contractor insolvency and to ensure compliance with requirements to carry out fiscal monitoring of human service contractors, we make the following recommendations:
 - a) Establish a process for in-depth onsite fiscal monitoring, possibly based on the contract fiscal review procedure used by the Department of County Human Services.
 - b) Consider re-establishing the Qualified Vendor Status Application process or a similar process that prequalifies contractors by establishing their fiscal and administrative capacity.
 - This process should actively prevent the exclusion of new, or small, specialized, or minority-owned agencies and must comply with state and federal restrictions, where applicable.
 - c) Determine the staffing capacity necessary to conduct fiscal monitoring of all contractors to whom the requirement applies.
 - d) Set fiscal monitoring as a priority that management enforces.
- 2) To determine the effectiveness of human service programs, the County should re-establish program evaluation capacity and ensure that formal program evaluations occur where specified by contract.
- 3) To increase stability and accountability in the system and ensure organizational buy-in, carry out the original audit recommendations assigning a high level of responsibility for implementation and maintenance of the strategic contracting framework.
- 4) To determine the effectiveness, efficiency, and overall accountability of the lead-agency model of procurement and contracting, review and analyze the history and results of those contracts.



Diane M. Linn, Multnomah County Chair

August 4, 2003

Ms. Suzanne Flynn, Auditor
Multnomah County
501 SE Hawthorne Blvd., #601
Portland, OR 97214

Dear Ms. Flynn,

Thank you for Audit Follow-up Report #5 for Contracted Human Services. Your report notes progress made since the 2000 audit, areas of continuing concern, and specific follow-up recommendations. I appreciate your attention to all three areas.

Your recommendations justifiably target four functions: fiscal monitoring, program evaluation capacity, management responsibility for the strategic contracting framework, and analyzing the effectiveness of the lead agency contracting model.

We need to be doing more in the area of monitoring and evaluating programs at a level consistent with good business practice. However, with recent budget constraints, we have consciously attempted to keep as much funding as possible focused on providing direct services. Given those constraints, we are streamlining our compliance activities to increase their value added, and cleaning up ambiguous contract language to clarify our costs and results.

As you know, I am reorganizing the business service functions of the county using a shared services approach. Our purchasing and contracting processes are among the services that have a high priority in that effort. This is also the process wherein we will determine the assignment of responsibility for the strategic contracting framework and the review of the lead agency model.

Based on our current shared services schedule, and assuming Board of Commissioners approval of the management structure to support it, the new Department of Business Services will have a timeline and draft workplan for addressing each of your follow-up recommendations by November 30, 2003.

Thank you again for your timely analysis and recommendations to continue the improvement of our human services contracting.

Sincerely,

Diane M. Linn, Chair
Multnomah County