

Office of Legislative
Auditor General

WILLIE MAYO, CPA, CIA, CICA
AUDITOR GENERAL



500 GRISWOLD STREET
STE. 848; GUARDIAN BLDG.
DETROIT, MICHIGAN 48226
TELEPHONE: (313) 224-0924

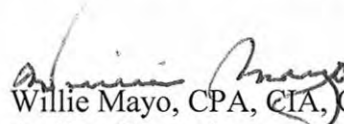
April 27, 2010

FINAL REPORT TRANSMITTAL LETTER

Honorable Wayne County Commissioners:

Enclosed is our final reissued compliance audit report on the Department of Children & Family Services, Juvenile Services Division, Care Management Organization (System) Contractor: Black Family Development Inc. The reissued report date is January 13, 2010 (original date was April 27, 2007); DAP No. 2004-57-013(A). The report was accepted by the Audit Committee on April 6, 2010 and formally received by the Wayne County Commission on April 13, 2010.

We would like to inform you that officials from the County along with Black Family Development Inc. provided their full cooperation. If you have any questions, concerns, or desire to discuss the report in greater detail, we would be happy to do so at your convenience. This report is intended for your information and should not be used for any other purpose. Copies of all Office of Legislative Auditor General's final reports can be found on our website at: <http://www.waynecounty.com/mygovt/comm/AuditorReport.aspx>


Willie Mayo, CPA, CIA, CICA
Auditor General

Report Distribution

Department of Children & Family Services

Tadarial Sturdivant, Director

Department of Management & Budget

Carla E. Sledge, Chief Financial Officer

Terry L. Hasse, Director, Grants and Contract Administration Division

Michael O'Connell, Director, DCFS-Finance Division

Black Family Development, Inc.

Alice Thompson, Chief Executive Officer

Jane Fernanders, Chief Financial Officer

Wayne County Executive



DAP No. 2004-57-013(A)

**COUNTY OF WAYNE, MICHIGAN
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
JUVENILE SERVICES DIVISION**

**AUDIT OF CARE MANAGEMENT
ORGANIZATION (SYSTEM) CONTRACTOR:
BLACK FAMILY DEVELOPMENT INC.**

**Compliance Audit
April 26, 2007
and
January 13, 2010 (Reissued)**

REPORT SUMMARY

REPORT SUMMARY

REISSUED REPORT

This is a reissued report of our original report dated April 27, 2007, and formally issued to the Wayne County Commission's Committee on Audit November 20, 2007.

Applicable auditing standards and best practices state auditors should communicate with those charged with governance and other appropriate officials that they can no longer rely on information regarding findings and conclusions contained in an original issued report; if after the report is issued the auditor discovers they did not have sufficient and appropriate evidence to support previously reported findings and conclusions. We found that this circumstance exists regarding our original issued report.

Specifically, since the original report was issued we discovered that electronic invoices provided to us by Black Family Development Inc., (BFDI or contractor) which we relied upon, were not the appropriate and proper invoices for the audit test for which they were requested and used. Due to our reliance on those invoices, the amount and magnitude of the finding involving overpayment amounts to the contractor, not in compliance with their contract terms, was not accurate. We could not determine why or how the contractor provided the inappropriate invoices, but nothing came to our attention to cause us to believe it was anything other than unintentional.

We re-performed certain audit tests using the proper invoices and revised our original results. In summary, the revised results indicate the finding of overpayment amounts continue to exist, but the total overpayment amount to the contractor has been revised to \$1,011,755 not \$1,460,534, as previously reported. The impact was an overstatement of \$448,779. This reissued report has been appropriately revised to incorporate the results from use of the proper invoices.

INTRODUCTION

In accordance with applicable Wayne County Commission Resolution 2002-317, the Office of Legislative Auditor General (OAG) performed a contract compliance audit of Black Family Development Inc. (BFDI), a major contractor with the county's Department of Children and Family Services (DCFS), formerly Department of Community Justice. This report is one of seven issued on the department's administration of its Juvenile Justice Services Program, also known as the CMO (Care Management Organization, presently known as the Care Management Systems) Program. The primary audit period of our examination included December 1, 1999 through December 31, 2003. During this period, BFDI had one contract with numerous amendments/modifications. The total contract amount was not to exceed \$68 million through September 30, 2004. The contract required BFDI to ensure youth assigned to them have access to, and receive, a full array of services that support accountability,

community safety, and competency development. Appendices A and B detail the service area covered by BFDI and types of services authorized in their contract, respectively. Black Family Development Inc. currently has a similar contract with the department for an amount not to exceed \$95 million for the period October 1, 2004 – September 30, 2008.

AUDIT OBJECTIVES

The objectives of the compliance audit were to:

- 1) Determine whether the amounts billed and paid were in compliance with the contract's authorized services and rates,
- 2) Assess compliance with other major contract provisions, and
- 3) Assess the internal control environment over the contract billing process.

AUDIT SCOPE

The audit period covered was December 1, 1999 through December 31, 2003, except our examination of insurance coverage extended to October 2004, and background checks to November 2004. Our fieldwork was concluded in April 2007. The payments to BFDI are accounted for in Special Revenue Fund 292, Business Unit 35612. Our audit was conducted in accordance with Generally Accepted Government Auditing Standards, or GAGAS, issued by the Comptroller General of the United States.

SUMMARY OF AUDIT RESULTS

Billings Submitted to Department Were Not Always in Compliance with Contract's Authorized Services and Rates

Finding #04-01

- Black Family Development Inc.'s billings for services provided to the department under its contract were generally in compliance with the contract. Of the total \$51.7 million in invoice amounts approved by the county, \$50.7 million, or 98 percent, appeared to be in compliance with the contract rate schedules. However, BFDI billed, and the DCFS approved, overpayment amounts totaling \$1.01 million, or 2 percent, of the total billed that was not in compliance with the contract rate schedules. The type and amount of overpayments to BFDI are below. **See page 4.**

Summary of Contract Overpayments
Black Family Development, Inc.
December 1999 – December 2003
January 13, 2010

Type of Overpayments	Amount
Services billed before contract/amendment received approval	\$57,865
Services billed at a rate higher than authorized by the contract	125,042
Services billed and paid, but not authorized in the contract	196,225
Billed for services not in accordance with contract provision	164,748
Billed for youth discharged from program	467,875
Total	\$1,011,755

Recommendations

To ensure BFDI bills and the department approves payment for services authorized under the contract, we recommend BFDI:

Recommendation #04-01(A)

- ⇒ Bill the appropriate rate authorized for services only in accordance with the contract or modifications approved by the Wayne County Commission.

In addition, we recommend the DCFS:

Recommendation #04-01(B)

- ⇒ Determine the amount of overpayments paid to BFDI that should be recovered, then negotiate a settlement agreement in accordance with the county's procurement ordinance.

Recommendation #04-01(C)

- ⇒ Assess the contract invoice review process to ensure adequate internal controls are in place to ensure that invoices approved for payment comply with the commission approved contract services and rates.

Contractor Failed to Fully Comply with Insurance and Background Check Provisions

Insurance Requirement(s) Not Always Met **Finding #04-02**

- The contractor did not comply with some of the insurance coverage requirements as defined in the contract. For instance, BFDI failed to obtain the minimum coverage required for “Sexual Abuse Liability” and did not obtain “Professional Liability” coverage. In addition, they did not provide proof of insurance coverage to the DCFS nor the County’s Risk Management Division as required. During our examination, BFDI officials retroactively corrected all insurance coverage requirement deficiencies, including adding the county as a co-insured/payee to each annual insurance policy. Failure to obtain insurance coverages required in contracts exposes the county to risk not intended by county officials. **See page 8.**

Background Checks Not Performed in Compliance with Contract Provisions **Finding #04-03**

- The contractor’s contract requires it to perform background checks on each of its hires before they begin work. We examined all 63 BFDI’s employee files and found 26, or 41 percent, did not have documentation in their files evidencing that a background check had been performed. Fourteen of the 26 employee files that did not have background checks documented in their file, at the time of our review, still worked for BFDI at the time we performed our examination. In addition, 16 of the 37 employee files with background checks documented, had the check performed the day prior to our examination of the files. Not performing background checks for personnel working so closely with juveniles and their families exposes BFDI and the county to risks that could be avoided through timely screening in accordance with the contract terms. **See page 9.**

Recommendations

To ensure BFDI complies with other major contract provisions, we recommend they:

Recommendation #04-02

- ⇒ Establish appropriate processes to ensure insurance coverage and binders evidencing that required insurance coverage are obtained and in-force during the contract period are forwarded to the county.

Recommendation #04-03(A)

- ⇒ Determine which present employees have not had a background check performed according to the county’s Juvenile Justice Services Handbook and ensure they are conducted, and if necessary take appropriate action against employees if background check warrants.

Recommendation #04-03(B)

- ⇒ Establish appropriate processes to ensure all new hires receive their background checks according to the contract and the county's Juvenile Justice Services Handbook prior to their start date.

Weaknesses Noted in the Internal Control Environment

Limited Controls in Billing Process

Finding #04-04

- Our review of the internal controls over the billing process found that they were limited and not sufficient. Specifically, we were only able to obtain limited assurance that the information included in the Department of Children and Family Services Juvenile Agency Information System (JAIS) was accurate. The JAIS is used to track and record services required and provided to youth in the program. As a result, we performed additional procedures to verify some of the data. We found there were limited controls over the data entry process of the JAIS, and found instances where the information in the system was inaccurate. The contractor uses the system to record the services provided to the youth, which provides the data for them to prepare its monthly billing to the department. Further, we found instances where the JAIS listed the youth as receiving a specific service while the youth was actually receiving a different service at a different rate.

Another instance of insufficient controls was noted. It involved billings for youth when the youth was in a residential facility that was fully funded by the county. Not only was this in violation of the contract, but it resulted in overpayments. The department is working with the JAIS vendor and the Department of Technology staff to develop system controls to minimize the errors found during our audit. **See page 10.**

Services Not Billed in Accordance with Contract Service Descriptions

Finding #04-05

Although the contract contained only 14 specific service descriptions that could be billed to the department, BFDI used 330 different service descriptions in its billings. The use of so many different service descriptions increases the risk that unauthorized services could be billed and go undetected. Further, if each billing had the same service descriptions, BFDI and the department could easily use an "off-the-shelf" software package to analyze and assess the billings and determine whether a service billed was properly authorized and billed at the correct rate. Use of standardized service descriptions would also allow BFDI and the department to better manage the quantity of services provided to youth in the program. **See page 10.**

Recommendation

To strengthen and enhance controls over the billing process, we recommend BFDI:

Recommendation #04-04/05

- ⇒ Identify the control deficiencies in the billing preparation process, then implement appropriate corrective internal control procedures.

VIEWS OF RESPONSIBLE OFFICIALS

Black Family Development Inc.'s response indicated a general agreement with the findings and recommendations. Regarding the findings related to overpayment amounts, Black Family Development Inc. officials agreed that most of the \$1.01 million received under their contract with the County was not in compliance with the contract terms. They estimate \$254,090 of that amount was the result of department officials instructing them to perform and bill for services that had not yet been authorized; however, BFDI did not agree with all the amount identified as overpayments.

Regarding insurance coverage, they agreed with the finding and have taken measures to address them. The contractor further stated they are now performing background checks on all prospective employees prior to their start date. As it relates to weaknesses in the internal control environment over billings, BFDI acknowledged that many problems existed in the processes early on and that the manual process was cumbersome. They also agreed to submit a corrective action plan to address the 7 recommendations contained in this report within 30 days from the date the report is accepted by the Wayne County Commission.

NOTEWORTHY ACCOMPLISHMENTS

Wayne County and DCFS has been somewhat effective at controlling juvenile justice services expenditures as stated in the operational review of the Juvenile Justice and Abuse and Neglect Programs of the Children and Family Services Department report completed by Plante & Moran PLLC, dated March 21, 2006. According to the report, "...overall program expenses for delinquent juveniles have stabilized with a net decrease of almost 2 percent in the past 5 years due to the ongoing service utilization management and monitoring of program expenses..."

That report further states "...that currently more than half of the delinquent juveniles committed to the program are assigned to in-home services and very few of those are escalated to higher security levels due to additional violations compared to previously when an overwhelming majority of Wayne County delinquent juveniles were in out-of-home placements such as state training facilities..." In addition, Plante & Moran also stated "...the program has been effective in increasing positive outcomes for delinquent

juveniles in Wayne County..." Any success the county has experienced in this area is certainly not all its own, and must be shared with the CMO's such as Black Family Development Inc., as well as the families of the youth.

AUDIT METHODOLOGY

To obtain an understanding of BFDI's operations related to the contracted services, we interviewed personnel from BFDI, DCFS as well as other county departments and others as we deemed appropriate. We reviewed and obtained an understanding of the department's Juvenile Justice Service Handbook as well as the applicable contract between the county and BFDI to determine key contract provisions.

To determine if the amounts paid to BFDI were in compliance with the contract rate schedules, we obtained BFDI's invoices to the county in electronic format. We then used Audit Command Language (ACL) software to perform an analysis of the service rates billed to determine if the county paid BFDI the rate authorized at the time of the service. In addition, we used ACL to determine if BFDI billed the county for youth that were housed in a detention facility that was fully funded by the county and whether the county paid for services after the youth was discharged from the program, both would be violations of the contract.

We also performed various tests to determine BFDI's compliance with other contract provisions, such as insurance coverage, employee background checks, and tax withholding payments and filings.

CONCLUSION

We certainly acknowledge the tremendous efforts of DCFS and BFDI in developing and implementing this innovative and first-of-its kind Juvenile Justice Program. As with any new initiative, the program experienced many challenges, including the need for a number of contract amendments.

Our audit revealed several instances of non-compliance with the contract including \$1.01 million paid to the contractor that was not authorized by their contract at the time of disbursement. Our audit also disclosed failure to adhere to insurance requirements, and background checks were not always performed as specified.

Contracts serve as a control mechanism and help ensure intended actions and program objectives are achieved. When there are instances of non-compliance with contract provisions, it can undermine decision makers' intent and hamper the commission's oversight.

Since our report contains 5 findings and 7 corresponding recommendations, we will request a corrective action plan from the department and BFDI to fully address these items.■

DETAILED REPORT

TABLE OF CONTENTS

Reissued Report	1
Introduction.....	2
Audit Objectives	2
Scope.....	2
Background	2
Audit Results.....	4
Billings Submitted To Department Were Not Always in Compliance with Contract's Authorized Services and Rates.....	4
Contractor Failed to Fully Comply With Insurance and Background Check Provisions	8
Weaknesses Noted in the Internal Control Environment.....	10
Noteworthy Accomplishments.....	12
Methodology	12
Conclusion	13
Recommendations.....	13
Appendix A.....	16
Wayne County Juvenile Justice Care Management Organization Service Delivery Areas	17
Appendix B	18
Care Management Organizations Types Of Services, Commission Approval Date, and Approved Rate.....	19



DAP No. 2004-57-013(A)

April 26, 2007 and
January 13, 2010 (Reissued)

Audit Committee:

REISSUED REPORT

This is a reissued report of our original report dated April 27, 2007, and formally issued to the Wayne County Commission's Committee on Audit November 20, 2007.

Section 8.07 of the Generally Accepted Government Auditing Standards, related Generally Accepted Auditing Standards of the American Institute of Certified Public Accountants and best practices state auditors should communicate with those charged with governance and other appropriate officials that they can no longer rely on information regarding findings and conclusions contained in an original issued report if after the report is issued the auditor discovers they did not have sufficient and appropriate evidence to support previously reported findings and conclusion. We found that this circumstance exist regarding our original issued report.

Specifically, since the original report was issued we discovered that electronic invoices provided to us by Black Family Development Inc., (BFDI or contractor) which we relied upon, were not the appropriate and proper invoices for the audit test for which they were requested and used. Due to our reliance on those invoices, the amount and magnitude of the finding involving overpayment amounts to the contractor, not in compliance with their contract terms, was not accurate. We could not determine why or how the contractor provided the inappropriate invoices, but nothing came to our attention to cause us to believe it was anything other than unintentional.

Upon receipt of the appropriate and proper invoices we re-performed certain audit tests and revised our original results. In summary, the revised results indicate that the finding of overpayment amounts continues to exist, but the total overpayment amount to the contractor has been determined to be \$1,011,755 not \$1,460,534, as previously reported. The impact was an overstatement of the amount due from the contractor in the amount of \$448,779. This reissued report has been appropriately revised to incorporate the results from use of the proper invoices.

INTRODUCTION

In accordance with Wayne County Commission Resolution 2002-317, the Office of Legislative Auditor General (OAG) performed a contract compliance audit of Black Family Development Inc. (BFDI), a major contractor with the county's Department of Children and Family Services (DCFS), formerly Department of Community Justice. This report is one of seven issued on the department's administration of its Juvenile Justice Services Program, also known as the CMO (Care Management Organization, presently known as the Care Management Systems) Program. The primary audit period of our examination included December 1, 1999 through December 31, 2003. During this period, BFDI had one contract with numerous amendments/modifications. The total contract amount was not to exceed \$68 million through September 30, 2004. The contract required BFDI to ensure youth assigned have access to and receive a full array of juvenile justice services that support accountability, community safety, and competency development. Black Family Development Inc. currently has a similar contract with the department for an amount not to exceed \$95 million for the period October 1, 2004 through September 30, 2008.

AUDIT OBJECTIVES

The objectives of the compliance audit were to:

- 1) Determine whether the amounts billed and paid were in compliance with the contract's authorized services and rates,
- 2) Assess compliance with other major contract provisions, and
- 3) Assess the internal control environment over the contract billing process.

SCOPE

Our audit scope was to examine compliance with certain aspects of the contract for the audit period covering December 1, 1999 through December 31, 2003, except our examination of insurance coverages extended to October 2004, and background checks to November 2004. This period is included in BFDI's Contract Number 99-04-067. Our audit was concluded in April 2007 and January 2010. Our audit was performed in accordance with Generally Accepted Government Auditing Standards or GAGAS, issued by the Comptroller General of the United States.

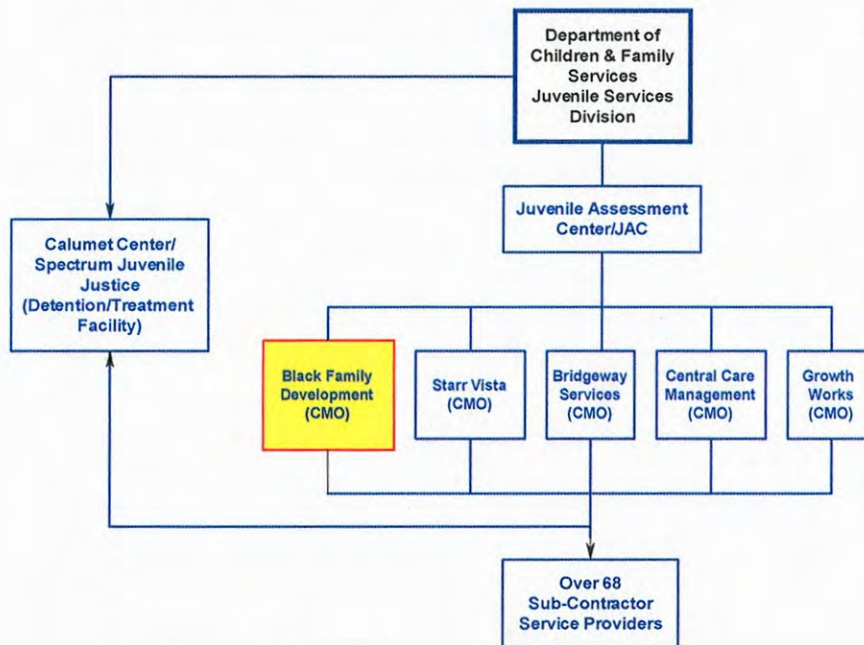
BACKGROUND

Black Family Development Inc. is one of five CMOs under contract with the county's DCFS to provide specialized juvenile justice services for youth assigned to the DCFS through an agreement with the State of Michigan's Department of Human Services and the Third Judicial Circuit Court. Black Family Development Inc. is responsible for youth in Northeast Detroit, Harper Woods, and the Grosse Pointes. The Program structure is shown below:

PROGRAM STRUCTURE

JUVENILE JUSTICE SERVICES PROGRAM

DEPARTMENT OF CHILDREN AND FAMILY SERVICES



The program operates as follows:

When a county juvenile enters the juvenile justice system, the case usually begins in the Family Division of the Third Judicial Circuit Court of Michigan. The court places the youth in the county's juvenile justice system in one of three methods: 1) direct placement with the county; 2) placement with the county as part of probation; or 3) placement with the county through the Delinquent State Wards program (State Wards). The Juvenile Assessment Center (JAC) provides a point of entry for evaluation and assessment of youth placed in the program. The CMOs, or in this case BFDI, are the agencies with primary responsibility to ensure that juveniles and at-risk youth assigned to the Program have access to and receive the full array of juvenile justice services. The CMOs are responsible for developing, managing, providing, and accessing services necessary to fulfill the plan of care for each juvenile assigned to their care, at the youth's assessed level of security. The CMO also is responsible for recording the status of each juvenile in the DCFS JAIS. The JAIS system is a internet-based system which links information from the vast network of service providers. The JAIS allows tracking of youth in the system at all times.

The court could also order the juvenile to probation and assign the juvenile to the DCFS for placement into the CMO program. Finally, the court can

assign the juvenile to the State Wards program, then the State of Michigan's Family Independence Agency may also assign the juvenile to the DCFS for placement into the program.

The State of Michigan's "Child Care Fund" (CCF) provides 50 percent of the funding for the County's juvenile justice services program. The County is responsible for the other 50 percent. In order to be eligible for funding through the CCF, a court order or other written complaint accepted or acknowledged by the court is required. The majority of the financial activity of the Juvenile Justice CMO Program is recorded in Special Revenue Fund 292, Juvenile Justice and Abuse/Neglect.

Black Family Development Inc. has a defined service delivery area and is responsible for development of a locally organized system of services and resources, which includes prescribed community-based and residential service tracks. Juveniles are assigned to CMOs based on the parents'/guardians' zip code. See Appendix A for a geographical map of the CMO service area by county zip code. The CMOs may deliver services directly, or contract with other providers in order to ensure sufficient and appropriate services. The CMO financing is based on a capitated case rate structure that is inclusive of administrative service cost, case management, and direct treatment. The fees are based on what is called a Care Management Track (CMT) which is the type of service the juvenile receives. See Appendix B for a list of authorized services along with their applicable rate. Once a juvenile is enrolled, the CMO has full responsibility and risk for planning, care, and supervision until the supervising court terminates enrollment.

AUDIT RESULTS

This section of the report contains a detailed discussion of each of the significant audit findings noted during our audit examination.

Finding #04-01: Billings Submitted to Department Were Not Always in Compliance with Contract's Authorized Services and Rates

Black Family Development Inc.'s billings for services provided to the department under its contract were generally in compliance with the contract. Of the total \$51.7 million in billed services approved by the County during the period of our review, \$50.7 million, or 98 percent, appeared to be in compliance with authorized services and rate schedules. However, BFDI billed and the DCFS approved, overpayment amounts totaling \$1.01 million, or 2 percent, of total billings, that were not in compliance with the contract as defined in Section 3.2.C, relevant appendices and contract amendments/modifications. The table that follows lists the types and overpayment amounts.

**Summary of Contract Overpayments
Black Family Development, Inc.
December 1999 – December 2003
January 13, 2010**

Type of Overpayments	Amount
Services billed before contract/amendment received approval	\$57,865
Services billed at a rate higher than authorized by the contract	125,042
Services billed and paid, but not authorized in the contract	196,225
Billed for services not in accordance with contract provision	164,748
Billed for youth no longer enrolled in program.	467,875
Total	\$1,011,755

Services Billed Before Contract/Amendment Received Approval

We found instances where the contractor billed for services before the service was authorized through a contract amendment approved by the Wayne County Commission. According to the county's charter and applicable section(s) in the Code of Ordinances, only the commission has the authorization to enter into and amend a county contract. Further, only upon commission approval is a county contract or amendment valid. The amount billed to the department before services were authorized was \$57,865. For example, the applicable contract amendment was approved by the commission on September 7, 2000, authorizing the contractor to perform and bill for "Out of Home Care" services at a rate of \$175 per service. However, we found 9 instances totaling \$38,145 where the contractor billed for the service prior to commission authorization as early as May 2000, some four months before being authorized by the commission. Other services were also billed before they were authorized by the contract amendment. These services totaled \$19,720.

Views From Responsible Officials

An official with the contractor stated department officials, at that time, instructed them to perform and bill for these services once the department began the process to obtain approval of the contract amendment.

Services Billed at Rates Higher Than Allowed by the Contract

The contractor billed for services at rates in excess of what the contract allowed without documentation authorizing the higher rate. This resulted in overpayments of \$125,042 to

the contractor. Specifically, the agreement between the contractor and the county authorized a daily rate for services for youth assigned to the CMO. The payments are based on the approved authorized service, the number of days the youth is assigned for that service, and at a specified rate. The contract included a provision that allowed for a higher rate for specific circumstances such as medical necessity or the level of care required is higher than the security level approved. However, all rate exceptions required prior approval by the DCFS or their designee, the Juvenile Assessment Center. In addition, a copy of the approved exception must be maintained in a juvenile's case file.

For example, the contract authorized \$75 per day for "Intensive Community" services; we found the contractor billed \$260, or \$185 in excess of the allowed rate for seventy-three days without an approved rate exception in the juvenile's file, resulting in an overcharge of \$13,505 for a single youth.

As shown in the table, other services totaling \$111,537 were also billed without an approved rate exception. It appears the contractor did not have a system in place to ensure that authorization to support the exceptions were included with the case files for applicable youth.

Services Billed Without an Approved Contract Rate Exception
Black Family Development Inc.
December 1999 – December 2003
January 13, 2010

Type of Service	Overcharge
Medium Security	\$ 5,880
Low Security	17,676
Intermediate Community	4,300
Intensive Community	28,508
Out of Home Care	17,430
Regular Community	6,150
In Home Detention	5,025
Medium Security After 11/21/02	24,729
Low Security After 11/21/02	15,344
Totals	\$125,042

Views from Responsible Officials

Contractor officials reviewed the overcharges and agreed with most of the overcharges. The contractor officials also stated that in some instances they believed the rate exception was approved; however, they were not able to find documentation to support the approval.

Services Billed and Paid but Not Authorized in the Contract

The contract with the county authorized \$25 per day charges for “Third Party Case Management Services,” for youth placed in a facility not fully funded by the county. The contract language states:

“...Third Party Case Management is for juveniles placed in an out-of-home resource for ongoing treatment that is fully funded by an entity other than the Wayne County Department of Community Justice [subsequently renamed Department of Children and Family Services]. Covered placements include those authorized and funded by Community Mental Health, SEMCA, Bureau of Substance Abuse (Detroit) and private insurance.”

However, we found numerous instances totaling \$196,225 where the contractor billed and the county paid, the \$25 case management fee for youth placed in Calumet Center, which is fully funded by the county. In addition, as a result of reviewing the unit rate overcharges, the contractor identified \$2,275 in overcharges that were billed, as “Third Party Case Management” services that were in actuality not appropriate.

Moreover, with the additional \$25 for case management services the total cost for a youth is more than if the youth was housed in a high security facility contracted by the CMO such as Elliott Center.

Views from Responsible Officials

Contractor officials indicated that they were verbally instructed by the department to bill this fee for youth in Calumet. The department officials indicated that they did instruct the CMOs to bill the \$25 as a result of the case management still required for these youth. The department officials indicated that they should have modified the contract to allow the \$25 fee for youth in Calumet.

Billed for Services Not in Accordance with the Contract Provisions

The contractor billed the county for services that were not in accordance with the contract provisions in two different instances, totaling \$164,748. In the first instance, the county has a contract with Calumet (Spectrum Juvenile Justice Services) for 80 beds at the Calumet Center. The county pays Spectrum Juvenile Justice Services directly for these beds. However, we found 68 instances involving hundreds of days of care where the contractor billed the county for the service totaling \$159,848 for youth that were in Calumet Center. This results in the county paying twice for services to the CMO and Spectrum.

The second instance was the contractor billed the County \$4,900 for a “One Time Fee” of \$350 per youth on more than one occasion. The contract allowed the contractor to bill a

one-time fee of \$350 for each newly accepted youth at the Juvenile Detention Facility or Calumet Center. However, the contractor billed \$4,900 in duplicate "One Time Fee." It appears the contractor's billing process did not have controls in place to ensure that youth were not billed when in Calumet Center or the detection of duplicate charges.

Views from Responsible Officials

After the contractor reviewed their supporting documentation, in the first instance, they agreed that many of the billings in this area were indeed overcharges. The contractor did not believe all the charges represented youth in Calumet. In the second instance, the contractor agreed that the duplicate \$4,900 was an overcharge.

Billed for Youth Discharged from Program

The contract allows the contractor to only receive payment for services rendered for youth properly enrolled/assigned to the Program. However, we found the contractor billed and the county paid for youth no longer enrolled in the program in 177 instances totaling \$467,875.

.It appears the contractor did not track through the Court's information system when a juvenile was discharged from the program. In addition, it does not appear the program has adequate controls to ensure that the county was not billed for services after youth are discharged from the program.

Views from Responsible Officials

Contractor officials indicated they were not always informed when a youth was discharged from the program.

Regarding all overpayment amounts noted under this section of the report, BFDI officials agreed with most of the \$1.01 million identified. However, they estimate \$254,090 of the overpayment amounts were the result of department officials instructing them to perform and bill for services before they were formally authorized by their contract. Further, there were portions of the overpayment amounts BFDI did not agree, with but they were unable to provide support for their assertion.

Contractor Failed to Fully Comply with Insurance and Background Check Provisions

The contractor also failed to comply with other major contract provisions. Specifically, in some instances, the contractor was not always in compliance with the insurance and background check provisions in its contract.

Finding #04-02 Insurance Requirement(s) Not Always Met

Black Family Development Inc. did not comply with some of the insurance coverage requirements as defined in Section 4.9 of the contract which requires the contractor to maintain specific insurance coverage such as general liability, professional liability and other coverages, and that they should be at certain minimum dollar amounts. This contract provision also requires the contractor to include Wayne County as a co-payee or co-insured on the insurance policies. The contract further requires the department and the County's Risk Management Division to receive proof that insurance coverages are in effect prior to the commencement of the contract.

We obtained copies of the contractor's insurance certificates and assessed their compliance with contract requirements. Though the contractor complied with most of the provisions, our assessment found some areas where the contract's insurance requirements were not met. The following table indicates those areas of non-compliance.

Analysis of Compliance with Insurance Provisions Black Family Development Inc. December 1999 – October 2004

Description	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004
No Proof of Insurance					
County as Co-Insured	X	X	X	X	X
Comprehensive General Liability					
Medical Expense Limit					
Professional Liability					X
Sexual Abuse Liability				X	X
Medical Professions					
Director and Officer Liability					
Auto Liability Combined Single Limit					
Workers' Compensation					

Note: "X" indicates non-compliance
"Shaded-area" indicates compliance

Further, the department and risk management did not receive proof from the contractor that its insurance coverage was continually in-force during the contract terms.

Moreover, one of the important requirements not met was the contractor failed to list the county as a co-payee or co-insured as required. Failure to obtain the insurance coverages or listing the county as a co-insured as required in the contracts exposes the county to risk not intended by county officials. When this omission was brought to the attention of contractor officials, they added coverage for all insurance requirements and added the county as a co-insured on their policies retroactively from December 1999.

Views from Responsible Officials

Contractor officials were in agreement with this finding, and have taken measures to ensure required coverages and notifications are addressed in accordance with the contract.

Finding #04-03 Background Checks Not Performed in Compliance with Contract Provisions

The contractor's agreement with the department expressly requires it to adhere to the Juvenile Justice Service [Program] Handbook for certain processes including how background checks should be conducted on employees. Specifically, Sections 100.9 and 1000.7, states:

"Pre-employment checks should be used, and should include criminal background checks obtained through federal, state, and local law enforcement agencies."

We examined all 63 contractors' employee files and found that 26 employees' files, or 41 percent did not have in their files documentation supporting a background check had been performed. Fourteen of the 26 employees that did not have background checks documented in their files at the time of our review were still working for BFDI. Of those that did contain background checks, we noted 18 of 37 background checks were performed after the employment acceptance date. In fact, of the 18 background checks performed, 16 were performed one day prior to the date of our test work. Failing to perform background checks on personnel working so closely with vulnerable youth, exposes the youth, the contractor and county to risks that could be easily minimized if proper background checks were performed.

Views from Responsible Officials

We spoke to officials from the contractor. The officials indicated that in the early stages of the program, they did not have a human resource director to perform the background checks. The officials indicated that a background check is now being performed prior to an employee's start date.

Weaknesses Noted in the Internal Control Environment

We found the contractor had weaknesses in the internal control environment, including limited controls over data used to prepare its billings. In addition, the contractor's billings to the county contained variations in the descriptions of contracted services billed increasing the risk that errors could exist and go undetected.

Finding #04 - 04 Limited Controls in Billing Process

Our review of the billing process found limited controls. Specifically, we had limited assurance that the information included in the JAIS which we relied on for our analysis was accurate. As a result, we had to perform additional procedures to verify some of the entries. This was also confirmed in conversations not only with the department but also officials from this CMO and others.

We found there appeared to be limited controls over the process of data entry into the JAIS and we found instances where the information in the system was inaccurate. The contractor uses the system to record the services provided to the youths, which provides the data to allow the contractor to prepare its monthly billing to the department. For example, we found instances where the termination date from the program was different than the termination date recorded by the court. We also found instances where the JAIS listed the youth in a specific service while the youth was actually receiving a different service, and at a different contract rate.

Another instance of the lack of sufficient controls is when the contractor billed for a services when the youth was in a residential facility that was fully funded by the county. Not only was this a violation of the contract, but it resulted in overpayments. If the JAIS had sufficient controls in place, this would have avoided the contractor billing the county for services that were not in accordance with the contract terms. The department is working with the JAIS vendor and the Department of Technology staff to develop system controls to minimize the errors found within the system.

Finding #04-05 Services Not Billed in Accordance with Contract Service Descriptions

The contract identified 14 specific services the contractor could perform and bill the County. However, the contractor's invoices contained 330 different descriptions for the services billed. By not using the descriptions specified in the contract and the use of so many variations of service descriptions increases the risk that unauthorized services, or services that should not have been billed, are paid and could go undetected. If each invoice consistently used the same service descriptions, it would allow the contractor and the department to easily monitor utilization of each service and perform other analyses, which could be useful in managing the program.

Views from Responsible Officials

The contractor officials agreed that there were many problems especially early on in the program. The officials indicated that the use of the manual billing process was very cumbersome.

NOTEWORTHY ACCOMPLISHMENTS

Wayne County and DCFS have been somewhat effective in controlling juvenile justice service expenditures as stated in the operational review of the Juvenile Justice and Abuse and Neglect Programs of the Children and Family Services Department report completed by a consultant, Plante & Moran PLLC, dated March 21, 2006. According to the report, overall program expenses for delinquent juveniles have stabilized, with a net decrease of almost 2 percent in the past five years due to the ongoing utilization management and monitoring of program expenses.

The report further states "...currently more than half of the delinquent juveniles committed to the program are assigned to in-home services and very few of those are escalated to higher security levels due to additional violations compared to previously when an overwhelming majority of Wayne County delinquent juveniles were in out-of-home placements such as state training facilities..." In addition, the report also stated "...the program has been effective in increasing positive outcomes for delinquent juveniles in Wayne County. Specifically, the cumulative recidivism rate occurring for all delinquent juveniles terminated from the program as of 2004 was less than 5 percent. For the 1,900 juveniles tracked, this represented a great improvement compared to prior recidivism rates under the old program, which were more than 50 percent for some facilities..." Any success the county has experienced in this area is certainly not all its own, and must be shared with the CMOs, such as BFDI, as well as the families of the youth.

METHODOLOGY

To obtain an understanding of the contractors operations, we interviewed personnel from the contractor, DCFS, as well as other county departments and others as we deemed appropriate. Specifically, we reviewed the applicable contract between the county and BFDI, as well as the department's Juvenile Justice Service Handbook.

To determine if the amounts paid to the contractor were in compliance with the contract, Audit Command Language (ACL) software was used to perform an analysis of the service rates billed to determine if the rates were accurate, service authorized, and whether the county paid the contractor the rate authorized at the time the service was performed. We specifically used ACL to determine if the contractor billed the county for youth that were housed in a detention facility fully funded by the county (Calumet, which was prohibited) and whether the county paid for services after the youth was discharged from the program; both would be violations of the contract.

We also performed other tests and various audit procedures to determine the contractor's compliance with other key contract provisions such as insurance coverage, background checks of personnel, and employee tax remittance and other employer required filings.

CONCLUSION

We certainly acknowledge the tremendous efforts of DCFS and CMOs in developing and implementing this innovative and first-of-its kind juvenile justice program. As with many new major initiatives, the program experienced many challenges during its early implementation. This, in turn, presented obvious challenges and required a number of contract amendments/modifications. However, even with these challenges, ensuring contract provisions are fully complied with is essential to guarantee that program services are delivered in a manner specified by the contract's terms and conditions.

Our audit revealed several instances of contract non-compliance. In some cases, the non-compliance is attributed to a lack of effective controls and human errors. The failure to establish adequate internal controls over the billing and invoice approval process resulted in \$1.01 million being issued to BFDI that was not authorized in their contract at the time of the disbursement.

Similarly, the failure to ensure other key contract provisions such as ensuring that adequate insurance coverage is maintained and background checks are completed on employees prior to employment exposes the county, BFDI, and youth in the program to risks not intended when the commission approved the program and related contracts and modifications.

Contracts serve as an excellent control mechanism and help to ensure that decision makers' intended actions, goals, and objectives are achieved. When county program officials or contractors do not comply with contract provisions, it seriously undermines the intentions of county decision makers, including the commission. While we acknowledge the need to amend or modify contracts from time to time, it should be done in accordance with county policy, and modifications should not be implemented until the full consent and approval of the commission is granted.

Further, we believe the county should promptly seek to recover the overpayment amounts identified in this report. In addition, the county and the contractor should continue to implement internal control enhancements necessary to limit mistakes and errors that have contributed to the non-compliance cited in this report.

Finally, our report contains 5 findings and 7 corresponding recommendations. Therefore, we will request a corrective action plan from the department and BFDI to address these items.■

RECOMMENDATIONS

To ensure BFDI bills and the department approves payment for services authorized under the contract, we recommend BFDI:

Recommendation #04-01(A)

- ⇒ Bill the appropriate rate authorized for a service only in accordance with the contract or modifications approved by the Wayne County Commission.

In addition, we recommend the DCFS:

Recommendation #04-01(B)

- ⇒ Determine the amount of overpayments paid to BFDI that should be recovered, then negotiate a settlement agreement in accordance with the County's procurement ordinance.

Recommendation #04-01(C)

- ⇒ Assess the contract invoice review process to ensure adequate internal controls are in place to ensure that invoices approved for payment comply with the Commission approved contract rates.

To ensure BFDI complies with other major contract provisions, we recommend they:

Recommendation #04-02

- ⇒ Establish appropriate processes to ensure insurance binders evidencing that required insurance coverages are obtained and in-force during the period are forwarded to the County.

Recommendation #04-03(A)

- ⇒ Determine which present employees have not had a background check performed according to the county's Juvenile Justice Services Handbook and ensure they are conducted, and if necessary take appropriate action against employees if a background check warrants.

Recommendation #04-03(B)

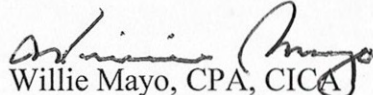
- ⇒ Establish appropriate processes to ensure all new employees receive their background checks according to the contract and the county's Juvenile Justice Services Handbook prior to their start date.

To strengthen and enhance controls over the billing process, we recommend BFDI:

Recommendation #04-04/05

- ⇒ Identify the control deficiencies in the billing preparation process, then implement appropriate corrective internal control procedures.

This report is intended solely for the Wayne County Commission and Management and should not be used for any other purposes. This restriction is not intended to limit the distribution of the report, which is a matter of public record.


Willie Mayo, CPA, CICA
Auditor General

APPENDIX A

Wayne County Juvenile Justice Care Management Organization Service Delivery Areas

[illegible]

A map of Michigan with a grid overlay, a compass rose pointing North, and a photograph of the Detroit skyline.

Map printed 3/15/00
g:\apps\gismu\projects\communityjustice\mapseries\latest.apr

APPENDIX B

Care Management Organizations Type of Services, Commission Approval Date, and Approved Rate

CARE MANAGEMENT ORGANIZATIONS **TYPES OF SERVICES, COMMISSION APPROVAL DATE, AND APPROVED RATE**

Type of Service	Commission Approval Date	Approved Rate	Commission Approval Date	Approved Rate	Commission Approval Date	Approved Rate	Commission Approval Date	Approved Rate	Commission Approval Date	Approved Rate
High Security	11/23/1999	\$260								
Medium Security	11/23/1999	\$205							8/29/2002	\$185
Low Security	11/23/1999	\$175							8/29/2002	\$165
Intermediate Community	11/23/1999	\$50								
Intensive Community	11/23/1999	\$75								
FIA Case Management	11/23/1999	\$4.41								
One Time Fee			5/4/2000	\$350						
Specialized Community					9/7/2000	\$100				
Out of Home Care					9/7/2000	\$145				
Third Party Case Management							9/20/01	\$25		
Regular Community							9/20/01	\$25		
Case Rate Exception									1/24/2002	Varies
Intensive Foster Care									8/29/2002	\$75
Supervised Independent Living									8/29/2002	\$75
In Home Detention									8/29/2002	\$50