

EXECUTIVE DIGEST

SPECIALIZED RESIDENTIAL SERVICES PROGRAM OF RESIDENTIAL CARE ALTERNATIVES, INC.

INTRODUCTION

This report, issued in April 1999, contains the results of our performance audit* of the Specialized Residential Services Program of Residential Care Alternatives, Inc. (RCA), an agency under contract with the Detroit-Wayne County Community Mental Health Agency* (DWCCMHA).

AUDIT PURPOSE

This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness* and efficiency*.

BACKGROUND

RCA, located in Detroit, Michigan, is a nonprofit mental health agency under contract with DWCCMHA to provide mental health services to adults with mental illnesses* and developmental disabilities* throughout Wayne County. RCA provides direct outpatient*, home development, residential placement, case management*, day program*, and supported employment services* and it subcontracts for specialized residential services* . RCA is governed by a five-member board of trustees selected from Southeastern Michigan.

RCA's mission* is to provide a residential alternative to the institutionalization of persons with disabilities through the development of specialized treatment programs designed to enhance their daily living skills, self-reliance, and successful residency in the community.

RCA's operations are funded by State, federal, and local funds. As of September 30, 1996, RCA had 119 employees and was serving over 800 recipients*. For fiscal year 1995-96, RCA's revenues and expenditures totaled \$30,826,170 and \$30,770,160, respectively. As a provider of specialized residential services, RCA subcontracted with 96 residential homes as of September 30, 1996. For fiscal year 1995-96, RCA's expenditures for its specialized residential services program totaled \$23,642,552.

**AUDIT OBJECTIVES,
CONCLUSIONS, AND
NOTEWORTHY
ACCOMPLISHMENTS**

Audit Objective: To assess the effectiveness of the specialized residential services contract administration process.

Conclusion: We concluded that RCA's contract administration process for specialized residential services was not effective for the 11 homes that we reviewed. Our assessment disclosed two material conditions* :

- RCA did not effectively monitor home provider* reported expenditures for contract compliance (Finding 1).

RCA concurs with the corresponding recommendation and informed us that it has initiated corrective action.

- RCA often did not establish home provider repayment plans that complied with contractual provisions and DWCCMHA instructions for repaying amounts due based on audits and cost settlements (Finding 2).

RCA concurs with the corresponding recommendation and informed us that it has initiated corrective action.

In addition, our audit disclosed two other material conditions that impacted the effectiveness of RCA's contract administration process. These two material conditions are reported under our second audit objective.

Noteworthy Accomplishments: RCA informed us that it increased the number of its specialized residential homes that the Department of Community Health or the Department of Consumer and Industry Services certified to operate as a specialized program for adults with mental illnesses or developmental disabilities. As of November 1994, RCA had none of its 96 homes certified in accordance with the State certification process that began during 1994. However, by November 1996, RCA had 39 (41%) of its 96 homes certified and, by November 1997, RCA had 93 (97%) of its 96 homes certified. The certification process examines the homes' compliance with standards set forth in the *Michigan Administrative Code* for the placement of adults who have a mental illness or a developmental disability into community-based dependent living settings.

Also, RCA informed us that it was granted a three-year renewal of its accreditation by the Rehabilitation Accreditation Commission* (CARF) in 1995 and again in 1998. CARF is a nationally recognized accrediting

authority, which established standards of quality for services provided to people with disabilities. Programs with CARF accreditation demonstrate substantial compliance with CARF standards.

Audit Objective: To assess whether State funds were used effectively and efficiently in the purchase and delivery of specialized residential services.

Conclusion: We concluded that State funds were not used effectively and efficiently in the purchase and delivery of specialized residential services for the 11 homes that we reviewed. Our assessment disclosed two material conditions:

- RCA did not review the subcontracts entered into by its home providers for specialized residential services to determine that the subcontracts were appropriate and complied with RCA requirements (Finding 3).

RCA concurs with the corresponding recommendations and informed us that it has initiated corrective action.

- RCA was not effective in detecting erroneous financial reporting by home providers contracted to deliver specialized residential services (Finding 4).

RCA concurs with the corresponding recommendations and informed us that it has initiated corrective action.

**AUDIT SCOPE AND
METHODOLOGY**

Our audit scope was to examine the program and other records of the Specialized Residential Services Program of Residential Care Alternatives, Inc. Our audit was conducted in accordance with *Government Auditing*

Standards issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

We examined RCA's records and activities related to 11 of RCA's 96 residential homes for the two contract years beginning October 1, 1994 and ending September 30, 1996. The 11 homes that we selected for the audit were not chosen randomly. The homes were selected based on their history of prior Department of Community Health and public accounting firm audit exceptions and the potential risk that the conditions that led to those prior audit exceptions were not corrected.

To accomplish our audit objectives, we reviewed DWCCMHA's annual contract with RCA and RCA's annual contracts with its home providers. We obtained and reviewed DWCCMHA's and RCA's policies and procedures. We interviewed RCA and residential home provider personnel. We reviewed and evaluated RCA's efforts to monitor residential home provider compliance with RCA's contracts. We examined and assessed RCA's processes to resolve contract disputes and collect amounts due based on residential home provider audits and cost settlements. We examined and evaluated RCA's methods for ensuring the accuracy and propriety of residential home provider reported revenues and expenditures. We examined the financial records of select residential home providers. We evaluated RCA's and residential home providers' utilization of State funds in delivering specialized residential services.

AGENCY RESPONSES

Our audit report contains 4 findings and 6 corresponding recommendations. RCA's preliminary response indicated that it concurs with all 6 recommendations.