

A REPORT  
TO THE  
ARIZONA LEGISLATURE

Performance Audit Division

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Special Report

# Arizona Department of Economic Security

—Children Support  
Services—Foster Home Recruitment-Related  
Services Contracts

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October • 2013  
REPORT NO. CPS-1301



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**Debra K. Davenport**  
Auditor General

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October 11, 2013

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Arizona Department of Economic Security

Transmitted herewith is a report of the Auditor General, *A Special Report of the Arizona Department of Economic Security—Children Support Services—Foster Home Recruitment-Related Services Contracts*. This report is in response to Laws 2013, 1st S.S., Ch. 10, §33, and was conducted under the authority vested in the Auditor General by Arizona Revised Statutes §41-1279.03.

As outlined in its response, the Arizona Department of Economic Security agrees with all of the findings and plans to implement all of the recommendations.

My staff and I will be pleased to discuss or clarify items in the report.

Sincerely,

Debbie Davenport  
Auditor General

Attachment

## Summary

The Office of the Auditor General has completed a special report on the Arizona Department of Economic Security's (Department) contracting for foster home recruitment-related services. As required by Laws 2013, 1<sup>st</sup> S.S., Ch. 10, §33, this report addresses (1) expenditures for the recruitment, retention, training, licensing, and tracking of homes maintained by foster parents; (2) an assessment of whether the Department's contract process of home recruitment, study, and supervision is the most appropriate means to provide these services; and (3) best performance measures to evaluate the effectiveness of these services. In fiscal year 2012, the Department spent approximately \$18.9 million for contracted foster home recruitment-related services. Although contracting appears to be an appropriate method for obtaining foster home recruitment-related services, the Department should improve how it contracts for these services. For example, the Department's contracts lack adequate performance measures and appropriate ties between contractor performance and department monitoring. The Department plans to revise and rebid the contracts and, as part of this process, should (1) solicit stakeholder input in developing the new contracts; (2) develop clearly defined and realistic performance measures that reflect contract goals; (3) develop formal policies and procedures for monitoring contracts; (4) modify its incentive structure; and (5) continue to contact other states and experts or consultants for assistance, as appropriate.

## Foster home recruitment-related services

Licensed foster care is a critical option for the temporary placement of abused or neglected children who are removed from their homes and placed in out-of-home care. As of March 31, 2013, nearly 5,900, or 41 percent, of Arizona children placed in out-of-home care by the Department were placed in family foster homes. The Department contracted with 21 licensed child-placing agencies as of June 2013 to provide most services related to foster home recruitment. Contracted services include recruiting and training foster parents, investigating the adequacy of potential foster homes, assisting foster parents through the licensure process, tracking foster homes, identifying and arranging child placement options, and supervising and monitoring licensed foster parents. In fiscal year 2012, the Department spent approximately \$18.9 million for contracted foster home recruitment-related services.

### Department should improve its contracting process for foster home services (see pages 7 through 15)

Contracting appears to be an appropriate method for obtaining foster home recruitment-related services, but the Department should improve how it contracts for these services. The Department uses performance-based contracting to help monitor the quality and outcome of foster home-related contracted services, but the Department has not adequately implemented this form of contracting. Specifically, the Department's contracts lack performance measures for assessing the retention of foster parents, and some measures included in the contracts are not adequately defined. In addition, the Department has not developed policies and procedures for monitoring the performance measures in its contracts, does not use performance measure data to assess contractor performance, and has not adequately designed the contracts to incentivize performance. The Department plans to revise and rebid the contracts and should engage in a collaborative planning process with appropriate stakeholders to address these issues. Specifically, the Department should:

- Develop a process to work with all appropriate stakeholders to solicit, document, and consider input for the development of the new contracts;
- Select only those performance measures that are critical to and reflective of contract goals and ensure that the performance measures included in the contract are clearly defined, realistic, and within the contractors' control;

- Develop formal contract-monitoring policies and procedures that specify roles and responsibilities for both department and contractor staff, including policies and procedures for collecting, analyzing, and sharing performance-measurement data in order to monitor contractor performance, and specify these monitoring practices in the contracts;
- Modify its incentive structure to focus on specific measures where improved performance is needed or that are critical to agency goals, and consider incentivizing performance measures independently rather than collectively; and
- Continue contacting other states about their contracts for foster care services, and consider contacting experts or consultants for assistance, as appropriate.

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## INTRODUCTION

### Scope and Objectives

The Office of the Auditor General has completed a special report of the Arizona Department of Economic Security's (Department) contracting for foster home recruitment-related services. This report is the first in a series of three reports required by Laws 2013, 1<sup>st</sup> S.S., Ch. 10, §33, related to the Department's expenditures for children support services. Specifically, this report addresses (1) expenditures for the recruitment, retention, training, licensing, and tracking of homes maintained by foster parents (see Introduction, page 5); (2) an assessment of whether the Department's contract process of home recruitment, study, and supervision is the most appropriate means to provide these services (see Chapter 1, pages 7 through 15); and (3) best performance measures to evaluate the effectiveness of these services (see Chapter 1, pages 7 through 15). The second and third reports will address certain aspects of transportation services that are provided as part of children support services and emergency and residential placements of children, respectively.

This audit was conducted under the authority vested in the Auditor General by Arizona Revised Statutes (A.R.S.) §41-1279.03.

## Foster home recruitment-related services

### Licensed foster care is a critical option for child placement

Licensed foster care is a critical option for the temporary placement of abused or neglected children who are removed from their homes and placed in out-of-home care (see textbox for information about the types of foster homes). Statute and department policy require the Department to place children who have been removed from their homes in the least restrictive, most family-like setting possible until they can be reunited with their parents or another permanency goal, such as adoption, is achieved. According to A.R.S. §8-514, the order of preference for placement of children in out-of-home care is (1) with a relative, (2) in licensed foster care, and (3) in a group care setting, including group homes and residential treatment facilities.<sup>1</sup>

#### Types of foster homes

**Family foster home**—A home maintained by one or more individuals (i.e., foster parents) who are licensed to provide care and supervision for up to five children in foster care. Includes the following four specialized types of family foster homes:

- **Professional foster home**—A home that provides care for up to two children with special behavioral or emotional needs.
- **Child development home**—A home that provides care, habilitation, and supervision for up to three children with developmental disabilities.
- **Receiving foster home**—A home used for immediate placement of children when taken into custody or pending medical examination or court disposition.
- **Respite foster home**—A home that provides short-term care and supervision of children in foster care to temporarily relieve foster parents from their duty to care for them. An individual may also be licensed to provide respite foster care in another person's home.

**Group foster home**—A home maintained by one or more individuals who are licensed to provide care for six to ten children.

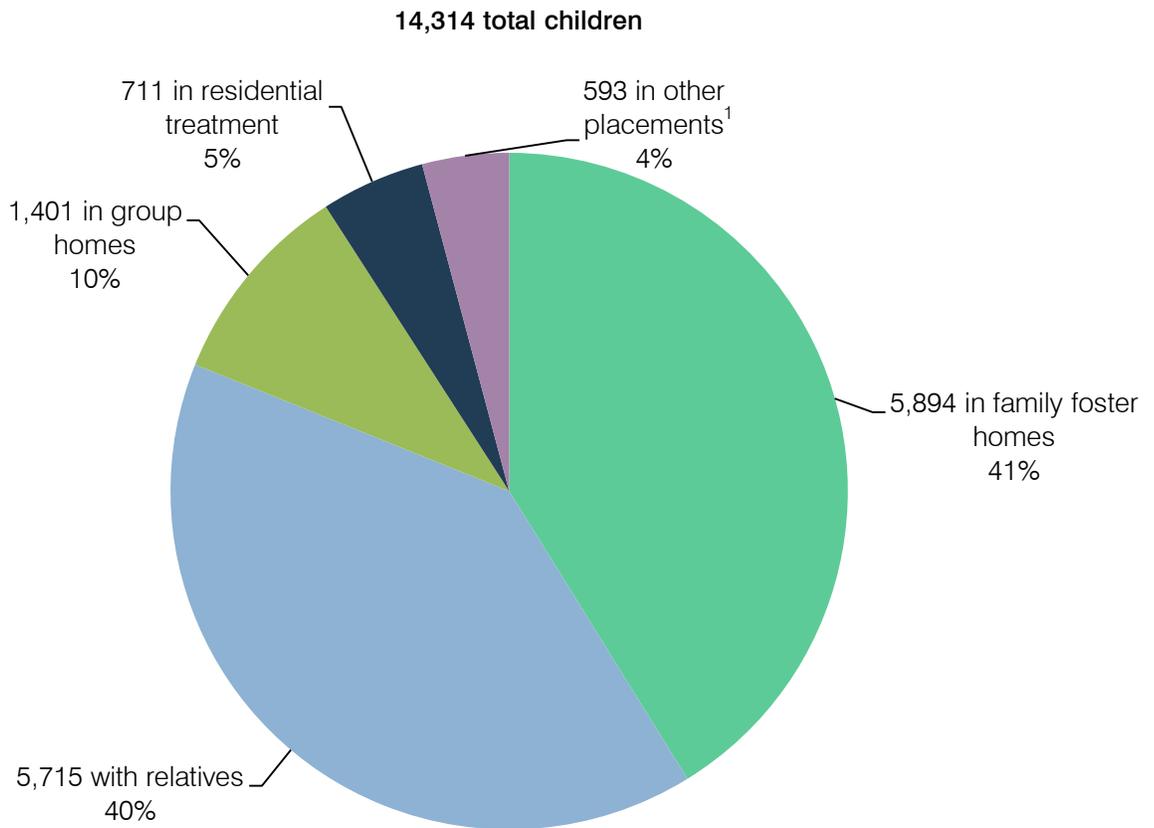
Source: Auditor General staff analysis of A.R.S. §8-501, department rules, and information from the Department's Web site.

As of March 2013, more than 40 percent of Arizona children placed in out-of-home care by the Department were placed in family foster homes. According to department reports, the number of children in out-of-home care increased

<sup>1</sup> Group homes provide 24-hour supervision within a group setting. Residential treatment facilities provide 24-hour supervision and structured treatment.

from approximately 10,200 children as of March 31, 2010, to 14,300 children as of March 31, 2013. As shown in Figure 1, nearly 5,900, or 41 percent, of the children in out-of-home care were placed in family foster homes.

**Figure 1: Number of children in out-of-home care by placement type  
As of March 31, 2013  
(Unaudited)**



<sup>1</sup> Includes children in independent living, children who have run away or absconded, and children preparing to return home through short-term home visits.

Source: Auditor General staff analysis of information from the Department's *Child Welfare Reporting Requirements Semi-Annual Report for the Period of October 1, 2012, Through March 31, 2013*.

## Foster parents must meet several licensing requirements

Statute requires the Department to license individuals who provide foster care to nonrelative children. General licensure requirements include possessing the ability to care for children; passing criminal background checks; undergoing an investigation, or "home study," and a home safety inspection; and completing a specified number of training hours (see textbox, page 3, for more information about these requirements). Licenses are valid for 2 years and specify the age range, gender, and maximum number of children who can be placed in a licensee's home.<sup>1</sup> The Department reported

<sup>1</sup> Prior to September 2013, licenses were valid for 1 year.

that it had 3,576 homes maintained by licensed foster parents with a total capacity of 8,579 spaces as of March 31, 2013.<sup>1</sup> Of these spaces, 2,152 spaces were unavailable for placements, and 1,051 spaces were available but unused because a match between these spaces and children's needs was not possible.<sup>2</sup>

## Department contracts for most foster home recruitment-related services

The Department contracts with licensed child-placing agencies (contractors) to provide most services related to foster home recruitment. Specifically, as of June 2013, the Department had contracts with 21 contractors who provide foster home recruitment-related services within one or more areas of the State specified in their individual contracts.<sup>3</sup> According to department staff, 18 contractors serve Maricopa County, 13 contractors serve Pima County, and 6 contractors serve the other counties in the State. Contracted services include:

- **Recruitment**—Although the Department maintains primary responsibility for general recruitment, contractors are required to develop and implement targeted recruitment plans on a semiannual basis. These plans include strategies for finding homes for specific populations identified by the Department, such as sibling groups, older children, and specific ethnic groups. The plans also include strategies for finding homes within specific geographic areas for which there are recruitment needs. Contractors are also required to develop and implement child-specific recruitment plans for finding family settings for specific children or sibling groups in group care settings.
- **Orientation**—Contractors are required to hold orientations for prospective foster parents that provide (1) information on how to become licensed; (2) alternative ways to help children in foster

### General foster parent licensure requirements

- Be a legal Arizona resident;
- Be at least 21 years old;
- Be physically, mentally, and emotionally able to care for children;
- Have sufficient income to meet the needs of the applicant and applicant's own children and household members;
- Submit to fingerprinting and a criminal background check and be free from conviction, indictment, or involvement in certain criminal offenses (this requirement applies to all adult members of the applicant's household);
- Submit to an investigation, or "home study," that involves interviewing the applicant and applicant's household members, conducting personal reference checks, verifying an applicant's financial condition, verifying completion of the fingerprinting and criminal background checks, and assessing the applicant's ability and commitment to provide foster care;
- Pass a home safety inspection that determines whether the foster home and its surrounding premises are safe, sanitary, and in good repair; and
- Complete at least 12 hours of training on specific topics prior to initial licensure and 6 hours of annual training.

Source: Auditor General staff review of department administrative rules and information from the Department's Web site.

<sup>1</sup> The number of foster homes does not include group foster homes.

<sup>2</sup> According to department staff, spaces may be unavailable for placement for various reasons such as the foster home requesting a hold on placements because of personal circumstances or the Department putting placements at a particular home on hold because of a licensing issue or an investigation of the home.

<sup>3</sup> These contracts are based on a standardized contract template.

care, such as becoming a respite care provider; and (3) contact information for all contractors providing services in the region where the orientation is held. Orientations are to be held biweekly at a minimum and be available in English and other languages, particularly Spanish, and at times and places convenient and accessible to prospective foster parents.

- **Training**—Contractors are required to provide initial training to prospective foster parents using a department-approved training program called Partnering for Safety and Permanence: Model Approach to Partnerships in Parenting (PS-MAPP). PS-MAPP is a 30-hour training program that covers various topics such as meeting the needs of foster children, working with the families of foster children, and meeting their family’s needs while ensuring a foster child’s safety and well-being.<sup>1</sup> Contractors are also required to provide at least 6 hours of annual training to licensed foster parents based on their professional development needs. This annual training can address various topics such as disciplining and managing behavior, preparing adolescents for independent living, and meeting the needs of children of another race or ethnicity.
- **Home study and licensure assistance**—Contractors are required to complete the home studies for initial and renewal foster parent licensure and assist applicants and existing foster parents through the initial and renewal licensure processes. The Department maintains responsibility for conducting the home safety inspection and reviewing and approving initial and renewal foster parent licenses.
- **Tracking homes maintained by licensed foster parents**—Contractors are responsible for maintaining and updating a tracking system for space availability in homes maintained by licensed foster parents.
- **Placement**—Contractors are responsible for identifying and arranging placement options for children referred by the Department and participating in case planning and other decision-making meetings for the children.
- **Supervision and monitoring**—Contractors are required to supervise and monitor licensed foster parents by visiting their homes at specified intervals to document foster parents’ interaction with placed children and developing individualized support, training, and monitoring plans for each home. These plans include requested or identified training or services to be provided, crisis intervention services to be made available, other support needed to meet the unique needs of the home or placed child, and time frames for providing training and support services.<sup>2</sup>

Contractors are required to submit routine reports and other deliverables to the Department, including the targeted and child-specific recruitment plans and recruitment activity reports; outcome goals reports documenting contractors’ progress towards attaining performance measures; and other reports regarding foster parent training, monitoring, and retention.

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<sup>1</sup> The 30 hours of PS-MAPP training exceed the minimum 12-hour training requirement for licensure in the Department’s administrative rules.

<sup>2</sup> Support services can include mentoring, counseling, support groups, child specific training, consultation, and respite with a goal of maintaining or stabilizing a placement.

## Department paid contractors approximately \$18.9 million for foster home recruitment-related services in fiscal year 2012

The Department spent approximately \$18.9 million for contracted foster home recruitment-related services in fiscal year 2012.<sup>1</sup> As shown in Table 1, this amount increased from approximately \$16.4 million and \$17.1 million in fiscal years 2010 and 2011, respectively. Contractors are paid for specific deliverables outlined in the contract. These include completion of targeted and child-specific recruitment plan activities, completion of PS-MAPP training, and the number of filled foster home beds. The contracts also provide for performance incentive payments that contractors can receive by meeting specific performance measures, but contractors have never received performance incentive payments for reasons discussed in Chapter 1 (see page 11 for additional information).

**Table 1: Payments to foster home recruitment contractors  
Fiscal years 2010 through 2012  
(Unaudited)**

	2010	2011	2012
Foster home recruitment <sup>1</sup>	\$ 173,210	\$ 295,245	\$ 568,598
Foster home training <sup>2</sup>	957,101	1,070,813	1,315,635
Filled foster home beds <sup>3</sup>	15,228,313	15,712,612	17,034,482
Total contractor payments	<u>\$ 16,358,624</u>	<u>\$ 17,078,670</u>	<u>\$ 18,918,715</u>

<sup>1</sup> Foster home recruitment payments are based on the approval of the contractors' recruitment plans.

<sup>2</sup> Foster home training payments are based on the number of people receiving training and their completion of the training.

<sup>3</sup> Filled foster home beds payments are based on a daily rate for each licensed foster home bed that has a department-placed foster child.

Source: Auditor General staff analysis of the Financial Management Control System and the Children's Information Library and Data Source Report 87 for fiscal years 2010 through 2012.

In addition to the amounts paid to contractors, the Department also incurs other direct and indirect costs related to foster home recruitment. The additional direct costs are for department staff who have duties related to general foster home recruitment, contractor training, and contract oversight. The indirect costs are for administrative support, including contract procurement, licensing, technology, and business support. However, the Department does not track the costs associated with these activities and therefore cannot provide reliable expenditure amounts to include in this report. Auditors will continue to evaluate the Department's expenditures in conducting additional audit work on transportation services and emergency and residential placements of children, and assess whether the Department could implement a cost effective method to track costs in conjunction with this additional audit work.

<sup>1</sup> Auditors could not provide the dollar amount spent on contracted services for fiscal year 2013 because the final expenditure amounts are not available until mid-October 2013.



## CHAPTER 1

# Department should improve its contracting process for foster home services

Although contracting for foster home recruitment-related services appears to be an appropriate method for obtaining these services, the Arizona Department of Economic Security (Department) should improve how it contracts for these services. The Department uses performance-based contracting to help monitor the quality and outcome of the contracted services, but it has not adequately implemented this form of contracting. Specifically, its contracts lack adequate performance measures, appropriate ties between contractor performance and department monitoring, and workable financial incentives. The Department plans to revise and rebid the contracts and should engage in a collaborative planning process with appropriate stakeholders to address these contracting deficiencies. Effective contract planning will also require an investment of agency resources and time, but external resources are available that may help facilitate this process.

## Contracting appears to be an appropriate method to obtain foster home services

Contracting for foster home recruitment-related services appears to be an appropriate method for obtaining these services. According to literature, the privatization of child welfare services has become more extensive as a result of changes in federal laws and efforts to downsize government, improve service quality, and contain costs.<sup>1</sup> A 2001 survey of state child welfare agencies by the National Survey of Child and Adolescent Well-Being reported that at least 33 states contracted for foster care placement services and at least 39 states contracted for recruitment of foster care and/or adoptive family services.<sup>2</sup> Based on auditors' review of more recent literature, contracting for child welfare services remains commonplace, and this literature references examples from several states that use private contractors specifically for the recruitment and retention of foster homes.<sup>3</sup>

The specific foster home recruitment-related services that states contract for vary. For example, as discussed in the Introduction (see pages 3 through 4), Arizona contracts for most foster home recruitment-related services, including recruitment, orientation, training, completion of the home study, and monitoring and supervising licensed foster parents. Kansas contracts for all of its foster care-related services, including case management, while Tennessee contracts only for some of its foster home training and completion of home studies. According to guidance from the Annie E. Casey Foundation, there are potential benefits and limitations for different levels of contracted services.<sup>4,5</sup> For example, when all services are privatized, families can be supported from first contact through approval and have a social worker assigned to meet their ongoing needs for optimal continuity. However, privatizing all services may result in the contracting public agency having to rely on the private agency's judgment in placing children because the public agency may not have as much knowledge about the foster home families.

<sup>1</sup> Quality Improvement Center on the Privatization of Child Welfare Services, 2006

<sup>2</sup> U.S. Department of Health and Human Services, Administration for Children, Youth and Families, 2001

<sup>3</sup> Auditors conducted a literature review on effective and performance-based contracting and the privatization of foster care services. Information sources include best practice guidance developed by the federal government and child welfare organizations, state practice manuals, and published reports and articles. See Appendix B, pages b-1 through b-2, for bibliography.

<sup>4</sup> Goodman & Steinfield, 2012

<sup>5</sup> The Annie E. Casey Foundation is a private, national, philanthropic organization whose goal is to create better futures for children in the United States.

## Department has not adequately implemented performance-based contracting for foster home services

The Department uses performance-based contracting for its foster home recruitment and retention services contracts, but it has not adequately implemented some critical contracting elements of this contracting approach. Applicable literature indicates that an effective performance-based contracting process facilitates the achievement of program goals and helps to ensure the quality of services provided.<sup>1</sup> Performance-based contracting includes the following:

- Developing a clear set of performance measures to achieve program goals;
- Using performance-measurement data for contract monitoring and to evaluate contractor performance; and
- Rewarding or penalizing the contractors based on performance.

So far, the Department has not been able to adequately implement these essential components in its contracts. As a result, the Department cannot ensure that the contractors, who were paid approximately \$18.9 million in fiscal year 2012, are meeting all performance expectations.

**Contracts' performance measures are not adequately developed**—Effective performance measures are one of the key elements of performance-based contracting. Based on auditors' review of applicable literature, performance measures should be used in order to assess contractors' performance and progress toward achieving the public agency's program goals and to ensure the quality of the services provided.<sup>2</sup> State best practice manuals indicate that output and outcome measures are important to management because they reflect actual results achieved and demonstrate the impact or benefit associated with the delivered services.<sup>3</sup> In addition, efficiency and/or quality measures may also be useful because they provide information about operations at a particular point in the process and could indicate areas that need to be improved in order to achieve desired outputs or outcomes.<sup>4</sup> The Governor's Office of Strategic Planning and Budgeting (OSPB) provides best practice guidance for Arizona state agencies in developing these types of performance measures (see textbox, page 9).<sup>5</sup>

In addition, OSPB specifies that performance measures should be clear, specific, and measurable. Further, according to applicable literature, performance measures included in contracts should reflect critical program goals, be attainable, and include only those factors that the contractor can truly influence.<sup>6</sup> Additionally, performance measure selection should be based on a realistic

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<sup>1</sup> Flaherty, Collins-Carmago, & Lee, 2008b; Quality Improvement Center on the Privatization of Child Welfare Services, 2006; U.S. Department of Health and Human Services, 2008a; and U.S. Department of Health and Human Services, 2007

<sup>2</sup> Flaherty, Collins-Carmago, & Lee, 2008a; Flaherty, Collins-Carmago, & Lee, 2008b; and Quality Improvement Center on the Privatization of Child Welfare Services, 2006

<sup>3</sup> State of Arizona, 2011 and State of Washington, 2009

<sup>4</sup> State of Arizona, 2011 and State of Washington, 2009

<sup>5</sup> State of Arizona, 2011

<sup>6</sup> Flaherty, Collins-Carmago, & Lee, 2008b and U.S. Department of Health and Human Services, 2007

assessment of what can be achieved given the target population, the scope of the services, and the funding available. Finally, selecting the right set of measures is important because gathering and analyzing performance-measurement data is resource-intensive.

Although the Department's existing foster home contracts include performance measures, shortcomings prevent these measures from helping the Department ensure that the program goals are reached or that contractors provide adequate service. Specifically:

- **Performance measures do not adequately measure retention**—The performance measures do not adequately measure at least one of the contracts' stated purposes: retention of foster parents. Although the contracts include one measure—the percentage of foster homes who feel supported—related to the quality of retention services, they do not include other measures that might be more meaningful to management. Additional measures could include the number of foster parents retained or the length of time that they are retained.
- **Performance measures not adequately defined**—At least some of the performance measures included in the contracts are not adequately defined. In fact, both department staff and contractors indicated that some performance measure language is vague, which may lead to different interpretations of what the measures require or what needs to be measured. For example, one contract performance measure, which may aim to measure the appropriateness of placements, encourages placing children within their own neighborhood. However, there is no definition for a "neighborhood." It is unclear whether a child's neighborhood is determined based on zip codes, school districts, counties, or some other characteristic.

Department has not developed contract-monitoring practices that focus on performance measures—Effective contract monitoring helps to ensure the quality of contracted services and the contractor's compliance with the contract's terms, conditions, and requirements.<sup>1</sup> Best practice guidance from the U.S. Department of Health and Human Services and other literature auditors reviewed indicate that the contract-monitoring activities, including specific contractor and public agency responsibilities, should be detailed in both the contracting agency's policies and procedures and in the contract itself.<sup>2</sup> These monitoring responsibilities should include a description of how performance-measurement data will be gathered, analyzed, and shared. For example, when Texas issued its request for proposal for potential contractors in 2013 for foster care-related services, it specified in the request for proposal each performance measure that would be included in the contract, including what data would be used, what systems this data would be collected from, and the method through which a measure would be evaluated (see textbox, page 10).

## Types of performance measures

**Input measures**—Measure the amount of resources needed to provide products or services.

**Outcome measures**—Measure the benefits or impacts associated with a program or service.

**Output measures**—Measure the number of delivered units of a service or a product.

**Efficiency measures**—Measure productivity and cost effectiveness of operations.

**Quality measures**—Measure whether expectations have been met. Performance-measurement data might be expressed through a lack of quality, such as low course ratings or customer complaints.

Source: State of Arizona, 2011

<sup>1</sup> Flaherty, Collins-Carmargo, & Lee, 2008a

<sup>2</sup> U.S. Department of Health and Human Services, 2008b

## Texas performance measurement for placement stability:

Outcome: Children/youth have stability in their placement.

- Indicator: Percent of children/youth with no placement changes in the previous 12 months.
- Target: Percentage based on a defined geographic area average for a defined period.
- Purpose: To evaluate the entity's ability to minimize placement changes.
- Data Source: Information Management Protecting Adults and Children in Texas information management system
- Methodology: The numerator is the number of children/youth who have not had a placement change in the prior 12 months, as stated in the data source. The denominator is the number of children/youth who were placed, as stated in the data source. Divide the numerator by the denominator. Multiply by 100 and state as a percentage.

Source: Auditor General staff review of the Texas Health and Human Services Commission's 2013 request for proposals for foster care-related services, RFP No. 530-13-0070 FCR.

Further, best practice guidance from the U.S. Department of Health and Human Services indicates that contract monitoring for performance-based contracts should focus on determining whether the contractors are attaining the desired level of performance based on specified performance measures.<sup>1</sup> By specifically targeting the achievement of program goals through performance measures, contracting agencies can assess whether contractors are meeting the program goals and more effectively identify the need for adjustments or performance improvements. For example, Iowa uses the performance-measurement data collected through its contract-monitoring procedures to assess whether contractor performance has fallen below a specific benchmark. If there are programmatic deficiencies, the public agency will work with the contractor to identify any barriers that may be causing low performance and develop a performance improvement plan to address the issues.

Although the Department performs some general monitoring activities for its contracts, such as ensuring payments to contractors that comply with contract payment requirements, its efforts do not address the critical elements for effectively monitoring a performance-based contract. Specifically:

- **Department lacks policies and procedures for monitoring performance measures**—The Department has not developed formal policies and procedures for monitoring the performance measures in its contracts. Although the Department provides a list of required reports and other deliverables, the contracts do not address how the Department will monitor performance. Without formal policies and procedures or guidance contained within the contract, the Department cannot ensure that department staff appropriately monitor contractors' performance, or that contractors are aware of how their performance will be assessed. Further, the Department has not standardized the use of forms or templates to help ensure consistent and accurate reporting of performance-measurement data, and department staff indicated that contractors report data inconsistently.
- **Performance-measurement data not assessed**—Because of the issues with the performance measures discussed previously (see pages 8 through 9) and the lack of monitoring policies and procedures, department staff indicated that they do not use performance-measurement data to assess contractor performance or to provide any meaningful feedback to contractors. In fact, department staff indicated that they will review the required reports containing performance-measurement data only to ensure that they have been completed and filled out as required by the contract, but that no real assessment of the performance-measurement data takes place.

<sup>1</sup> U.S. Department of Health and Human Services, 2008b

## Department contracts are not adequately designed to incentivize performance—

Based on auditors' review of applicable literature, effective performance-based contracts must incorporate an incentive structure that rewards or sanctions the contractor based on performance.<sup>1</sup> These rewards or sanctions, typically implemented as financial incentives, are critical for helping to ensure that contractors perform at the desired level (see textbox).<sup>2</sup> When selecting the particular performance measures to incentivize, contracting agencies should focus on those areas that are essential to the contract or need improvement. For example, Iowa incentivizes performance with regard to the number of minority licensed foster parents who are recruited and retained because the state wishes to increase the number of families who reflect the racial and ethnic diversity of children in care. However, a contracting agency should be careful to avoid creating an incentive structure that promotes one goal or outcome at the expense of another. For example, a performance measure that provides an incentive payment for placing a foster child within the same zip code could potentially conflict with a performance measure that encourages the placement of children as an intact sibling group, depending on the availability of beds.

**Rewards**—Can include continuation of the contract in situations in which there is a credible threat of termination, or bonus pay associated with specific performance measures or contract milestones.

**Sanctions**—Can include termination of the contract, financial sanctions, or exclusion from receiving future contracts.

Source: Loevinsohn, 2008

Although the Department's contracts provide for potential rewards to contractors that meet performance measures, the contracts are not adequately designed to incentivize performance. Specifically:

- Under the current incentive structure and performance measures, no contractors have ever received an incentive payment.
- The incentives are not targeted to specific performance measures or goals. As indicated in the existing contracts, contractors can receive an extra 2 to 5 percent of their contract dollars as performance incentive payments for meeting 12 or more of the contracts' 16 performance measures. However, by collectively incentivizing the performance measures, the contract does not emphasize any specific area for improvement, and some performance measures may be ignored altogether.
- The contracts do not include sanctions, which literature indicates can also have a strong effect on contractor performance, similar to rewards.<sup>3</sup>

<sup>1</sup> Smith & Grinker, 2004

<sup>2</sup> Loevinsohn, 2008

<sup>3</sup> Fernandez, 2007

## Department should address contracting deficiencies through collaborative planning

Collaborative planning with relevant stakeholders would help the Department to address its performance-based contracting deficiencies. Prior to this report, department staff had begun identifying and developing potential changes to its foster home recruitment contracts in preparation for rebidding the contracts. The Department indicated they had contacted some stakeholders, including contractors, for input, although some contractors that auditors spoke with indicated that they would also like to provide input on the new contracts, but that the Department had not yet solicited their input. In addition, the Department had contacted other states to obtain input on their respective foster care-related contracts. The Department subsequently decided to postpone making any changes to its contracts and instead extended the existing contracts through August 2014 in order to consider auditors' recommendations in planning and developing the new contracts.

Literature auditors reviewed indicates that planning is fundamental to a successful contracting process and should include all relevant stakeholders.<sup>1</sup> The planning process includes establishing program goals and determining the need for contracted services, including what services will be delivered, to whom, and when. For performance-based contracting, the planning process should determine any performance standards, performance measures, and outcomes against which the performance of the contractor will be assessed. The details and guidance for conducting contract monitoring and developing an appropriate incentive structure, including rewards and sanctions, should also take place during the planning process. Collaboration with stakeholders is critical for effective contract planning, particularly for performance-based contracts, because it fosters stronger public-private partnerships, helps ensure consensus is reached on goals and expectations, and leads to clear, fair, and enforceable contracts that are focused on outcomes. These stakeholders could include the public agency, private contractors, child welfare advocacy groups, the courts, and foster families (see textbox, page 13, for examples of collaborative planning efforts in other states).

Therefore, the Department should use a collaborative planning process in revising its foster home recruitment and retention services contracts. Through this process, the Department should address the performance-based contracting deficiencies discussed previously. Specifically, the Department should:

- Develop a process to work with all appropriate stakeholders to solicit, document, and consider input for the development of its new foster home recruitment-related services contracts. For example, the Department could do this through a request for information or public meetings.<sup>2</sup> In addition, the Department should communicate to all the stakeholders how they can participate in the process.

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<sup>1</sup> Flaherty, Collins-Camargo, & Lee, 2008a; Flaherty, Collins-Camargo, & Lee, 2008b; Poertner, Moore, & McDonald, 2008; Quality Improvement Center on the Privatization of Child Welfare Services, 2006; U.S. Department of Health and Human Services, 2008b; and U.S. Department of Health and Human Services, 2007

<sup>2</sup> A request for information includes all documents issued to vendors for the purpose of obtaining their services or materials available to meet a specific agency need.

## State examples of collaborative planning

**Texas**—In 2010, the Texas Department of Family and Protective Services established a formal partnership with 26 stakeholders to redesign its performance-based contract for foster-care-related services. These stakeholders included child welfare advocacy groups, foster families, foster youth alumni, courts, contractor associations, and contractors. Stakeholder input was collected through various presentations, meetings, surveys, and a public forum. Additionally, a Web page and mailbox were developed specifically for the redesign initiative. Information on the status of the initiative was updated regularly on the Web page, and the mailbox allowed for all stakeholders to submit questions, comments, and input. A request for information, which was intended to gather input on the contract's redesign and implementation strategies from contractors, was also posted on the Web page. In a period of 11 months, stakeholders participated in approximately 150 presentations, meetings, workgroups, or focus groups. Through this partnership, the Texas Department identified the specific types of needed services, determined the outcomes and performance measures, and developed a payment and incentive plan. The information gathered through this process was used to create a request for proposal that was issued in July 2013.

**Missouri**—In 2011, Missouri's Department of Social Services created a task force whose purpose was to review the recruitment, licensing, and retention of foster and adoptive families state-wide and develop recommendations to recreate their contracts. Members of the task force included the foster case management community, child welfare advocacy groups, the state advisory board on foster care and adoptive care, the subcontractor community, the faith-based community, contractor associations, foster care families, and state staff. The task force met five times within a 3-month period. Its work sessions included presentations from task force members and disseminating related laws, regulations, policies, and data. Through these work sessions, the task force identified service areas needing improvement, analyzed data, developed a list of performance measures, and identified best practices and approaches to leverage resources. Missouri used this information as the foundation to create their request for proposal that was issued in June 2013.

Source: Auditor General staff summary of reports issued in 2011 by the Texas Department of Family and Protective Services and the Missouri Department of Social Services Task Force on Recruitment, Licensing, and Retention of Foster Care and Adoptive Homes, and an interview with a Missouri Department of Social Services official (see Appendix B, pages b-1 through b-2, for bibliography).

- Select only those performance measures that are critical to and reflective of the contracts' goals. Based on auditors' review of literature and according to a contracting expert auditors interviewed, performance measures should be tailored to meet an entity's specific program goals and should not simply be adopted from other entities or states.<sup>1</sup> Therefore, performance measures should vary from one program to another, depending on the particular program's goals and contracting needs. However, as a reference for developing its own performance measures, the Department may find it helpful to review a list of foster care recruitment and retention performance indicators compiled by auditors (see Appendix A, pages a-1 through a-2).
- Ensure that the performance measures it includes in the new contracts are clearly defined, including definitions for key terms or requirements. As part of defining the measurement requirements, the Department should also include guidelines for reporting data, such as developing and requiring the use of templates or other standardized reporting forms.
- Ensure that realistic performance measures are established by using data that indicates how well the contract goals are currently being met and the contractors' ability to meet the identified

<sup>1</sup> Flaherty, Collins-Carmago, & Lee, 2008b and U.S. Department of Health and Human Services, 2007

goals. The Department should include only those performance measures over which the contractor has control.

- Develop formal policies and procedures for monitoring the contract that specify roles and responsibilities for both department and contractor staff. These should include policies and procedures for collecting, analyzing, and sharing performance-measurement data in order to monitor contractor performance. The Department should also specify these policies and procedures in the contract.
- Revise its incentive structure to focus on specific measures where improved performance is needed or that are critical to agency goals. The Department should consider incentivizing performance measures independently rather than collectively, as well as including sanctions as part of the incentive structure to discourage poor performance.

## Planning resources available to assist Department

Although effective contract planning will require an investment of agency resources and time, external resources are available that may facilitate the Department's planning process. For example, department staff may find it helpful to read the contracting literature that auditors reviewed as part of the audit (see Appendix B, pages b-1 through b-2). In addition, the Department should continue contacting other states about their experiences with developing performance-based contracts for foster care services, and should consider contracting experts or consultants, as appropriate. For example, the Chapin Hall Center for State Child Welfare Data provides paid assistance to child welfare agencies for developing quality improvement systems for performance measurement of child welfare outcomes.

## Recommendations:

1. The Department should engage in a collaborative planning process with relevant stakeholders, including contractors, to improve its performance-based contracting for its foster home recruitment-related services contracts. Through this process, the Department should:
  - a. Develop a process to work with all appropriate stakeholders to solicit, document, and consider input for the development of the new contracts. In addition, the Department should communicate to all the stakeholders how they can participate in the process.
  - b. Select only those performance measures that are critical to and reflective of the goals of the contracts.
  - c. Ensure that the performance measures it includes are clearly defined in the contracts, including definitions for key terms or requirements. As part of defining the measurement

requirements, the Department should also include guidelines for reporting data, such as using templates or other standardized reporting forms.

- d. Set realistic performance measures for contractors by using data indicating how well the contract goals are currently being met and the contractors' ability to meet the identified goals, and include only those performance measures over which the contractors' have control.
  - e. Develop formal policies and procedures for monitoring the contracts that specify roles and responsibilities for both department and contractor staff, including policies and procedures for collecting, analyzing, and sharing performance-measurement data in order to monitor contractor performance. The Department should also specify these monitoring practices in the contracts.
  - f. Modify its incentive structure to focus on specific measures where improved performance is needed or that are critical to agency goals in order to help ensure that contractors meet critical performance expectations. In addition, the Department should consider incentivizing performance measures independently rather than collectively and including sanctions as part of the incentive structure to discourage poor performance.
2. As part of the planning process, the Department should continue contacting other states about their experiences with developing performance-based contracts for foster care services, and should consider contacting experts or consultants for assistance, as appropriate.

## APPENDIX A

# Key indicators that can be used to develop performance measures

This appendix lists various performance indicators in key practice areas that could be further developed into performance measures. Auditors identified these indicators by reviewing literature on foster care and child welfare.<sup>1</sup> However, this list is not exhaustive, and the Arizona Department of Economic Security should ultimately determine what areas to focus on through the contract-planning process. As discussed in the report (see pages 8 through 9), the roles and responsibilities of the private contractor and the agency should be considered during the development of performance measures to ensure the measures are clear, defined, and attainable.

### Recruitment of foster parents:

- Increase in foster parents with racial, cultural, ethnic, and religious backgrounds that are similar to those of children who need placement;
- Increase in placements in or near the child's community;
- Increase in placements with siblings; and
- Increase in placements with foster parents who can meet specific needs, such as for medically fragile children or children with developmental disabilities.

### Engagement and timely licensure of qualified parents:

- Percentage of initial inquiries with timely followup, such as an increase in the number of information packets mailed to prospective families within 1 business day;
- Percentage of applicants who receive a timely invitation to an orientation or attended an orientation within a specific time frame after initial inquiry;
- Increase/decrease in the number of applicants who complete/do not complete pre-service training within a specific time frame;
- Increase in the number of timely or expedited home studies;
- Percentage of applicants who indicate they were treated respectfully and provided with culturally sensitive materials and training;
- Percentage of applicants who indicate they had adequate assistance to navigate the licensure process; and
- Increase in the number of foster parents who indicate that had received accurate information about the children in need of placement and their families.

<sup>1</sup> Casey Family Programs, 2005; Goodman & Steinfeld, 2012; and U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, 2005

**Retention of foster parents:**

- Decrease in the number of parents who stop fostering;
- Decrease in the number of foster homes that did not receive a placement within a defined period of time after licensure;
- Decrease in foster homes that are willing and available for placements, but not being utilized;
- Increase in the number of foster parents who indicate they are respected and supported;
- Increase in foster parent satisfaction with array of available services; and
- Percentage of children and birth families who received support or services to prepare them for placement and transition.

**Child well-being:**

- Decrease in the number of moves during placement;
- Increase in the number of children who had regular contact with birth families or birth parents;
- Increase in the number of foster families who were involved in the initial and ongoing development plan for a child in their care; and
- Increase in the number of times when the foster parents, birth family, and agency met and planned for the child's well-being.

## APPENDIX B

This appendix lists the performance-based contracting information sources auditors reviewed. Information sources include best practice guidance developed by the federal government and child welfare organizations, state best practice manuals, and published reports and articles.

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## APPENDIX C

### Methodology

This appendix provides information on the methods auditors used to meet the report objectives. The Auditor General and staff express appreciation to the Arizona Department of Economic Security (Department) Director and staff for their cooperation and assistance throughout the engagement.

Auditors used the following methods to meet the objectives:

- Auditors interviewed department officials and staff and reviewed the foster home recruitment-related services contract template, applicable policies and procedures, department reports, and other information from the Department's Web site.
- Auditors obtained and analyzed financial expenditure information regarding the foster home recruitment-related services contracts from the Department's Financial Management Control System and Children's Information Library and Data Source *Report 87* for fiscal years 2010 through 2012.
- Auditors reviewed literature on the privatization of child welfare services and effective contracting practices, including performance-based contracting (see Appendix B, pages b-1 through b-2). Research on this literature was compared to the Department's foster home recruitment services contracts and related policies and procedures. In addition, auditors contacted experts at Chapin Hall University and the National Quality Improvement Center of Privatization of Child Welfare Services to obtain information related to performance-based contracting.
- Through the literature, auditors identified other states employing performance-based contracting for various child welfare services and reviewed contracts or requests for proposal where available (Idaho, Iowa, Kansas, Missouri, Tennessee, and Texas). Auditors also interviewed representatives from child welfare agencies in six states (Idaho, Iowa, Kansas, Missouri, New Mexico, and Tennessee) regarding their contracting practices. In addition, auditors reviewed quality-improvement reports specific to child welfare contracts in three states (Texas, Florida, and Illinois).
- Auditors interviewed seven contracted agencies and five foster parents regarding the foster home recruitment-related services contracts.

# AGENCY RESPONSE

AGENCY RESPONSE



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DEPARTMENT OF ECONOMIC SECURITY

*Your Partner For A Stronger Arizona*

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Janice K. Brewer  
Governor

Clarence H. Carter  
Director

OCT 09 2013

Debra K. Davenport  
Auditor General  
2910 North 44th Street, Suite 410  
Phoenix, Arizona 85018

Dear Ms. Davenport:

The Arizona Department of Economic Security appreciates the opportunity to provide this response to the Auditor General's report on the Foster Care Home Recruitment and Retention Services (HRSS) Contract.

The Department appreciates the collaborative effort of the Auditor General's staff throughout this audit. In general, the information presented is constructive in helping the Department develop stronger performance-based contracts for services.

The report notes that the Department does not gather enough data to measure outcomes for children placed utilizing the HRSS contracts. The Department agrees that strengthening the collection of data surrounding the specific performance of individual contractors would be beneficial. However, it is important to note that significant data measuring specified outcomes for children currently occurs throughout the child welfare system.

In fact, the latest reports by the Administration for Children & Families, a division of the U.S. Department of Health & Human Services, demonstrate that the care provided to Arizona's foster children excels in several key areas.

Arizona ranks seventh best in the nation for the absence of abuse or maltreatment in foster care,<sup>1</sup> and twelfth in placement stability of children while in foster care.<sup>2</sup> The high marks Arizona has earned are a result of the foster home care licensing, training, and retention practices currently in

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<sup>1</sup> Child Maltreatment 2011

<sup>2</sup> Child Welfare Outcomes 2008–2011: Report to Congress

place. The Department looks forward to achieving even more for Arizona's children through enhancements to the Foster Care Home Recruitment and Retention Services Contract.

The auditors identified two areas for improvement which the Department should address in contracting for foster home recruitment related services. Specifically:

1. The Department should engage in a collaborative planning process with relevant stakeholders, including contractors, to improve its performance-based contracting for its foster home recruitment-related services contracts. Through this process, the Department should:
  - a) Develop a process to work with all appropriate stakeholders to solicit, document, and consider input for the development of the new contracts. In addition, the Department should communicate to all the stakeholders how they can participate in the process.
  - b) Select only those performance measures that are critical to and reflective of the goals of the contracts.
  - c) Ensure that the performance measures it includes are clearly defined in the contracts, including definitions for key terms or requirements. As part of defining the measurement requirements, the Department should also include guidelines for reporting data, such as using templates or other standardized reporting forms.
  - d) Set realistic performance measures for contractors by using data indicating how well the contract goals are currently being met and the contractors' ability to meet the identified goals, and include only those performance measures over which the contractors' have control.
  - e) Develop formal policies and procedures for monitoring the contracts that specify roles and responsibilities for both department and contractor staff, including policies and procedures for collecting, analyzing, and sharing performance-measurement data in order to monitor contractor performance. The Department should also specify these monitoring practices in the contracts.
  - f) Modify its incentive structure to focus on specific measures where improved performance is needed or that are critical to agency goals in order to help ensure that contractors meet critical performance expectations. In addition, the Department should consider incentivizing performance measures independently rather than collectively and including sanctions as part of the incentive structure to discourage poor performance.

Response:

The finding of the Auditor General is agreed to and the recommendation will be implemented.

Comment:

As noted by the Auditor General, prior to this audit the Department began engaging stakeholders to gather information to inform future HRSS solicitations. This process, including soliciting recommendations for outcomes, began in 2009, and continues. As an example, the Department currently conducts quarterly meetings, which are open to all HRSS contractors in every region the Department serves. These regularly held meetings provide contractors with a valuable opportunity to deliver feedback.

The Department will continue seeking opportunities for input, working in conjunction with our Office of Procurement to ensure our methods are appropriate, and fair to all interested parties. The Department appreciates that all references used in the construction of this audit have been made available by the Auditor General. The Department will utilize those references and evaluate the recommended contractor performance measures.

At the same time, the Department must recognize that children removed from their homes face varied circumstances. As a result, the Department must ensure contractor incentive systems are able to address a wide range of needs in order to obtain the best outcome for children with more unique circumstances. The Department will rigorously evaluate all options.

2. As part of the planning process, the Department should continue contacting other states about their experiences with developing performance-based contracts for foster care services, and should consider contacting experts or consultants for assistance, as appropriate.

Response:

The finding of the Auditor General is agreed to and the recommendation will be implemented.

Comment:

As noted by the Auditor General, prior to this report the Department began the research to revise and rebid its Foster Care Home Recruitment and Retention Services Contracts. The Department contacted several jurisdictions including, Kansas, Washington, and Philadelphia to solicit their experiences.

Ms. Debra Davenport  
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We will continue to solicit input from other states and experts in the field to ensure that best practices are integrated within our contracts and costs are minimized.

Thank you again for the opportunity to respond. We value the time, effort, and diligence of the Auditor General's staff in producing this report.

Sincerely,

Clarence H. Carter  
Director

## CPS Reports Issued

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### Performance Audits

<b>CPS-0501</b>	CHILDS Data Integrity Process	<b>CPS-0701</b>	Prevention Programs
<b>CPS-0502</b>	Timeliness and Thoroughness of Investigations	<b>CPS-0801</b>	Complaint Management Process
<b>CPS-0601</b>	On-the-Job Training and Continuing Education	<b>CPS-0901</b>	Congregate Care
		<b>CPS-0902</b>	Relative Placement
		<b>CPS-1101</b>	Contractor Payments
		<b>CPS-1201</b>	In-Home Services Program

### Questions and Answers

<b>QA-0601</b>	Substance-Exposed Newborns	<b>QA-0801</b>	Child and Family Advocacy Centers
<b>QA-0701</b>	Child Abuse Hotline	<b>QA-0802</b>	Processes for Evaluating and Addressing CPS Employee Performance and Behavior
<b>QA-0702</b>	Confidentiality of CPS Information	<b>QA-0901</b>	Adoption Program
<b>QA-0703</b>	Licensed Family Foster Homes	<b>QA-1001</b>	CPS Central Registry

### Information Briefs

<b>IB-0401</b>	DES' Federal IV-E Waiver Demonstration Project Proposal	<b>IB-601</b>	In-Home Services Program
<b>IB-0501</b>	Family Foster Homes and Placements	<b>IB-0701</b>	Federal Deficit Reduction Act of 2005
<b>IB-0502</b>	Revenue Maximization	<b>IB-0702</b>	Federal Grant Monies
		<b>IB-0801</b>	Child Removal Process
		<b>IB-0901</b>	CPS Client Characteristics

