

STATE OF MICHIGAN
 DEPARTMENT OF TECHNOLOGY, MANAGEMENT & BUDGET
 PROCUREMENT

525 W. ALLEGAN STREET
 LANSING, MI 48933

P.O. BOX 30026
 LANSING, MI 48909

CHANGE NOTICE NO. 5
 to
 CONTRACT NO. 271B3200005
 between
 THE STATE OF MICHIGAN
 and

NAME & ADDRESS OF CONTRACTOR	PRIMARY CONTACT	EMAIL
O'Keefe & Associates Consulting, LLC 2 Lone Pine Road Bloomfield Hills, MI 48304	Patrick O'Keefe	pokeefe@okeeffellc.com
	PHONE	CONTRACTOR'S TAX ID NO. (LAST FOUR DIGITS ONLY)
	248-593-4810	4648

STATE CONTACTS	AGENCY	NAME	PHONE	EMAIL
PROGRAM MANAGER / CCI	Treasury	Randall Byrne		ByrneR1@michigan.gov
CONTRACT ADMINISTRATOR	Treasury	Julie Collins	517-636-6817	CollinsJ17@michigan.gov

CONTRACT SUMMARY			
DESCRIPTION: Restructuring and Transformation and Emergency Manager Services (Financial Review and Accounting, Benefits Management, Labor Management and Restructuring Options – Pre-Qualification – Department of Treasury and MIDEAL).			
INITIAL EFFECTIVE DATE	INITIAL EXPIRATION DATE	INITIAL AVAILABLE OPTIONS	EXPIRATION DATE BEFORE CHANGE(S) NOTED BELOW
January 18, 2012	January 17, 2015	2, 1 – Year Options	January 17, 2016
PAYMENT TERMS		DELIVERY TIMEFRAME	
5NET 10 and NET45		N/A	
ALTERNATE PAYMENT OPTIONS			EXTENDED PURCHASING
<input type="checkbox"/> P-card <input type="checkbox"/> Direct Voucher (DV) <input type="checkbox"/> Other			<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
MINIMUM DELIVERY REQUIREMENTS			
N/A			

DESCRIPTION OF CHANGE NOTICE				
EXERCISE OPTION?	LENGTH OF OPTION	EXERCISE EXTENSION?	LENGTH OF EXTENSION	REVISED EXP. DATE
<input checked="" type="checkbox"/>	1 Year	<input type="checkbox"/>		January 17, 2017
CURRENT VALUE		VALUE OF CHANGE NOTICE	ESTIMATED AGGREGATE CONTRACT VALUE	
\$94,250.00		\$0.00	\$94,250.00	
DESCRIPTION:				
1. Renew Contract for one (1) year per section 2.002. 2. Change Primary Contact to Patrick O'Keefe.				

STATE OF MICHIGAN
 DEPARTMENT OF TECHNOLOGY, MANAGEMENT AND BUDGET
 PROCUREMENT
 P.O. BOX 30026, LANSING, MI 48909
 OR
 525 W. ALLEGAN, LANSING, MI 48933

CHANGE NOTICE NO. 4
 to
CONTRACT NO. 271B3200005
 between
THE STATE OF MICHIGAN
 and

NAME & ADDRESS OF CONTRACTOR:	PRIMARY CONTACT	EMAIL
O'Keefe & Associates Consulting, LLC 2 Lone Pine Road Bloomfield Hills, MI 48304	Brad Coulter	bcoulter@okeefeandassociates.com
	TELEPHONE	CONTRACTOR #, MAIL CODE
	(248) 593-4810	001

STATE CONTACTS	AGENCY	NAME	PHONE	EMAIL
CONTRACT COMPLIANCE INSPECTOR	Department of Treasury	Randall Byrne	517-335-2439	ByrneR1@michigan.gov
BUYER	Department of Treasury	Julie Collins	517-636-6817	CollinsJ17@michigan.gov

CONTRACT SUMMARY:			
DESCRIPTION: PROVIDE A BASIC BUT COMPREHENSIVE DESCRIPTION OF SERVICES Restructuring and Transformation and Emergency Manager Services (Financial Review and Accounting, Benefits Management, Labor Management and Restructuring Options – Pre-Qualification – Department of Treasury and MiDEAL).			
INITIAL EFFECTIVE DATE	INITIAL EXPIRATION DATE	INITIAL AVAILABLE OPTIONS	EXPIRATION DATE BEFORE CHANGE(S) NOTED BELOW
January 18, 2012	January 17, 2015	2, 1 – Year Options	January 17, 2015
PAYMENT TERMS	F.O.B	SHIPPED	SHIPPED FROM
5NET 10 and NET45	N/A	N/A	N/A
ALTERNATE PAYMENT OPTIONS:			AVAILABLE TO MiDEAL PARTICIPANTS
<input type="checkbox"/> P-card <input type="checkbox"/> Direct Voucher (DV) <input type="checkbox"/> Other			<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
MINIMUM DELIVERY REQUIREMENTS:			
N/A			

DESCRIPTION OF CHANGE NOTICE:				
EXTEND CONTRACT EXPIRATION DATE	EXERCISE CONTRACT OPTION YEAR(S)	EXTENSION BEYOND CONTRACT OPTION YEARS	LENGTH OF OPTION/EXTENSION	EXPIRATION DATE AFTER CHANGE
<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes	<input checked="" type="checkbox"/>	<input type="checkbox"/>	1 Year	January 17, 2016
VALUE/COST OF CHANGE NOTICE:		ESTIMATED REVISED AGGREGATE CONTRACT VALUE:		
\$0.00		\$94,250.00		

Effective immediately this Contract is hereby AMENDED as follows:

1. Renew Contract for one (1) year per section 2.002.
2. Change Contract Compliance Inspector to Randall Byrne.

STATE OF MICHIGAN
 DEPARTMENT OF TREASURY
 PURCHASING
 430 W. ALLEGAN, LANSING, MI 48922

CHANGE NOTICE NO. 3 (Revised from No. 1)

to

CONTRACT NO. 271B3200005

between

THE STATE OF MICHIGAN

and

NAME & ADDRESS OF CONTRACTOR:	PRIMARY CONTACT	EMAIL
O'Keefe & Associates Consulting, LLC 2 Lone Pine Road Bloomfield Hills, MI 48304	Brad Coulter	bcoulter@okefellc.com
	TELEPHONE	CONTRACTOR #, MAIL CODE
	248-593-4810	001

STATE CONTACTS	AGENCY	NAME	PHONE	EMAIL
CONTRACT COMPLIANCE INSPECTOR:	Department of Treasury	Mathieu Dube	517-241-3581	DubeM@michigan.gov
BUYER:	Department of Treasury	Julie Collins	517-335-4760	CollinsJ17@michigan.gov

CONTRACT SUMMARY:

DESCRIPTION: Municipal Management Services (Financial Accounting, Benefits Management, Labor Management and Operations Management) – Pre-Qualification – Department of Treasury and MiDEAL

INITIAL EFFECTIVE DATE	INITIAL EXPIRATION DATE	AVAILABLE OPTIONS	CURRENT EXPIRATION DATE
January 18, 2012	January 17	2, 1-Year Options	January 17, 2015
PAYMENT TERMS	F.O.B	SHIPPED	SHIPPED FROM
5NET10, NET45	N/A	N/A	N/A

ALTERNATE PAYMENT OPTIONS:	AVAILABLE TO MiDEAL PARTICIPANTS
<input type="checkbox"/> P-card <input type="checkbox"/> Direct Voucher (DV) <input type="checkbox"/> Other	<input checked="" type="checkbox"/> YES <input type="checkbox"/> NO

MINIMUM DELIVERY REQUIREMENTS:
N/A

DESCRIPTION OF CHANGE NOTICE:

OPTION EXERCISED:	IF YES, EFFECTIVE DATE OF CHANGE:	NEW EXPIRATION DATE:
<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES		

Effective immediately this Contract is hereby AMENDED as follows:

- Add services per the attached Statement of Work (SOW) #271Q4301 received December 19, 2013.**

All other terms, conditions, specifications and pricing remain unchanged.

VALUE/COST OF CHANGE NOTICE:	\$36,400.00
ESTIMATED REVISED AGGREGATE CONTRACT VALUE:	\$94,250.00

FOR THE CONTRACTOR:

O'Keefe & Associates, LLC

Firm Name

Authorized Agent Signature

Authorized Agent (Print or Type)

Date

FOR THE STATE:

Signature

Thomas Falik/Manager

Name/Title

Department of Treasury

Enter Name of Agency

1-13-14

Date

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Attachment A, Pricing

Exhibits

- 1 Sample Project Plan

Article 1 – Statement of Work (SOW)

1.010 Project Identification

1.011 Project Request

This is a Contract amendment for a financial accounting services engagement. The purpose of the engagement is to provide a projection of cash flows and a five year budget forecast for the City of Lincoln Park (City).

1.012 Background

The City of Lincoln Park lies within Wayne County and is approximately 5.89 square miles in size. According to the 2010 Census, the City is home to 38,144 residents. The City is bordered by the cities of Allen Park, Detroit, Ecorse, Melvindale, Southgate and Wyandotte and it developed primarily as a bedroom community for the automotive industry. The area that became Lincoln Park was originally home to the Potawatomi Indians, but lands were ceded to French settlers in 1776. The original plats of the city were laid in 1906 from portions of Ecorse Township. The community was incorporated as a village in 1921 and incorporated as a city in 1925.

The Department of Treasury (Treasury) is charged with monitoring, oversight and provision of assistance to local units of government under various statutes, including but not limited to, the Home Rule City Act (Act 279 of 1909), the Uniform Budgeting and Accounting Act (Act 2 of 1968), the Glenn Steil State Revenue Sharing Act (Act 140 of 1971), and the Local Financial Stability and Choice Act (Act 436 of 2013). In providing such monitoring and assistance to local units of government, Treasury strives to preserve the capacity of local units to provide those services essential to the public health, safety and welfare of the citizens of the State.

Treasury believes it is in the best interest of the State to assess the current financial position of the City and determine their ability to provide essential services in the future. This SOW is to provide Treasury with a better understanding of Lincoln Park's financial status and its probable ability to make future payments and meet budgetary legal requirements.

1.020 Scope of Work and Deliverables

1.021 In Scope

A financial accounting services engagement for Treasury is needed as soon as possible to ascertain the ability of the City to have sufficient cash, projected cash flows, and a balanced structural financial basis, five year budget forecast.

Engagements require a report provided to Treasury no later than 30 days after award or assignment. The Contractor will draft a two year cash flow forecast and a five year budget forecast for the City. The Contractor will, as part of the report, highlight any areas of possible shortfall in either future cash flows or future budgets. Contractor will analyze trends in property tax revenue, OPEB expense and pension contributions for developing the forecast. Future savings from the new Firefighter union contract will be incorporated into the forecast. Operating losses in the Water and Sewer Fund will also be examined for effectiveness of billing and collection, plus rates charged to customers. Contractor will utilize the City's recent budget and five year plan as part of the analysis

1.022 Work and Deliverable

Contractor must provide Deliverables/Services and staff, and otherwise do all things necessary for or incidental to the performance of work, as set forth below:

1. The Contractor must provide a single report within 30 days of Contract award or assignment that provides a two year cash flow forecast and a five year budget forecast with any notations as to possible areas of concerns.

- a. The report will include forecasted cash flows for fiscal years ended June 30, 2014 and 2015.

Contractor will prepare a two year cash forecast by month.

- b. The forecasted cash flows portion of the report will provide forecasted cash flows in the same format as the City's Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances.

- (1) Instead of fund balance the report must provide beginning and ending cash positions.

- c. The forecasted cash flows portion of the report must include the General Fund, any major funds (the Contractor can use the major funds identified in the June 30, 2012 CAFR for the City), and non-major governmental funds (either combined or individually at the Contractor's discretion).

Contractor will analyze accounting records, bank statements, and other records, along with meeting appropriate staff, to verify the beginning balances used in the forecast. This analysis will not constitute a formal audit of the various Fund cash positions but will utilize the cash balances

determined using the best available data at hand for each of the Funds.

d. The forecast must also include each enterprise fund separately including any governmental activities. These funds should be presented in the same format as the City's Proprietary Funds Statement of Revenues, Expense, and Changes in Net Assets. Net assets should be replaced with beginning and ending cash positions.

If any Enterprise funds are determined to be minor and inconsequential to the overall analysis, Contractor will verify with Treasury before excluding any funds from the forecast.

e. The report must also contain a listing of significant assumptions used by the Contractor to develop the projected cash flows. Specifically required are any rates of increase or decrease in revenues, rates of increase or decrease in expenditures/expenses, and that any debt service activities are from the City actual debt service schedules. Any future planned debt issuances should be clearly noted.

f. The Contractor must verify that current and long-term liabilities are accounted for in the cash flow (accounts payable, unrecorded invoices, outstanding purchase orders, and accrued liabilities).

Contractor will review current accounts payable and long term liabilities as recorded, analyze the financial data for any unrecorded liabilities, work with Lincoln Park staff to uncover any unrecorded payables and liabilities, plus verify the balances owed with the major creditors. With retiree benefits taking up such a large and growing portion of the General Fund Budget, an analysis of future spending requirements will be conducted. Special attention will be paid to OPEB, pension contributions, employee compensated absences owed, debt service and future capital spending requirements.

g. Determine and include in the projections the repayment / payment of all liabilities as they would occur over the two years of the projections.

h. Verify that the aging of accounts payable does not exceed 120 days and that the aging of other liabilities is not excessive. In the report, identify the amount of payables in excess of 120 days.

Contractor will also analyze and identify unrecorded accounts payable and other liabilities, held checks which serve to reduce payables, determine the aging on these past due payments, and evaluate if amounts owed appear excessive or are within the normal course of business. Contractor will also look at purchase orders, contractual agreements for purchase of services and goods, and other future commitments for forecasting upcoming costs and liabilities.

2. The report will include a five year budget forecast for fiscal years ended June 30, 2014, 2015, 2016, 2017, and 2018.

a. The five year budget forecast portion of the report will provide the forecasted budget in the same format as the City's Governmental Funds Statement of Revenue, Expenditure, and Changes in Fund Balances from the City's CAFR.

b. The five year budget forecast portion of the report must include the General Fund, any major funds (the Contractor can use the major funds identified in the June 30, 2012 CAFR for the City, and non-major governmental funds (either combined or individually at the Contractor discretion).

If any Funds are determined to be inconsequential to the overall analysis, Contractor will verify with Treasury before excluding any funds from the forecast.

c. The five year budget forecast must also include each enterprise fund separately including any governmental activities. These funds should be presented in the same format as the City's Proprietary Funds Statement of Revenues, Expense, and Changes in Net Assets.

If any Enterprise funds are determined to be minor and inconsequential to the overall analysis, Contractor will verify with Treasury before excluding any funds from the forecast.

d. The report will also contain a listing of significant assumptions used by the Contractor to develop the five year budget forecast. Specifically required are any rates of increase or decrease in revenues, rates of increase or decrease in expenditures/expenses, and any debt service activities that are from the City's actual debt service schedules. Any future planned debt issuances should be clearly noted.

1.030 Roles and Responsibilities

1.031 Contractor Staff, Roles, and Responsibilities

1. Contractor staff who will be involved in the project follow:

A. Brad Coulter, O'Keefe – Project Lead

- B. Patrick O’Keefe – Managing Member
- C. Scott Smith
- D. Russell Long – Analyst.

- 2. Contractor must provide staff with experience with local units of government and school districts projects.
- 3. Contractor must identify any potential conflicts of interest in performing the services described in this SOW.
- 4. Specific work schedules for this project are Monday through Friday, 8:00 a.m. to 5:00 p.m. Eastern Time; however, possible night and weekend hours may be required.

1.032 State Staff, Roles, and Responsibilities

- 1. Contract Compliance Inspector (CCI): The State’s CCI provides oversight and monitoring of the selected Contractor’s adherence to the terms and conditions of this project and the Contract.
- 2. Project Manager: The State’s Project Manager will monitor the project activities.
- 3. Contractors are encouraged to make recommendations concerning the appropriate roles and responsibilities for State personnel in achieving an effective implementation of this project. In addition, work plans presented in the proposal (see section 1.041) should reflect estimated levels of effort for each level of personnel for Contractor personnel, including any contractual employees, and State personnel.

1.040 Project Plan

1.041 Project Plan Management

- 1. The Contractor will carry out this project under the direction and control of the CCI or designee.
- 2. Although there will be continuous liaison with the Contractor team, the CCI or designee will meet monthly as a minimum, or as requested by the CCI or designee, with the Contractor’s Project Manager for the purpose of reviewing progress and providing necessary guidance to the Contractor in solving problems which arise.
- 3. See Exhibit 1 for a sample project plan
- 4. Within five working days of purchase order award, the Contractor must submit to the CCI or designee for final approval a detailed project plan. This final project plan must be in agreement with the Contractor’s proposal and accepted by the State for Contract, and must include the following:
 - a. The Contractor’s project organizational structure.
 - b. The Contractor’s staffing table with names and title of personnel assigned to the project. This must be in agreement with staffing of accepted proposal. Necessary substitutions due to change of employment status and other unforeseen circumstances may only be made with prior approval of the State.
 - c. The project breakdown showing sub-projects, activities and tasks, and resources required and allocated to each (e.g., estimated levels of effort for each level of personnel for Contractor personnel, including any contractual employees, and State personnel).

1.042 Reports

The Contractor must submit written weekly summaries of the work accomplished during the reporting period and notification of any significant deviation from previously agreed-upon work plans.

1.050 Acceptance – Deleted – N/A

1.060 Proposal Pricing

1.061 Proposal Pricing

- 1. For authorized Services and Price List, see Attachment A (Price Proposal).
- 2. Contractor’s out-of-pocket expenses are not separately reimbursable by the State or local unit of government unless, on a case-by-case basis for unusual expenses, the State has agreed in advance and in writing to reimburse Contractor for the expense at the State’s current travel reimbursement rates. See www.michigan.gov/dtmb for current rates.
- 3. Invoicing and payment must occur per Contract Section 2.044.d.

1.070 Additional Requirements – Deleted – N/A

Attachment A, Price Proposal

The price per deliverable for the services in section 1.022 follows:	
Deliverable	Price
A. Two Year Cash Flow Report	\$30,000
B. Five Year Budget Forecast	\$6,400

The two year and five year forecasts are not mutually exclusive. Most of the work for the five year forecast is done when developing the two year forecast.

O'Keefe - City of Lincoln Park Initial Budget Estimate

	<u>Billed Rate/Hour</u>	<u>Hours</u>	<u>Estimate</u>
Brad Coulter	\$210	85	\$17,850
Scott Smith	\$210	50	\$10,500
Russell Long	\$210	30	\$6,300
Patrick O'Keefe	\$350	5	\$1,750
Total Not to Exceed		<u>170</u>	<u>\$36,400</u>

THIS PROPOSAL REMAINS VALID FOR 120 DAYS FROM DECEMBER 19, 2013

Estimates are based on the maximum hours required to complete similar size projects plus the uncertainty over quality of data, cooperation of staff, and other unknowns that occur when working on financially troubled situations. O'Keefe will work as efficiently as possible to keep the budget only to the necessary hours.

Exhibit 1 Sample Project Plan

O'Keefe - Proposed Timeline and Work Plan
City of Lincoln Park Cash Flow and Budget Projection

	Week			
	1	2	3	4
Cash Flow and Budget Projection - 30 Day Plan				
Project Initiation				
Coordinate with State Treasury Staff to Outline Expectations				
Introduction to City Leaders				
<i>Meet with Mayor, City Manager, Controller, other elected officials and city staff</i>				
<i>Establish which officials/staff will work with O'Keefe</i>				
<i>- Treasury, Clerk, DPW, Public Safety, Human Resources, etc.</i>				
Submit Initial Information Request				
<i>Give list of requested information to appropriate staff assisting on project</i>				
Develop and submit Detailed Work Plan to Treasury				
Determination of Liabilities, Cash and Fund Balances - All Funds				
Analyze Accounts Payable Balances for each Fund				
<i>Verify large balance payables with actual creditor</i>				
<i>Project Accounts Payable under normal business terms</i>				
Analyze Inter-Fund Balances and Accuracy				
<i>Analyze beginning cash and fund balances for each Fund</i>				
<i>Understand reasoning for transfers between Funds and repayment schedule</i>				
Analyze Other Liabilities and Required Spending				
<i>Review Debt balances and amortization schedules</i>				
<i>Deferred maintenance and Cap Ex for Street Lighting, Disposal System, Library, etc.</i>				
Identify other potential liabilities not reflected in accounting statements				
<i>OPEB, pension funding, deferred compensation, judgments or other looming liabilities</i>				
<i>Purchase orders outstanding, contracts, and other commitments</i>				
Analyze Sources of Revenue for General Fund				
Meet with Mayor, City Manager and City Departments - Treasury, Planning, Assessor, etc. to understand trends, issues and future concerns				
Property Taxes				
<i>Analyze real estate trends, projected taxable values and related revenue</i>				
<i>- Look at top 20% of commercial property tax generation and evaluate properties</i>				
<i>- Identify areas of over valuation or disputes that could affect future revenue</i>				
<i>- Analyze residential valuations and trends by assessment district</i>				
<i>Evaluate delinquent tax roles and payment history</i>				
Federal Revenue				
<i>Analyze recurring grants and other Federal Revenue</i>				
State Tax and Revenue Sharing				
<i>Estimate State revenue sharing from Treasury website and forecast trend</i>				
Other Revenue Sources				
<i>Licenses, Fines and Forfeitures, Cable fees, Permits, other Fees</i>				
<i>Potential Land Sales</i>				
<i>One time grants and non-recurring revenue</i>				
<i>Other miscellaneous revenue</i>				
Analyze Cost Structure for General Fund				
Review and Project Administrative Staffing on a Department by Department Basis				
<i>Meet with Department supervisors and understand roles, areas of concern</i>				
<i>Analyze staffing levels and compensation, identify any areas of concern</i>				
<i>Evaluate and forecast cost to operate Senior Center</i>				
Review Health Insurance Costs				
<i>Review coverage and costs for employees</i>				
Review and project costs for legal and other professional services				
Analyze and Project Debt Service				

O'Keefe - Proposed Timeline and Work Plan
 City of Lincoln Park Cash Flow and Budget Projection

	Week			
	1	2	3	4
Prepare Two Year Month by Month Cash and Five Year Budget Forecast for General Fund				
Review Accounting Information, Payment Records and Budget				
<i>Determine opening Fund and Cash balance</i>				
<i>Review cash balances, spending requirements, expected inflows</i>				
<i>Determine severity of short term problem and timing of cash shortfall</i>				
<i>Compare previous projections to actual, understand areas of concern</i>				
<i>Check integrity of data, understand estimates versus actuals</i>				
<i>Identify any inter-fund loans or ongoing support between funds</i>				
Review Internal and External Audit reports for past three years				
<i>Speak with auditors to understand any issues raised or areas of concern</i>				
Analyze and Project Revenue from Property Taxes, Fees, Licenses and Other Sources				
<i>Review property tax receipts and other revenue items, AR aging and collection issues</i>				
<i>Identify billing or disputes that may affect collections</i>				
Analyze and Project Accounts Payable, Purchase Orders, Contracts & Long Term Liabilities				
<i>Map out purchasing and spending requirements</i>				
Project Revenue and Cost for Forecast Period				
Review and Analyze Pension and OPEB Cash and Liability Requirements				
Analyze Pension Funding Status and Assumptions				
<i>Review cash cost per year to fund pension program</i>				
<i>Review current Pension funding forecast and actuarial projection</i>				
<i>Evaluate existing workforce age and retirement trends</i>				
<i>Analyze asset growth assumptions under a variety of rates and cash effect</i>				
<i>Understand contribution situation with MERS, risks and solutions</i>				
Analyze OPEB Cost				
<i>Review program benefits and current OPEB projection</i>				
<i>Analyze historical trends and claims, analyze age group, project future costs</i>				
<i>If necessary, revise projected cost per year to pay OPEB benefits</i>				
Prepare Two Year Month by Month Cash and Five Year Budget Forecast for Water and Sewer Fund				
Determine opening Fund and Cash balance				
<i>Analyze amounts loaned to General Fund and repayment schedule</i>				
Analyze Water and Sewer fund Revenue and Costs				
<i>Project Detroit water rates, Lincoln Park water rates</i>				
<i>Evaluate collection policies, invoice adjustments, bad debt, shut off policy</i>				
Identify Capital Spending Requirements during forecast period				
<i>Understand extent of deferred maintenance and equipment replacement</i>				
Analyze Accounts Payable and other liabilities				
Forecast Debt Service based on amortization schedules				
Prepare Two Year Month by Month Cash and Five Year Budget Forecast for Other Funds				
Analyze other funds such as DDA, Street Funds, CDBG, etc.				
<i>Evaluate significance of each fund on overall financial status of City</i>				
<i>Determine opening Fund and Cash balance, forecast operations</i>				
<i>Forecast revenue and source trends, forecast cost and capital spending</i>				
Prepare Final Report for Michigan Treasury				
Prepare short term and long term forecast in appropriate format for all funds				
Analyze all inter-fund borrowings and shortfalls				
Identify Month/Year when expenses cannot be met and additional borrowing required				
<i>Identify potential sources of revenue or cost savings</i>				
<i>Develop high level ideas for mitigating or solving deficit</i>				
Review Draft Report with Treasury and Lincoln Park officials before finalizing				
<i>Note any areas of disagreement between O'Keefe and Lincoln Park on projections</i>				
Finalize and Issue Report				

**CHANGE NOTICE NO. 2
OF
CONTRACT NO. 271B3200005
between
THE DEPARTMENT OF TREASURY
and**

NAME & ADDRESS OF CONTRACTOR		TELEPHONE (248) 593-4810 Brad Coulter	
O’Keefe & Associates Consulting, LLC 2 Lone Pine Road Bloomfield Hills, MI 48304 bcoulter@okefellc.com		CONTRACTOR MAIL CODE (001)	
		AGENCY CONTACT: (517) 335-4760 Julie Collins	
Contract Compliance Inspector: Mathieu Dube (517) 241-3581 Description: Municipal Management Services (Financial Accounting, Benefits Management, Labor Management and Operations Management) – Pre-Qualification – Department of Treasury and MiDEAL			
CONTRACT PERIOD:		From: January 18, 2012	To: January 17, 2015
TERMS	5NET10 and NET45	SHIPMENT	N/A
F.O.B.	N/A	SHIPPED FROM	N/A
MINIMUM DELIVERY REQUIREMENTS N/A			
MISCELLANEOUS INFORMATION:			

NATURE OF CHANGE(S):

Effective immediately this Contract is hereby AMENDED as follows:

2. Add services per the attached Statement of Work (SOW) #271Q3214 received May 10, 2013.
3. Amend the contract value to include additional funds.
4. Change the Contract number from 071B2200114 to 271B3200005
5. Amend the Contract Description from Emergency Manager Services (Financial Accounting, Benefits Management, Labor Management and Operations Management) to Municipal Management Services (Financial Accounting, Benefits Management, Labor Management and Operations Management).
6. Update Department of Treasury Contract Compliance Inspector to Mathieu Dube
7. Update Contract Administrator to Julie Collins.

All other terms, conditions, specifications and pricing remain unchanged.

AUTHORITY/REASON:

Per Treasury request, Treasury Purchasing approval, Contractor’s proposal dated May 10, 2013 and clarifications dated May 14, 2013.

INCREASE: \$57,850.00

TOTAL REVISED ESTIMATED CONTRACT VALUE: \$57,850.00

FOR THE CONTRACTOR:

O'Keefe & Associates Consulting, LLC

Firm Name

Authorized Agent Signature

Authorized Agent (Print or Type)

Date

FOR THE STATE:

Signature

Julie Collins, Purchasing Analyst

Name/Title

Departmental Services Division

Division

Date

Article 1 – Statement of Work (SOW)

1.010 Project Identification

1.011 Project Request

This is an SOW for a financial accounting services engagement. The purpose of the engagement is to provide a projection of cash flows and a five year budget forecast for the City of Hamtramck (City)..

1.012 Background

The Department of Treasury (Treasury) is charged with monitoring, oversight and provision of assistance to local units of government under various statutes, including but not limited to, the Home Rule City Act (Act 279 of 1909), the Uniform Budgeting and Accounting Act (Act 2 of 1968), the Glenn Steil State Revenue Sharing Act (Act 140 of 1971), and the Local Financial Stability and Choice Act (Act 436 of 2013). In providing such monitoring and assistance to local units of government, Treasury strives to preserve the capacity of local units to provide those services essential to the public health, safety and welfare of the citizens of the State.

Treasury believes it is in the best interest of the State to assess the current financial position of the City and determine their ability to provide essential services in the future. This SOW is to provide Treasury with a better understanding of Hamtramck's financial status and its probable ability to make future payments and meet budgetary legal requirements.

1.020 Scope of Work and Deliverables

1.021 In Scope

A financial accounting services engagement for Treasury is needed as soon as possible to ascertain the ability of the City to have sufficient cash, projected cash flows, and a balanced structural financial basis, five year budget forecast.

The Contractor must provide a report to Treasury no later than 30 days after award or assignment. The Contractor must draft a two year cash flow forecast and a five year budget forecast for the City. The Contractor must, as part of the report, highlight any areas of possible shortfall in either future cash flows or future budgets.

1.022 Work and Deliverable

Contractor must provide Deliverables/Services and staff, and otherwise do all things necessary for or incidental to the performance of work, as set forth below:

1. The Contractor must provide a single report within 30 days of Contract award or assignment that provides a two year cash flow forecast and a five year budget forecast with any notations as to possible areas of concerns.
 - a. The report must include forecasted cash flows for fiscal years ended June 30, 2014 and 2015.
 - b. The forecasted cash flows portion of the report must provide forecasted cash flows in the same format as the City's Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances.
 - (2) Instead of fund balance the report must provide beginning and ending cash positions.
 - c. The forecasted cash flows portion of the report must include the General Fund, any major funds (the Contractor can use the major funds identified in the June 30, 2012 CAFR for the City), and non-major governmental funds (either combined or individually at the Contractor's discretion).
 - d. The forecast must also include each enterprise fund separately including any governmental activities. These funds should be presented in the same format as the City's Proprietary Funds Statement of Revenues, Expense, and Changes in Net Assets. Net assets should be replaced with beginning and ending cash positions.
 - e. The report will also contain a listing of significant assumptions used by the Contractor to develop the projected cash flows. Specifically required are any rates of increase or decrease in revenues, rates of increase or decrease in expenditures/expenses, and that any debt service activities are from the City actual debt service schedules. Any future planned debt issuances should be clearly noted. Additional revenues and cost reductions must be incorporated using input from city officials. The Contractor must also outline opportunities for revenue generation, debt issuance and cost cutting.

2. The report must include a five year budget forecast for fiscal years ended June 30, 2014, 2015, 2016, 2017, and 2018.

a. The five year budget forecast portion of the report must provide the forecasted budget in the same format as the City's Governmental Funds Statement of Revenue, Expenditure, and Changes in Fund Balances from the City's CAFR.

b. The five year budget forecast portion of the report must include the General Fund, any major funds (the Contractor can use the major funds identified in the June 30, 2012 CAFR for the City, and non-major governmental funds (either combined or individually at the Contractor discretion). The performance of the Grant Fund, Water and Sewer, DDA and other funds must also be analyzed and forecast. Pension obligations, OPEB and Inter-fund borrowing must also be evaluated and forecast.

c. The five year budget forecast must also include each enterprise fund separately including any governmental activities. These funds must be presented in the same format as the City Proprietary Funds Statement of Revenues, Expense, and Changes in Net Assets.

d. The report must also contain a listing of significant assumptions used by the Contractor to develop the five year budget forecast. Specifically required are any rates of increase or decrease in revenues, rates of increase or decrease in expenditures/expenses, and that any debt service activities are from the City's actual debt service schedules. Any future planned debt issuances must be clearly noted.

1.030 Roles and Responsibilities

1.031 Contractor Staff, Roles, and Responsibilities

2. Staff who will be involved in the project follow:

- A. Brad Coulter – Project Lead
- B. Pat O'Keefe – Managing Member
- C. Mike Deighan – Property Tax Analyst
- D. Scott Smith – Support Analyst

Sub-Contractors:

- a) Don Watza, Benstaff – OPEB Analyst
- b) Rex Critzer, Benstaff – OPEB Analyst

5. Deleted – N/A.

6. Specific work schedules for this project are Monday through Friday, 8:00 a.m. to 5:00 p.m. Eastern Time; however, possible night and weekend hours may be required.

1.032 State Staff, Roles, and Responsibilities

1. Contract Compliance Inspector (CCI): The State's CCI provides oversight and monitoring of the selected Contractor's adherence to the terms and conditions of this project and the Contract.

2. Project Manager: The State's Project Manager will monitor the project activities.

3. Contractors are encouraged to make recommendations concerning the appropriate roles and responsibilities for State personnel in achieving an effective implementation of this project. In addition, work plans presented in the proposal (see section 1.041) should reflect estimated levels of effort for each level of personnel for Contractor personnel, including any contractual employees, and State personnel.

1.040 Project Plan

1.041 Project Plan Management

1. The Contractor will carry out this project under the direction and control of the CCI or designee.

3. Although there will be continuous liaison with the Contractor team, the CCI or designee will meet monthly as a minimum, or as requested by the CCI or designee, with the Contractor's Project Manager for the purpose of reviewing progress and providing necessary guidance to the Contractor in solving problems which arise.
3. See Exhibit 1 for a sample project plan for the deliverables proposed in section 1.022 and details noted in section 1.041.4.
4. Within five working days of purchase order award, the Contractor must submit to the CCI or designee for final approval a detailed project plan. This final project plan must be in agreement with the Contractor's proposal and accepted by the State for Contract, and must include the following:
 - a. The Contractor's project organizational structure.
 - b. The Contractor's staffing table with names and title of personnel assigned to the project. This must be in agreement with staffing of accepted proposal. Necessary substitutions due to change of employment status and other unforeseen circumstances may only be made with prior approval of the State.
 - c. The project breakdown showing sub-projects, activities and tasks, and resources required and allocated to each (e.g., estimated levels of effort for each level of personnel for Contractor personnel, including any contractual employees, and State personnel).

1.042 Reports

The Contractor must submit written weekly summaries of the work accomplished during the reporting period and notification of any significant deviation from previously agreed-upon work plans.

1.050 Acceptance – Deleted – N/A

1.060 Proposal Pricing

1.061 Proposal Pricing

1. For authorized Services and Price List, see Attachment A (Price Proposal)..
2. Contractor's out-of-pocket expenses are not separately reimbursable by the State or local unit of government unless, on a case-by-case basis for unusual expenses, the State has agreed in advance and in writing to reimburse Contractor for the expense at the State's current travel reimbursement rates. See www.michigan.gov/dtmb for current rates.
3. Invoicing and payment must occur per Contract Section 2.044.d.

1.070 Additional Requirements – Deleted – N/A

Attachment A. Price Proposal

Provide the price per deliverable for the proposed services in section 1.022.	
Deliverable	Price
A. Two Year Cash Flow Report	\$ 43,000
B. Five Year Budget Forecast (assuming this piece is an add on to the two year forecast)	\$ 14,850

O'Keefe - Hamtramck Initial Budget Estimate

	Rate/Hour	Hours	Not to Exceed	
Brad Coulter	\$210	120	\$25,200	Project Lead
Scott Smith	\$210	65	\$13,650	Analytical Support
Mike Deighan	\$210	40	\$8,400	Analyze Property Taxes
Pat O'Keefe	\$350	10	\$3,500	Head of Firm, Pension
Don Watza - Benstaff	\$210	10	\$2,100	OPEB
Rex Critzer - Benstaff	\$250	20	\$5,000	OPEB
Total Cost Estimate		265	\$57,850	

Estimates are based on the maximum hours required to complete similar size projects plus the uncertainty over quality of data, cooperation of staff, and other unknowns that occur when working on financially troubled situations. O'Keefe will work as efficiently as possible to keep the budget only to the necessary hours.

Hours have been allocated for review of property values and tax trends along with pension and OPEB. Depending on the quality of data available and the necessity to evaluate projections, these budgeted hours may or may not be used in full. Hours may also vary among team members, with the total remaining the same.

Exhibit 1

O'Keefe - Proposed Timeline and Work Plan
 City of Hamtramck Cash Flow and Budget Projection

Week

O'Keefe - Proposed Timeline and Work Plan
 City of Hamtramck Cash Flow and Budget Projection

Week

	1	2	3	4
Review and analyze Pension and OPEB Cash and Liability Requirements				
Analyze Pension Funding Status and Assumptions				
<i>Review cash cost per year to fund pension program</i>				
<i>Review current Pension funding forecast and actuarial projection</i>				
<i>Evaluate existing workforce age and retirement trends</i>				
<i>Analyze asset growth assumptions under a variety of rates and cash effect</i>				
Analyze OPEB Cost				
<i>Review program benefits and current OPEB projection</i>				
<i>Analyze historical trends and claims, analyze age group, project future costs</i>				
<i>If necessary, revise projected cost per year to maintain pay OPEB benefits</i>				
Prepare Two Year Month by Month and Five Year Cash Forecast for General Fund				
Review Accounting Information, Payment Records and Budget				
<i>Review cash balances, spending requirements, expected inflows</i>				
<i>Determine severity of short term problem and timing of cash shortfall</i>				
<i>Compare previous projections to actual, understand areas of concern</i>				
<i>Check integrity of data, understand estimates versus actuals</i>				
<i>Identify any inter-fund loans or ongoing support between funds</i>				
Review Internal and External Audit reports for past three years				
<i>Speak with auditors to understand any issues raised or areas of concern</i>				
Analyze and Project Accounts Receivable				
<i>Review AR aging and collection issues</i>				
<i>Identify billing or disputes that may affect collections</i>				
Analyze and Project Accounts Payable				
<i>Map out purchasing and spending requirements</i>				
Project Revenue and Cost for Forecast Period				
Prepare Two Year Month by Month and Five Year Forecast for Water and Sewer Fund				
Analyze Water and Sewer fund Revenue and Costs				
<i>Project Detroit water rates, Hamtramck water rates</i>				
Identify Capital Spending Requirements during forecast period				
<i>Understand extent of deferred maintenance and equipment replacement</i>				
Analyze Inter-Fund Borrowings				
Prepare Two Year Month by Month and Five Year Forecast for All Other Governmental Funds				
Analyze Revenue and Costs for all other funds such as DDA, Streets, Misc. Grants, etc.				
Prepare Final Report for Michigan Treasury				
Prepare short term and long term forecast in appropriate format for all funds				
Analyze all inter-fund borrowings and shortfalls				
Identify Month/Year when expenses cannot be met and additional borrowing required				
<i>Identify potential sources of revenue or cost savings</i>				
<i>Develop high level ideas for mitigating or solving deficit</i>				
Review Report with appropriate Hamtramck officials before finalizing				
<i>Note any areas of disagreement between O'Keefe and Hamtramck on projections</i>				
Finalize and Issue Report				

STATE OF MICHIGAN
 DEPARTMENT OF TECHNOLOGY, MANAGEMENT AND BUDGET February 7, 2012
 PROCUREMENT
 P.O. BOX 30026, LANSING, MI 48909
 OR
 530 W. ALLEGAN, LANSING, MI 48933

CHANGE NOTICE NO. 1
OF
CONTRACT NO. 071B2200114
between
THE STATE OF MICHIGAN
and

NAME & ADDRESS OF CONTRACTOR		TELEPHONE (248) 593-4810	
O'Keefe & Associates Consulting, LLC 2 Lone Pine Road Bloomfield Hills, MI 48304 bcoulter@okeefeandassociates.com		Brad Coulter	
		Contract Number / Mail Code	
		BUYER/CA (517) 241-1916	
		Jim Wilson	
Contract Compliance Inspector: Edward Koryzno (517) 373-4415			
Emergency Manager Services (Financial Accounting, Benefits Management, Labor Management and Operations Management) – Pre-Qualification – Department of Treasury and MiDEAL			
CONTRACT PERIOD:		From: January 18, 2012	To: January 17, 2015
TERMS	5NET10 and NET45	SHIPMENT	N/A
F.O.B.	N/A	SHIPPED FROM	N/A
MINIMUM DELIVERY REQUIREMENTS			
N/A			
MISCELLANEOUS INFORMATION:			

THIS CONTRACT IS EXTENDED TO LOCAL UNITS OF GOVERNMENT.

NATURE OF CHANGE(S):

Effective immediately, Section 2.281 MIDEAL, has been REPLACED with the following language:

MiDEAL Requirements

1. The Contractor must ensure that all purchasers are MiDEAL Members before extending the Contract pricing. A current listing of approved MiDEAL Members is available at: www.michigan.gov/mideal.
2. The Contractor must submit quarterly reports of MiDEAL purchasing activities to DTMB-Procurement.
3. The Contractor must submit invoices to and receive payment from MiDEAL Members on a direct and individual basis.
4. Estimated requirements for MiDEAL members are not included in the quantities shown in this Contract, unless otherwise noted.

The State of Michigan reserves the right to negotiate additional discounts based on any increased volumes by MiDEAL members

AUTHORITY/REASON(S):

Per DTMB Procurement approval.

Total Estimated Contract Value: \$0.00

STATE OF MICHIGAN
 DEPARTMENT OF TECHNOLOGY, MANAGEMENT AND BUDGET January 24, 2012
 PROCUREMENT
 P.O. BOX 30026, LANSING, MI 48909
 OR
 530 W. ALLEGAN, LANSING, MI 48933

**NOTICE
 OF
 CONTRACT NO. 071B2200114
 between
 THE STATE OF MICHIGAN
 and**

NAME & ADDRESS OF CONTRACTOR O’Keefe & Associates Consulting, LLC 2 Lone Pine Road Bloomfield Hills, MI 48304 bcoulter@okeefeandassociates.com		TELEPHONE (248) 593-4810 Brad Coulter
		Contract Number / Mail Code
		BUYER/CA (517) 241-1916 Jim Wilson
Contract Compliance Inspector: Edward Koryzno (517) 373-4415 Emergency Manager Services (Financial Accounting, Benefits Management, Labor Management and Operations Management) – Pre-Qualification – Department of Treasury and MiDEAL		
CONTRACT PERIOD: From: January 18, 2012 To: January 17, 2015		
TERMS 5NET 10 and NET45	SHIPMENT N/A	
F.O.B. N/A	SHIPPED FROM N/A	
MINIMUM DELIVERY REQUIREMENTS N/A		
MISCELLANEOUS INFORMATION:		

All terms and conditions of this Contract are attached.

Total Estimated Contract Value: \$0.00

STATE OF MICHIGAN
DEPARTMENT OF TECHNOLOGY, MANAGEMENT AND BUDGET
PROCUREMENT
P.O. BOX 30026, LANSING, MI 48909
 OR
530 W. ALLEGAN, LANSING, MI 48933

CONTRACT NO. 071B2200114
between
THE STATE OF MICHIGAN
and

NAME & ADDRESS OF CONTRACTOR O'Keefe & Associates Consulting, LLC 2 Lone Pine Road Bloomfield Hills, MI 48304 <p style="text-align: right;">bcoulter@okeefeandassociates.com</p>	TELEPHONE (248) 593-4810 Brad Coulter Contract Number / Mail Code BUYER/CA (517) 241-1916 Jim Wilson
Contract Compliance Inspector: Edward Koryzno (517) 373-4415 Emergency Manager Services (Financial Accounting, Benefits Management, Labor Management and Operations Management) – Pre-Qualification – Department of Treasury and MiDEAL	
CONTRACT PERIOD: From: January 18, 2012 To: January 17, 2015	
TERMS <p style="text-align: center;">5NET 10 and NET45</p>	SHIPMENT <p style="text-align: center;">N/A</p>
F.O.B. <p style="text-align: center;">N/A</p>	SHIPPED FROM <p style="text-align: center;">N/A</p>
MINIMUM DELIVERY REQUIREMENTS <p style="text-align: center;">N/A</p>	
MISCELLANEOUS INFORMATION: The terms and conditions of this Contract are those of RFP #271Q1312, this Contract Agreement, the Contractor's proposal dated 11/18/2011 and clarifications dated 12/8/2011. In the event of any conflicts between the specifications, and terms and conditions, indicated by the State and those indicated by the vendor, those outlined in this Contract take precedence.	
Total Estimated Contract Value: \$0.00	

FOR THE CONTRACTOR:

O'Keefe & Associates Consulting, LLC

Firm Name

Authorized Agent Signature

Authorized Agent (Print or Type)

Date

FOR THE STATE:

Signature

Jeff Brownlee / Chief Procurement Officer

Name/Title

DTMB Procurement

Division

Date



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Attachment A, Pricing

Exhibits

- 1 Safeguard Requirement of Confidential Data (Tax Related Data)
- 2 General Security Requirements



DEFINITIONS

24x7x365 means 24 hours a day, seven days a week, and 365 days a year (including the 366th day in a leap year).

Additional Service means any Services within the scope of the Contract, but not specifically provided under any Statement of Work.

Audit Period means the seven year period following Contractor's provision of any work under the Contract.

Bidder(s) are those companies that submit a proposal in response to the RFP.

Business Day means any day other than a Saturday, Sunday or State-recognized legal holiday from 8:00am EST through 5:00pm EST unless otherwise stated.

Blanket Purchase Order is an alternate term for Contract and is used in the Plan Sponsors' computer system.

CCI means Contract Compliance Inspector.

Days means calendar days unless otherwise specified.

Deleted – N/A means that section is not applicable or included in the RFP. This is used as a placeholder to maintain consistent numbering.

Deliverable means physical goods and/or services required or identified in a Statement of Work.

DTMB means the Michigan Department of Technology, Management and Budget.

Environmentally Preferable Products means a product or service that has a lesser or reduced effect on human health and the environment when compared with competing products or services that serve the same purpose. Such products or services may include, but are not limited to: those which contain recycled content, minimize waste, conserve energy or water, and reduce the amount of toxics either disposed of or consumed.

Hazardous Material means any material defined as hazardous under the latest version of federal Emergency Planning and Community Right-to-Know Act of 1986 (including revisions adopted during the term of the Contract).

Incident means any interruption in any function performed for the benefit of a Plan Sponsor.

Key Personnel means any personnel identified in **Section 1.031** as Key Personnel.

New Work means any Services/Deliverables outside the scope of the Contract and not specifically provided under any Statement of Work, such that once added will result in the need to provide the Contractor with additional consideration. "New Work" does not include Additional Service.

Ozone-depleting Substance means any substance the Environmental Protection Agency designates in 40 CFR part 82 as: (1) Class I, including, but not limited to, chlorofluorocarbons, halons, carbon tetrachloride, and methyl chloroform; or (2) Class II, including, but not limited to, hydrochlorofluorocarbons.

Post-Consumer Waste means any product generated by a business or consumer which has served its intended end use; and which has been separated or diverted from solid waste for the purpose of recycling into a usable commodity or product, and which does not include post-industrial waste.

Post-Industrial Waste means industrial by-products which would otherwise go to disposal and wastes generated after completion of a manufacturing process, but does not include internally generated scrap commonly returned to industrial or manufacturing processes.

Procurement means State of Michigan, Department of Technology, Management and Budget, Procurement.

Recycling means the series of activities by which materials that are no longer useful to the generator are collected, sorted, processed, and converted into raw materials and used in the production of new products. This definition excludes the use of these materials as a fuel substitute or for energy production.



Reuse means using a product or component of municipal solid waste in its original form more than once.

Services means any function performed for the benefit of the State.

SLA means Service Level Agreement.

Source Reduction means any practice that reduces the amount of any hazardous substance, pollutant, or contaminant entering any waste stream or otherwise released into the environment prior to recycling, energy recovery, treatment, or disposal.

State means State of Michigan.

State Location means any physical location where the State performs work. State Location may include state-owned, leased, or rented space.

Subcontractor means a company selected by the Contractor to perform a portion of the Services, but does not include independent contractors engaged by Contractor solely in a staff augmentation role.

Treasury means State of Michigan, Department of Treasury.

Treasury Purchasing means State of Michigan, Department of Treasury, Purchasing Section.

Unauthorized Removal means the Contractor's removal of Key Personnel without the prior written consent of the State.

Waste Prevention means source reduction and reuse, but not recycling.

Pollution Prevention means the practice of minimizing the generation of waste at the source and, when wastes cannot be prevented, utilizing environmentally sound on-site or off-site reuse and recycling. The term includes equipment or technology modifications, process or procedure modifications, product reformulation or redesign, and raw material substitutions. Waste treatment, control, management, and disposal are not considered pollution prevention, per the definitions under Part 143, Waste Minimization, of the Natural Resources and Environmental Protection Act (NREPA), 1994 PA 451, as amended.

Work in Progress means a Deliverable that has been partially prepared, but has not been presented to the State for Approval.

Work Product refers to any data compilations, reports, and other media, materials, or other objects or works of authorship created or produced by the Contractor as a result of an in furtherance of performing the services required by the Contract.



Article 1 – Statement of Work (SOW)

1.010 Project Identification

1.011 Project Request

This is a Contract for a pre-qualification program to provide the Department of Treasury and local units of government the ability to contract for various Emergency Manager services to financially stressed communities and school districts on a fast-track, as-needed basis due to financial emergencies.

Contractor is eligible to bid on Statements of Work (SOWs) issued by the Department of Treasury or local units of government. Those Contractor(s) selected by the Department of Treasury or local units will be issued purchase orders for which the terms will be governed by this Contract and the SOW.

1.012 Background

The Department of Treasury is charged with Financial Emergency Manager services on behalf of local units of government. Contractors are needed to provide expertise on behalf of financially stressed communities and school districts within local units of government. Public Act (PA) 4 of 2011 was recently enacted to:

1. Safeguard and assure the fiscal accountability of units of local government, including school districts
2. Preserve the capacity of units of local government to provide or cause to be provided necessary services essential to the public health, safety, and welfare
3. Provide for review, management, planning, and control of the financial operation of units of local government and the provision of services by units of local government, including school districts
4. Provide criteria to be used in determining the financial condition of units of local government, including school districts
5. Permit a declaration of the existence of a local government financial emergency and to prescribe the powers and duties of the governor, other state departments, boards, agencies, officials, and employees, and officials and employees of units of local government, including school districts
6. Provide for placing units of local government, including school districts, into receivership
7. Provide for a review and appeal process
8. Provide for the appointment and to prescribe the powers and duties of an emergency manager
9. Require the development of financial and operational plans to regulate expenditures, investments, and the provision of services by units of local government, including school districts, in a state of financial stress or financial emergency
10. Provide for the modification or termination of contracts under certain circumstances
11. Set forth the conditions for termination of a local government financial emergency; and to repeal acts and parts of acts.

1.020 Scope of Work and Deliverables

1.021 In Scope

The Contractor must provide Emergency Manager services based on individual SOWs as requested by the Department of Treasury or local units of government.

1.022 Work and Deliverable

Contractor must provide Deliverables/Services and staff, and otherwise do all things necessary for or incidental to the performance of work, as set forth below:

- A. Provide Emergency Manager services as required by SOW issued by the Department of Treasury or local units of government. Services may include, but not be limited to, the following:
 1. Financial Accounting
 - a. Cash Management
 - b. Forensic Accounting/Auditing
 - c. Budgeting
 - d. Financial Forecasting
 - e. Internal Controls
 - f. Administering Payroll
 - g. Tax Collection
 - h. Managing Debt



- i. Applying for Grants/Administering Grant Monies
- j. Valuation of assets, revenue streams, entities, intellectual properties, or other items of value owned by the public sector unit
- k. Litigation support and expert witness testimony for disputes arising among stakeholders as part of the Emergency Manager services.

2. Benefits Management

- a. Health Care Plan Design
- b. Life and Disability Plans.

3. Labor Management

- a. Labor Contract Negotiation
- b. Review Privatization Options.

4. Legal

- a. Labor Negotiations
- b. Employment Law
- c. Environmental
- d. Public Act (PA) 4 of 2011, Tenure Act, Civil Service, PERA
- e. Asset Sales
- f. Open Meeting and Freedom of Information Acts
- g. Municipal Debt
- h. Urban Cooperation Act (PA 7 of 1967 Ex Sess), Emergency Services Act (PA 57 of 1988), Intergovernmental Transfers of Power Act (PA 8 of 1967 Ex Sess), Metropolitan Transportation Authorities Act (PA 204 of 1967)
- i. Budgeting and Accounting (PA 2 of 1968, PA 71 of 1919)
- j. Revised School Code (PA 451 of 1976)
- k. Various Local Government Acts (Home Rule City Act, etc.).

5. Operations Management

- a. PA 4 of 2011, Civil Service and Tenure Act Expertise
- b. Labor Negotiations/Relations
- c. Streamlining Operations, Staffing and Scheduling
- d. Consolidation of departments within entities and between jurisdictions
- e. Procurement (renegotiating contracts, drafting RFPs, contract issuance and contract management)
- f. Understanding Open Meeting and Freedom of Information Acts
- g. Asset Sales and Receiver Control over Specific Assets
- h. Communication skills, oral and written
- i. Performance Management
- j. Facilities Management
- k. Manager Properties Taken over by City, County or State.

- B. Each SOW will contain unique service levels and requirements, general deliverables may include, but are not limited to, services outlined in section 1.012 (Background) under PA 4 of 2011.
- C. The Department of Treasury or local unit of government will issue each SOW to pre-qualified Contractors. The SOW will identify the deliverables, period of performance, specific response information required, work evaluation and payment criteria, and any additional terms and conditions that may apply to that SOW. The process for the Department of Treasury or local unit of government issuing and the Contractor(s) responding to an SOW follows:
 - 1. Issue an SOW to pre-qualified Contractors with a timeline including due dates for questions, due dates for responses, and period of performance.
 - 2. Contractor responses must follow criteria required in each SOW, and Contractor pricing must not exceed rates provided in Attachment A.



3. The Department of Treasury or local unit of government's selection will be based on a best value evaluation using the criteria identified in the SOW. Other selection criteria or tools which may be in the best interest of the Department of Treasury or local unit of government may be utilized to make a selection.
- D. Security and Confidentiality/Disclosure Requirements (Also see section 2.100, Exhibit 1 and Exhibit 2)
1. Contractor staff assigned to work with restricted (e.g. sensitive/confidential) data must uphold all of the requirements for handling, storage, and processing of confidential/sensitive information for services provided under the Contract (see Exhibit 2).
 2. If the staff member accidentally or purposefully releases restricted (e.g., sensitive/confidential) data, the Contractor must assume full responsibility for any resulting penalties.
 3. Taxpayer Related Data (If Applicable): Contractor must uphold all of the requirements for handling, storage, and processing of confidential/disclosure tax information for services provided under the Contract (see Exhibit 1).
- E. End of Contract Data Conversion Responsibility: At the expiration or termination of this Contract, the Contractor must work with State and/or local unit of government personnel to ensure the transitional and operational continuity of the services under this Contract. The Contractor agrees to assist the State for a reasonable period of time that in no event will exceed 60 days after the expiration or termination date of this Contract and to assign key personnel as needed to assist in the transition. Key system staff will be available to ensure data integrity and system continuity (also see section 2.170).
- F. The Contractor must work with the State and other Contractors to assist in problem resolutions including, but not limited to, establishing new communications channels, downtime, testing, etc.

1.030 Roles and Responsibilities

1.031 Contractor Staff, Roles, and Responsibilities (Also See Section 4.013)

2. The following staff are available depending on the SOW scope:
 - A. Pat O'Keefe – Managing Member
 - B. Dave Distel – Managing Director
 - C. Mike Boudreau – Director, Co-Chair Municipal Restructuring Group
 - D. Brad Coulter – Director, Co-Chair Municipal Restructuring Group
 - E. Pat Callaghan – Director of Human Resources
 - F. Russ Long – Director
 - G. Sue Koss – Director
 - H. Meagan Hardcastle – Director
 - I. Matt Thiede – Director
 - J. John Dimovski – Director
 - K. Kerri Ross – Director
 - L. Donna Rhodes – Director (engaged for this Contract)
 - M. Mike Deighan – Director
 - N. George Ianev – Senior Associate
 - O. Greg Long – Construction Superintendent
 - P. Tom Braun – Senior Associate
 - Q. Kevin Lucey – Senior Associate
 - R. Steve Weber – Senior Associate
 - S. Adam Lightbody – Associate
 - T. Don Watz, Benstaff (sub-contractor): Benstaff is a benefit advisory firm that does a complete re-underwriting of an existing health care policy to find areas of savings, especially in administrative and claims experience areas, and then negotiates with the carrier for savings proven out by the data. While Benstaff typically negotiates to maintain existing coverage, they also advise on savings to be achieved by changes to coverage or changing to an alternative provider. O'Keefe plans to use Benstaff when a review of health care costs is warranted.
 - U. Bill Fetterman, Advanced Manufacturing Group, LLC (AMG) (sub-contractor): AMG specializes in process engineering, lean consulting and improving operational efficiency. AMG staff review process flow, identify bottlenecks, develop plans for improved efficiency and cost savings, and work directly with the client's staff to implement their recommendations. O'Keefe plans to use AMG when a review of certain operations or work flow need to be evaluated. For example, AMG could be used to evaluate and improve the operation of a maintenance department or a transportation department.



- V. Tom McGraw, McGraw Wentworth (sub-contractor): McGraw Wentworth is one of the largest and most successful benefit consulting firms in Michigan. Clients include cities, school districts, community colleges, universities and corporate clients. McGraw Wentworth is dedicated to managing health care benefits for its clients and has the market leverage to negotiate competitive benefit packages. With hands on client care, McGraw Wentworth works to design benefit packages, select carriers, and act as a strategic benefits advisor to a client's human resources department.
 - W. Dale Watchowski, REDICO Management Inc. (sub-contractor): REDICO has served customers and business partners with capabilities along the entire continuum of the real estate field, from effective concepts for optimal land development and investment funding through project planning, design, and construction and beyond, with property management, leasing, facility services, property sale, and other professional capabilities.
7. The Project Managers or central points of contact for all contractual activities and SOW receipts are Mike Boudreau and Brad Coulter, co-heads of the Municipal Restructuring Group.
 8. Contractor must provide services during normal working hours (Monday through Friday, 7:00 a.m. to 6:00 p.m. Eastern Time) and possible night and weekend hours depending on the SOW requirements. Specific work schedules will be provided with each SOW. No overtime will be authorized or paid. The State or local unit reserves the right to modify the work hours in the best interest of the project. Contractors must observe the same standard holidays as State or local unit of government employees. The Contractor will not be compensated for holiday pay. Contractors will not be reimbursed for travel expenses or travel time.
 9. Contractor staff are subject to the rules, regulations, and policies of the State of Michigan and local unit of government(s).
 10. Contractor personnel proposed for any SOW must satisfy the security requirements for the agencies or local unit in which they will be working. This may include signing the security forms. In addition, some agencies (Treasury for example) require personnel to attend additional security training and agree to be bound by their requirements. Any agency-specific security requirements will be identified in the SOW.

1.040 Project Plan

1.041 Project Plan Management

1. The Contractor will carry out this project under the direction and control of the CCI or local unit of government entity.
4. Although there will be continuous liaison with the Contractor team, the CCI will meet quarterly as a minimum, or as requested by the CCI, with the Contractor's Project Manager for the purpose of reviewing progress and providing necessary guidance to the Contractor in solving problems which arise.
3. Deleted – N/A.
4. Within five working days of the award of an SOW, the Contractor must submit to the CCI or local unit of government entity for final approval a detailed project plan. This final project plan must be in agreement with the Contractor's proposal and accepted by the State or local unit of government entity for Contract, and must include the following:
 - a. The Contractor's project organizational structure.
 - b. The Contractor's staffing table with names and title of personnel assigned to the project. This must be in agreement with staffing of accepted proposal. Necessary substitutions due to change of employment status and other unforeseen circumstances may only be made with prior approval of the State.
 - c. The project breakdown showing sub-projects, activities and tasks, and resources required and allocated to each.

1.042 Reports

The Contractor must submit written monthly summaries of progress which outline the work accomplished during the reporting period; work to be accomplished during the subsequent reporting period; problems, real or anticipated, which should be brought to the attention of the CCI; and notification of any significant deviation from previously agreed-upon work plans.

1.050 Acceptance – Deleted – N/A



1.060 Proposal Pricing

1.061 Proposal Pricing

4. For authorized Services and Price List, see Attachment A (Price Proposal). Pricing in Attachment A must include all administrative and travel costs. The State or local unit of government will not reimburse for travel.
5. A five percent discount off invoice if paid within 10 days is offered. Contractor will be flexible on rates and total cost depending on the specifics of the SOW and the location of the assignment.
6. Contractor's out-of-pocket expenses are not separately reimbursable by the State or local unit of government unless, on a case-by-case basis for unusual expenses, the State has agreed in advance and in writing to reimburse Contractor for the expense at the State's current travel reimbursement rates. See www.michigan.gov/dtmb for current rates.
7. Invoicing and payment must occur per section 2.044.d.

1.062 Price Term

Prices quoted are firm for the entire length of the Contract.

1.063 Tax Excluded from Price

- (a) Sales Tax: For purchases made directly by the State, the State is exempt from State and Local Sales Tax. Prices must not include the taxes. Exemption Certificates for State Sales Tax will be furnished upon request.
- (b) Federal Excise Tax: The State may be exempt from Federal Excise Tax, or the taxes may be reimbursable, if articles purchased under any resulting Contract are used for the State's exclusive use. Certificates showing exclusive use for the purposes of substantiating a tax-free or tax-reimbursable sale will be sent upon request. If a sale is tax exempt or tax reimbursable under the Internal Revenue Code, prices must not include the Federal Excise Tax.

1.064 Holdback – Deleted – N/A

1.070 Additional Requirements – Deleted – N/A



Article 2, Terms and Conditions

2.000 Contract Structure and Term

2.001 Contract Term

The Contract is for a period of three years beginning January 17, 2012 through January 16, 2015. All outstanding Purchase Orders must also expire upon the termination (cancellation for any of the reasons listed in **Section 2.150**) of the Contract, unless otherwise extended under the Contract. Absent an early termination for any reason, Purchase Orders issued but not expired, by the end of the Contract's stated term, will remain in effect for the balance of the fiscal year for which they were issued.

2.002 Options to Renew

The Contract may be renewed in writing by mutual agreement of the parties not less than 30 days before its expiration. The Contract may be renewed for up to two additional one year periods.

2.003 Legal Effect

Contractor must show acceptance of the Contract by signing two copies of the Contract and returning them to the Contract Administrator. The Contractor must not proceed with the performance of the work to be done under the Contract, including the purchase of necessary materials, until both parties have signed the Contract to show acceptance of its terms, and the Contractor receives a Contract release/purchase order that authorizes and defines specific performance requirements.

Except as otherwise agreed in writing by the parties, the State assumes no liability for costs incurred by Contractor or payment under the Contract, until Contractor is notified in writing that the Contract (or Change Order) has been approved by the State Administrative Board (if required), approved and signed by all the parties, and a Purchase Order against the Contract has been issued.

2.004 Attachments & Exhibits

All Attachments and Exhibits affixed to any and all Statement(s) of Work, or appended to or referencing the Contract, are incorporated in their entirety and form part of the Contract.

2.005 Ordering

The State will issue a written Purchase Order, Blanket Purchase Order, Direct Voucher or Procurement Card Order, which must be approved by the Contract Administrator or the Contract Administrator's designee, to order any Services/Deliverables under the Contract. All orders are subject to the terms and conditions of the Contract. No additional terms and conditions contained on either a Purchase Order or Blanket Purchase Order apply unless they are also specifically contained in that Purchase Order's or Blanket Purchase Order's accompanying Statement of Work. Exact quantities to be purchased are unknown, however, the Contractor must furnish all such materials and services as may be ordered during the CONTRACT period. Quantities specified, if any, are estimates based on prior purchases, and the State is not obligated to purchase in these or any other quantities.

2.006 Order of Precedence

(a) The Contract, including any Statements of Work and Exhibits, to the extent not contrary to the Contract, each of which is incorporated for all purposes, constitutes the entire agreement between the parties with respect to the subject matter and supersedes all prior agreements, whether written or oral, with respect to the subject matter and as additional terms and conditions on the purchase order must apply as limited by **Section 2.005**.

(b) In the event of any inconsistency between the terms of the Contract and a Statement of Work, the terms of the Statement of Work will take precedence (as to that Statement of Work only); provided, however, that a Statement of Work may not modify or amend the terms of the Contract, which may be modified or amended only by a formal Contract amendment.

2.007 Headings

Captions and headings used in the Contract are for information and organization purposes. Captions and headings, including inaccurate references, do not, in any way, define or limit the requirements or terms and conditions of the Contract.



2.008 Form, Function & Utility

If the Contract is for use of more than one State agency and if the Deliverable/Service does not meet the form, function, and utility required by that State agency, that agency may, subject to State purchasing policies, procure the Deliverable/Service from another source.

2.009 Reformation and Severability

Each provision of the Contract is severable from all other provisions of the Contract and, if one (1) or more of the provisions of the Contract is declared invalid, the remaining provisions of the Contract remain in full force and effect.

2.010 Consents and Approvals

Except as expressly provided otherwise in the Contract, if either party requires the consent or approval of the other party for the taking of any action under the Contract, the consent or approval must be in writing and must not be unreasonably withheld or delayed.

2.011 No Waiver of Default

If a party fails to insist upon strict adherence to any term of the Contract then the party has not waived the right to later insist upon strict adherence to that term, or any other term, of the Contract.

2.012 Survival

Any provisions of the Contract that impose continuing obligations on the parties, including without limitation the parties' respective warranty, indemnity and confidentiality obligations, survive the expiration or termination of the Contract for any reason. Specific references to survival in the Contract are solely for identification purposes and not meant to limit or prevent the survival of any other section.

2.020 Contract Administration

2.021 Issuing Office

The Contract is issued by the Department of Technology, Management and Budget, Procurement and the Department of Treasury (including all other relevant State of Michigan departments and agencies, the "State"). Procurement is the sole point of contact in the State with regard to all procurement and contractual matters relating to the Contract. Procurement **is the only State office authorized to change, modify, amend, alter or clarify the prices, specifications, terms and conditions of the Contract.** The Contractor Administrator within Procurement for the Contract is:

Jim Wilson
Procurement
Department of Technology, Management and Budget
Mason Building, 2nd Floor
P.O. Box 30026
Lansing, MI 48909
Email: wilsonj4@michigan.gov
Phone: 517-241-1916.

2.022 Contract Compliance Inspector

After Procurement receives the properly executed Contract, it is anticipated that the Chief Procurement Officer of Procurement will direct the person named below, or any other person so designated, to monitor and coordinate the activities for the Contract on a day-to-day basis during its term. However, monitoring of the Contract implies **no authority to change, modify, clarify, amend, or otherwise alter the prices, terms, conditions and specifications of the Contract as that authority is retained by Procurement.** The CCI for the Contract is:

Edward Koryzno
Department of Treasury
Office of Fiscal Responsibility
430 West Allegan
Lansing, MI 48922
Phone: (517) 373-4415.

2.023 Project Manager – Deleted – N/A



2.024 Change Requests

The State reserves the right to request, from time to time, any changes to the requirements and specifications of the Contract and the work to be performed by the Contractor under the Contract. During the course of ordinary business, it may become necessary for the State to discontinue certain business practices or create Additional Services/Deliverables. At a minimum, to the extent applicable, the State would like the Contractor to provide a detailed outline of all work to be done, including tasks necessary to accomplish the services/deliverables, timeframes, listing of key personnel assigned, estimated hours for each individual per task, and a complete and detailed cost justification.

If the Contractor does not so notify the State, the Contractor has no right to claim thereafter that it is entitled to additional compensation for performing that service or providing that deliverable.

Change Requests:

- (a) By giving Contractor written notice within a reasonable time, the State must be entitled to accept a Contractor proposal for Change, to reject it, or to reach another agreement with Contractor. Should the parties agree on carrying out a Change, a written Contract Change Notice must be prepared and issued under the Contract, describing the Change and its effects on the Services and any affected components of the Contract (a "Contract Change Notice").
- (b) No proposed Change may be performed until the proposed Change has been specified in a duly executed Contract Change Notice issued by Procurement.
- (c) If the State requests or directs the Contractor to perform any activities that Contractor believes constitute a Change, the Contractor must notify the State that it believes the requested activities are a Change before beginning to work on the requested activities. If the Contractor fails to notify the State before beginning to work on the requested activities, then the Contractor waives any right to assert any claim for additional compensation or time for performing the requested activities. If the Contractor commences performing work outside the scope of the Contract and then ceases performing that work, the Contractor must, at the request of the State, retract any out-of-scope work that would adversely affect the Contract.

2.025 Notices

Any notice given to a party under the Contract must be deemed effective, if addressed to the State contact as noted in Section 2.021 and the Contractor's contact as noted on the cover page of the contract, upon: (i) delivery, if hand delivered; (ii) receipt of a confirmed transmission by facsimile if a copy of the notice is sent by another means specified in this Section; (iii) the third Business Day after being sent by U.S. mail, postage pre-paid, return receipt requested; or (iv) the next Business Day after being sent by a nationally recognized overnight express courier with a reliable tracking system.

Either party may change its address where notices are to be sent by giving notice according to this Section.

2.026 Binding Commitments

Representatives of Contractor must have the authority to make binding commitments on Contractor's behalf within the bounds set forth in the Contract. Contractor may change the representatives from time to time upon written notice.

2.027 Relationship of the Parties

The relationship between the State and Contractor is that of client and independent contractor. No agent, employee, or servant of Contractor or any of its Subcontractors must be deemed to be an employee, agent or servant of the State for any reason. Contractor is solely and entirely responsible for its acts and the acts of its agents, employees, servants and Subcontractors during the performance of the Contract.

2.028 Covenant of Good Faith

Each party must act reasonably and in good faith. Unless stated otherwise in the Contract, the parties must not unreasonably delay, condition, or withhold the giving of any consent, decision, or approval that is either requested or reasonably required of them in order for the other party to perform its responsibilities under the Contract.



2.029 Assignments

- (a) Neither party may assign the Contract, or assign or delegate any of its duties or obligations under the Contract, to any other party (whether by operation of law or otherwise), without the prior written consent of the other party; provided, however, that the State may assign the Contract to any other State agency, department, division or department without the prior consent of Contractor and Contractor may assign the Contract to an affiliate so long as the affiliate is adequately capitalized and can provide adequate assurances that the affiliate can perform the requirements of the Contract. The State may withhold consent from proposed assignments, subcontracts, or novations when the transfer of responsibility would operate to decrease the State's likelihood of receiving performance on the Contract or the State's ability to recover damages.
- (b) Contractor may not, without the prior written approval of the State, assign its right to receive payments due under the Contract. If the State permits an assignment, the Contractor is not relieved of its responsibility to perform any of its contractual duties, and the requirement under the Contract that all payments must be made to one entity continues.
- (c) If the Contractor intends to assign the Contract or any of the Contractor's rights or duties under the Contract, the Contractor must notify the State in writing at least 90 days before the assignment. The Contractor also must provide the State with adequate information about the assignee within a reasonable amount of time before the assignment for the State to determine whether to approve the assignment.

2.030 General Provisions

2.031 Media Releases

News releases (including promotional literature and commercial advertisements) pertaining to the RFP and Contract or project to which it relates must not be made without prior written State approval, and then only in accordance with the explicit written instructions from the State. No results of the activities associated with the RFP and Contract are to be released without prior written approval of the State and then only to persons designated.

2.032 Contract Distribution

Procurement retains the sole right of Contract distribution to all State agencies and local units of government unless other arrangements are authorized by Procurement.

2.033 Permits

Contractor must obtain and pay any associated costs for all required governmental permits, licenses and approvals for the delivery, installation and performance of the Services. The State must pay for all costs and expenses incurred in obtaining and maintaining any necessary easements or right of way.

2.034 Website Incorporation

The State is not bound by any content on the Contractor's website, even if the Contractor's documentation specifically referenced that content and attempts to incorporate it into any other communication, unless the State has actual knowledge of the content and has expressly agreed to be bound by it in a writing that has been manually signed by an authorized representative of the State.

2.035 Future Bidding Preclusion

Contractor acknowledges that, to the extent the Contract involves the creation, research, investigation or generation of a future RFP, it may be precluded from bidding on the subsequent RFP. The State reserves the right to disqualify any bidder if the State determines that the bidder has used its position (whether as an incumbent Contractor, or as a Contractor hired to assist with the RFP development, or as a Vendor offering free assistance) to gain a competitive advantage on the RFP

2.036 Freedom of Information

All information in any proposal submitted to the State by Contractor and the Contract is subject to the provisions of the Michigan Freedom of Information Act, 1976 PA 442, MCL 15.231, et seq (the "FOIA").

2.037 Disaster Recovery

Contractor and the State recognize that the State provides essential services in times of natural or man-made disasters. Therefore, except as so mandated by Federal disaster response requirements, Contractor personnel dedicated to providing Services/Deliverables under the Contract must provide the State with priority service for repair and work around in the event of a natural or man-made disaster.



2.040 Financial Provisions

2.041 Fixed Prices for Services/Deliverables

Each Statement of Work or Purchase Order issued under the Contract must specify (or indicate by reference to the appropriate Contract Exhibit) the firm, fixed prices for all Services/Deliverables, and the associated payment milestones and payment amounts. The State may make progress payments to the Contractor when requested as work progresses, but not more frequently than monthly, in amounts approved by the Contract Administrator, after negotiation. Contractor must show verification of measurable progress at the time of requesting progress payments.

2.042 Adjustments for Reductions in Scope of Services/Deliverables

If the scope of the Services/Deliverables under any Statement of Work issued under the Contract is subsequently reduced by the State, the parties must negotiate an equitable reduction in Contractor's charges under such Statement of Work commensurate with the reduction in scope.

2.043 Services/Deliverables Covered

For all Services/Deliverables to be provided by Contractor (and its Subcontractors, if any) under the Contract, the State must not be obligated to pay any amounts in addition to the charges specified in the Contract.

2.044 Invoicing and Payment – In General

(a) Each Statement of Work issued under the Contract must list (or indicate by reference to the appropriate Contract Exhibit) the prices for all Services/Deliverables, equipment and commodities to be provided, and the associated payment milestones and payment amounts.

(b) Each Contractor invoice must show details as to charges by Service/Deliverable component and location at a level of detail reasonably necessary to satisfy the State's accounting and charge-back requirements. Invoices for Services performed on a time and materials basis must show, for each individual, the number of hours of Services performed during the billing period, the billable skill/labor category for such person and the applicable hourly billing rate. Prompt payment by the State is contingent on the Contractor's invoices showing the amount owed by the State minus any holdback amount to be retained by the State in accordance with **Section 1.064**.

(c) Correct invoices will be due and payable by the State, in accordance with the State's standard payment procedure as specified in 1984 PA 279, MCL 17.51 et seq., within 45 days after receipt, provided the State determines that the invoice was properly rendered.

(d) All invoices should reflect actual work done. Specific details of invoices and payments will be agreed upon between the CCI and the Contractor.

The specific payment schedule for any Contract(s) entered into, as the State and the Contractor(s) must mutually agree upon. The schedule must show payment amount and must reflect actual work done by the payment dates, less any penalty cost charges accrued by those dates. As a general policy, invoices must be forwarded to the designated representative by the 15th day of the following month.

The State may make progress payments to the Contractor when requested as work progresses, but not more frequently than monthly, in amounts approved by the CCI, after negotiation. Contractor must show verification of measurable progress at the time of requesting progress payments.

2.045 Pro-ration

To the extent there are any Services that are to be paid for on a monthly basis, the cost of such Services must be pro-rated for any partial month.

2.046 Antitrust Assignment

The Contractor assigns to the State any claim for overcharges resulting from antitrust violations to the extent that those violations concern materials or services supplied by third parties to the Contractor, toward fulfillment of the Contract.



2.047 Final Payment

The making of final payment by the State to Contractor does not constitute a waiver by either party of any rights or other claims as to the other party's continuing obligations under the Contract, nor will it constitute a waiver of any claims by one (1) party against the other arising from unsettled claims or failure by a party to comply with the Contract, including claims for Services and Deliverables not reasonably known until after acceptance to be defective or substandard. Contractor's acceptance of final payment by the State under the Contract must constitute a waiver of all claims by Contractor against the State for payment under the Contract, other than those claims previously filed in writing on a timely basis and still unsettled.

2.048 Electronic Payment Requirement

Electronic transfer of funds is required for payments on State contracts. The Contractor must register with the State electronically at <http://www.cpexpress.state.mi.us>. As stated in 1984 PA 431, all contracts that the State enters into for the purchase of goods and services must provide that payment will be made by Electronic Fund Transfer (EFT).

2.050 Taxes

2.051 Employment Taxes

Contractors are expected to collect and pay all applicable federal, State, and local employment taxes.

2.052 Sales and Use Taxes

Contractors are required to be registered and to remit sales and use taxes on taxable sales of tangible personal property or services delivered into the State. Contractors that lack sufficient presence in Michigan to be required to register and pay tax must do so as a volunteer. This requirement extends to: (1) all members of any controlled group as defined in § 1563(a) of the Internal Revenue Code and applicable regulations of which the company is a member, and (2) all organizations under common control as defined in § 414(c) of the Internal Revenue Code and applicable regulations of which the company is a member that make sales at retail for delivery into the State are registered with the State for the collection and remittance of sales and use taxes. In applying treasury regulations defining "two (2) or more trades or businesses under common control" the term "organization" means sole proprietorship, a partnership (as defined in § 701(a)(2) of the Internal Revenue Code), a trust, an estate, a corporation, or a limited liability company.

2.060 Contract Management

2.061 Contractor Personnel Qualifications

All persons assigned by Contractor to the performance of Services under the Contract must be employees of Contractor or its majority-owned (directly or indirectly, at any tier) subsidiaries (or a State-approved Subcontractor) and must be fully qualified to perform the work assigned to them. Contractor must include a similar provision in any subcontract entered into with a Subcontractor. For the purposes of the Contract, independent contractors engaged by Contractor solely in a staff augmentation role must be treated by the State as if they were employees of Contractor for the Contract only; however, the State understands that the relationship between Contractor and Subcontractor is an independent contractor relationship.

2.062 Contractor Key Personnel

- (a) The Contractor must provide the CCI with the names of the Key Personnel.
- (b) Key Personnel must be dedicated as defined in the Statement of Work to the Project for its duration in the applicable Statement of Work with respect to other individuals designated as Key Personnel for that Statement of Work.
- (c) The State reserves the right to recommend and approve in writing the initial assignment, as well as any proposed reassignment or replacement, of any Key Personnel. Before assigning an individual to any Key Personnel position, Contractor must notify the State of the proposed assignment, must introduce the individual to the appropriate State representatives, and must provide the State with a resume and any other information about the individual reasonably requested by the State. The State reserves the right to interview the individual before granting written approval. In the event the State finds a proposed individual unacceptable, the State must provide a written explanation including reasonable detail outlining the reasons for the rejection.



(d) Contractor must not remove any Key Personnel from their assigned roles on the Contract without the prior written consent of the State. The Contractor's removal of Key Personnel without the prior written consent of the State is an unauthorized removal ("Unauthorized Removal"). Unauthorized Removals does not include replacing Key Personnel for reasons beyond the reasonable control of Contractor, including illness, disability, leave of absence, personal emergency circumstances, resignation or for cause termination of the Key Personnel's employment. Unauthorized Removals does not include replacing Key Personnel because of promotions or other job movements allowed by Contractor personnel policies or Collective Bargaining Agreement(s) as long as the State receives prior written notice before shadowing occurs and Contractor provides 30 days of shadowing unless parties agree to a different time period. The Contractor with the State must review any Key Personnel replacements and appropriate transition planning must be established. Any Unauthorized Removal may be considered by the State to be a material breach of the Contract, in respect of which the State may elect to exercise its termination and cancellation rights.

(e) The Contractor must notify the Contract Compliance Inspector and the Contract Administrator at least 10 business days before redeploying non-Key Personnel, who are dedicated to primarily to the Project, to other projects. If the State does not object to the redeployment by its scheduled date, the Contractor may then redeploy the non-Key Personnel.

2.063 Re-assignment of Personnel at the State's Request

The State reserves the right to require the removal from the Project of Contractor personnel found, in the judgment of the State, to be unacceptable. The State's request must be written with reasonable detail outlining the reasons for the removal request. Additionally, the State's request must be based on legitimate, good-faith reasons. Replacement personnel for the removed person must be fully qualified for the position. If the State exercises this right, and the Contractor cannot immediately replace the removed personnel, the State agrees to an equitable adjustment in schedule or other terms that may be affected by the State's required removal. If any incident with removed personnel results in delay not reasonably anticipatable under the circumstances and which is attributable to the State, the applicable SLAs for the affected Service will not be counted for a time as agreed to by the parties.

2.064 Contractor Personnel Location

All staff assigned by Contractor to work on the Contract must perform their duties either primarily at Contractor's offices and facilities or at State facilities. Without limiting the generality of the foregoing, Key Personnel must, at a minimum, spend at least the amount of time on-site at State facilities as indicated in the applicable Statement of Work. Subject to availability, selected Contractor personnel may be assigned office space to be shared with State personnel.

2.065 Contractor Identification

Contractor employees must be clearly identifiable while on State property by wearing a State-issued badge, as required. Contractor employees are required to clearly identify themselves and the company they work for whenever making contact with State personnel by telephone or other means.

2.066 Cooperation with Third Parties

Contractor must cause its personnel and the personnel of any Subcontractors to cooperate with the State and its agents and other contractors including the State's Quality Assurance personnel. As reasonably requested by the State in writing, the Contractor must provide to the State's agents and other contractors reasonable access to Contractor's Project personnel, systems and facilities to the extent the access relates to activities specifically associated with the Contract and will not interfere or jeopardize the safety or operation of the systems or facilities. The State acknowledges that Contractor's time schedule for the Contract is very specific and must not unnecessarily or unreasonably interfere with, delay, or otherwise impede Contractor's performance under the Contract with the requests for access.

2.067 Contractor Return of State Equipment/Resources

The Contractor must return to the State any State-furnished equipment, facilities, and other resources when no longer required for the Contract in the same condition as when provided by the State, reasonable wear and tear excepted.

2.068 Contract Management Responsibilities

The Contractor must assume responsibility for all contractual activities, whether or not that Contractor performs them. Further, the State considers the Contractor to be the sole point of contact with regard to contractual matters, including payment of any and all charges resulting from the anticipated Contract. If any part of the work is to be subcontracted, the Contract must include a list of Subcontractors, including firm name and address, contact person and a complete description of work to be subcontracted. The State reserves the right to approve Subcontractors and to require the Contractor to replace Subcontractors found to be unacceptable. The Contractor is totally responsible for adherence by the Subcontractor to all provisions of the Contract. Any change in Subcontractors must be approved by the State, in writing, prior to such change.



2.070 Subcontracting by Contractor

2.071 Contractor Full Responsibility

Contractor has full responsibility for the successful performance and completion of all of the Services and Deliverables. The State will consider Contractor to be the sole point of contact with regard to all contractual matters under the Contract, including payment of any and all charges for Services and Deliverables.

2.072 State Consent to Delegation

Contractor must not delegate any duties under the Contract to a Subcontractor unless the Procurement has given written consent to such delegation. The State reserves the right of prior written approval of all Subcontractors and to require Contractor to replace any Subcontractors found, in the reasonable judgment of the State, to be unacceptable. The State's request must be written with reasonable detail outlining the reasons for the removal request. Additionally, the State's request must be based on legitimate, good-faith reasons. Replacement Subcontractor(s) for the removed Subcontractor must be fully qualified for the position. If the State exercises this right, and the Contractor cannot immediately replace the removed Subcontractor, the State will agree to an equitable adjustment in schedule or other terms that may be affected by the State's required removal. If any such incident with a removed Subcontractor results in delay not reasonable anticipatable under the circumstances and which is attributable to the State, the applicable SLA for the affected Work will not be counted for a time agreed upon by the parties.

2.073 Subcontractor Bound to Contract

In any subcontracts entered into by Contractor for the performance of the Services, Contractor must require the Subcontractor, to the extent of the Services to be performed by the Subcontractor, to be bound to Contractor by the terms of the Contract and to assume toward Contractor all of the obligations and responsibilities that Contractor, by the Contract, assumes toward the State. The State reserves the right to receive copies of and review all subcontracts, although Contractor may delete or mask any proprietary information, including pricing, contained in such contracts before providing them to the State. The management of any Subcontractor is the responsibility of Contractor, and Contractor must remain responsible for the performance of its Subcontractors to the same extent as if Contractor had not subcontracted such performance. Contractor must make all payments to Subcontractors or suppliers of Contractor. Except as otherwise agreed in writing by the State and Contractor, the State will not be obligated to direct payments for the Services other than to Contractor. The State's written approval of any Subcontractor engaged by Contractor to perform any obligation under the Contract will not relieve Contractor of any obligations or performance required under the Contract.

2.074 Flow Down

Except where specifically approved in writing by the State on a case-by-case basis, Contractor must flow down the obligations in **Sections 2.031, 2.060, 2.100, 2.110, 2.120, 2.130, 2.200** in all of its agreements with any Subcontractors.

2.075 Competitive Selection

The Contractor must select Subcontractors (including suppliers) on a competitive basis to the maximum practical extent consistent with the objectives and requirements of the Contract.

2.080 State Responsibilities

2.081 Equipment

The State must provide only the equipment and resources identified in the Statements of Work and other Contract Exhibits.

2.082 Facilities

The State must designate space as long as it is available and as provided in the Statement of Work, to house the Contractor's personnel whom the parties agree will perform the Services/Deliverables at State facilities (collectively, the "State Facilities"). The Contractor must have reasonable access to, and, unless agreed otherwise by the parties in writing, must observe and comply with all rules and regulations relating to each of the State Facilities (including hours of operation) used by the Contractor in the course of providing the Services. Contractor must not, without the prior written consent of the State, use any State Facilities or access any State information systems provided for the Contractor's use, or to which the Contractor otherwise gains access in the course of performing the Services, for any purpose other than providing the Services to the State.



2.090 Security

2.091 Background Checks

On a case-by-case basis, the State may investigate the Contractor's personnel before they may have access to State facilities and systems. The scope of the background check is at the discretion of the State and the results will be used to determine Contractor personnel eligibility for working within State facilities and systems. The investigations will include Michigan State Police Background checks (ICHAT) and may include the National Crime Information Center (NCIC) Finger Prints. Proposed Contractor personnel may be required to complete and submit an RI-8 Fingerprint Card for the NCIC Finger Print Check. Any request for background checks will be initiated by the State and will be reasonably related to the type of work requested.

All Contractor personnel must comply with the State's security and acceptable use policies for State IT equipment and resources. See <http://www.michigan.gov/dit>. Furthermore, Contractor personnel must agree to the State's security and acceptable use policies before the Contractor personnel will be accepted as a resource to perform work for the State. The Contractor must present these documents to the prospective employee before the Contractor presents the individual to the State as a proposed resource. Contractor staff must comply with all Physical Security procedures in place within the facilities where they are working.

2.092 Security Breach Notification

If the Contractor breaches this Section, the Contractor must (i) promptly cure any deficiencies and (ii) comply with any applicable federal and state laws and regulations pertaining to unauthorized disclosures. Contractor and the State will cooperate to mitigate, to the extent practicable, the effects of any breach, intrusion, or unauthorized use or disclosure. Contractor must report to the State, in writing, any use or disclosure of Confidential Information, whether suspected or actual, other than as provided for by the Contract within 10 days of becoming aware of the use or disclosure or the shorter time period as is reasonable under the circumstances.

2.093 PCI Data Security Requirements – Deleted – N/A

2.100 Confidentiality

2.101 Confidentiality

Contractor and the State each acknowledge that the other possesses, and will continue to possess, confidential information that has been developed or received by it. As used in this Section, "Confidential Information" of Contractor must mean all non-public proprietary information of Contractor (other than Confidential Information of the State as defined below) which is marked confidential, restricted, proprietary, or with a similar designation. "Confidential Information" of the State must mean any information which is retained in confidence by the State (or otherwise required to be held in confidence by the State under applicable federal, state and local laws and regulations) or which, in the case of tangible materials provided to Contractor by the State under its performance under the Contract, is marked as confidential, proprietary, or with a similar designation by the State. "Confidential Information" excludes any information (including the Contract) that is publicly available under the Michigan FOIA.

2.102 Protection and Destruction of Confidential Information

The State and Contractor must each use at least the same degree of care to prevent disclosing to third parties the Confidential Information of the other as it employs to avoid unauthorized disclosure, publication, or dissemination of its own confidential information of like character, but in no event less than reasonable care. Neither Contractor nor the State will (i) make any use of the Confidential Information of the other except as contemplated by the Contract, (ii) acquire any right in or assert any lien against the Confidential Information of the other, or (iii) if requested to do so, refuse for any reason to promptly return the other party's Confidential Information to the other party. Each party must limit disclosure of the other party's Confidential Information to employees and Subcontractors who must have access to fulfill the purposes of the Contract. Disclosure to, and use by, a Subcontractor is permissible where (A) use of a Subcontractor is authorized under the Contract, (B) the disclosure is necessary or otherwise naturally occurs in connection with work that is within the Subcontractor's scope of responsibility, and (C) Contractor obligates the Subcontractor in a written Contract to maintain the State's Confidential Information in confidence. At the State's request, any employee of Contractor and of any Subcontractor having access or continued access to the State's Confidential Information may be required to execute an acknowledgment that the employee has been advised of Contractor's and the Subcontractor's obligations under this Section and of the employee's obligation to Contractor or Subcontractor, as the case may be, to protect the Confidential Information from unauthorized use or disclosure.

Promptly upon termination or cancellation of the Contract for any reason, Contractor must certify to the State that Contractor has destroyed all State Confidential Information.



2.103 Exclusions

Notwithstanding the foregoing, the provisions of **Section 2.100** will not apply to any particular information which the State or Contractor can demonstrate (i) was, at the time of disclosure to it, in the public domain; (ii) after disclosure to it, is published or otherwise becomes part of the public domain through no fault of the receiving party; (iii) was in the possession of the receiving party at the time of disclosure to it without an obligation of confidentiality; (iv) was received after disclosure to it from a third party who had a lawful right to disclose the information to it without any obligation to restrict its further disclosure; or (v) was independently developed by the receiving party without reference to Confidential Information of the furnishing party. Further, the provisions of **Section 2.100** will not apply to any particular Confidential Information to the extent the receiving party is required by law to disclose the Confidential Information, provided that the receiving party (i) promptly provides the furnishing party with notice of the legal request, and (ii) assists the furnishing party in resisting or limiting the scope of the disclosure as reasonably requested by the furnishing party.

2.104 No Implied Rights

Nothing contained in this Section must be construed as obligating a party to disclose any particular Confidential Information to the other party, or as granting to or conferring on a party, expressly or impliedly, any right or license to the Confidential Information of the other party.

2.105 Respective Obligations

The parties' respective obligations under this Section must survive the termination or expiration of the Contract for any reason.

2.110 Records and Inspections

2.111 Inspection of Work Performed

The State's authorized representatives must at all reasonable times and with 10 days prior written request, have the right to enter Contractor's premises, or any other places, where the Services are being performed, and must have access, upon reasonable request, to interim drafts of Deliverables or work-in-progress. Upon 10 Days prior written notice and at all reasonable times, the State's representatives must be allowed to inspect, monitor, or otherwise evaluate the work being performed and to the extent that the access will not reasonably interfere or jeopardize the safety or operation of the systems or facilities. Contractor must provide all reasonable facilities and assistance for the State's representatives.

2.112 Examination of Records

For seven years after the Contractor provides any work under the Contract (the "Audit Period"), the State may examine and copy any of Contractor's books, records, documents and papers pertinent to establishing Contractor's compliance with the Contract and with applicable laws and rules. The State must notify the Contractor 20 days before examining the Contractor's books and records. The State does not have the right to review any information deemed confidential by the Contractor to the extent access would require the confidential information to become publicly available. This provision also applies to the books, records, accounts, documents and papers, in print or electronic form, of any parent, affiliated or subsidiary organization of Contractor, or any Subcontractor of Contractor performing services in connection with the Contract.

2.113 Retention of Records

Contractor must maintain at least until the end of the Audit Period, all pertinent financial and accounting records (including time sheets and payroll records, information pertaining to the Contract, and to the Services, equipment, and commodities provided under the Contract) pertaining to the Contract according to generally accepted accounting principles and other procedures specified in this Section. Financial and accounting records must be made available, upon request, to the State at any time during the Audit Period. If an audit, litigation, or other action involving Contractor's records is initiated before the end of the Audit Period, the records must be retained until all issues arising out of the audit, litigation, or other action are resolved or until the end of the Audit Period, whichever is later.

2.114 Audit Resolution

If necessary, the Contractor and the State will meet to review each audit report promptly after issuance. The Contractor must respond to each audit report in writing within 30 days from receipt of the report, unless a shorter response time is specified in the report. The Contractor and the State must develop, agree upon and monitor an action plan to promptly address and resolve any deficiencies, concerns, and/or recommendations in the audit report.

**2.115 Errors**

(a) If the audit demonstrates any errors in the documents provided to the State, then the amount in error must be reflected as a credit or debit on the next invoice and in subsequent invoices until the amount is paid or refunded in full. However, a credit or debit may not be carried for more than four invoices. If a balance remains after four invoices, then the remaining amount will be due as a payment or refund within 45 days of the last quarterly invoice that the balance appeared on or termination of the Contract, whichever is earlier.

(b) In addition to other available remedies, the difference between the payment received and the correct payment amount is greater than 10%, then the Contractor must pay all of the reasonable costs of the audit.

2.120 Warranties**2.121 Warranties and Representations**

The Contractor represents and warrants:

(a) It is capable in all respects of fulfilling and must fulfill all of its obligations under the Contract. The performance of all obligations under the Contract must be provided in a timely, professional, and workman-like manner and must meet the performance and operational standards required under the Contract.

(b) The Contract Appendices, Attachments and Exhibits identify the equipment and software and services necessary for the Deliverable(s) to perform and Services to operate in compliance with the Contract's requirements and other standards of performance.

(c) It is the lawful owner or licensee of any Deliverable licensed or sold to the State by Contractor or developed by Contractor under the Contract, and Contractor has all of the rights necessary to convey to the State the ownership rights or licensed use, as applicable, of any and all Deliverables. None of the Deliverables provided by Contractor to the State under the Contract, nor their use by the State, will infringe the patent, copyright, trade secret, or other proprietary rights of any third party.

(d) If, under the Contract, Contractor procures any equipment, software or other Deliverable for the State (including equipment, software and other Deliverables manufactured, re-marketed or otherwise sold by Contractor under Contractor's name), then in addition to Contractor's other responsibilities with respect to the items in the Contract, Contractor must assign or otherwise transfer to the State or its designees, or afford the State the benefits of, any manufacturer's warranty for the Deliverable.

(e) The Contract signatory has the power and authority, including any necessary corporate authorizations, necessary to enter into the Contract, on behalf of Contractor.

(f) It is qualified and registered to transact business in all locations where required.

(g) Neither the Contractor nor any affiliates, nor any employee of either, has, must have, or must acquire, any contractual, financial, business, or other interest, direct or indirect, that would conflict in any manner or degree with Contractor's performance of its duties and responsibilities to the State under the Contract or otherwise create an appearance of impropriety with respect to the award or performance of this Agreement. Contractor must notify the State about the nature of the conflict or appearance of impropriety within two days of learning about it.

(h) If any of the certifications, representations, or disclosures made in the Contractor's original bid response change after the Contract start date, the Contractor must report those changes immediately to Procurement.

2.122 Warranty of Merchantability

Goods provided by Contractor under this agreement must be merchantable. All goods provided under the Contract must be of good quality within the description given by the State, must be fit for their ordinary purpose, must be adequately contained and packaged within the description given by the State, must conform to the agreed upon specifications, and must conform to the affirmations of fact made by the Contractor or on the container or label.

2.123 Warranty of Fitness for a Particular Purpose

When the Contractor has reason to know or knows any particular purpose for which the goods are required, and the State is relying on the Contractor's skill or judgment to select or furnish suitable goods, there is a warranty that the goods are fit for such purpose.



2.124 Warranty of Title

Contractor must, in providing goods to the State, convey good title in those goods, whose transfer is right and lawful. All goods provided by Contractor must be delivered free from any security interest, lien, or encumbrance of which the State, at the time of contracting, has no knowledge. Goods provided by Contractor, under the Contract, must be delivered free of any rightful claim of any third person by of infringement or the like.

2.125 Equipment Warranty – Deleted – N/A

2.126 Equipment to be New

If applicable, all equipment provided under the Contract by Contractor must be new where Contractor has knowledge regarding whether the equipment is new or assembled from new or serviceable used parts that are like new in performance or has the option of selecting one or the other. Equipment that is assembled from new or serviceable used parts that are like new in performance is acceptable where Contractor does not have knowledge or the ability to select one or other, unless specifically agreed otherwise in writing by the State.

2.127 Prohibited Products

The State will not accept salvage, distressed, outdated or discontinued merchandise. Shipping of such merchandise to any State agency, as a result of an order placed against the Contract, is considered default by the Contractor of the terms and conditions of the Contract and may result in cancellation of the Contract by the State. The brand and product number offered for all items must remain consistent for the term of the Contract, unless Procurement has approved a change order pursuant to **Section 2.024**.

2.128 Consequences For Breach

In addition to any remedies available in law, if the Contractor breaches any of the warranties contained in this section, the breach may be considered as a default in the performance of a material obligation of the Contract.

2.130 Insurance

2.131 Liability Insurance

The Contractor must provide proof of the minimum levels of insurance coverage as indicated below. The insurance must protect the State from claims which may arise out of or result from the Contractor's performance of Services under the terms of the Contract, whether the Services are performed by the Contractor, or by any Subcontractor, or by anyone directly or indirectly employed by any of them, or by anyone for whose acts they may be liable.

The Contractor waives all rights against the State of Michigan, its departments, divisions, agencies, offices, commissions, officers, employees and agents for recovery of damages to the extent these damages are covered by the insurance policies the Contractor is required to maintain under the Contract.

All insurance coverage's provided relative to the Contract/Purchase Order are PRIMARY and NON-CONTRIBUTING to any comparable liability insurance (including self-insurances) carried by the State.

The insurance must be written for not less than any minimum coverage specified in the Contract or required by law, whichever is greater.

The insurers selected by Contractor must have an A.M. Best rating of A or better, or as otherwise approved in writing by the State, or if the ratings are no longer available, with a comparable rating from a recognized insurance rating agency. All policies of insurance required in the Contract must be issued by companies that have been approved to do business in the State. See www.michigan.gov/deleg.

Where specific limits are shown, they are the minimum acceptable limits. If Contractor's policy contains higher limits, the State must be entitled to coverage to the extent of the higher limits.



The Contractor is required to pay for and provide the type and amount of insurance checked below:

- 1. Commercial General Liability with the following minimum coverage:
 - \$2,000,000 General Aggregate Limit other than Products/Completed Operations
 - \$2,000,000 Products/Completed Operations Aggregate Limit
 - \$1,000,000 Personal & Advertising Injury Limit
 - \$1,000,000 Each Occurrence Limit

The Contractor must list the State of Michigan, its departments, divisions, agencies, offices, commissions, officers, employees and agents as ADDITIONAL INSUREDS on the Commercial General Liability certificate. The Contractor also agrees to provide evidence that insurance policies contain a waiver of subrogation by the insurance company.

- 2. If a motor vehicle is used to provide services or products under the Contract, the Contractor must have vehicle liability insurance on any auto including owned, hired and non-owned vehicles used in Contractor's business for bodily injury and property damage as required by law.

The Contractor must list the State of Michigan, its departments, divisions, agencies, offices, commissions, officers, employees and agents as ADDITIONAL INSUREDS on the vehicle liability certificate. The Contractor also agrees to provide evidence that insurance policies contain a waiver of subrogation by the insurance company.

- 3. Workers' compensation coverage must be provided according to applicable laws governing the employees and employers work activities in the state of the Contractor's domicile. If the applicable coverage is provided by a self-insurer, proof must be provided of approved self-insured authority by the jurisdiction of domicile. For employees working outside of the state of qualification, Contractor must provide appropriate certificates of insurance proving mandated coverage levels for the jurisdictions where the employees' activities occur.

Any certificates of insurance received must also provide a list of states where the coverage is applicable.

The Contractor also agrees to provide evidence that insurance policies contain a waiver of subrogation by the insurance company. This provision must not be applicable where prohibited or limited by the laws of the jurisdiction in which the work is to be performed.

- 4. Employers liability insurance with the following minimum limits:
 - \$100,000 each accident
 - \$100,000 each employee by disease
 - \$500,000 aggregate disease

- 5. Employee Fidelity, including Computer Crimes, insurance naming the State as a loss payee, providing coverage for direct loss to the State and any legal liability of the State arising out of or related to fraudulent or dishonest acts committed by the employees of Contractor or its Subcontractors, acting alone or in collusion with others, in a minimum amount of \$1,000,000.00 with a maximum deductible of \$50,000.00.

- 6. Umbrella or Excess Liability Insurance in a minimum amount of ten million dollars (\$10,000,000.00), which must apply, at a minimum, to the insurance required in Subsection 1 (Commercial General Liability) above.

- 7. Professional Liability (Errors and Omissions) Insurance with the following minimum coverage: \$3,000,000.00 each occurrence and \$3,000,000.00 annual aggregate.

- 8. Fire and Personal Property Insurance covering against any loss or damage to the office space used by Contractor for any reason under the Contract, and the equipment, software and other contents of the office space, including without limitation, those contents used by Contractor to provide the Services to the State, up to its replacement value, where the office space and its contents are under the care, custody and control of Contractor. The policy must cover all risks of direct physical loss or damage, including without limitation, flood and earthquake coverage and coverage for computer hardware and software. The State must be endorsed on the policy as a loss payee as its interests appear.



2.132 Subcontractor Insurance Coverage

Except where the State has approved in writing a Contractor subcontract with other insurance provisions, Contractor must require all of its Subcontractors under the Contract to purchase and maintain the insurance coverage as described in this Section for the Contractor in connection with the performance of work by those Subcontractors. Alternatively, Contractor may include any Subcontractors under Contractor's insurance on the coverage required in this Section. Subcontractor must fully comply with the insurance coverage required in this Section. Failure of Subcontractor to comply with insurance requirements does not limit Contractor's liability or responsibility.

2.133 Certificates of Insurance and Other Requirements

Contractor must furnish to Procurement, certificate(s) of insurance verifying insurance coverage or providing satisfactory evidence of self-insurance as required in this Section (the "Certificates"). The Certificate must be on the standard "accord" form or equivalent. **THE CONTRACT OR PURCHASE ORDER NO. MUST BE SHOWN ON THE CERTIFICATE OF INSURANCE TO ASSURE CORRECT FILING.** All Certificate(s) are to be prepared and submitted by the Insurance Provider. All Certificate(s) must contain a provision indicating that coverages afforded under the policies **MUST NOT BE CANCELLED, MATERIALLY CHANGED, OR NOT RENEWED** without 30 days prior written notice, except for 10 days for non-payment of premium, having been given to the Chief Procurement Officer of Procurement. The notice must include the Contract or Purchase Order number affected. Before the Contract is signed, and not less than 20 days before the insurance expiration date every year thereafter, the Contractor must provide evidence that the State and its agents, officers and employees are listed as additional insureds under each commercial general liability and commercial automobile liability policy. In the event the State approves the representation of the State by the insurer's attorney, the attorney may be required to be designated as a Special Assistant Attorney General by the Attorney General of the State of Michigan.

The Contractor must maintain all required insurance coverage throughout the term of the Contract and any extensions and, in the case of claims-made Commercial General Liability policies, must secure tail coverage for at least three years following the expiration or termination for any reason of the Contract. The minimum limits of coverage specified above are not intended, and must not be construed, to limit any liability or indemnity of Contractor under the Contract to any indemnified party or other persons. Contractor is responsible for all deductibles with regard to the insurance. If the Contractor fails to pay any premium for required insurance as specified in the Contract, or if any insurer cancels or significantly reduces any required insurance as specified in the Contract without the State's written consent, then the State may, after the State has given the Contractor at least 30 days written notice, pay the premium or procure similar insurance coverage from another company or companies. The State may deduct any part of the cost from any payment due the Contractor, or the Contractor must pay that cost upon demand by the State.

2.140 Indemnification

2.141 General Indemnification

To the extent permitted by law, the Contractor must indemnify, defend and hold harmless the State from liability, including all claims and losses, and all related costs and expenses (including reasonable attorneys' fees and costs of investigation, litigation, settlement, judgments, interest and penalties), accruing or resulting to any person, firm or corporation that may be injured or damaged by the Contractor in the performance of the Contract and that are attributable to the negligence or tortious acts of the Contractor or any of its Subcontractors, or by anyone else for whose acts any of them may be liable.

2.142 Code Indemnification

To the extent permitted by law, the Contractor must indemnify, defend and hold harmless the State from any claim, loss, or expense arising from Contractor's breach of the No Surreptitious Code Warranty.

2.143 Employee Indemnification

In any claims against the State of Michigan, its departments, divisions, agencies, sections, commissions, officers, employees and agents, by any employee of the Contractor or any of its Subcontractors, the indemnification obligation under the Contract must not be limited in any way by the amount or type of damages, compensation or benefits payable by or for the Contractor or any of its Subcontractors under worker's disability compensation acts, disability benefit acts or other employee benefit acts. This indemnification clause is intended to be comprehensive. Any overlap in provisions, or the fact that greater specificity is provided as to some categories of risk, is not intended to limit the scope of indemnification under any other provisions.



2.144 Patent/Copyright Infringement Indemnification

To the extent permitted by law, the Contractor must indemnify, defend and hold harmless the State from and against all losses, liabilities, damages (including taxes), and all related costs and expenses (including reasonable attorneys' fees and costs of investigation, litigation, settlement, judgments, interest and penalties) incurred in connection with any action or proceeding threatened or brought against the State to the extent that the action or proceeding is based on a claim that any piece of equipment, software, commodity or service supplied by the Contractor or its Subcontractors, or the operation of the equipment, software, commodity or service, or the use or reproduction of any documentation provided with the equipment, software, commodity or service infringes any United States patent, copyright, trademark or trade secret of any person or entity, which is enforceable under the laws of the United States.

In addition, should the equipment, software, commodity, or service, or its operation, become or in the State's or Contractor's opinion be likely to become the subject of a claim of infringement, the Contractor must at the Contractor's sole expense (i) procure for the State the right to continue using the equipment, software, commodity or service or, if the option is not reasonably available to the Contractor, (ii) replace or modify to the State's satisfaction the same with equipment, software, commodity or service of equivalent function and performance so that it becomes non-infringing, or, if the option is not reasonably available to Contractor, (iii) accept its return by the State with appropriate credits to the State against the Contractor's charges and reimburse the State for any losses or costs incurred as a consequence of the State ceasing its use and returning it.

Notwithstanding the foregoing, the Contractor has no obligation to indemnify or defend the State for, or to pay any costs, damages or attorneys' fees related to, any claim based upon (i) equipment developed based on written specifications of the State; (ii) use of the equipment in a configuration other than implemented or approved in writing by the Contractor, including, but not limited to, any modification of the equipment by the State; or (iii) the combination, operation, or use of the equipment with equipment or software not supplied by the Contractor under the Contract.

2.145 Continuation of Indemnification Obligations

The Contractor's duty to indemnify under this Section continues in full force and effect, notwithstanding the expiration or early cancellation of the Contract, with respect to any claims based on facts or conditions that occurred before expiration or cancellation.

2.146 Indemnification Procedures

The procedures set forth below must apply to all indemnity obligations under the Contract.

(a) After the State receives notice of the action or proceeding involving a claim for which it will seek indemnification, the State must promptly notify Contractor of the claim in writing and take or assist Contractor in taking, as the case may be, any reasonable action to avoid the imposition of a default judgment against Contractor. No failure to notify the Contractor relieves the Contractor of its indemnification obligations except to the extent that the Contractor can prove damages attributable to the failure. Within 10 days following receipt of written notice from the State relating to any claim, the Contractor must notify the State in writing whether Contractor agrees to assume control of the defense and settlement of that claim (a "Notice of Election"). After notifying Contractor of a claim and before the State receiving Contractor's Notice of Election, the State is entitled to defend against the claim, at the Contractor's expense, and the Contractor will be responsible for any reasonable costs incurred by the State in defending against the claim during that period.

(b) If Contractor delivers a Notice of Election relating to any claim: (i) the State is entitled to participate in the defense of the claim and to employ counsel at its own expense to assist in the handling of the claim and to monitor and advise the State about the status and progress of the defense; (ii) the Contractor must, at the request of the State, demonstrate to the reasonable satisfaction of the State, the Contractor's financial ability to carry out its defense and indemnity obligations under the Contract; (iii) the Contractor must periodically advise the State about the status and progress of the defense and must obtain the prior written approval of the State before entering into any settlement of the claim or ceasing to defend against the claim and (iv) to the extent that any principles of Michigan governmental or public law may be involved or challenged, the State has the right, at its own expense, to control the defense of that portion of the claim involving the principles of Michigan governmental or public law. But the State may retain control of the defense and settlement of a claim by notifying the Contractor in writing within 10 days after the State's receipt of Contractor's information requested by the State under clause (ii) of this paragraph if the State determines that the Contractor has failed to demonstrate to the reasonable satisfaction of the State the Contractor's financial ability to carry out its defense and indemnity obligations under this Section. Any litigation activity on behalf of the State, or any of its subdivisions under this Section, must be coordinated with the Department of Attorney General. In the event the insurer's attorney represents the State under this Section, the insurer's attorney may be required to be designated as a Special Assistant Attorney General by the Attorney General of the State of Michigan.



(c) If Contractor does not deliver a Notice of Election relating to any claim of which it is notified by the State as provided above, the State may defend the claim in the manner as it may deem appropriate, at the cost and expense of Contractor. If it is determined that the claim was one against which Contractor was required to indemnify the State, upon request of the State, Contractor must promptly reimburse the State for all the reasonable costs and expenses.

2.150 Termination/Cancellation

2.151 Notice and Right to Cure

If the Contractor breaches the Contract, and the State, in its sole discretion, determines that the breach is curable, then the State must provide the Contractor with written notice of the breach and a time period (not less than 30 days) to cure the Breach. The notice of breach and opportunity to cure is inapplicable for successive or repeated breaches or if the State determines in its sole discretion that the breach poses a serious and imminent threat to the health or safety of any person or the imminent loss, damage, or destruction of any real or tangible personal property.

2.152 Termination for Cause

(a) The State may terminate the Contract, for cause, by notifying the Contractor in writing, if the Contractor (i) breaches any of its material duties or obligations under the Contract (including a Chronic Failure to meet any particular SLA), or (ii) fails to cure a breach within the time period specified in the written notice of breach provided by the State

(b) If the Contract is terminated for cause, the Contractor must pay all costs incurred by the State in terminating the Contract, including but not limited to, State administrative costs, reasonable attorneys' fees and court costs, and any reasonable additional costs the State may incur to procure the Services/Deliverables required by the Contract from other sources. Re-procurement costs are not consequential, indirect or incidental damages, and cannot be excluded by any other terms otherwise included in the Contract, provided the costs are not in excess of 50% more than the prices for the Service/Deliverables provided under the Contract.

(c) If the State chooses to partially terminate the Contract for cause, charges payable under the Contract will be equitably adjusted to reflect those Services/Deliverables that are terminated and the State must pay for all Services/Deliverables for which Final Acceptance has been granted provided up to the termination date. Services and related provisions of the Contract that are terminated for cause must cease on the effective date of the termination.

(d) If the State terminates the Contract for cause under this Section, and it is determined, for any reason, that Contractor was not in breach of contract under the provisions of this section, that termination for cause must be deemed to have been a termination for convenience, effective as of the same date, and the rights and obligations of the parties must be limited to that otherwise provided in the Contract for a termination for convenience.

2.153 Termination for Convenience

The State may terminate the Contract for its convenience, in whole or part, if the State determines that a termination is in the State's best interest. Reasons for the termination must be left to the sole discretion of the State and may include, but not necessarily be limited to (a) the State no longer needs the Services or products specified in the Contract, (b) relocation of office, program changes, changes in laws, rules, or regulations make implementation of the Services no longer practical or feasible, (c) unacceptable prices for Additional Services or New Work requested by the State, or (d) falsification or misrepresentation, by inclusion or non-inclusion, of information material to a response to any RFP issued by the State. The State may terminate the Contract for its convenience, in whole or in part, by giving Contractor written notice at least 30 days before the date of termination. If the State chooses to terminate the Contract in part, the charges payable under the Contract must be equitably adjusted to reflect those Services/Deliverables that are terminated. Services and related provisions of the Contract that are terminated for cause must cease on the effective date of the termination.

2.154 Termination for Non-Appropriation

(a) Contractor acknowledges that, if the Contract extends for several fiscal years, continuation of the Contract is subject to appropriation or availability of funds for the Contract. If funds to enable the State to effect continued payment under the Contract are not appropriated or otherwise made available, the State must terminate the Contract and all affected Statements of Work, in whole or in part, at the end of the last period for which funds have been appropriated or otherwise made available by giving written notice of termination to Contractor. The State must give Contractor at least 30 days advance written notice of termination for non-appropriation or unavailability (or the time as is available if the State receives notice of the final decision less than 30 days before the funding cutoff).



(b) If funding for the Contract is reduced by law, or funds to pay Contractor for the agreed-to level of the Services or production of Deliverables to be provided by Contractor are not appropriated or otherwise unavailable, the State may, upon 30 days written notice to Contractor, reduce the level of the Services or the change the production of Deliverables in the manner and for the periods of time as the State may elect. The charges payable under the Contract will be equitably adjusted to reflect any equipment, services or commodities not provided by reason of the reduction.

(c) If the State terminates the Contract, eliminates certain Deliverables, or reduces the level of Services to be provided by Contractor under this Section, the State must pay Contractor for all Work-in-Process performed through the effective date of the termination or reduction in level, as the case may be and as determined by the State, to the extent funds are available. This Section will not preclude Contractor from reducing or stopping Services/Deliverables or raising against the State in a court of competent jurisdiction, any claim for a shortfall in payment for Services performed or Deliverables finally accepted before the effective date of termination.

2.155 Termination for Criminal Conviction

The State may terminate the Contract immediately and without further liability or penalty in the event Contractor, an officer of Contractor, or an owner of a 25% or greater share of Contractor is convicted of a criminal offense related to a State, public or private Contract or subcontract.

2.156 Termination for Approvals Rescinded

The State may terminate the Contract if any final administrative or judicial decision or adjudication disapproves a previously approved request for purchase of personal services under Constitution 1963, Article 11, § 5, and Civil Service Rule 7-1. In that case, the State must pay the Contractor for only the work completed to that point under the Contract. Termination may be in whole or in part and may be immediate as of the date of the written notice to Contractor or may be effective as of the date stated in the written notice.

2.157 Rights and Obligations upon Termination

(a) If the State terminates the Contract for any reason, the Contractor must (a) stop all work as specified in the notice of termination, (b) take any action that may be necessary, or that the State may direct, for preservation and protection of Deliverables or other property derived or resulting from the Contract that may be in Contractor's possession, (c) return all materials and property provided directly or indirectly to Contractor by any entity, agent or employee of the State, (d) transfer title in, and deliver to, the State, unless otherwise directed, all Deliverables intended to be transferred to the State at the termination of the Contract and which are resulting from the Contract (which must be provided to the State on an "As-Is" basis except to the extent the amounts paid by the State in respect of the items included compensation to Contractor for the provision of warranty services in respect of the materials), and (e) take any action to mitigate and limit any potential damages, or requests for Contractor adjustment or termination settlement costs, to the maximum practical extent, including terminating or limiting as otherwise applicable those subcontracts and outstanding orders for material and supplies resulting from the terminated Contract.

(b) If the State terminates the Contract before its expiration for its own convenience, the State must pay Contractor for all charges due for Services provided before the date of termination and, if applicable, as a separate item of payment under the Contract, for Work In Process, on a percentage of completion basis at the level of completion determined by the State. All completed or partially completed Deliverables prepared by Contractor under the Contract, at the option of the State, becomes the State's property, and Contractor is entitled to receive equitable fair compensation for the Deliverables. Regardless of the basis for the termination, the State is not obligated to pay, or otherwise compensate, Contractor for any lost expected future profits, costs or expenses incurred with respect to Services not actually performed for the State.

(c) Upon a good faith termination, the State may assume, at its option, any subcontracts and agreements for Services and Deliverables provided under the Contract, and may further pursue completion of the Services/Deliverables under the Contract by replacement contract or otherwise as the State may in its sole judgment deem expedient.

2.158 Reservation of Rights

Any termination of the Contract or any Statement of Work issued under it by a party must be with full reservation of, and without prejudice to, any rights or remedies otherwise available to the party with respect to any claims arising before or as a result of the termination.



2.160 Termination by Contractor

2.161 Termination by Contractor

If the State breaches the Contract, and the Contractor in its sole discretion determines that the breach is curable, then the Contractor will provide the State with written notice of the breach and a time period (not less than 30 days) to cure the breach. The Notice of Breach and opportunity to cure is inapplicable for successive and repeated breaches.

The Contractor may terminate the Contract if the State (i) materially breaches its obligation to pay the Contractor undisputed amounts due and owing under the Contract, (ii) breaches its other obligations under the Contract to an extent that makes it impossible or commercially impractical for the Contractor to perform the Services, or (iii) does not cure the breach within the time period specified in a written notice of breach. But the Contractor must discharge its obligations under **Section 2.190** before it terminates the Contract.

2.170 Transition Responsibilities

2.171 Contractor Transition Responsibilities

If the State terminates the Contract, for convenience or cause, or if the Contract is otherwise dissolved, voided, rescinded, nullified, expires or rendered unenforceable, the Contractor agrees to comply with direction provided by the State to assist in the orderly transition of equipment, services, software, leases, etc. to the State or a third party designated by the State. If the Contract expires or terminates, the Contractor agrees to make all reasonable efforts to effect an orderly transition of services within a reasonable period of time that in no event will exceed 60 days. These efforts must include, but are not limited to, those listed in **Sections 2.171, 2.172, 2.173, 2.174, and 2.175**.

2.172 Contractor Personnel Transition

The Contractor must work with the State, or a specified third party, to develop a transition plan setting forth the specific tasks and schedule to be accomplished by the parties to effect an orderly transition. The Contractor must allow as many personnel as practicable to remain on the job to help the State, or a specified third party, maintain the continuity and consistency of the services required by the Contract. In addition, during or following the transition period, in the event the State requires the Services of the Contractor's Subcontractors or vendors, as necessary to meet its needs, Contractor agrees to reasonably, and with good-faith, work with the State to use the Services of Contractor's Subcontractors or vendors. Contractor must notify all of Contractor's subcontractors of procedures to be followed during transition.

2.173 Contractor Information Transition

The Contractor agrees to provide reasonable detailed specifications for all Services/Deliverables needed by the State, or specified third party, to properly provide the Services/Deliverables required under the Contract. The Contractor must provide the State with asset management data generated from the inception of the Contract through the date on which the Contractor is terminated in a comma-delineated format unless otherwise requested by the State. The Contractor must deliver to the State any remaining owed reports and documentation still in Contractor's possession subject to appropriate payment by the State.

2.174 Contractor Software Transition

The Contractor must reasonably assist the State in the acquisition of any Contractor software required to perform the Services/use the Deliverables under the Contract. This must include any documentation being used by the Contractor to perform the Services under the Contract. If the State transfers any software licenses to the Contractor, those licenses must, upon expiration of the Contract, transfer back to the State at their current revision level. Upon notification by the State, Contractor may be required to freeze all non-critical changes to Deliverables/Services.

2.175 Transition Payments

If the transition results from a termination for any reason, reimbursement must be governed by the termination provisions of the Contract. If the transition results from expiration, the Contractor will be reimbursed for all reasonable transition costs (i.e. costs incurred within the agreed period after contract expiration that result from transition operations) at the rates agreed upon by the State. The Contractor must prepare an accurate accounting from which the State and Contractor may reconcile all outstanding accounts.

2.176 State Transition Responsibilities

In the event that the Contract is terminated, dissolved, voided, rescinded, nullified, or otherwise rendered unenforceable, the State agrees to perform the following obligations, and any others upon which the State and the Contractor agree:

- (a) Reconciling all accounts between the State and the Contractor;
- (b) Completing any pending post-project reviews.



2.180 Stop Work

2.181 Stop Work Orders

The State may, at any time, by written stop work order to Contractor, require that Contractor stop all, or any part, of the work called for by the Contract for a period of up to 90 calendar days after the stop work order is delivered to Contractor, and for any further period to which the parties may agree. The stop work order must be identified as a stop work order and must indicate that it is issued under this **Section 2.180**. Upon receipt of the stop work order, Contractor must immediately comply with its terms and take all reasonable steps to minimize incurring costs allocable to the work covered by the stop work order during the period of work stoppage. Within the period of the stop work order, the State must either: (a) cancel the stop work order; or (b) terminate the work covered by the stop work order as provided in **Section 2.150**.

2.182 Cancellation or Expiration of Stop Work Order

The Contractor must resume work if the State cancels a Stop Work Order or if it expires. The parties will agree upon an equitable adjustment in the delivery schedule, the Contract price, or both, and the Contract must be modified, in writing, accordingly, if: (a) the stop work order results in an increase in the time required for, or in Contractor's costs properly allocable to, the performance of any part of the Contract; and (b) Contractor asserts its right to an equitable adjustment within 30 calendar days after the end of the period of work stoppage; provided that, if the State decides the facts justify the action, the State may receive and act upon a Contractor proposal submitted at any time before final payment under the Contract. Any adjustment must conform to the requirements of **Section 2.024**.

2.183 Allowance of Contractor Costs

If the stop work order is not canceled and the work covered by the stop work order is terminated for reasons other than material breach, the termination must be deemed to be a termination for convenience under **Section 2.150**, and the State will pay reasonable costs resulting from the stop work order in arriving at the termination settlement. For the avoidance of doubt, the State is not liable to Contractor for loss of profits because of a stop work order issued under this **Section 2.180**.

2.190 Dispute Resolution

2.191 In General

Any claim, counterclaim, or dispute between the State and Contractor arising out of or relating to the Contract or any Statement of Work must be resolved as follows. For all Contractor claims seeking an increase in the amounts payable to Contractor under the Contract, or the time for Contractor's performance, Contractor must submit a letter, together with all data supporting the claims, executed by Contractor's Contract Administrator or the Contract Administrator's designee certifying that (a) the claim is made in good faith, (b) the amount claimed accurately reflects the adjustments in the amounts payable to Contractor or the time for Contractor's performance for which Contractor believes the State is liable and covers all costs of every type to which Contractor is entitled from the occurrence of the claimed event, and (c) the claim and the supporting data are current and complete to Contractor's best knowledge and belief.

2.192 Informal Dispute Resolution

(a) All disputes between the parties must be resolved under the Contract Management procedures in the Contract. If the parties are unable to resolve any disputes after compliance with the processes, the parties must meet with the Chief Procurement Officer of Procurement, or designee, for the purpose of attempting to resolve the dispute without the need for formal legal proceedings, as follows:

- (i) The representatives of Contractor and the State must meet as often as the parties reasonably deem necessary to gather and furnish to each other all information with respect to the matter in issue which the parties believe to be appropriate and germane in connection with its resolution. The representatives must discuss the problem and negotiate in good faith in an effort to resolve the dispute without the necessity of any formal proceeding.
- (ii) During the course of negotiations, all reasonable requests made by one party to another for non-privileged information reasonably related to the Contract must be honored in order that each of the parties may be fully advised of the other's position.
- (iii) The specific format for the discussions will be left to the discretion of the designated State and Contractor representatives, but may include the preparation of agreed upon statements of fact or written statements of position.
- (iv) Following the completion of this process within 60 calendar days, the Chief Procurement Officer of Procurement, or designee, must issue a written opinion regarding the issue(s) in dispute within 30 calendar days. The opinion regarding the dispute must be considered the State's final action and the exhaustion of administrative remedies.



(b) This Section must not be construed to prevent either party from instituting, and a party is authorized to institute, formal proceedings earlier to avoid the expiration of any applicable limitations period, to preserve a superior position with respect to other creditors, or under **Section 2.193**.

(c) The State will not mediate disputes between the Contractor and any other entity, except state agencies, concerning responsibility for performance of work under the Contract.

2.193 Injunctive Relief

The only circumstance in which disputes between the State and Contractor will not be subject to the provisions of **Section 2.192** is where a party makes a good faith determination that a breach of the terms of the Contract by the other party is the that the damages to the party resulting from the breach will be so immediate, so large or severe and so incapable of adequate redress after the fact that a temporary restraining order or other immediate injunctive relief is the only adequate remedy.

2.194 Continued Performance

Each party agrees to continue performing its obligations under the Contract while a dispute is being resolved except to the extent the issue in dispute precludes performance (dispute over payment must not be deemed to preclude performance) and without limiting either party's right to terminate the Contract as provided in **Section 2.150**, as the case may be.

2.200 Federal and State Contract Requirements

2.201 Nondiscrimination

In the performance of the Contract, Contractor agrees not to discriminate against any employee or applicant for employment, with respect to his or her hire, tenure, terms, conditions or privileges of employment, or any matter directly or indirectly related to employment, because of race, color, religion, national origin, ancestry, age, sex, height, weight, marital status, or physical or mental disability. Contractor further agrees that every subcontract entered into for the performance of the Contract or any purchase order resulting from the Contract must contain a provision requiring non-discrimination in employment, as specified here, binding upon each Subcontractor. This covenant is required under the Elliot Larsen Civil Rights Act, 1976 PA 453, MCL 37.2101, et seq., and the Persons with Disabilities Civil Rights Act, 1976 PA 220, MCL 37.1101, et seq., and any breach of this provision may be regarded as a material breach of the Contract.

2.202 Unfair Labor Practices

Under 1980 PA 278, MCL 423.321, et seq., the State must not award a Contract or subcontract to an employer whose name appears in the current register of employers failing to correct an unfair labor practice compiled under Section 2 of the Act. This information is compiled by the United States National Labor Relations Board. A Contractor of the State, in relation to the Contract, must not enter into a contract with a Subcontractor, manufacturer, or supplier whose name appears in this register. Under Section 4 of 1980 PA 278, MCL 423.324, the State may void any Contract if, after award of the Contract, the name of Contractor as an employer or the name of the Subcontractor, manufacturer or supplier of Contractor appears in the register.

2.203 Workplace Safety and Discriminatory Harassment

In performing Services for the State, the Contractor must comply with the Department of Civil Services Rule 2-20 regarding Workplace Safety and Rule 1-8.3 regarding Discriminatory Harassment. In addition, the Contractor must comply with Civil Service regulations and any applicable agency rules provided to the Contractor. For Civil Service Rules, see <http://www.mi.gov/mdcs/0,1607,7-147-6877---,00.html>.

2.204 Prevailing Wage

The rates of wages and fringe benefits to be paid each class of individuals employed by the Contractor, its subcontractors, their subcontractors, and all persons involved with the performance of the Contract in privity of contract with the Contractor must not be less than the wage rates and fringe benefits established by the Michigan Department of Energy, Labor and Economic Development, Wage and Hour Bureau, schedule of occupational classification and wage rates and fringe benefits for the local where the work is to be performed. The term Contractor must include all general contractors, prime contractors, project managers, trade contractors, and all of their contractors or subcontractors and persons in privity of contract with them.



The Contractor, its Subcontractors, their subcontractors and all persons involved with the performance of the Contract in privity of contract with the Contractor must keep posted on the work site, in a conspicuous place, a copy of all wage rates and fringe benefits as prescribed in the contract. You must also post, in a conspicuous place, the address and telephone number of the Michigan Department of Energy, Labor and Economic Development, the office responsible for enforcement of the wage rates and fringe benefits. The Contractor must keep an accurate record showing the name and occupation of the actual wage and benefits paid to each individual employed in connection with the Contract. This record must be available to the State upon request for reasonable inspection.

If any trade is omitted from the list of wage rates and fringe benefits to be paid to each class of individuals by the Contractor, it is understood that the trades omitted must also be paid not less than the wage rate and fringe benefits prevailing in the local where the work is to be performed.

2.210 Governing Law

2.211 Governing Law

The Contract must in all respects be governed by, and construed according to, the substantive laws of the State of Michigan without regard to any Michigan choice of law rules that would apply the substantive law of any other jurisdiction to the extent not inconsistent with, or pre-empted by federal law.

2.212 Compliance with Laws

Contractor must comply with all applicable state, federal and local laws and ordinances in providing the Services/Deliverables.

2.213 Jurisdiction

Any dispute arising from the Contract must be resolved in the State of Michigan. With respect to any claim between the parties, Contractor consents to venue in Ingham County, Michigan, and irrevocably waives any objections it may have to the jurisdiction on the grounds of lack of personal jurisdiction of the court or the laying of venue of the court or on the basis of forum non conveniens or otherwise. Contractor agrees to appoint agents in the State of Michigan to receive service of process.

2.220 Limitation of Liability

2.221 Limitation of Liability

Neither the Contractor nor the State is liable to each other, regardless of the form of action, for consequential, incidental, indirect, or special damages. This limitation of liability does not apply to claims for infringement of United States patent, copyright, trademark or trade secrets; to claims for personal injury or damage to property caused by the gross negligence or willful misconduct of the Contractor; to claims covered by other specific provisions of the Contract calling for liquidated damages; or to court costs or attorney's fees awarded by a court in addition to damages after litigation based on the Contract.

2.230 Disclosure Responsibilities

2.231 Disclosure of Litigation

(a) Disclosure. Contractor must disclose any material criminal litigation, investigations or proceedings involving the Contractor (and each Subcontractor) or any of its officers or directors or any litigation, investigations or proceedings under the Sarbanes-Oxley Act. In addition, each Contractor (and each Subcontractor) must notify the State of any material civil litigation, arbitration or proceeding which arises during the term of the Contract and extensions, to which Contractor (or, to the extent Contractor is aware, any Subcontractor) is a party, and which involves: (i) disputes that might reasonably be expected to adversely affect the viability or financial stability of Contractor or any Subcontractor; or (ii) a claim or written allegation of fraud against Contractor or, to the extent Contractor is aware, any Subcontractor by a governmental or public entity arising out of their business dealings with governmental or public entities. The Contractor must disclose in writing to the Contract Administrator any litigation, investigation, arbitration or other proceeding (collectively, "Proceeding") within 30 days of its occurrence. Details of settlements which are prevented from disclosure by the terms of the settlement may be annotated. Information provided to the State from Contractor's publicly filed documents referencing its material litigation will be deemed to satisfy the requirements of this Section.



- (b) Assurances. If any Proceeding disclosed to the State under this Section, or of which the State otherwise becomes aware, during the term of the Contract would cause a reasonable party to be concerned about:
- (i) the ability of Contractor (or a Subcontractor) to continue to perform the Contract according to its terms and conditions, or
 - (ii) whether Contractor (or a Subcontractor) in performing Services for the State is engaged in conduct which is similar in nature to conduct alleged in the Proceeding, which conduct would constitute a breach of the Contract or a violation of Michigan law, regulations or public policy, then the Contractor must provide the State all reasonable assurances requested by the State to demonstrate that:
 - (a) Contractor and its Subcontractors must be able to continue to perform the Contract and any Statements of Work according to its terms and conditions, and
 - (b) Contractor and its Subcontractors have not and will not engage in conduct in performing the Services which is similar in nature to the conduct alleged in the Proceeding.
- (c) Contractor must make the following notifications in writing:
- (1) Within 30 days of Contractor becoming aware that a change in its ownership or officers has occurred, or is certain to occur, or a change that could result in changes in the valuation of its capitalized assets in the accounting records, Contractor must notify Procurement.
 - (2) Contractor must also notify Procurement within 30 days whenever changes to asset valuations or any other cost changes have occurred or are certain to occur as a result of a change in ownership or officers.
 - (3) Contractor must also notify Procurement within 30 days whenever changes to company affiliations occur.

2.232 Call Center Disclosure – Deleted – N/A

2.233 Bankruptcy

The State may, without prejudice to any other right or remedy, terminate the Contract, in whole or in part, and, at its option, may take possession of the “Work in Process” and finish the Works in Process by whatever appropriate method the State may deem expedient if:

- (a) the Contractor files for protection under the bankruptcy laws;
- (b) an involuntary petition is filed against the Contractor and not removed within 30 days;
- (c) the Contractor becomes insolvent or if a receiver is appointed due to the Contractor's insolvency;
- (d) the Contractor makes a general assignment for the benefit of creditors; or
- (e) the Contractor or its affiliates are unable to provide reasonable assurances that the Contractor or its affiliates can deliver the services under the Contract.

Contractor will fix appropriate notices or labels on the Work in Process to indicate ownership by the State. To the extent reasonably possible, materials and Work in Process must be stored separately from other stock and marked conspicuously with labels indicating ownership by the State.

2.240 Performance

2.241 Time of Performance

- (a) Contractor must use commercially reasonable efforts to provide the resources necessary to complete all Services and Deliverables according to the time schedules contained in the Statements of Work and other Exhibits governing the work, and with professional quality.
- (b) Without limiting the generality of **Section 2.241(a)**, Contractor must notify the State in a timely manner upon becoming aware of any circumstances that may reasonably be expected to jeopardize the timely and successful completion of any Deliverables/Services on the scheduled due dates in the latest State-approved delivery schedule and must inform the State of the projected actual delivery date.
- (c) If the Contractor believes that a delay in performance by the State has caused or will cause the Contractor to be unable to perform its obligations according to specified Contract time periods, the Contractor must notify the State in a timely manner and must use commercially reasonable efforts to perform its obligations according to the Contract time periods notwithstanding the State's failure. Contractor will not be in default for a delay in performance to the extent the delay is caused by the State.

2.242 Service Level Agreements (SLAs) – Deleted – N/A



2.243 Liquidated Damages

The parties acknowledge that late or improper completion of the Work will cause loss and damage to the State, and that it would be impracticable and extremely difficult to fix the actual damage sustained by the State as a result. Therefore, Contractor and the State agree that if there is late or improper completion of the Work and the State does not elect to exercise its rights under **Section 2.152**, the State is entitled to collect liquidated damages in the amount of \$500.00 and an additional \$1,000.00 per day for each day Contractor fails to remedy the late or improper completion of the Work.

It is acknowledged that an Unauthorized Removal will interfere with the timely and proper completion of the Contract, to the loss and damage of the State, and that it would be impracticable and extremely difficult to fix the actual damage sustained by the State as a result of any Unauthorized Removal. Therefore, Contractor and the State agree that in the case of any Unauthorized Removal in respect of which the State does not elect to exercise its rights under **Section 2.152**, the State may assess liquidated damages against Contractor as specified below.

For the Unauthorized Removal of any Key Personnel designated in the applicable Statement of Work, the liquidated damages amount is \$25,000.00 per individual if the Contractor identifies a replacement approved by the State under **Section 2.060** and assigns the replacement to the Project to shadow the Key Personnel who is leaving for a period of at least 30 days before the Key Personnel's removal.

If Contractor fails to assign a replacement to shadow the removed Key Personnel for at least 30 days, in addition to the \$25,000.00 liquidated damages for an Unauthorized Removal, Contractor must pay the amount of \$833.33 per day for each day of the 30 day shadow period that the replacement Key Personnel does not shadow the removed Key Personnel, up to \$25,000.00 maximum per individual. The total liquidated damages that may be assessed per Unauthorized Removal and failure to provide 30 days of shadowing must not exceed \$50,000.00 per individual.

2.244 Excusable Failure

Neither party will be liable for any default, damage, or delay in the performance of its obligations under the Contract to the extent the default, damage or delay is caused by government regulations or requirements (executive, legislative, judicial, military, or otherwise), power failure, lightning, earthquake, war, water or other forces of nature or acts of God, delays or failures of transportation, equipment shortages, suppliers' failures, or acts or omissions of common carriers, fire; riots, civil disorders; strikes or other labor disputes, embargoes; injunctions (provided the injunction was not issued as a result of any fault or negligence of the party seeking to have its default or delay excused); or any other cause beyond the reasonable control of a party; provided the non-performing party and its Subcontractors are without fault in causing the default or delay, and the default or delay could not have been prevented by reasonable precautions and cannot reasonably be circumvented by the non-performing party through the use of alternate sources, workaround plans or other means, including disaster recovery plans.

If a party does not perform its contractual obligations for any of the reasons listed above, the non-performing party will be excused from any further performance of its affected obligation(s) for as long as the circumstances prevail. but the party must use commercially reasonable efforts to recommence performance whenever and to whatever extent possible without delay. A party must promptly notify the other party in writing immediately after the excusable failure occurs, and also when it abates or ends.

If any of the above-enumerated circumstances substantially prevent, hinder, or delay the Contractor's performance of the Services/provision of Deliverables for more than 10 Business Days, and the State determines that performance is not likely to be resumed within a period of time that is satisfactory to the State in its reasonable discretion, then at the State's option: (a) the State may procure the affected Services/Deliverables from an alternate source, and the State is not be liable for payment for the unperformed Services/ Deliverables not provided under the Contract for so long as the delay in performance continues; (b) the State may terminate any portion of the Contract so affected and the charges payable will be equitably adjusted to reflect those Services/Deliverables terminated; or (c) the State may terminate the affected Statement of Work without liability to Contractor as of a date specified by the State in a written notice of termination to the Contractor, except to the extent that the State must pay for Services/Deliverables provided through the date of termination.

The Contractor will not have the right to any additional payments from the State as a result of any Excusable Failure occurrence or to payments for Services not rendered/Deliverables not provided as a result of the Excusable Failure condition. Defaults or delays in performance by Contractor which are caused by acts or omissions of its Subcontractors will not relieve Contractor of its obligations under the Contract except to the extent that a Subcontractor is itself subject to an Excusable Failure condition described above and Contractor cannot reasonably circumvent the effect of the Subcontractor's default or delay in performance through the use of alternate sources, workaround plans or other means.



2.250 Approval of Deliverables

2.251 Delivery Responsibilities

Unless otherwise specified by the State within an individual order, the following must be applicable to all orders issued under the Contract.

- (a) Shipment responsibilities - Services performed/Deliverables provided under the Contract must be delivered "F.O.B. Destination, within Government Premises." The Contractor must have complete responsibility for providing all Services/Deliverables to all site(s) unless otherwise stated. Actual delivery dates must be specified on the individual purchase order.
- (b) Delivery locations - Services must be performed/Deliverables must be provided at every State of Michigan location within Michigan unless otherwise stated in the SOW. Specific locations will be provided by the State or upon issuance of individual purchase orders.
- (c) Damage Disputes - At the time of delivery to State Locations, the State must examine all packages. The quantity of packages delivered must be recorded and any obvious visible or suspected damage must be noted at time of delivery using the shipper's delivery document(s) and appropriate procedures to record the damage. Where there is no obvious or suspected damage, all deliveries to a State Location must be opened by the State and the contents inspected for possible internal damage not visible externally within 14 days of receipt. Any damage must be reported to the Contractor within five days of inspection

2.252 Delivery of Deliverables

Where applicable, the Statements of Work/POs contain lists of the Deliverables to be prepared and delivered by Contractor including, for each Deliverable, the scheduled delivery date and a designation of whether the Deliverable is a document ("Written Deliverable"), a good ("Physical Deliverable") or a Service. All Deliverables must be completed and delivered for State review and written approval and, where applicable, installed according to the State-approved delivery schedule and any other applicable terms and conditions of the Contract.

2.253 Testing

- (a) Before delivering any of the above-mentioned Statement of Work Physical Deliverables or Services to the State, Contractor must first perform all required quality assurance activities to verify that the Physical Deliverable or Service is complete and conforms with its specifications listed in the applicable Statement of Work or Purchase Order. Before delivering a Physical Deliverable or Service to the State, Contractor must certify to the State that (1) it has performed the quality assurance activities, (2) it has performed any applicable testing, (3) it has corrected all material deficiencies discovered during the quality assurance activities and testing, (4) the Deliverable or Service is in a suitable state of readiness for the State's review and approval, and (5) the Deliverable/Service has all Critical Security patches/updates applied.
- (b) If a Deliverable includes installation at a State Location, then Contractor must (1) perform any applicable testing, (2) correct all material deficiencies discovered during the quality assurance activities and testing, and (3) inform the State that the Deliverable is in a suitable state of readiness for the State's review and approval. To the extent that testing occurs at State Locations, the State is entitled to observe or otherwise participate in testing.

2.254 Approval of Deliverables, In General

- (a) All Deliverables (Physical Deliverables and Written Deliverables) and Services require formal written approval by the State, according to the following procedures. Formal approval by the State requires the State to confirm in writing that the Deliverable meets its specifications. Formal approval may include the successful completion of Testing as applicable in **Section 2.253**, to be led by the State with the support and assistance of Contractor. The approval process will be facilitated by ongoing consultation between the parties, inspection of interim and intermediate Deliverables and collaboration on key decisions.
- (b) The State's obligation to comply with any State Review Period is conditioned on the timely delivery of Deliverables/Services being reviewed.



(c) Before commencement of its review or testing of a Deliverable/Service, the State may inspect the Deliverable/Service to confirm that all components of the Deliverable/Service have been delivered without material deficiencies. If the State determines that the Deliverable/Service has material deficiencies, the State may refuse delivery of the Deliverable/Service without performing any further inspection or testing of the Deliverable/Service. Otherwise, the review period will be deemed to have started on the day the State receives the Deliverable or the Service begins, and the State and Contractor agree that the Deliverable/Service is ready for use and, where applicable, certification by Contractor according to **Section 2.253**.

(d) The State must approve in writing a Deliverable/Service after confirming that it conforms to and performs according to its specifications without material deficiency. The State may, but is not be required to, conditionally approve in writing a Deliverable/Service that contains material deficiencies if the State elects to permit Contractor to rectify them post-approval. In any case, Contractor will be responsible for working diligently to correct within a reasonable time at Contractor's expense all deficiencies in the Deliverable/Service that remain outstanding at the time of State approval.

(e) If, after three opportunities (the original and two repeat efforts), the Contractor is unable to correct all deficiencies preventing Final Acceptance of a Deliverable/Service, the State may: (i) demand that the Contractor cure the failure and give the Contractor additional time to cure the failure at the sole expense of the Contractor; or (ii) keep the Contract in force and do, either itself or through other parties, whatever the Contractor has failed to do, and recover the difference between the cost to cure the deficiency and the contract price plus an additional sum equal to 10% of the cost to cure the deficiency to cover the State's general expenses provided the State can furnish proof of the general expenses; or (iii) terminate the particular Statement of Work for default, either in whole or in part by notice to Contractor provided Contractor is unable to cure the breach. Notwithstanding the foregoing, the State cannot use, as a basis for exercising its termination rights under this Section, deficiencies discovered in a repeat State Review Period that could reasonably have been discovered during a prior State Review Period.

(f) The State, at any time and in its reasonable discretion, may halt the testing or approval process if the process reveals deficiencies in or problems with a Deliverable/Service in a sufficient quantity or of a sufficient severity that renders continuing the process unproductive or unworkable. If that happens, the State may stop using the Service or return the applicable Deliverable to Contractor for correction and re-delivery before resuming the testing or approval process.

2.255 Process For Approval of Written Deliverables

The State Review Period for Written Deliverables will be the number of days set forth in the applicable Statement of Work following delivery of the final version of the Deliverable (and if the Statement of Work does not state the State Review Period, it is by default five Business Days for Written Deliverables of 100 pages or less and 10 Business Days for Written Deliverables of more than 100 pages). The duration of the State Review Periods will be doubled if the State has not had an opportunity to review an interim draft of the Written Deliverable before its submission to the State. The State agrees to notify Contractor in writing by the end of the State Review Period either stating that the Deliverable is approved in the form delivered by Contractor or describing any deficiencies that must be corrected before approval of the Deliverable (or at the State's election, after approval of the Deliverable). If the State notifies the Contractor about deficiencies, the Contractor must correct the described deficiencies and within 30 Business Days resubmit the Deliverable in a form that shows all revisions made to the original version delivered to the State. Contractor's correction efforts must be made at no additional charge. Upon receipt of a corrected Deliverable from Contractor, the State must have a reasonable additional period of time, not to exceed the length of the original State Review Period, to review the corrected Deliverable to confirm that the identified deficiencies have been corrected.

2.256 Process for Approval of Services

The State Review Period for approval of Services is governed by the applicable Statement of Work (and if the Statement of Work does not state the State Review Period, it is by default 30 Business Days for Services). The State agrees to notify the Contractor in writing by the end of the State Review Period either stating that the Service is approved in the form delivered by the Contractor or describing any deficiencies that must be corrected before approval of the Services (or at the State's election, after approval of the Service). If the State delivers to the Contractor a notice of deficiencies, the Contractor must correct the described deficiencies and within 30 Business Days resubmit the Service in a form that shows all revisions made to the original version delivered to the State. The Contractor's correction efforts must be made at no additional charge. Upon implementation of a corrected Service from Contractor, the State must have a reasonable additional period of time, not to exceed the length of the original State Review Period, to review the corrected Service for conformity and that the identified deficiencies have been corrected.



2.257 Process for Approval of Physical Deliverables

The State Review Period for approval of Physical Deliverables is governed by the applicable Statement of Work (and if the Statement of Work does not state the State Review Period, it is by default 30 continuous Business Days for a Physical Deliverable). The State agrees to notify the Contractor in writing by the end of the State Review Period either stating that the Deliverable is approved in the form delivered by the Contractor or describing any deficiencies that must be corrected before approval of the Deliverable (or at the State's election, after approval of the Deliverable). If the State delivers to the Contractor a notice of deficiencies, the Contractor must correct the described deficiencies and within 30 Business Days resubmit the Deliverable in a form that shows all revisions made to the original version delivered to the State. The Contractor's correction efforts must be made at no additional charge. Upon receipt of a corrected Deliverable from the Contractor, the State must have a reasonable additional period of time, not to exceed the length of the original State Review Period, to review the corrected Deliverable to confirm that the identified deficiencies have been corrected.

2.258 Final Acceptance

Unless otherwise stated in the Article 1, Statement of Work or Purchase Order, "Final Acceptance" of each Deliverable must occur when each Deliverable/Service has been approved by the State following the State Review Periods identified in **Sections 2.251-2.257**. Payment will be made for Deliverables installed and accepted. Upon acceptance of a Service, the State will pay for all Services provided during the State Review Period that conformed to the acceptance criteria.

2.260 Ownership

2.261 Ownership of Work Product by State

The State owns all Deliverables as they are works made for hire by the Contractor for the State. The State owns all United States and international copyrights, trademarks, patents, or other proprietary rights in the Deliverables.

2.262 Vesting of Rights

With the sole exception of any preexisting licensed works identified in the SOW, the Contractor assigns, and upon creation of each Deliverable automatically assigns, to the State, ownership of all United States and international copyrights, trademarks, patents, or other proprietary rights in each and every Deliverable, whether or not registered by the Contractor, insofar as any the Deliverable, by operation of law, may not be considered work made for hire by the Contractor for the State. From time to time upon the State's request, the Contractor must confirm the assignment by execution and delivery of the assignments, confirmations of assignment, or other written instruments as the State may request. The State may obtain and hold in its own name all copyright, trademark, and patent registrations and other evidence of rights that may be available for Deliverables.

2.263 Rights in Data

(a) The State is the owner of all data made available by the State to the Contractor or its agents, Subcontractors or representatives under the Contract. The Contractor must not use the State's data for any purpose other than providing the Services, nor will any part of the State's data be disclosed, sold, assigned, leased or otherwise disposed of to the general public or to specific third parties or commercially exploited by or on behalf of the Contractor. No employees of the Contractor, other than those on a strictly need-to-know basis, have access to the State's data. Contractor must not possess or assert any lien or other right against the State's data. Without limiting the generality of this Section, the Contractor must only use personally identifiable information as strictly necessary to provide the Services and must disclose the information only to its employees who have a strict need-to-know the information. The Contractor must comply at all times with all laws and regulations applicable to the personally identifiable information.

(b) The State is the owner of all State-specific data under the Contract. The State may use the data provided by the Contractor for any purpose. The State must not possess or assert any lien or other right against the Contractor's data. Without limiting the generality of this Section, the State may use personally identifiable information only as strictly necessary to utilize the Services and must disclose the information only to its employees who have a strict need to know the information, except as provided by law. The State must comply at all times with all laws and regulations applicable to the personally identifiable information. Other material developed and provided to the State remains the State's sole and exclusive property.

2.264 Ownership of Materials

The State and the Contractor will continue to own their respective proprietary technologies developed before entering into the Contract. Any hardware bought through the Contractor by the State, and paid for by the State, will be owned by the State. Any software licensed through the Contractor and sold to the State, will be licensed directly to the State.



2.270 State Standards

2.271 Existing Technology Standards

The Contractor must adhere to all existing standards as described within the comprehensive listing of the State's existing technology standards at <http://www.michigan.gov/dit>.

2.272 Acceptable Use Policy

To the extent that Contractor has access to the State computer system, Contractor must comply with the State's Acceptable Use Policy, see <http://www.michigan.gov/ditservice>. All Contractor employees must be required, in writing, to agree to the State's Acceptable Use Policy before accessing the State system. The State reserves the right to terminate Contractor's access to the State system if a violation occurs.

2.273 Systems Changes

Contractor is not responsible for and not authorized to make changes to any State systems without written authorization from the Project Manager. Any changes Contractor makes to State systems with the State's approval must be done according to applicable State procedures, including security, access, and configuration management procedures.

2.280 Extended Purchasing

2.281 MIDEAL

1984 PA 431 permits the State of Michigan, DTMB, to provide purchasing services to any city, village, county, township, school district, intermediate school district, non-profit hospital, institution of higher education, community, or junior college. As a result of the enactment of this legislation, the MIDEAL Program has been developed. This program extends the use of State contracts to program members. The governmental agency must enter into an agreement with the State of Michigan to become authorized to participate, thus ensuring that local units of government secure a greater return for the expenditure of public funds.

In those cases, Contractors supply merchandise at the established State of Michigan contract prices and terms. The Contractor must submit invoices and pay the authorized MIDEAL member on a direct and individual basis according to contract terms (see Mi DEAL at www.michigan.gov/buymichiganfirst under MiDEAL).

2.282 State Employee Purchases – Deleted – N/A

2.290 Environmental Provision

2.291 Environmental Provision

Hazardous Materials:

For the purposes of this Section, "Hazardous Materials" is a generic term used to describe asbestos, ACBMs, PCBs, petroleum products, construction materials including paint thinners, solvents, gasoline, oil, and any other material the manufacture, use, treatment, storage, transportation, or disposal of which is regulated by the federal, State, or local laws governing the protection of the public health, natural resources, or the environment. This includes, but is not limited to, materials such as batteries and circuit packs, and other materials that are regulated as (1) "Hazardous Materials" under the Hazardous Materials Transportation Act, (2) "chemical hazards" under the Occupational Safety and Health Administration standards, (3) "chemical substances or mixtures" under the Toxic Substances Control Act, (4) "pesticides" under the Federal Insecticide Fungicide and Rodenticide Act, and (5) "hazardous wastes" as defined or listed under the Resource Conservation and Recovery Act.

(a) The Contractor must use, handle, store, dispose of, process, transport and transfer any material considered a Hazardous Material according to all federal, State, and local laws. The State must provide a safe and suitable environment for performance of Contractor's Work. Before the commencement of Work, the State must advise the Contractor of the presence at the work site of any Hazardous Material to the extent that the State is aware of the Hazardous Material. If the Contractor encounters material reasonably believed to be a Hazardous Material and which may present a substantial danger, the Contractor must immediately stop all affected Work, notify the State in writing about the conditions encountered, and take appropriate health and safety precautions.



(b) Upon receipt of a written notice, the State will investigate the conditions. If (a) the material is a Hazardous Material that may present a substantial danger, and (b) the Hazardous Material was not brought to the site by the Contractor, or does not result in whole or in part from any violation by the Contractor of any laws covering the use, handling, storage, disposal of, processing, transport and transfer of Hazardous Materials, the State must order a suspension of Work in writing. The State must proceed to have the Hazardous Material removed or rendered harmless. In the alternative, the State must terminate the affected Work for the State's convenience.

(c) Once the Hazardous Material has been removed or rendered harmless by the State, the Contractor must resume Work as directed in writing by the State. Any determination by the Michigan Department of Community Health or the Michigan Department of Environmental Quality that the Hazardous Material has either been removed or rendered harmless is binding upon the State and Contractor for the purposes of resuming the Work. If any incident with Hazardous Material results in delay not reasonable anticipatable under the circumstances and which is attributable to the State, the applicable SLAs for the affected Work will not be counted in **Section 2.242** for a time as mutually agreed by the parties.

(d) If the Hazardous Material was brought to the site by the Contractor, or results in whole or in part from any violation by the Contractor of any laws covering the use, handling, storage, disposal of, processing, transport and transfer of Hazardous Material, or from any other act or omission within the control of the Contractor, the Contractor must bear its proportionate share of the delay and costs involved in cleaning up the site and removing and rendering harmless the Hazardous Material according to Applicable Laws to the condition approved by applicable regulatory agency(ies).

Michigan has a Consumer Products Rule pertaining to labeling of certain products containing volatile organic compounds. For specific details visit http://www.michigan.gov/deq/0,1607,7-135-3310_4108-173523--,00.html

Refrigeration and Air Conditioning:

The Contractor must comply with the applicable requirements of Sections 608 and 609 of the Clean Air Act (42 U.S.C. 7671g and 7671h) as each or both apply to the Contract.

Environmental Performance:

Waste Reduction Program: Contractor must establish a program to promote cost-effective waste reduction in all operations and facilities covered by the Contract. The Contractor's programs must comply with applicable Federal, State, and local requirements, specifically including Section 6002 of the Resource Conservation and Recovery Act (42 U.S.C. 6962, et seq.).

2.300 Other Provisions

2.311 Forced Labor, Convict Labor, Forced or Indentured Child Labor, or Indentured Servitude Made Materials
Equipment, materials, or supplies, that will be furnished to the State under the Contract must not be produced in whole or in part by forced labor, convict labor, forced or indentured child labor, or indentured servitude.

"Forced or indentured child labor" means all work or service: exacted from any person under the age of 18 under the menace of any penalty for its nonperformance and for which the worker does not offer himself voluntarily; or performed by any person under the age of 18 under a contract the enforcement of which can be accomplished by process or penalties.



Attachment A, Price Proposal

Contractor offers to the State a five percent discount off invoice if paid within 10 days.

A. Hourly rate (not-to-exceed) for each staff level and all applicable personnel assigned to the Contract for the proposed services in section 1.022 follows:

Staff Member	Hourly Rate (1)
Managing Member - Pat O'Keefe	\$425.00
Managing Director - Dave Distel	\$270.00 for local, up to \$300.00 for overnight travel
Director – Brad Coulter/Mike Boudreau, other Directors	\$210.00 for local, up to \$240.00 for overnight travel
Senior Associate	\$170.00 for local, up to \$200.00 for overnight travel
Associate	\$150.00 for local, up to \$180.00 for overnight travel
Clerical	\$60.00 for local, up to \$90.00 for overnight travel

- (1) Travel costs must be included in the hourly rates. Travel costs must be calculated using current State travel reimbursement rates located at www.michigan.gov/dtmb.
- (2) The rate structure anticipates having all travel costs built into the hourly rate so that no separate submission of expense reports is required. For example, on local projects where O'Keefe staff are home every night, we will charge the base rate for local projects. On projects that include large amounts of travel time and overnight stay, we will charge a higher rate depending on the location of the project. Contractor does not charge for travel time, only for work on the job. An example of a travel related project would be one say in Northern Michigan. If extraordinary travel costs are anticipated, for example a project in the Western U.P., O'Keefe will work with Treasury on how best to accommodate travel costs into the project budget.
- (3) Sub-contractors will either fall into a similar rate structure or may be more success fee based in areas such as property management or on benefit savings realized. The structure will depend on the nature of the assignment.
- (4) O'Keefe also recognizes that certain projects may have desired spending limits and O'Keefe is able to also contract project work with a fixed expense fee or a not to exceed cost.



Exhibit 1
Safeguard Requirement of Confidential Data (Tax Related)

Exhibit 1

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SAFEGUARD REQUIREMENTS OF CONFIDENTIAL DATA

This section sets forth the safeguard requirements for handling, storage, and processing of confidential tax information for a Contractor and their subcontractor(s) and is incorporated as an integral part of the Contract. It will facilitate administration and enforcement of the laws of the State of Michigan applicable to State contractual agreements in a manner consistent with the applicable statutes, regulations, published rules and procedures or written communication.

I. Authority

Authority for the Michigan Department of Treasury to require that this section be included in the Contract is contained in 1941 PA 122, as amended, MCL 205.28(1)(f), which states in part that subject to the same restrictions and penalties imposed upon department employees on the treatment of confidential information, a private contractor or its employees are strictly prohibited from disclosing taxpayer information to a third party. The prohibition against disclosure does not bar an employee of a private contractor with whom the State of Michigan (State) contracts that processes tax returns or payments pursuant to the Contract from having access to confidential information that is reasonably required for the processing or collection of amounts due this State. Private contractors and any subcontractors will follow Treasury guidelines for authorized representatives.

II. Confidentiality

It is agreed that all information exchanged under this section will be kept confidential in accordance with the confidentiality provisions contained within section MCL 205.28(1)(f) and MCL 205.28(2) of the Michigan Department of Treasury Revenue Act, which state in part;

“Except as otherwise provided in this subdivision, an employee, authorized representative, or former employee or authorized representative of the department or anyone connected with the department will not divulge any facts or information obtained in connection with the administration of a tax or information or parameters that would enable a person to ascertain the audit selection or processing criteria of the department for a tax administered by the department.”

“A person who violates subsection (1)(e), (1)(f), or (4) is guilty of a felony, punishable by a fine of not more than \$5,000.00, or imprisonment for not more than 5 years, or both, together with the costs of prosecution. In addition, if the offense is committed by an employee of this state, the person will be dismissed from office or discharged from employment upon conviction.”

All information obtained by either Treasury or Contractor will not be disclosed except as necessary for the proper administration of and execution of the Contract. In the event, confidentiality statutes are amended, the State will notify Contractor of any changes.

No employee, agent, authorized representative or legal representative of Contractor will disclose any information obtained by virtue of this section to any other division within their company or any other governmental agency, department or unit within such governmental



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agency, to any other state or nation, or unauthorized third party. No tax returns or tax return information provided to Contractor will be duplicated or disseminated within or outside the company without the written approval of the Contract Compliance Inspector. Michigan's tax returns and tax return information remain the property of the Department of Treasury.

Contractor may use a taxpayer's name, address and Social Security number or employer identification number to the extent necessary in connection with the processing and mailing of forms for any report or return required in the administration of any tax in the performance of the Contract. The use of the Social Security number must be in accordance with the state Social Security Number Privacy Act 454 of 2004, as amended.

Information received by the Michigan Department of Treasury from the U.S. Internal Revenue Service, pursuant to section 6103(d) of the Internal Revenue Code or any other U.S. federal Agency will only be subject to the exchange if received as part of the State of Michigan tax return filing requirements.

III. Procedure for Security

At a minimum, Contractor will safeguard any tax return information obtained under the Contract as follows:

- A. Access to the tax returns and tax return information will be allowed only to those authorized employees and Officials of Contractor who need the information to perform their official duties in connection with the uses of the information authorized in the Contract. The Contractor will be responsible for ensuring that each employee authorized to access Michigan tax information has signed the *Vendor, Contractor or Subcontractor Confidentiality Agreement* (Form 3337, see Attachment A) and provide a copy to the Department of Treasury, Disclosure Officer and Contract Compliance Inspector.
- B. Any records created from tax returns and tax return information will be stored in an area that is physically safe from access by unauthorized persons during duty hours as well as off-duty hours or when not in use.
- C. All personnel who will have access to the tax returns and to any records created by the tax return information will be advised of the confidential nature of the information, the safeguards required to protect the information and the civil and criminal sanctions for noncompliance contained in MCL 205.28(1)(f) and (2) through disclosure awareness training.
- D. All confidential information, which includes, but is not limited to, data stored electronically and any related output and paper documents will be secured from unauthorized access and with access limited to designated personnel only. Michigan tax return information will not be commingled with other information. Further, when appropriate, Michigan tax return information will be marked as follows:

CONFIDENTIAL-MICHIGAN TAX RETURN INFORMATION

Protect at all times. Do not disclose.

**MI tax information is exempt from disclosure
under the Freedom of Information Act.**



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- E. The records will be transported under appropriate safeguards as defined in the Contract.
- F. The Department of Treasury, Disclosure Officer or Contract Compliance Inspector may make onsite inspections or make other provisions to ensure that adequate safeguards are being maintained by the Contractor.
- G. The Michigan Department of Treasury, Disclosure Officer, may monitor compliance of systems security requirements during the lifetime of the Contract.
- H. Contractor will also adopt policies and procedures to ensure that information contained in their respective records and obtained from Treasury and taxpayers will be used solely as provided in the Contract.

IV. Computer System Security of Tax Data

The identification of confidential tax records and defining security controls are intended to protect Treasury tax return information from unlawful disclosure, modification, destruction of information and unauthorized secondary uses.

Computer system security and physical security of tax data stored and processed by Contractor must be in compliance with the following security guidelines and standards established by the Michigan Department of Treasury as follows (these guidelines apply to any computer system developed by Contractor, either through its own systems staff, or through a contractor, subcontractor or vendor):

A. Controlled Access Protection

All computer systems processing, storing and transmitting Michigan tax information must have computer access protection controls. These security standards are delineated in the National Institute of Standards and Technology (NIST) Special Publications number 800-53 "Recommended Security Controls for Federal Information Systems" at <http://csrc.nist.gov/publications/PubsSPs.html>. To meet these standards, the operating security features of the system must have the following minimum requirements: a security policy, accountability, assurance, and documentation.

- 1) **Security Policy** – A security policy is a written document describing the system in terms of categories of data processed, users allowed access and access rules between the users and the data. Additionally, it describes procedures to prevent unauthorized access by clearing all protected information on objects before they are allocated or reallocated out of or into the system. Further protection must be provided where the computer system contains information for more than one program/project, office, or Agency and that personnel do not have authorization to see all information on the system.
- 2) **Accountability** – Computer systems processing Michigan tax information must be secured from unauthorized access. All security features must be available (audit trails, identification and authentication) and activated to prevent unauthorized users from indiscriminately accessing Michigan tax information. Everyone who accesses computer systems containing Michigan tax information is accountable. Access controls must be

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maintained to ensure that unauthorized access does not go undetected. Computer programmers and contractors who have a need to access databases, and are authorized under the law, must be held accountable for the work performed on the system. The use of passwords and access control measures must be in place to identify who accessed protected information and limit that access to persons with a need to know.

a) On-line Access –Users will be limited to any Treasury on-line functions, by limiting access through functional processing controls and organization restrictions.

Any employee granted access privileges through the Contractor's Security Administrator will be approved for access and viewing rights to Treasury on-line systems by the Department of Treasury Security Administrator. The on-line access will be provided by Treasury's Security Division.

b) Operating Features of System Security

Contractor must meet the following levels of protection with respect to tax return information. Individual user accountability must be ensured through user identification number and password.

- i. Access rights to confidential tax information must be secured through appropriate levels of authorization.
- ii. An audit trail must be maintained of accesses made to confidential information.
- iii. All confidential and protected information must be cleared from a system before it is used for other purposes not related to the enforcement, collection or exchange of data not covered by this section or by an addendum to this Contract.
- iv. Hard copies made of confidential tax return information must be labeled as confidential information.
- v. Confidential Treasury tax information will be blocked or coded as confidential on system.
- vi. Any computer system in which Michigan tax return information resides must systematically notify all users upon log-in of the following disclosure penalties for improperly accessing or making an authorized disclosure of Michigan tax return information:

NOTICE TO STATE AGENCY EMPLOYEES AND AUTHORIZED REPRESENTATIVES

*This system contains Michigan Department of Treasury tax return information. **DO NOT DISCLOSE OR DISCUSS MICHIGAN RELATED TAX RETURN INFORMATION** with unauthorized individuals. The Michigan Department of Treasury Revenue Act, MCL 205.28(10)(f)(1), (2), prohibits such disclosure. A person making a willful unauthorized disclosure or inspection (browsing)*



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of tax return information may be charged with the following Michigan penalties:

MICHIGAN PENALTIES

The Michigan Revenue Act imposes criminal penalties up to \$5,000 and/or imprisonment for 5 years, plus costs and dismissal from employment if it is found that an employee has made an unauthorized disclosure of a tax return or tax return information or divulged audit selection or processing parameters.

This statement is subject to modification. A confidentiality statement, subject to modification, as needed, will be sent annually by the Security Administrator to all employees, contractors, and legal representatives of Contractor.

- 3) **Assurance** – Contractor must ensure that all access controls and other security features are implemented and are working when installed on their computer system. Significant enhancements or other changes to a security system must follow the process of review, independent testing, and installation assurance. The security system must be tested at least annually to assure it is functioning correctly. All anomalies must be corrected immediately.
 - a) The Contractor must initiate corrective action for all non-conformities as soon as detected and immediately advise the Contract Compliance Inspector. Notice of the corrective action must be provided to the Contract Compliance Inspector. All non-conformities must be reported to the Contract Compliance Inspector with the following:
 - a. Duration of non-conformity/interruption
 - b. Reason for non-conformity/interruption
 - c. Resolution.
 - b) All non-conformities to the specifications/tasks of the Contract must be corrected within four (4) hours. The State recognizes there will be instances when adherence to this time frame will not be possible. However, the State will only tolerate this on an exception basis. To request an exception to this time frame, the Contractor must submit a detailed project plan to address the non-conformity within four (4) hours to the Contract Compliance Inspector for approval.
- 4) **Documentation** – Design and test documentation must be readily available to the state. The developer or manufacturer should initially explain the security mechanisms, how they are implemented and their adequacy (limitations). This information should be passed on to the security officer or supervisor. Test documentation should describe how and what mechanisms were tested and the results. If recognized organizations/tests/standards are used, then a document to that effect will suffice. For example, a system that has been tested and certified as meeting certain criteria may have a document stating this fact, without detailed tests/results of information. Contractor, however, must ensure the documentation covers the exact system and that it includes the specific computer system used by Contractor.



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Additionally, documentation must include a security administrator's guide. The security administrator's guide is addressed to the System's Administrator and Security Officer and will describe the protection mechanisms provided by the security system, guidelines on their use and how they interact. This document will present cautions about security functions and describe privileges that should be controlled when running a secure system. The document will be secured and locked at all times with access rights only by the Systems Administrator and Security Officer.

Note: When a security system is designed or purchased for a specific computer or computer system, the security mechanisms must be reviewed by the State to ensure that needed security parameters are met. An independent test should be implemented on the specific computer or computer system to ensure that the security system meets the security parameters within this contract and developed with the computer system. The test may be arranged by the developer but must be done by an independent organization. Contractor must assign responsible individuals (Security Officers) with knowledge of information technology and applications to oversee the testing process. These individuals must be familiar with technical controls used to protect the system from unauthorized entry.

Finally, contingency and backup plans must be in place to ensure protection of Michigan tax information.

V. Electronic Transmission of Michigan Tax Information

The two acceptable methods of transmitting Michigan tax information over telecommunications devices are encryption and the use of guided media. Encryption involves the altering of data objects in a way that the objects become unreadable until deciphered. Guided media involves the use of protected microwave transmitting or the use of end to end fiber optics.

The Department of Information Technology (DIT) has defined encryption standards in DIT Standard 1315.10 (Standard for Electronic Data Encryption) which must be used to provide guidance for encryption, message authentication codes or digital signatures and digital signatures with associated certification infrastructure.

Unencrypted cable circuits of fiber optics is an alternative for transmitting Michigan tax information. Adequate measures must be taken to ensure that circuits are maintained on cable and not converted to unencrypted radio transmission. Additional precautions will be taken to protect the cable, i.e., burying the cable underground or in walls or floors and providing access controls to cable vaults, rooms and switching centers.

A. Remote Access

Accessing databases containing Michigan tax information from a remote location – that is, a location not directly connected to the Local Area Network (LAN) will require adequate safeguards to prevent unauthorized entry.

For dial up access, the system must require an identification security card that requires both



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PIN and card in possession. According to DIT- Procedure 1410.17 (4.1), dial in access into any connected state network will only be permitted after a dial-in user has been authenticated. Authentication is provided through ID and password.

B. Portable Computer Devices

Any entrusted confidential information collected or accessed during this Contract must be encrypted when stored on all storage devices and media. This includes, but not limited to, disk drives for servers and workstations, and portable memory media (PDAs, RAM drives, memory sticks, etc.).

VI. Record Keeping Requirements for Information Received in a Paper Format

Each Contractor employee or contractor requesting and receiving information will keep an accurate accounting of the information received. The audit trail will be required which will include the following information:

- a. Taxpayer's name
- b. Identification number (SSN, FEIN, etc.)
- c. Information requested
- d. Purpose of disclosure request
- e. Date information received
- f. Name of Agency/Division and employee making request
- g. Name of other employees who may have had access
- h. Date destroyed
- i. Method of destruction

A. Electronic Media

Contractor will keep an inventory of magnetic and electronic media received under the Contract.

Contractor must ensure that the removal of tapes and disks and paper documents containing Michigan tax return information from any storage area is properly recorded on charge-out records. Contractor is accountable for missing tapes, disks, and paper documents.

B. Recordkeeping Requirements of Disclosure Made to State or Federal Auditor General

When disclosures are made by Contractor to State or Federal Auditors, these requirements pertain only in instances where the Auditor General's staff extracts Michigan tax returns or tax information for further review and inclusion in their work papers. Contractor must identify the hard copies of tax records or if the tax information is provided by magnetic tape format or through other electronic means, the identification will contain the approximate number of taxpayers records, the date of inspection, the best possible description of the records and the name of the Auditor(s) making the inspection.

The Disclosure Officer must be notified, in writing, of any audits done by auditors, internal or otherwise, of Contractor that would involve review of Treasury processing parameters.

VII. Contract Services



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The following language will be included in any contract entered into by Contractor with a subcontractor if the subcontractor will process Michigan tax return information provided under this Safeguard Provision.

A. The identification of confidential tax records and defining security controls are intended to protect Treasury tax return information from unlawful disclosure, modification, destruction of information and unauthorized secondary uses.

B. Definition of Treasury Tax Return Information

Treasury tax return information is defined in RAB 1989-39 as follows:

Taxpayer's identity, address, the source or amount of his/her income, payments, receipts, deductions, exemptions, credits, assets, liabilities, net worth, tax liability, tax withheld, deficiencies, over assessments, or tax payments whether the taxpayer's return was, is being or will be examined or subject to their investigation or processing, or any other data, received by, recorded by, prepared by, furnished to or collected by the agency with respect to a return or with respect to the determination of the existence, or liability (or the amount thereof) of any person under the tax laws administered by the Department, or related statutes of the state for any tax, penalty, interest, fine, forfeiture, or other imposition or offense. The term "tax return information" also includes any and all account numbers assigned for identification purposes.

C. An acknowledgment that a taxpayer has filed a return is known as a "fact of filing" and may not be disclosed. All tax return data made available in any format will be used only for the purpose of carrying out the provisions of the Contract between Contractor and the subcontractor. Information contained in such material will be treated as confidential and will not be divulged or made known in any manner to any person except as may be necessary in the performance of the Contract between Contractor and the subcontractor. In addition, all related output will be given the same level of protection as required for the source material.

D. The subcontractor will certify that the data processed during the performance of the Contract between Contractor and the subcontractor will be completely purged from all data storage components of the subcontractor's computer facility, and no output will be retained by the subcontractor at the time the work is completed. If immediate purging of all data storage components is not possible, the subcontractor will certify in writing that any Michigan data remaining in any storage component will be safeguarded to prevent unauthorized disclosures.

E. Destruction of tax data, including any spoilage or any intermediate hard copy printout which may result during the processing of Michigan tax return information, will be documented with a statement containing the date of destruction, description of material destroyed, and the method used.

F. Computer system security and physical security of tax data stored and processed by the subcontractor must be in compliance with security guidelines and standards established by this contract. See section VI (Record Keeping Requirements for Information Received in Paper Format) for more details.



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- G. The Contractor will be responsible for ensuring that each employee authorized to access Michigan tax information has agreed to abide by the confidentiality provisions of the Revenue Act by signing the *Vendor, Contractor or Subcontractor Confidentiality Agreement* (Form 3337, see Attachment A) and provide a copy to the Department of Treasury, Disclosure Officer and Contract Compliance Inspector.
- H. No work involving information furnished under the contract between Contractor and a subcontractor will be further subcontracted without the specific approval of the Michigan Department of Management and Budget. Contractor and approved subcontractors handling Michigan tax return information will be required to sign the *Vendor, Contractor or Subcontractor Confidentiality Agreement* provided by Treasury, (Form 3337, see Attachment A). The original agreements will be returned to the Disclosure Officer for the Department of Treasury and a copy sent to the Contract Compliance Inspector.

VIII. Transport of Tax Information

In the event, it is necessary to transport confidential tax return information the Contractor is responsible for holding the carrier responsible for safeguarding the records. The Contractor must obtain a signed *Vendor, Contractor or Subcontractor Confidentiality Agreement* (Form 3337, see Attachment A) for each carrier employee who has access to Michigan tax return information. The original agreements will be returned to the Department of Treasury, Disclosure Officer and a copy sent to the Contract Compliance Inspector.

If it is necessary to transfer records and responsibility for transport to a third carrier due to a mishap during transportation, the Contractor is responsible for ensuring safeguard standards remain enforce. This type of incident will be documented in accordance with the incident reporting guidelines in procedure PT-03253.

Any such incidents must be reported to the Contract Compliance Inspector immediately.

IX. Disposal of Tax Information

Materials furnished to Contractor, such as tax returns, remittance vouchers, W-2 reports, correspondence, computer printouts, carbon paper, notes, memorandums and work papers will be destroyed by burning, mulching, pulverizing or shredding. If shredded, strips should not be more than 5/16-inch, microfilm should be shredded to effect a 1/35-inch by 3/8-inch strip, and pulping should reduce material to particles of one inch or smaller.

Disk media must be destroyed by overwriting all data tracks a minimum of three times or running a magnetic strip over and under entire area of disk at least three (3) times. If the CD or DVD cannot be overwritten it must be destroyed in an obvious manner to prevent use in any disk drive unit and discarded. Hand tearing, recycling, or burying information in a landfill are unacceptable methods of disposal. Electronic data residing on any computer systems must be purged based on Treasury's retention schedule.

Contractor and its subcontractor(s) will retain all confidential tax information received by Treasury only for the period of time required for any processing relating to the official duties and then will destroy the records. Any confidential tax information that must be kept to meet



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evidentiary requirements must be kept in a secured, locked area and properly labeled as confidential return information. See Procedure for Security (Section V of this section) for more details.

X. Security Responsibility

Contractor will designate a security person who will ensure that each individual having access to confidential tax information or to any system which processes Michigan tax return information is appropriately screened, trained and executes a *Vendor, Contractor or Subcontractor Confidentiality Agreement* (Form 3337, see Attachment A) before gaining access or transaction rights to any process and computer system containing Treasury tax return information.

Each Contractor or their subcontractor(s) employees' access and transaction rights will be reviewed periodically to ensure that there is a need to know Treasury tax return information displayed in any media.

Michigan tax return information will be made available only to individuals authorized by the Contract. State and Contractor will maintain a list of persons authorized to request and receive information and will update the list as necessary. A copy of the list must be furnished to the Michigan Department of Treasury Disclosure Officer and Contract Compliance Inspector.

XI. Effective Date

These Safeguard requirements will be reviewed whenever the Contract modifications include specifications or processes that affect tax data.



Attachment A

Michigan Department of Treasury
3337 (Rev. 2-08)

Reset Form

Vendor, Contractor or Subcontractor Confidentiality Agreement

The Revenue Act, Public Act 122 of 1941, MCL 205.28(1)(f), makes all information acquired in administering taxes confidential. The Act holds a vendor, contractor or subcontractor and their employees who sell a product or provide a service to the Michigan Department of Treasury, or who access Treasury data, to the strict confidentiality provisions of the Act. Confidential tax information includes, but is not limited to, information obtained in connection with the administration of a tax or information or parameters that would enable a person to ascertain the audit selection or processing criteria of the Michigan Department of Treasury for a tax administered by the department.

INSTRUCTIONS. Read this entire form before you sign it. If you do not complete this agreement, you will be denied access to Michigan Department of Treasury and federal tax information. After you and your witness sign and date this form, keep a copy for your records. Send the original to the address listed below.

Company Name and Address (Street or RR#, City, State, ZIP Code)			Last Name	First Name
			Driver License Number	
State of Michigan Department	Bureau	Division	Subcontractor Name if Product/Service Furnished to Contractor	
Describe here or in a separate attachment the product or service being provided to the State of Michigan Agency.				

Confidentiality Provisions. It is illegal to reveal or browse, except as authorized:

- All tax return information obtained in connection with the administration of a tax. This includes information from a tax return or audit and any information about the selection of a return for audit, assessment or collection, or parameters or tolerances for processing returns.
- All Michigan Department of Treasury or federal tax returns or tax return information made available, including information marked "Official Use Only". Tax returns or tax return information shall not be divulged or made known in any manner to any person except as may be needed to perform official duties. Access to Treasury or federal tax information, in paper or electronic form, is allowed on a **need-to-know** basis only. Before you disclose returns or return information to other employees in your organization, they must be authorized by Michigan Department of Treasury to receive the information to perform their official duties.
- Confidential information shall not be disclosed by a department employee to confirm information made public by another party or source which is part of any public record. 1999 AC, R 2005.1004(1).

Violating confidentiality laws is a felony, with penalties as described:

Michigan Penalties

MCL 205.26(1)(f) provides that you may not willfully browse any Michigan tax return or information contained in a return. Browsing is defined as examining a return or return information acquired without authorization and without a **need to know** the information to perform official duties. Violators are guilty of a **felony** and subject to **fines of \$5,000 or imprisonment for five years, or both**. State employees will be discharged from state service upon conviction.

Any person who violates any other provision of the Revenue Act, MCL 205.1, et seq., or any statute administered under the Revenue Act, will be guilty of a misdemeanor and **fined \$1,000 or imprisonment for one year, or both**. MCL 205.27(4).

Federal Penalties

If you willfully disclose federal tax returns or tax return information to a third party, you are guilty of a **felony with a fine of \$5,000 or imprisonment for five years, or both, plus prosecution costs** according to the Internal Revenue Code (IRC) §7213. 26 USC 7213.

In addition, inspecting, browsing or looking at a federal tax return or tax return information without authorization is a **felony violation** of IRC §7213A subjecting the violator to a **\$1,000 fine or imprisonment for one year, or both, plus prosecution costs**. Taxpayers affected by violations of §7213A must be notified by the government and may bring a civil action against the federal government and the violator within two years of the violation. Civil damages are the **greater of \$1,000 or actual damages** incurred by the taxpayer, plus the costs associated with bringing the action. 26 USC 7431.

Failure to comply with this confidentiality agreement may jeopardize your employer's contract with the Michigan Department of Treasury

Certification		
By signing this Agreement, I certify that I have read the above confidentiality provisions and understand that failure to comply is a felony.		
Print name of employee signing this agreement	Signature of person named above	Date signed
Print Witness Name (Required)	Signature of Witness (Required)	Date signed

Submit your form to the following address:
 Technical Services Division, Disclosure Unit
 Michigan Department of Treasury
 P.O. Box 30698
 Lansing, MI 48909

For Express Deliveries, use:
 Technical Services Division, Disclosure Unit
 Michigan Department of Treasury
 430 W. Allegan Street
 Lansing, MI 48922

Questions, contact the **Technical Services Division, Disclosure Unit** by telephone, (517) 636-4239; fax, (517) 636-5340; or email: Treas_Disclosure@michigan.gov



Exhibit 2

General Security Requirements

On award of the Contract, the Contractor must comply with State and federal statutory and regulatory requirements, and rules; National Institute of Standards and Technology (NIST) publications; Control Objectives for Information and Related Technology (COBIT); all other industry specific standards; national security best practices and all requirements herein.

The Contractor must perform annual testing of all security control requirements to determine they are working as intended. Annual certification must be provided in writing to the CCI or designee in the form of a SSAE16 or similar audit report, if applicable.

A. Governing Security Standards and Publications

The State of Michigan information is a valuable asset that must be protected from unauthorized disclosure, modification, use, or destruction. Prudent steps must be taken to ensure that its integrity, confidentiality, and availability are not compromised.

The Contractor must collect, process, store, and transfer Department of Treasury personal, confidential or sensitive data in accordance with the contractual agreement, State of Michigan policies and the laws of the State of Michigan and the United States, including, but is not limited to the following:

- The Michigan Identity Theft Protection Act, MCL 445.61 et seq;
- The Michigan Social Security Number Privacy Act, MCL 445.82 et seq.
- Family Educational Rights and Privacy Act

1. State of Michigan Policies

- The Contractor must comply with the State of Michigan information technology standards <http://www.michigan.gov/dmb/0,1607,7-150-56355-107739--,00.html>.

B. Security Risk Assessment

The Contractor must conduct assessments of risks and identify the damage that could result from unauthorized access, use, disclosure, disruption, modification, or destruction of information and information systems that support the operations and assets of the Department of Treasury. Security controls should be implemented based on the potential risks. The Contractor must ensure that reassessments occur whenever there are significant modifications to the information system and that risk assessment information is updated.

C. System Security Plan

The Contractor must develop and implement a security plan that provides an overview of the security requirements for the information system. If a security plan does not exist, the Contractor must provide a description of the security controls planned for meeting those requirements. The security plan must be reviewed periodically and revised to address system/organizational changes or problems.

D. Network Security

The Contractor is responsible for the security of and access to Department of Treasury data, consistent with legislative or administrative restrictions. Unsecured operating practices, which expose other connected networks to malicious security violations, are not acceptable. The Contractor must coordinate with DTMB to enter the proper pointers into the State of Michigan infrastructure.

E. Data Security

The Contractor has the responsibility to protect the confidentiality, integrity, and availability of State of Michigan data that is generated, accessed, modified, transmitted, stored, disposed, or used by the system, irrespective of the medium on which the data resides and regardless of format (such as in electronic, paper or other physical form).

The Contractor must:

1. Process the personal data in accordance with the personal data protection laws of the State of Michigan and the United States.



2. Have in place appropriate technical and organizational internal and security controls to protect the personal data against accidental or unlawful destruction or accidental loss, alteration, unauthorized disclosure or access, and which provide a level of security appropriate to the risk represented by the processing and the nature of the data to be protected. Technical and organizational security controls must be implemented that are appropriate to the risks, such as against accidental or unlawful destruction or accidental loss, alteration, unauthorized disclosure or access, presented by the processing.
3. Provide secure and acceptable methods of transmitting personal, confidential or sensitive information over telecommunication devices such as data encryption (128 bit minimum), Secure Socket Layer (SSL), dedicated leased line or Virtual Private Network (VPN).
4. Supply the Department of Treasury, Security Division with information associated with security audits performed in the last three years.
5. Have in place procedures so that any third party it authorizes to have access to the personal data, including processors, will respect and maintain the confidentiality, integrity, and availability of the data.
6. Process the personal, confidential and sensitive data only for purposes described in the Contract.
7. Identify to the Department of Treasury a contact point within its organization authorized to respond to enquiries concerning processing of the personal, confidential or sensitive data, and will cooperate in good faith with the Department.
8. Not disclose or transfer the personal, confidential or sensitive data to a third party unless it is approved under this Contract.
9. Not use data transferred by the Department of Treasury as a result of this Contract for marketing purposes.

F. Media Protection

- The Contractor must implement measures to provide physical and environmental protection and accountability for tapes, diskettes, printouts, and other media containing Department of Treasury's personal, confidential and sensitive information to prevent the loss of confidentiality, integrity, or availability of information including data or software, when stored outside the system. This can include storage of information before it is input to the system and after it is output.
- The Contractor must ensure that only authorized users have access to information in printed form or on digital media removed from the information system, physically control and securely store information media, both paper and digital, restrict the pickup, receipt, transfer, and delivery of such media to authorized personnel.

G. Media Destruction and Disposal

The Contractor must sanitize or destroy information system digital media containing personal, confidential or sensitive information before its disposal or release for reuse to prevent unauthorized individuals from gaining access to and using information contained on the media.

- Personal, confidential or sensitive information must be destroyed by burning, mulching, pulverizing or shredding. If shredded, strips should not be more than 5/16-inch, microfilm should be shredded to affect a 1/35-inch by 3/8-inch strip, and pulping should reduce material to particles of one inch or smaller.
- Disk or tape media must be destroyed by overwriting all data tracks a minimum of three times or running a magnetic strip over and under entire area of disk at least three times. If the CD, DVD or tape cannot be overwritten it must be destroyed in an obvious manner to prevent use in any disk drive unit and discarded. Hand tearing, recycling, or burying information in a landfill are unacceptable methods of disposal. Electronic data residing on any computer systems must be purged based on retention periods required by the Department of Treasury.

H. Access Control

The Contractor must limit information system access to authorized users, processes acting on behalf of authorized users, or devices (including other information systems) and to the types of transactions and functions that authorized users are permitted to exercise. Access must be immediately removed when a staff changes job duties or leaves the employment.



Authentication Process

Authentication is the process of verifying the identity of a user. Authentication is performed by having the user enter a user name and password in order to access the system.

To help protect information from unauthorized access or disclosure, users must be identified and authenticated per the table below prior to accessing confidential or sensitive information, initiating transactions, or activating services.

Publicly available information such as the mother’s maiden name, birth date, and address as the sole authenticator is not a secure means of authentication and should not be used.

Automatic user logons are prohibited. Device-to-device logons must be secured (preferably using client certificates or password via tunneled session). For certain implementations, source restrictions (sign-on can occur only from a specific device) provide a compensating control, in addition to the ID and password.

Authentication information (e.g., a password or PIN) must never be disclosed to another user or shared among users.

The authentication process is limited to three unsuccessful attempts and must be reinstated by the authorized personnel (preferably the System security Administrator). User accounts should be systematically disabled after 90 days of inactivity and must be deleted after one year of inactivity

Password Requirements

The purpose of a password is to authenticate a user accessing the system and restrict use of a userID only to the assigned user. To the extent that the functionality is supported within the technology or product, the controls listed must be implemented.

These following controls or content rules apply at any point where a new password value is to be chosen or assigned. These rules must be enforced automatically as part of a new password content checking process:

Password Property	Value
Minimum Length	Eight characters with a combination of alpha, numeric, and special characters
Composition	<ul style="list-style-type: none"> • At least two numeric characters (0 through 9), neither of which may be at the beginning or the end of the password • A combination of two upper (A through Z) and lower case (a through z) letters • Special characters (!, @, #, \$, %, ^, &, *, (,), +, =, /, <, >, ?, , , ; , \) • UserID in password is not allowed
Expiration Requirement (Maximum Password Age):	30 days
Revocation	Passwords should be revoked after three failed attempts. (Treasury strongly supports password revocation after three failed attempts if system allows) Passwords should be



	systematically disabled after 90 days of inactivity to reduce the risk of compromise through guessing, password cracking or other attack and penetration methods.
Temporary passwords	<ul style="list-style-type: none"> • Must be randomly chosen or generated • System must force the user to change the temporary password at initial login
Change process	<p>System must force user to:</p> <ul style="list-style-type: none"> • Confirm their current password/PIN, • Reenter current password/PIN • Create a new password/PIN • Reenter new password/PIN <p>System must prevent users from being able to consecutively change their password value in a single day (The goal is to prevent recycling through password history records to reuse an earlier-used password value)</p>
Login process	Password/PIN must not appear on the screen during the login process (The exception to this is during selection of a machine-generated password).
Encryption of passwords/PINs	Passwords must be stored and transmitted with a minimum of 128-bit encryption. Passwords must be masked when entered on any screen
Compromise of password/PIN	Must be changed immediately
Forgotten password/PIN	Must be reset by authorized person (system Security Administrator)
Current user password/PIN	Must not be maintained or displayed in any readable format on the system
Audit logs	Maintain a record of when a password was changed, deleted, or revoked. The audit trail shall capture all unsuccessful login and authorization attempts for a one year period.
Password history	Keep a password history and perform a check against the history to verify the password has not been used for a minimum of one year
Privileged account access (e.g. supervisor or root)	Security administrator must change the password for that account immediately when user changes responsibilities

I. System Security Application Control

Application controls apply to individual computer systems and may include such controls as data origin, input controls, processing controls, output controls, application access controls, application interfaces, audit trail controls, and system documentation. Application controls consist of mechanisms in place over each separate computer system to ensure authorized data is processed completely, accurately, and reliably. The Contractor is responsible for ensuring application controls are in place and functioning properly within their organization. Ongoing testing and reporting of controls must be part of the business process in order to have a solid understanding of risks, strengths, and weaknesses. A comprehensive solution is required to ensure that business critical applications are handled efficiently and are prioritized. Dynamic recovery procedures and fail over facilities must be incorporated into the scheduling process whenever possible; and where manual processes are needed, extensive tools must be available to minimize delays and ensure critical services are least impacted.

J. System Auditing

The Contractor must (i) create, protect, and retain information system audit log records to the extent needed to enable the monitoring, analysis, investigation, and reporting of unlawful, unauthorized, or inappropriate information system activity, and (ii) ensure that the actions of individual information system users can be uniquely traced to those users so they can be held accountable for their actions.



The Contractor must observe the following guidelines regarding system auditing:

1. Audit record should contain the following:
 - date and time of the event
 - subject identity
 - type of event
 - how data changed
 - where the event occurred
 - outcome of the event
2. System alerts if audit log generation fails
3. System protects audit information from unauthorized access
4. Audit record should be reviewed by individuals with a “need to know” on a regular basis
5. Audit logs are retained for sufficient period of time.

K. Configuration Control and Management

The configuration management policy and procedures must be consistent with applicable federal laws, directives, policies, regulations, standards and guidance.

L. Incident Reporting

The Contractor must immediately notify any security incidents and/or breaches to the CCI.

- The Contractor must have a documented and implemented Incident Response Policy and Procedure
- Incident handling form for consistent, repeatable process for monitoring and reporting when dealing with incidents.
- Incident response resource identified to assist users in handling and reporting incidents.
- Personnel trained in their incident response roles and responsibilities at least annually.

M. Physical and Environmental Security

The Contractor must have established physical and environmental security controls to protect systems, the related supporting infrastructure, and facilities against threats associated with their physical environment.

1. The Contractor must have established environmental protection for magnetic and other media from fire, temperature, liquids, magnetism, smoke, and dust.
2. The Contractor must control all physical access points to facilities containing information systems (except those areas within the facilities officially designated as publicly accessible), review physical security logs periodically, investigate security violations or suspicious physical access activities, and initiate remedial actions.
3. The Contractor must periodically review the established physical and environmental security controls to ensure that they are working as intended.

N. Disaster Recovery and Business Continuity Plan

The Contractor must have developed, periodically update, and regularly test disaster recovery and business continuity plans designed to ensure the availability of Department of Treasury’s data in the event of an adverse impact to the contractors information systems due to a natural or man-made emergency or disaster event.



O. Security Awareness Training

The Contractor must ensure their staff having access to Treasury information are made aware of the security risks associated with their activities and of applicable laws, policies, and procedures related to security identified in Section A of this document, and ensuring that personnel are trained to carry out their assigned information security related duties.

Contracted employees must obtain Department of Treasury provided security awareness training. (On-line training to be identified by the CCI).