

PERFORMANCE AUDIT
OF THE
BUREAU OF TECHNICAL REVIEW AND EMPLOYEE RELATIONS
DEPARTMENT OF CIVIL SERVICE

July 2001

EXECUTIVE DIGEST

BUREAU OF TECHNICAL REVIEW AND EMPLOYEE RELATIONS

INTRODUCTION

This report, issued in July 2001, contains the results of our performance audit* of the Bureau of Technical Review and Employee Relations, Department of Civil Service (DCS).

AUDIT PURPOSE

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

BACKGROUND

DCS was established by the Executive Organization Act of 1965. DCS is under the jurisdiction of the Civil Service Commission, which consists of four nonsalaried members appointed by the Governor. Article XI, Section 5 of the State Constitution specifies the Commission's responsibilities. These responsibilities have been translated into the *Rules of the Civil Service Commission*.

The Bureau of Technical Review and Employee Relations includes the Office of Compliance; Personal Services Review; Hearings, Employee Relations, and Mediation; and the Office of Technical Appeals.

* See glossary at end of report for definition.

The Office of Compliance performs audit procedures to monitor and review agency* human resource office activities relative to personnel and payroll transactions involving classified employees*. It also investigates complaints regarding these activities.

Personal Services Review administers the rules and regulations on disbursements for contractual personal services*, approves or disapproves agency requests to disburse funds for personal services*, and provides monthly and annual reports on these activities to the Legislature.

Hearings, Employee Relations, and Mediation provides neutral dispute resolution services for many different aspects of labor and management relations.

The Office of Technical Appeals responds to appeals regarding classification, selection, and requests to approve disbursements for personal services. Technical appeals* can be filed by appointing authorities*, employees, applicants, and bargaining unit representatives.

For the fiscal year ended September 30, 1999, Bureau expenditures totaled approximately \$2.1 million. As of July 31, 2000, DCS had 22 employees assigned to the Bureau.

**AUDIT OBJECTIVES
AND CONCLUSIONS**

Audit Objective: To assess the effectiveness and efficiency of the audit procedures performed by the Office of Compliance.

Conclusion: We concluded that the audit procedures performed by the Office of Compliance were generally effective and efficient. However, we noted reportable

* See glossary at end of report for definition.

conditions* related to written policies and procedures; documentation of monitoring methodology; review of compensation transactions; review of gross pay adjustment transactions; monitoring of hour accruals, balances, and adjustments; and outstanding audit notices* (Findings 1 through 6).

Audit Objective: To assess the effectiveness and efficiency of the Bureau's administration and monitoring of requests for contractual personal services*.

Conclusion: We concluded that the Bureau's administration and monitoring of requests for contractual personal services were generally effective and efficient. However, we noted reportable conditions related to controls to ensure consistency of reviews and the auditing of disbursements for personal services (Findings 7 and 8).

Audit Objective: To assess the effectiveness and efficiency of the Bureau's administration of hearings, employee relations, and mediations.

Conclusion: We concluded that the Bureau's administration of hearings, employee relations, and mediations was generally effective and efficient.

Audit Objective: To assess the effectiveness and efficiency of the Bureau's administration of technical appeals.

Conclusion: We concluded that the Bureau's administration of technical appeals was generally effective and efficient.

* See glossary at end of report for definition.

AUDIT SCOPE AND
METHODOLOGY

Our audit scope was to examine the program and other records of the Bureau of Technical Review and Employee Relations. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our audit procedures included an examination of records and activities primarily for the period October 1, 1998 through July 31, 2000.

To accomplish our audit objectives, we reviewed the Bureau's organizational structure. We also reviewed internal control* over various activities administered within the Bureau.

We tested the Office of Compliance's audit procedures for its Statewide monitoring and review of compensation, selection, and gross pay adjustment transactions. We examined the Office of Compliance's process for contacting the agencies and resolving transactions identified as inaccurate, inappropriate, or not in compliance with rules and regulations.

We evaluated Personal Services Review's efforts to monitor agency requests for contractual personal services for compliance with applicable rules and regulations. We also evaluated Hearings, Employee Relations, and Mediation decisions and the Office of Technical Appeals decisions to determine whether the decisions were processed in a timely manner.

* See glossary at end of report for definition.

AGENCY RESPONSES

Our audit report includes 8 findings and 8 corresponding recommendations. DCS's preliminary response indicated that it generally agrees with our findings and has implemented or will implement most of our recommendations.

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July 10, 2001

Ms. Susan Grimes Munsell, Chairperson
Civil Service Commission
and
Mr. John F. Lopez, State Personnel Director
Department of Civil Service
Capital Commons Center
Lansing, Michigan

Dear Ms. Munsell and Mr. Lopez:

This is our report on the performance audit of the Bureau of Technical Review and Employee Relations, Department of Civil Service.

This report contains our executive digest, description of agency; audit objectives, scope, and methodology and agency responses; comments, findings, recommendations, and agency preliminary responses; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL

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Description of Agency

The Department of Civil Service (DCS) was established by the Executive Organization Act of 1965. DCS is under the jurisdiction of the Civil Service Commission, which consists of four nonsalaried members, not more than two of whom shall be members of the same political party. The Governor appoints the members for terms of eight years, no two of which shall expire in the same year. Article XI, Section 5 of the State Constitution specifies the Commission's responsibilities. These responsibilities have been translated into the *Rules of the Civil Service Commission*.

Major organizational units of DCS include: Office of the State Personnel Director, Human Resources Management Network, Office of Performance Excellence, Office of Internal Auditor, Office of the General Counsel, Bureau of Technical Review and Employee Relations, and Bureau of Administrative Services.

The Bureau of Technical Review and Employee Relations includes the Office of Compliance; Personal Services Review; Hearings, Employee Relations, and Mediation; and the Office of Technical Appeals.

The Office of Compliance performs audit procedures to monitor and review agency human resource office activities relative to personnel and payroll transactions involving classified employees. Compliance concerns include selection and related personnel activities, classification, payroll and performance activities, and disbursements for personal services. The Office also investigates complaints regarding these activities.

Personal Services Review administers the rules and regulations on disbursements for contractual personal services, reviews requests for contractual personal services, determines whether the agency's requested personal service should be performed by State employees or an independent contractor*, approves or disapproves agency requests to disburse funds for personal services, and provides monthly and annual reports on these activities to the Legislature.

Hearings, Employee Relations, and Mediation provides neutral dispute resolution services for many different aspects of labor and management relations. Its services

* See glossary at end of report for definition.

include adjudicating employee grievances and unfair labor practice charges; conducting representation elections to determine exclusive representation rights; and providing mediation to assist in resolving collective bargaining disputes, employee grievances, and unfair labor practice disputes.

The Office of Technical Appeals responds to appeals of staff decisions regarding classification, selection, and requests to approve disbursements for personal services. Technical appeals can be filed by appointing authorities, employees, applicants, and bargaining unit representatives.

For the fiscal year ended September 30, 1999, Bureau expenditures totaled approximately \$2.1 million. As of July 31, 2000, DCS had 22 employees assigned to the Bureau.

Audit Objectives, Scope, and Methodology and Agency Responses

Audit Objectives

Our performance audit of the Bureau of Technical Review and Employee Relations, Department of Civil Service (DCS), had the following objectives:

1. To assess the effectiveness and efficiency of the audit procedures performed by the Office of Compliance.
2. To assess the effectiveness and efficiency of the Bureau's administration and monitoring of requests for contractual personal services.
3. To assess the effectiveness and efficiency of the Bureau's administration of hearings, employee relations, and mediations.
4. To assess the effectiveness and efficiency of the Bureau's administration of technical appeals.

Audit Scope

Our audit scope was to examine the program and other records of the Bureau of Technical Review and Employee Relations. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Audit Methodology

Our audit procedures included an examination of records and activities primarily for the period October 1, 1998 through July 31, 2000. Our work was performed between November 1999 and July 2000.

To accomplish our audit objectives, we reviewed the Bureau's organizational structure. We also reviewed internal control over various activities administered within the Bureau.

We tested the Office of Compliance's audit procedures for its Statewide monitoring and review of compensation, selection, and gross pay adjustment transactions. We evaluated the Office of Compliance's efforts to ensure that personnel and payroll

transactions processed by agencies complied with applicable DCS rules and regulations. We examined the Office of Compliance's process for contacting the agencies and resolving transactions identified as inaccurate, inappropriate, or not in compliance with DCS rules and regulations.

We evaluated Personal Services Review's efforts to monitor agency requests for contractual personal services for compliance with applicable rules and regulations. We also evaluated Hearings, Employee Relations, and Mediation decisions and Office of Technical Appeals decisions to determine whether the decisions were processed in a timely manner.

Agency Responses

Our audit report contains 8 findings and 8 corresponding recommendations. DCS's preliminary response indicated that it generally agrees with our findings and has implemented or will implement most of our recommendations.

The agency preliminary response which follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require DCS to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

OFFICE OF COMPLIANCE

COMMENT

Background: The Office of Compliance's six employees are responsible for the Statewide monitoring and review of personnel and payroll transactions involving classified employees. In October 1998, the Office of Compliance revised its post audit process for its selection and compensation transactions. The Department of Civil Service (DCS) initiated this change in audit philosophy to better serve agencies in identifying problem areas. The Office of Compliance staff complete a biweekly desk review of transactions processed during the previous pay period as part of the Statewide monitoring. Using available resources, including on-line databases and employment histories, staff conduct a desk review of the transactions. Staff review and clear* the transactions summarized on the biweekly report and processed during the prior pay period. The purpose of the desk review is to determine that transactions were accurate, appropriate, and in compliance with DCS rules and regulations. Office of Compliance staff verify the computational accuracy, verify the existence of required approvals for each transaction, and determine compliance with DCS rules and regulations.

Audit Objective: To assess the effectiveness and efficiency of the audit procedures performed by of the Office of Compliance.

Conclusion: We concluded that the audit procedures performed by the Office of Compliance were generally effective and efficient. However, we noted reportable conditions related to written policies and procedures; documentation of monitoring methodology; review of compensation transactions; review of gross pay adjustment (GPA) transactions; monitoring of hour accruals, balances, and adjustments; and outstanding audit notices.

* See glossary at end of report for definition.

FINDING

1. Written Policies and Procedures

The Office of Compliance needs to update its written policies and procedures to reflect its current Statewide monitoring responsibilities.

Written policies and procedures serve as guides for better administration of office operations by providing management with the tools necessary to establish and document its controls.

We determined that the Office of Compliance's procedures related to the review of GPA transactions had not been updated to document its review process, including how transactions are selected for review and how the accuracy or appropriateness of the individual transactions is verified. The Office of Compliance's procedures related to the monitoring and review of selection and compensation transactions also need to be updated to reflect the Office's transition from a post-audit process to a real-time audit process.

Maintaining current written policies and procedures can impact the effectiveness and efficiency of operations and promote the consistency of practices among Office of Compliance staff. Written procedures are valuable in training new employees and help to ensure that employees understand and are aware of their assigned responsibilities.

RECOMMENDATION

We recommend that the Office of Compliance update its written policies and procedures to reflect its current Statewide monitoring responsibilities.

AGENCY PRELIMINARY RESPONSE

The Office of Compliance agrees to comply with this recommendation. It informed us that it is currently in the process of updating its written policies and procedures to reflect new and revised monitoring responsibilities and audit procedures resulting from Human Resources Management Network (HRMN) implementation.

FINDING

2. Documentation of Monitoring Methodology

The Office of Compliance did not maintain comprehensive documentation of its methodology used to define the GPA population subject to the biweekly Statewide review of GPA transactions.

The biweekly Statewide review of GPA transactions serves as a control for all State agencies. The Office of Compliance is responsible for the completeness of the Statewide review.

In developing the methodology for reviewing GPA transactions, the Office of Compliance identified the population of GPA transactions that would be subject to its review and established a dollar threshold for inclusion in its review. The Office of Compliance periodically refined its methodology to eliminate types of transactions from the biweekly report because of existing system edits and agency controls. During the 35 pay periods between September 20, 1998 and January 22, 2000, we determined that approximately 55,000 GPA transactions totaling \$44 million were subject to the Office of Compliance's biweekly review. The Office of Compliance had not retained documentation to identify what GPA transactions had been excluded from its review and to identify its basis for removing transactions from the review.

The Office of Compliance needs to maintain more comprehensive documentation of its methodology used to define the GPA population and to select transactions and also needs to maintain documentation of its basis for making periodic changes to the methodology. Documenting the methodology for selecting GPA transactions to review would provide both an administrative and a historical record of which GPA transactions have been included in the Statewide review.

RECOMMENDATION

We recommend that the Office of Compliance maintain comprehensive documentation of its methodology used to define the GPA population subject to the biweekly Statewide review of GPA transactions.

AGENCY PRELIMINARY RESPONSE

The Office of Compliance agrees to comply with this recommendation and improve the comprehensiveness of the documentation used to define the GPA population for review and audit.

FINDING

3. Review of Compensation Transactions

The Office of Compliance needs to improve the frequency of its review of compensation transactions.

As part of its responsibilities for Statewide monitoring and review of personnel and payroll transactions, Office of Compliance staff review compensation transactions processed by other agencies. Compensation transactions impact an employee's compensation rate and are based on personnel actions such as a promotion, demotion, or reallocation. Staff use employment histories and several databases to determine whether compensation transactions were accurate and in compliance with DCS rules and regulations.

Between January 1999 (when the revised audit process was implemented) and January 2000, staff evaluated approximately 2,300 compensation transactions each month and followed up on those transactions identified as needing further review. As of July 31, 2000 (the end of our audit fieldwork), we determined that the Office of Compliance had not completed its biweekly review of compensation transactions since January 2000. The backlog of compensation transactions resulted primarily from the reassignment of some Office of Compliance staff to other higher priority projects within DCS.

Other State agencies rely on DCS's independent review for assurance that they have correctly processed their compensation transactions. Without regular review of transactions, the Office of Compliance cannot ensure that agencies have completed compensation transactions accurately and in compliance with DCS rules and regulations.

RECOMMENDATION

We recommend that the Office of Compliance improve the frequency of its review of compensation transactions.

AGENCY PRELIMINARY RESPONSE

The Office of Compliance agrees with this recommendation and informed us that it has initiated action to eliminate the backlog. Since January 2001, the Office of Compliance has reviewed and audited compensation transactions during the pay period following the biweekly period in which the payment was processed.

FINDING

4. Review of GPA Transactions

The Office of Compliance had not established effective controls to help ensure the accuracy and completeness of the biweekly Statewide review of GPA transactions.

As part of the Statewide monitoring, Office of Compliance staff complete a biweekly desk review of GPA transactions. In our examination of the Office of Compliance's biweekly desk review of GPA transactions, we determined:

- a. Office of Compliance staff had not reviewed or cleared 3,478 (21.5%) of 16,164 of the GPA transactions identified on 42 consecutive biweekly reports (representing pay periods ended October 3, 1998 through April 29, 2000). The Office of Compliance supervisor informed us that staff had been required to review and clear all GPA transactions identified on the biweekly report since January 2000. Prior to that, staff were not required to perform a 100% review of GPA transactions for exclusively represented* employees. We determined that staff were not aware of some of their assigned responsibilities regarding the review of all GPA transactions identified on the biweekly report. The 16,164 GPA transactions subject to the Office of Compliance review had an estimated value of \$3.6 million.
- b. The Office of Compliance had not reviewed any of the 175 GPA transactions, totaling \$85,823, that one agency had processed to exclusively represented employees between September 20, 1998 and April 29, 2000. After determining that Office of Compliance staff had not reviewed any of this agency's transactions, we expanded our testing to determine the number of GPA transactions below the threshold for the biweekly GPA review. This agency processed an additional 164 GPA transactions, totaling \$27,111, during the same period that did not meet the dollar threshold for inclusion in the biweekly review. In our review, we examined the 339 GPA transactions, ranging from \$100 to \$2,200 and totaling \$112,934, that were processed by the agency for 23 of its employees. We determined:
 - (1) The agency processed 46 time and attendance adjustment GPA transactions to compensate 4 employees as if they were working in a new

* See glossary at end of report for definition.

position after DCS denied the agency's request to establish a new classification for these 4 employees. The 4 employees received 46 GPA payments totaling \$9,225 between November 13, 1999 and April 29, 2000. A review of these transactions would have confirmed that the agency did not have the authority to pay these employees for the new classification.

- (2) The agency processed 204 time and attendance adjustment GPA transactions totaling \$82,360 for 15 employees who provided the agency with coaching services. The coaching services were unrelated to the employees' normal work responsibilities. These employees had signed contracts with the agency agreeing to provide coaching services. However, State employees are specifically prohibited under Executive Directive 1995-2 and DCS Advisory Bulletin 491-98 from entering into contractual arrangements with State agencies.
- (3) The agency processed 22 time and attendance adjustment GPA transactions totaling \$6,952 for 2 employees for special assignments and 5 time and attendance adjustment GPA transactions totaling \$4,000 for one employee performing duties at camp. The special assignments and duties at camp were in addition to their normal work responsibilities. A review of these transactions would have identified the purpose of the GPA transactions and the appropriateness of the related payments.

The Office of Compliance informed us that the 339 GPA transactions processed by this agency were incorrectly coded as time and attendance adjustments. Although the Office of Compliance routinely reviewed time and attendance GPA transactions during its biweekly review, it had not reviewed these GPA transactions because these payments were made to exclusively represented employees.

- c. Although staff were responsible for determining the accuracy, appropriateness, and compliance requirements for approximately 417 GPA transactions each pay period, staff work was not routinely reviewed prior to January 2000 to ensure that all GPA transactions had been reviewed and that staff decisions were appropriate. A supervisory level review would normally detect control weaknesses such as those addressed in items a. and b.

A supervisory level review is an essential control to ensure that staff understand their assigned responsibilities, complete their work in a timely manner, and apply applicable rules and regulations accurately. A periodic supervisory level review of the monitoring of GPA transactions would help ensure the proper application of policies and procedures, rules, regulations, and other requirements.

The Statewide review of GPA transactions was established to monitor the State agencies' compliance with DCS rules and regulations. Other State agencies rely on DCS's independent review for assurance that they have correctly processed their GPA transactions. Statewide internal control was weakened because of the Office of Compliance's failure to accurately and completely fulfill its assigned oversight responsibilities.

During our audit fieldwork, the Office of Compliance initiated a supervisory level review of staff work.

RECOMMENDATION

We recommend that the Office of Compliance establish effective controls to help ensure the accuracy and completeness of the biweekly Statewide review of GPA transactions.

AGENCY PRELIMINARY RESPONSE

The Office of Compliance disagrees with item b., parts (2) and (3) of the finding, but agrees with the recommendation. Collective bargaining agreements provide the agency with the authority to process these GPA transactions, according to the Office of the State Employer. Prior to the completion of the audit fieldwork, the Office of Compliance implemented a process to ensure that staff accurately and completely fulfill their responsibilities of performing a biweekly Statewide review of GPA transactions for nonexclusively represented employees and exclusively represented employees to comply with this recommendation.

FINDING

5. Monitoring of Hour Accruals, Balances, and Adjustments

Employees' hour accruals, balances, and adjustments were not included within the scope of the Office of Compliance's Statewide monitoring and review of payroll transactions.

Although the Office of Compliance is responsible for the Statewide monitoring and review of personnel and payroll transactions involving classified employees, the Office of Compliance excluded overtime, compensatory time, and leave balances and accruals from the scope of its responsibilities. During our testing of controls, we determined that the payroll transactions from one agency had not been monitored and reviewed by staff (Finding 4.b.). We expanded our review to examine the payroll transactions as well as the overtime, compensatory time, and leave balances and accruals of 26 agency employees.

In our review of this agency's transactions, we noted:

- a. Four employees were allowed to accrue compensatory time in excess of the maximum allowed by the employees' bargaining agreement*. These employees had compensatory time balances of 139.2, 193.1, 194.5, and 217.4 hours during the period of our review. Based on bargaining agreement provisions, these four employees were only allowed to accumulate up to a maximum of 120 hours of compensatory time.

Both the *State of Michigan's Compensation Plan* and the bargaining agreement provisions specify a maximum amount of compensatory time that an employee is allowed to accumulate. When the two maximum amounts are different, the provisions negotiated in a bargaining agreement supersede provisions in the *State of Michigan's Compensation Plan*. The Office of Compliance informed us that the State's payroll system did not have edit features to prevent an employee from accumulating more compensatory time than allowed by the *State of Michigan's Compensation Plan* or allowed by the bargaining agreement provisions.

- b. Seventeen employees continued to receive their annual and sick leave accruals while on annual seasonal layoffs ranging from 1 to 5 pay periods. The annual leave and sick leave balances were adjusted downward when the employees returned from layoffs. However, annual leave was adjusted at the rate of 4 hours per pay period, regardless of the employee's annual leave accrual rate. The annual leave accrual rates for these employees ranged from

* See glossary at end of report for definition.

4.7 to 8.4 hours per pay period. There are no provisions within the *State of Michigan's Compensation Plan* for this practice.

- c. Three newly hired employees were each "loaned" 56 hours of compensatory time within the first few weeks of their employment with the agency. This agency was closed during selected holiday periods and employees were expected to use annual leave or compensatory time during this time. These three employees would not have accumulated enough annual leave prior to the first holiday period. To prevent the employees from going on lost time during the holiday periods, the agency loaned the employees compensatory time. The employees were expected to pay back the loaned compensatory time when they had accumulated enough annual leave. Even though these employees had worked 25, 38, and 49 pay periods, they had not yet paid back the loaned compensatory time. There are no provisions within the *State of Michigan's Compensation Plan* for crediting employees with compensatory time that has not been earned.

The Statewide review of personnel and payroll transactions was established to monitor the State agencies' compliance with DCS rules and regulations. Other State agencies rely on DCS's independent review for assurance that they have correctly processed their transactions. Without regular review of hour accruals, balances, and adjustments, the Office of Compliance cannot ensure that agencies have processed transactions accurately and in compliance with the *State of Michigan's Compensation Plan*.

RECOMMENDATION

We recommend that the Office of Compliance include employees' hour accruals, balances, and adjustments within the scope of its Statewide monitoring and review of payroll transactions.

AGENCY PRELIMINARY RESPONSE

The Office of Compliance agrees and informed us that it has complied with this recommendation by taking appropriate steps to include employees' hour balances and adjustments in its review and audit of payroll transactions.

FINDING

6. Outstanding Audit Notices

The Office of Compliance did not resolve outstanding audit notices in a timely manner.

When the Office of Compliance cannot verify the accuracy or appropriateness of a transaction with the resources available, they send the agency an audit notice requesting clarifying information or documentation. After the agency has provided the requested information or documentation and the Office of Compliance has resolved the issue with the agency, staff will clear the transaction and remove the audit notice from their log.

Office of Compliance staff informed us that first audit notices are sent out following the completion of the biweekly desk review. If the agency does not respond to the first notice within 14 days, staff will send out a second audit notice. If the agency does not respond to the second audit notice within 14 days, the Office of Compliance will personally contact the appointing authority to resolve the issue in question.

We examined the log of audit notices and determined that as of April 17, 2000 the Office of Compliance had 246 outstanding audit notices that had been outstanding more than 6 weeks. Between 44 and 422 days (an average of 119 days) had elapsed since the pay period in which the transaction was processed. Audit notices were sent out approximately 24 days following the end of the pay period in which the transaction was processed.

For 157 of the 246 transactions, the agencies had contacted the Office of Compliance following the receipt of an audit notice. However, these transactions had not been cleared following the Office of Compliance's review of information and/or documentation provided.

The effectiveness of the Statewide monitoring and review of personnel and payroll transactions is reduced when the Office of Compliance does not resolve issues related to outstanding audit notices in a timely manner.

RECOMMENDATION

We recommend that the Office of Compliance resolve outstanding audit notices in a timely manner.

AGENCY PRELIMINARY RESPONSE

The Office of Compliance agrees and informed us that it has complied with the recommendation by revising procedures to ensure that outstanding audit notices are resolved in a timely manner.

PERSONAL SERVICES REVIEW

COMMENT

Audit Objective: To assess the effectiveness and efficiency of the Bureau's administration and monitoring of requests for contractual personal services.

Conclusion: We concluded that the Bureau's administration and monitoring of requests for contractual personal services were generally effective and efficient. However, we noted reportable conditions related to controls to ensure consistency of reviews and the auditing of disbursements for personal services.

FINDING

7. Controls to Ensure Consistency of Reviews

Personal Services Review had not developed sufficient controls to ensure the consistent review of requests for contractual personal services.

Personal Services Review has the oversight responsibility for approving requests for contractual personal services. DCS rules and regulations and its training and reference manual address the criteria that must be met to approve a request. Additional controls, such as written policies and procedures, would provide instruction for day-to-day procedures that have not been addressed in the rules and regulations and the training and reference manual.

In our review of approved requests for contractual personal services, we determined that staff did not always comply with informal procedures. DCS staff provided us with conflicting information regarding their informal procedures for reviewing requests for contractual personal services. Developing sufficient controls, such as written policies and procedures and staff review advisories, would help to ensure that staff process and approve requests for contractual personal services in a consistent manner.

RECOMMENDATION

We recommend that Personal Services Review develop sufficient controls to ensure the consistent review of requests for contractual personal services.

AGENCY PRELIMINARY RESPONSE

Personal Services Review agrees to review its Training and Reference Manual on Disbursements for Personal Services and supplement it, if needed, with staff review advisories to ensure consistent treatment during review of requests for contractual personal services.

FINDING

8. Auditing of Disbursements for Personal Services

DCS did not audit personal services disbursements for compliance with rules and regulations as provided for in Section 4-6.11 of the *Rules of the Civil Service Commission*.

Section 4-6.11 of the *Rules of the Civil Service Commission* states that DCS shall periodically audit an appointing authority for compliance with DCS rules and regulations governing disbursement for personal services. This requirement was approved by the Civil Service Commission and became effective in June 1997.

DCS employees developed procedures in December 1999 for a proposed pilot project to audit personal service contracts. As of July 2000, DCS had neither tested the pilot project nor completed any audits of disbursements for personal services.

During fiscal year 1998-99, the personal service contracts approved by DCS had expenditures totaling approximately \$28 million. In addition, the appointing authorities incurred another \$616 million in expenditures for preauthorized* personal service contracts. Preauthorized personal services are types of services that have been preapproved by DCS. Unlike personal service contracts, individual preauthorized personal service contracts are not reviewed by DCS staff prior to the start of the contract. Monitoring of all personal service contracts is essential to

* See glossary at end of report for definition.

ensure that the services acquired under the contracts agree with the requirements of the contracts.

Developing and implementing procedures for auditing disbursements for personal services would help ensure that the appointing authorities have complied with the rules and regulations of the Civil Service Commission regarding personal service contracts.

DCS leadership informed us that it has not implemented Section 4-6.11 of the *Rules of the Civil Service Commission* because of pending litigation involving the constitutionality of the rules addressed in Section 4-6.7. The ongoing litigation has not impacted DCS's authority to implement the other sections of Rule 4-6. (Effective March 18, 2001, Rule 4-6 became Rules 7-1 through 7-12 and Sections 4-6.7 and 4-6.11 became Rules 7-6 and 7-10, respectively. Sections 4-6.4 through 4-6.9 became Rules 7-3 through 7-8.)

DCS said that Section 4-6.11 pertains to only decentralized personal services as defined in Section 4-6.7 (a procedure for decentralized approval without prior DCS review); however, we believe that the language in Section 4-6.11 does not support DCS's position. Section 4-6.11 provides DCS with its audit and enforcement authority regarding various types of personal services disbursements identified in other sections of the rule. Section 4-6.11 states that DCS shall periodically audit the appointing authorities to ensure compliance with the DCS rules and regulations governing disbursements for personal services. The various types of personal services and approvals as identified by Rule 4-6 include special personal service employees, independent contractors, prior written approval by DCS staff, decentralized approval without prior DCS review, preauthorized personal services, and emergency services (Sections 4-6.4 through 4-6.9).

DCS informed us that it has not initiated any audits of personal services disbursements, as authorized by Section 4-6.11, because this section was intended to apply to only audits of personal services disbursements originating from the decentralized approval process, as defined by Section 4-6.7. However, we believe that the current wording of Section 4-6.11 does not limit DCS's audit and enforcement authority to only those personal services disbursements originating under Section 4-6.7 (the decentralized approval process).

RECOMMENDATION

We recommend that DCS audit personal services disbursements for compliance with rules and regulations as provided for in Section 4-6.11 of the *Rules of the Civil Service Commission*.

AGENCY PRELIMINARY RESPONSE

DCS agrees with the audit finding but disagrees with the audit recommendation. DCS and the Civil Service Commission disagree with the auditors' interpretation of Section 4-6.11 of the *Rules of the Civil Service Commission*. Whereas, the auditors believe Section 4-6.11 includes the auditing of all personal services disbursements, DCS contends that this section pertains to only those personal services defined in Section 4-6.7 of the *Rules of the Civil Service Commission*. DCS has delayed the implementation of Section 4-6.7 of the *Rules of the Civil Service Commission* because of extensive pending litigation. However, DCS will consult with legal counsel regarding the need to amend the language in the rule to clarify the original intent of the Civil Service Commission and to avoid confusion with respect to audits of personal services disbursements.

HEARINGS, EMPLOYEE RELATIONS, AND MEDIATION

COMMENT

Audit Objective: To assess the effectiveness and efficiency of the Bureau's administration of hearings, employee relations, and mediations.

Conclusion: We concluded that the Bureau's administration of hearings, employee relations, and mediations was generally effective and efficient.

OFFICE OF TECHNICAL APPEALS

COMMENT

Audit Objective: To assess the effectiveness and efficiency of the Bureau's administration of technical appeals.

Conclusion: We concluded that the Bureau's administration of technical appeals was generally effective and efficient.

Glossary of Acronyms and Terms

agency	Any State department or entity responsible for administering its personnel functions.
appointing authority	The single executive heading a principal department, the chief executive officer of each principal department headed by a board or commission, or the person designated by either of the preceding as being responsible for administering the personnel functions of the department, board, or commission.
audit notice	A written communication sent to an appointing authority requesting additional information or documentation to clarify a personnel or payroll transaction.
bargaining agreement	A union contract between the Office of the State Employer and a labor union.
classified employees	All employees working in State service positions except positions filled by popular election, heads of principal departments, members of boards and commissions, employees of the Legislature, and exempt positions within the Office of the Governor.
clear	To remove from a list of outstanding items after establishing compliance with applicable rules, regulations, or other requirements.
contractual personal services	Contracting with a firm or person to perform personal services as opposed to the purchase of products, materials, or equipment.
DCS	Department of Civil Service.
effectiveness	Program success in achieving mission and goals.

efficiency	Achieving the most outputs and outcomes practical for the amount of resources applied or minimizing the amount of resources required to attain a certain level of outputs or outcomes.
exclusively represented	An employee represented by a labor union.
GPA	gross pay adjustment.
independent contractor	An individual contractor or an employee of a contractor who provides personal services and who is not an employee of the State of Michigan.
internal control	The management control environment, management information system, and control policies and procedures established by management to provide reasonable assurance that goals are met; that resources are used in compliance with laws and regulations; and that valid and reliable performance related information is obtained and reported.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.
personal services	Work performed for the direct benefit of the State by an individual for compensation.
preauthorized	A term referring to the authorization granted by the Department of Civil Service to appointing authorities to enter into a contract for personal services which has been deemed

by the Department of Civil Service to have met one or more of the standards identified in Section 4-6.3 of the *Rules of the Civil Service Commission*.

reportable condition

A matter coming to the auditor's attention that, in the auditor's judgment, should be communicated because it represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.

request for contractual
personal services

The form which is submitted to the Department of Civil Service by appointing authorities to request approval to authorize or make a disbursement for personal services of persons who are not classified employees of the State.

technical appeal

A written complaint that a technical decision (1) violated Article XI, Section 5 of the State Constitution, (2) violated a Department of Civil Service rule or regulation, (3) lacked a rational basis, or (4) was an abuse of discretion.