



Michigan  
*Office of the Auditor General*  
**REPORT SUMMARY**

*Performance Audit*

*Statewide Information Technology*

*Contracting Practices*

*Department of Management and Budget and*

*Department of Information Technology*

Report Number:  
50-510-05

Released:  
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*Acquisition Services, within the Department of Management and Budget (DMB), and the Contract Office (formerly known as Contracts and Procurement Services), within the Department of Information Technology (DIT), share responsibilities for the management of information technology (IT) contracts. The current value of the State's active IT contracts during the period September 30, 2003 through April 1, 2005 was approximately \$4.8 billion. The active IT contracts originated from February 1, 1988 through February 18, 2005.*

***Audit Objective:***

To assess the effectiveness of DMB's and DIT's efforts to administer the IT contracting process.

***Audit Conclusion:***

DMB's and DIT's efforts to administer the IT contracting process were ineffective. In January 2003, the Governor appointed a new director of DMB and a new director of DIT. The new directors initiated projects to improve the IT contracting process. Although DMB and DIT have made improvements in IT procurement and contract administration, significant control weaknesses persist that diminish DMB's and DIT's efforts to manage IT contracts.

***Material Conditions:***

DMB and DIT had not established an effective control environment for managing IT contracts (Finding 1).

DMB's practices for competitively awarding IT contracts were not effective (Finding 2).

DMB and DIT did not perform critical contract monitoring and audit activities (Finding 3).

DMB and DIT need to improve the statements of work for the procurement of IT commodities and services (Finding 4).

***Reportable Conditions:***

DMB and DIT should request the Legislature to update current procurement laws (Finding 5).

DMB and DIT had not fully developed a work force planning strategy to support the State's IT acquisition work force (Finding 6).

***Noteworthy Accomplishments:***

DMB was awarded the National Purchasing Institute's Excellence in Procurement Award for 2005.

In response to Executive Directive No. 2003-1, which established standards of

ethical conduct for the executive branch, DMB developed an on-line tutorial entitled *Ethics for Procurement in State Government*. Over 2,200 State employees responsible for purchasing and contract administration completed the tutorial.

In addition, the director of DMB's Acquisition Services was awarded the Association of Government Accountants' William R. Snodgrass Distinguished Leadership Award. The purpose of the award is to formally recognize State government professionals who exemplify and promote excellence in government financial management and who have demonstrated outstanding leadership in enhancing sound financial management legislation, regulations, practices, policies, and systems.

In 2005, DIT was awarded a National Association of State Chief Information Officers (NASCIO) Recognition Award for Best Practices in the Use of Information Technology in State Government. The award is given each year to technology programs and systems that have created cost-effective, innovative solutions in the operation of State government. DIT won the award for State IT Management Initiatives for its implementation of consolidated IT services. DIT's consolidation approach placed a premium on change and risk management; customer, cross-boundary, and service relationships; and outreach processes. The IT contracting optimization project is an example of DIT's management initiative. DIT worked with DMB to define roles and

responsibilities and to establish a more efficient and effective IT contract administration process.

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**Audit Objective:**

To assess the effectiveness of DIT's efforts to assess the State's need for contracted IT services.

**Audit Conclusion:**

DIT's efforts to assess the State's need for contracted IT services were moderately effective.

**Reportable Condition:**

DIT had not fully developed a formal strategy to govern the State's utilization of IT contractors (Finding 7).

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**Agency Response:**

Our audit report contains 7 findings and 7 corresponding recommendations. DMB's and DIT's preliminary responses indicate that they agree with all of the recommendations and have complied or will comply with them.

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



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