

EXECUTIVE DIGEST

STATEWIDE CONTRACTUAL PERSONAL SERVICES

INTRODUCTION

This report contains the results of our performance audit of Statewide Contractual Personal Services for the period October 1, 1992 through May 31, 1995.

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

The Department of Civil Service (DCS) and the Department of Management and Budget (DMB) are responsible for maintaining centralized controls over contractual services. These centralized controls, along with the controls established by the operating departments, comprise the Statewide management controls over services provided by independent contractors.

Department of Civil Service

Article 11, Section 5 of the State Constitution places responsibility for approving personal service disbursements, including contractual services, with DCS. DCS is responsible for determining whether the proposed service should be performed by State employees or an independent contractor. The DCS Annual Report of Contractual Services for fiscal year 1993-94 reported expenditures of approximately \$1.2 billion for contractual personal services*.

Department of Management and Budget

DMB's authority to regulate contractual personal services is derived from Sections 18.1141 and 18.1261 of the *Michigan Compiled Laws* (Act 431, P.A. 1984, as amended). These sections state that the Department shall establish a system of internal controls in the management of the State's financial affairs and provide for the purchasing of and contracting for services which the Legislature has not expressly provided.

DMB's responsibility for centralized management controls over contractual personal services was concentrated in the Office of Purchasing (OOP) and the Contract Administration Division (CAD), Office of Contract Management. OOP is responsible for the procurement of contractual services as needed for the various operating departments. OOP has delegated this responsibility for various types of services to the operating departments.

The Task Force on the Acquisition of Contractual Personal Services, established by Executive Directive 1991-5, recommended the establishment of the Office of Contract Management (OCM) within DMB. CAD, which DMB had created in 1991 to monitor compliance with DMB procedures and compile data related to contracts, became 1 of 2 divisions within OCM when it was created in 1993. CAD's role expanded significantly. CAD coordinated the review and approval of the contracting requests to the appropriate units within DCS and DMB until it was abolished during May 1995. DMB informed us that the implementation of MAIN and a purchasing reform initiative obviated the need for CAD.

Operating Departments

The operating departments are responsible for determining the need for a service, making the initial determination of whether State employees or a contractor should provide the service, determining whether they have funding for the service, obtaining necessary DCS and DMB approvals, processing payment vouchers for services performed, and monitoring and evaluating the contractor. In addition, they are involved in the procurement process. They either assist OOP or perform the procurement process using OOP procedures if they are delegated the authority to do so.

**AUDIT OBJECTIVES
AND CONCLUSIONS**

Audit Objective: To assess the effectiveness of management controls* over contractual personal services.

Conclusion: Management controls did not provide reasonable assurance that contractual personal services transactions were in accordance with the established internal control structure. Our assessment disclosed one material condition*:

- DCS and DMB had not taken active roles in enforcing their rules, regulations, policies, and procedures related to contractual personal services (Finding 1).

Our assessment also disclosed three problems related to accounting system controls (Finding 2), compliance with approval requirements (Finding 3), and monitoring total expenditures (Finding 4).

Audit Objective: To assess contractual personal service evaluation efforts.

Conclusion: Operating departments were not evaluating contractor effectiveness in accordance with DMB policy. Our assessment disclosed problems related to monitoring contractors (Finding 5.)

Audit Objective: To assess compliance with State reporting requirements pertaining to contractual personal services.

Conclusion: The information contained in the DCS annual report was generally accurate. However, we noted a problem involving the accuracy and completeness of expenditure reporting (Finding 6).

**AUDIT SCOPE AND
METHODOLOGY**

Our audit scope was to examine the contractual service records of the Department of Civil Service, the Department of Management and Budget, and selected operating departments for the period October 1, 1992 through May 31, 1995. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

We identified, evaluated, and tested compliance with key management controls over contractual personal services. Also, we reviewed contractual personal service evaluation efforts for a sample of contracts for professional and technical services at selected operating departments. In addition, we identified and tested compliance with contractual personal service reporting requirements.

**AGENCY RESPONSES
AND PRIOR AUDIT
FOLLOW-UP**

Our audit report contains 6 findings and 8 corresponding recommendations. Because the recommendations involve both DCS and DMB, recommendation disposition is noted after each recommendation in the body of the report.

The agencies complied with 11 of 16 prior audit recommendations included within the scope of our current audit. One of the recommendations is repeated in this report, and 4 recommendations are combined and rewritten for this report.