

Office of the Auditor General  
Performance Audit Report

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**Statewide Contracting Practices for  
Commodities and Professional Services**  
Central Procurement Services  
Department of Technology, Management, and Budget

August 2021

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The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

The auditor general may make investigations pertinent to the conduct of audits.

*Article IV, Section 53 of the Michigan Constitution*

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Office of the Auditor General

## Report Summary

### *Performance Audit*

### *Statewide Contracting Practices for Commodities and Professional Services Central Procurement Services (CPS) Department of Technology, Management, and Budget (DTMB)*

**Report Number:**  
**071-0142-19**

**Released:**  
**August 2021**

CPS sets forth policies and procedures for purchasing across all State agencies. CPS is responsible for the purchasing and contracting of all goods and services for State agencies, unless the Legislature provides for direct agency purchasing. Although CPS manages all aspects of high-dollar, complex contracts, it delegates purchasing authority to State agencies for commodity and professional service contracts up to \$500,000. CPS's mission is to provide State agencies with the mechanism to purchase the products and services required to serve citizens on time, of good quality, and at a reasonable price. As of September 30, 2020, CPS had 59 full-time equated positions and managed 615 commodity and professional service contracts that totaled \$77.9 billion, while overseeing 9,480 contracts managed by State agencies that totaled \$1.3 billion.

Audit Objective			Conclusion
Objective 1: To assess CPS's compliance with selected laws, rules, and regulations related to solicitations, contracts, and change notices.			Complied, with exceptions
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
CPS staff did not always comply with requirements when developing and executing contracts and change notices, including ensuring appropriate insurance coverages and allowing vendors 14 days to participate in solicitations ( <a href="#">Finding 1</a> ).		X	Agrees
CPS did not obtain or retain 55 (34.0%) of 162 staff annual disclosure of interest statements from 2017, 2018, and 2019 ( <a href="#">Finding 2</a> ).		X	Agrees

Audit Objective			Conclusion
Objective 2: To assess the effectiveness of CPS's efforts to monitor State agency compliance with delegated purchasing authority requirements.			Effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
None reported.		Not applicable.	

Audit Objective			Conclusion
Objective 3: To assess the effectiveness of CPS's efforts to monitor vendor performance.			Moderately effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
CPS did not obtain corrective action plans for 8 (72.7%) of 11 major contract issues and was unable to provide documentation of its involvement with resolution efforts for 5. Also, CPS did not ensure program managers had documented 5 of the issues in contract monitoring reports as required ( <u>Finding 3</u> ).		X	Agrees
Agency staff had not submitted 7.4% of required monitoring plans, and 21.0% of those submitted were not signed or dated. All 8 of the monitoring plans we reviewed had incomplete descriptions of required components and/or had insufficient descriptions of specific monitoring activities. In addition, 80.0% of the monitoring reports that were due had not been submitted and were between 17 and 108 days past due ( <u>Finding 4</u> ).		X	Agrees
Agency staff did not have Statewide access to vendor performance information to identify when vendors had previous contracts terminated for cause, and CPS had not timely updated the vendor performance information it made available to agency staff to help when deciding to contract with vendors ( <u>Finding 5</u> ).		X	Agrees

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**Doug A. Ringler, CPA, CIA**  
Auditor General

August 27, 2021

Mr. Brom Stibitz, Director  
Department of Technology, Management, and Budget  
Elliott-Larsen Building  
Lansing, Michigan

Dear Mr. Stibitz:

This is our performance audit report on the Statewide Contracting Practices for Commodities and Professional Services, Central Procurement Services, Department of Technology, Management, and Budget.

We organize our findings and observations by audit objective. Your agency provided preliminary responses to the recommendations at the end of our fieldwork. The *Michigan Compiled Laws* and administrative procedures require an audited agency to develop a plan to comply with the recommendations and to submit it to the State Budget Office upon completion of an audit. Within 30 days of receipt, the Office of Internal Audit Services, State Budget Office, is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

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

Sincerely,

Doug Ringler  
Auditor General



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# AUDIT OBJECTIVES, CONCLUSIONS, FINDINGS, AND OBSERVATIONS

# COMPLIANCE WITH SELECTED LAWS, RULES, AND REGULATIONS RELATED TO SOLICITATIONS, CONTRACTS, AND CHANGE NOTICES

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## BACKGROUND

The Management and Budget Act (Section 18.1261(6) of the *Michigan Compiled Laws*) requires the Department of Technology, Management, and Budget (DTMB) to issue directives for the procurement, receipt, inspection, and storage of supplies, materials, and equipment needed by State agencies. Central Procurement Services (CPS) within DTMB has the responsibility to identify and carry out the State's procurement laws, rules, and regulations and to establish and execute policy, processes, procedures, training, and other programs necessary to transact business effectively and efficiently.

CPS created the Michigan Procurement Policy Manual (MPPM) to provide a transparent and standardized Statewide process for procurement professionals, end users, contractors, and taxpayers and to be the official source of policy for all purchases made pursuant to the Management and Budget Act (Sections 18.1101 - 18.1594 of the *Michigan Compiled Laws*).

The MPPM identifies Michigan laws that impact solicitation and contracting considerations, integrates related requirements into policy, and describes the procedures and documentation required for developing and executing solicitations, contracts, and change notices. The MPPM requires purchasing professionals\* to use approved templates when developing solicitations and to follow CPS procedures, which CPS published in its Contract Monitoring Plan User Guide (Guide). CPS is responsible for approving any exceptions to the terms and conditions in the formal competitive bidding process, and any deviation from the MPPM requires documentation of the request and preapproval from the chief procurement officer\* or designee.

In addition, under the authority of Section 17.3(6) of the *Michigan Compiled Laws* (Public Act 2 of 1921) and Resolutions 2017-1 and 2018-1, the State Administrative Board (SAB) required State departments to obtain prior approval before executing contracts and contract amendments that resulted in an expenditure that totaled \$500,000 or more.

## AUDIT OBJECTIVE

To assess CPS's compliance with selected laws, rules, and regulations related to solicitations, contracts, and change notices.

## CONCLUSION

Complied, with exceptions.

\* See glossary at end of report for definition.

**FACTORS  
IMPACTING  
CONCLUSION**

- We tested 40 commodity and professional service contracts and 45 related change notices that CPS managed during our audit period against MPPM and Guide requirements and found that purchasing professionals met 545 (95.3%) of 572 requirements reviewed.
- CPS submitted statutorily required reports to the Legislature concerning State contracting with businesses owned by qualified disabled veterans, contracting with businesses owned by persons with disabilities, and purchasing of recycled products.
- CPS incorporated statutory procurement requirements into its policies, procedures, standard forms, and templates.
- CPS published official policy for Statewide procurement within the MPPM and related procedures within the Guide.
- Reportable conditions\* related to:
  - Compliance with contract and change notice development and execution requirements (Finding 1).
  - Completion of annual disclosure of interest statements (Finding 2).

\* See glossary at end of report for definition.

## FINDING 1

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### **Improvement needed to ensure compliance with contract and change notice development and execution requirements.**

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CPS did not always ensure its staff complied with MPPM and Guide requirements when they developed and executed contracts and change notices.

The MPPM establishes the requirements for conducting competitive solicitation, evaluation and negotiation, award recommendation, and contract management, as well as for constructing, preparing, and maintaining solicitation documentation. The Guide specifies the related procedures to be used to carry out those requirements.

We sampled 40 contracts and 45 related change notices active during the audit period, which together totaled approximately \$5.0 billion. We compared contract file documentation with the requirements of the MPPM and the Guide. The following items are based on the implementation date of the requirement and the execution date of each contract or change notice. We noted:

- a. CPS solicitation managers\* did not ensure vendors obtained the requisite insurance coverage for 4 (40.0%) of 10 contracts at or before contract execution as required by the MPPM. For example, the certificate of insurance (COI) for a contract to provide food service at two psychiatric institutions did not include coverage for either crime or sexual assault liability, even though the contract required coverages of \$1.0 million and \$2.0 million, respectively. We noted the COIs on file for 6 (20.7%) of 29 contracts executed prior to the implementation of the MPPM requirements were also missing some required coverages.

After bringing our exceptions to CPS's attention, CPS contacted the applicable vendors who, in all but one instance, provided CPS with COIs that included the missing coverages. Requiring vendors to acquire the requisite insurance coverage prior to or at contract execution in accordance with the terms and conditions of the contracts mitigates potential liability risk to the State and helps ensure the integrity of CPS's vendor selection process.

- b. CPS solicitation managers did not remove unnecessary insurance requirements included within the standard contract template used to create 1 (10.0%) of 10 contracts. The standard terms for this contract erroneously required the contractor to provide employer liability coverage when the contractor was a sole proprietor. We also noted that 3 (10.3%) of 29 contracts executed prior to the implementation of the MPPM also included unnecessary insurance requirements. CPS informed us that solicitation managers did not always seek input from CPS's risk management section and were not required to have risk

\* See glossary at end of report for definition.

management review contract insurance requirements prior to execution. Requiring contractors to acquire or maintain unnecessary insurance could result in increased contracting costs to the State.

- c. CPS solicitation managers did not comply with the intent of the MPPM's 14-day public posting requirement for 1 (16.7%) of 6 applicable solicitations that exceeded \$50,000. CPS posted the solicitation for 70 days but held a mandatory meeting with prospective vendors after only 9 days and stated it would not evaluate bids from vendors that did not attend the meeting. Although CPS informed us that the MPPM did not preclude it from holding mandatory meetings within the 14-day posting period, this practice effectively ended the opportunity for additional vendors to participate in the solicitation and reduced the chance for the State to obtain the best value.
- d. CPS solicitation managers did not obtain and/or maintain a signed code of conduct form or a suitable alternative for all individuals who participated in the evaluation and award process for 10 (31.3%) of 32 solicitations exceeding \$10,000, as required by the MPPM. Requiring the form and the disclosure of any potential conflicts of interest allows solicitation managers to assess the related risks and ensure that the individual's participation does not undermine a fair and open evaluation and award process.
- e. CPS contract administrators did not obtain SAB approval prior to executing 1 (3.4%) of 29 nonemergency contracts and 2 (22.2%) of 9 nonemergency change notices, as required by the MPPM and State of Michigan Administrative Guide to State Government procedure 0620.01. CPS executed the \$7.8 million contract one day before obtaining SAB approval, and the \$300,000 and \$124,000 change notices 19 and 26 days before obtaining SAB approval, respectively. Section 17.3 of the *Michigan Compiled Laws* provides SAB with general supervisory control over State procurement functions and other activities within State government.
- f. CPS solicitation managers did not document that they obtained State and contractor signatures on 3 (7.5%) of 40 contracts, as required by the MPPM. According to the MPPM, a contract is considered executed when both parties have signed it. A properly executed contract is essential to ensuring that both parties have agreed to the legal obligations and expectations included therein.
- g. CPS category analysts did not complete a quality assurance document checklist for 3 (9.7%) of 31 change notices, as required by CPS procedures. The checklist helps ensure that CPS maintains complete records in the solicitation files.

**RECOMMENDATION**

We recommend that CPS ensure its staff comply with MPPM and Guide requirements when developing and executing contracts and change notices.

**AGENCY  
PRELIMINARY  
RESPONSE**

CPS provided us with the following response:

*CPS agrees with this finding.*

*CPS agrees with the recommendation and has complied.*

*As of September 2020, CPS received all outstanding proof of insurance certificates from non-compliant vendors and has taken appropriate action to ensure vendor borne risk exposure is transferred via the contractual insurance requirements. New policy and procedures have been drafted and will be effective after the Risk Management Information System is implemented within approximately 6 months.*

*As of March 2019, CPS implemented functionality to the current database to automate appropriate receipt of the Code of Conduct form.*

*As of March 2019, procedures have been modified to centralize federal debarment checks.*

*As of April 2020, training and procedures have been modified to ensure contracts are signed appropriately and CPS implemented the SOM eSignature tool to have a consistent process and workflow.*

*As of February 2020, CPS implemented a quality audit process to ensure appropriate contract records are retained electronically.*

## FINDING 2

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### Improvement needed to ensure staff complete annual disclosure of interest statements.

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CPS did not ensure all staff completed an annual disclosure of interest statement.

The MPPM requires the department's procurement executive\* to ensure all purchasing professionals complete and submit a disclosure of interest statement at least annually and in addition to any agency reporting requirements. The annual disclosure of interest statement is intended to identify and disclose any personal or financial interests of the purchasing professional, or members of their immediate family, in any business or entity with which they have direct contact while performing official duties. The disclosure also serves to avoid the appearance of impropriety and unethical conduct and to help ensure the integrity of State government and maintain effective services.

We requested the annual disclosure of interest statements for CPS employees for 2017, 2018, and 2019. We noted:

- a. 44 (91.7%) of 48 annual disclosure of interest statements were missing or not completed for 2017.
- b. 5 (9.3%) of 54 annual disclosure of interest statements were missing or not completed for 2018.
- c. 6 (10.0%) of 60 annual disclosure of interest statements were missing or not completed for 2019.

CPS informed us that for 2017, staff completed and submitted statements electronically. However, CPS did not maintain these statements and was unable to provide the forms for our review. In addition, CPS informed us that for 2018 and 2019, it had not obtained signed and completed annual disclosure of interest statements from State employees or contractors who transferred into CPS from other departments or divisions within DTMB.

## RECOMMENDATION

We recommend that CPS improve its efforts to ensure all staff complete and submit a disclosure of interest statement at least annually and to maintain these forms to document potential conflicts of interest.

## AGENCY PRELIMINARY RESPONSE

CPS provided us with the following response:

*CPS agrees with the finding.*

*CPS agrees with the recommendation and has complied.*

*As of December 2020, CPS maintains an electronic copy of all employees' annual disclosure of interest statements.*

\* See glossary at end of report for definition.

# STATE AGENCY COMPLIANCE WITH DELEGATED PURCHASING AUTHORITY REQUIREMENTS

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## BACKGROUND

The Management and Budget Act (Section 18.1261(4) of the *Michigan Compiled Laws*) allows DTMB to delegate its purchasing authority to other State agencies (see supplemental information). DTMB delegated its procurement authority to State agencies for purchases of commodities and professional services less than or equal to \$500,000 and for the contracting of direct human services professionals (e.g., physicians, dentists, psychologists, psychiatrists, social workers, and adoption professionals) in any amount. This delegated authority allows State agencies to proceed with purchases and contracting for these items without additional approval from CPS, provided each agency fully complies with all policies and procedures published in the MPPM, does not split contracts, and allows CPS to audit all delegated authority purchases. CPS established its Delegated Authority Audit Program to help ensure that agencies adhere to requirements of the MPPM and to identify areas of noncompliance.

## AUDIT OBJECTIVE

To assess the effectiveness\* of CPS's efforts to monitor State agency compliance with delegated purchasing authority requirements.

## CONCLUSION

Effective.

## FACTORS IMPACTING CONCLUSION

- CPS's Delegated Authority Audit Program:
  - Used a risk-based determination of significant compliance items to review.
  - Reviewed 504 contracts from 22 agencies, representing over 5% of all agency contracts.
  - Provided results to each agency and required corrective action for identified noncompliance issues.
- CPS reported issues it identified during its review of agency contracts to DTMB management in its 2018 Delegated Authority Audit Program report.
- Although this program was not fully mature as of the end of our audit period, CPS identified 75 noncompliance issues related to 15 broad categories which were consistent with issues we identified in our testing of delegated authority contracts.

\* See glossary at end of report for definition.



# VENDOR PERFORMANCE MONITORING

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## **BACKGROUND**

The Management and Budget Act (Section 18.1261(6) of the *Michigan Compiled Laws*) requires DTMB to provide standard specifications and standards of performance applicable to purchases. The MPPM defines contract management as the process of actively managing State contracts to ensure compliance with the requirements of an executed contract and describes the activities necessary for effective contract management. It requires the solicitation manager to consider potential vendors' previous performance history when considering them for contract awards.

The solicitation manager is also the individual responsible for leading and conducting negotiations and developing and incorporating all negotiated requirements into the terms and conditions of the final contract. The solicitation manager translates the business and technical requirements into the statement of work during solicitation development with assistance and input from the program manager\* and other subject matter experts. The statement of work defines the specific objectives, activities, requirements, deliverables, and time lines required within a contract and describes the expected results or performance of a product or service.

CPS established requirements for monitoring vendor compliance with contract standards and performance requirements within the MPPM and published related procedures within the Guide. Upon contract execution, the program manager is responsible for the technical oversight and direction of the day-to-day administration of the contract and for reporting the contractor's performance.

The monitoring reports\* certify that the program manager completed all required monitoring and the contractor's performance is meeting or exceeding expectations. If a contractor's performance does not meet expectations, the MPPM requires purchasing professionals to follow the issue resolution procedures established within the Guide. The Guide also identifies vendor performance monitoring as a key function of proper contract administration and directs State agency contract administrators and program managers to monitor vendor performance throughout the life of the contract.

## **AUDIT OBJECTIVE**

To assess the effectiveness of CPS's efforts to monitor vendor performance.

## **CONCLUSION**

Moderately effective.

\* See glossary at end of report for definition.

**FACTORS  
IMPACTING  
CONCLUSION**

- CPS developed, implemented, and revised policies and procedures throughout the audit period that required State agency contract administrators and program managers to monitor the contracts they utilized and to submit selected vendor monitoring information to CPS via SharePoint.
- Program managers and contract administrators submitted a monitoring plan\* to CPS for 100 (92.6%) of 108 contracts that required one.
- CPS made vendor performance information available to agency staff Statewide that was otherwise available only to the agency staff who originally recorded the information.
- Reportable conditions related to:
  - Timely and appropriate remediation of major vendor performance issues (Finding 3).
  - Sufficient completion and submission of monitoring plans and reports (Finding 4).
  - Comprehensive and up-to-date information on vendor performance (Finding 5).

\* See glossary at end of report for definition.

## FINDING 3

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**Issue resolution process to ensure timely and appropriate remediation of major vendor performance issues needs improvement.**

---

CPS should improve its issue resolution process to ensure timely and appropriate remediation of major vendor performance issues.

An improved process would allow CPS to consistently identify when major issues arise, actively participate with and coordinate resolution efforts, and help determine when to consider other options when remediation efforts do not effectively mitigate risks to the State.

CPS created its Supplier Relationship Management section (SRM) in summer 2018 to assist agencies with procurement related functions including resolving major vendor performance issues. SRM's issue resolution activities outlined in CPS's Guide included working with program managers and vendors to complete, approve, and execute corrective action plans (CAPs) and initiating additional dispute resolution steps up to contract termination when necessary. A CAP documented the specific areas of noncompliance or poor performance, identified the actions the vendor agreed to take to resolve the issue(s), and established the time frame for completion of those actions.

CPS defined "major" issues as those that impeded the performance of a contract in a substantial way or a recurrent minor issue. We identified 11 contract issues that agency staff had identified as major in the Statewide Integrated Governmental Management Applications\* (SIGMA) between February 28, 2019 and July 18, 2019.

We reviewed CPS's efforts to resolve the 11 major issues and noted:

- a. CPS did not ensure program managers prepared and/or submitted a CAP to SRM for 8 (72.7%) of the 11 major contract issues. SRM was unable to provide documentation to indicate it had been involved with any efforts to resolve 5 of these major contract issues. Despite the apparent lack of formal communication and approval protocol, SRM appeared to have been aware of and involved with remediation efforts involving 3 of the 8 based on e-mail and other correspondence.

CPS informed us that a CAP was not always necessary to resolve major contract issues. However, this did not reconcile with its Guide, and CPS did not provide guidance to program managers for them to determine when they could use discretion when deciding if a CAP was necessary for major contract issues. In addition, CPS had not established alternative procedures to ensure SRM worked with program managers and vendors to complete, approve, and execute timely and appropriate corrective action for major contract issues.

\* See glossary at end of report for definition.

The following table summarizes the status of the 11 major contract issues as of July 18, 2019:

Vendor	Issue Number	Date Issue Recorded in SIGMA	CAP Submitted to SRM	SRM Involved With Resolution Efforts	Issue Recorded as Resolved in SIGMA	Days Outstanding
A	1	03/07/2019	No	No	No	133
	2	03/01/2019	No	No	Yes	0
	3	03/06/2019	No	Yes	No	134
B	4	03/06/2019	No	No	Yes	0
	5	03/06/2019	No	Yes	No	134
	6	03/06/2019	No	Yes	No	134
C	7	03/11/2019	No	No	No	129
D	8	07/11/2019	No	No	Yes	0
E	9	03/07/2019	Yes	Yes	Yes	0
F	10	03/07/2019	Yes	Yes	Yes	0
G	11	06/26/2019	Yes	Yes	No*	22

\* Although not resolved at the time of our review, SRM informed us that it had involved the Department of Attorney General.

- b. CPS did not ensure program managers completed a monitoring report for any of the 11 major contract issues at the time of issue identification, as required in its Guide.

CPS informed us that it considered the creation of a monitoring report at the time of issue identification as duplicative. This was because its Guide required contract administrators to also record issues in SIGMA and program managers to document them in the next scheduled monitoring report as part of periodic contract monitoring. We reviewed subsequently submitted reports and found that one contract was terminated before a monitoring report was completed, and program managers had not documented 5 (50.0%) of the other 10 issues.

**RECOMMENDATION**

We recommend that CPS improve its issue resolution process to ensure timely and appropriate remediation of major vendor performance issues.

**AGENCY PRELIMINARY RESPONSE**

CPS provided us with the following response:

*CPS agrees with this finding.*

*CPS agrees with the recommendation and has complied.*

*As of January 2021, CPS revised policy, procedures, guidance and/or training documents. Supplier Relation Management will continue to be the central resource for managing supplier performance and ensure complete information is published for the enterprise to assess a supplier's past performance.*

## FINDING 4

---

**Improved controls needed to ensure agency staff sufficiently complete and submit monitoring plans and monitoring reports.**

---

CPS should continue to improve its controls to ensure that agency staff sufficiently complete and submit monitoring plans and monitoring reports.

CPS informed us that it designed its Statewide contract management process in part to improve consistency in the identification of who monitors contracts, notification to and communication with underperforming vendors, and documentation of vendor performance issues. CPS assigned responsibility for contract monitoring to agency staff and identified required components in the monitoring plan. These required components included a description of the contract deliverables, required reports, service metrics, and invoicing and payment processes from the executed contract. CPS also required agency staff to identify within the plan who would perform the monitoring and describe how the monitoring would occur over the life of the contract. CPS required agency staff to develop a plan for multi-year contracts executed on or after October 1, 2018 that exceeded \$50,000 and upload them to its SharePoint site.

In addition, CPS required agency staff to submit a monitoring report to CPS for each of their contracts at least annually. CPS required quarterly or semiannual reporting for the more strategically significant contracts, depending on the size, nature, and complexity of the contracts. CPS housed the reports for each vendor on its SharePoint site in vendor scorecards and made them available to agency staff Statewide to evaluate vendor adherence to contract obligations.

We reviewed CPS's SharePoint site and identified 108 commodity and professional service contracts that required a monitoring plan and 5 strategically significant contracts that required completion of a monitoring report. Our review disclosed:

- a. Agency staff had not submitted a monitoring plan for 8 (7.4%) of the 108 contracts as of December 31, 2019. Also, 21 (21.0%) of the submitted plans did not contain a required signature and/or date.
- b. Agency staff had not submitted 4 (80.0%) of the 5 monitoring reports that were due. At the time of our review, these reports were between 17 and 108 days past due.

In addition, we reviewed 8 of the submitted monitoring plans and noted several instances in which descriptions of the required components were incomplete and/or the agency staff had not sufficiently described the specific monitoring activities.

The following table depicts the results of our review of 8 monitoring plans:

Plan Required Component	Number of Plans That Required Component	Plans With Incomplete Description of Component	Error Percent	Specific Monitoring Not Sufficiently Described	Error Percent
Deliverables	8	4	50.0%	2	25.0%
Reports	6	3	50.0%	2	33.3%
Service level agreements <sup>1</sup>	7	5	71.4%	4 (of 6) <sup>2</sup>	66.7% <sup>2</sup>
Invoices and payments	8	4	50.0%	5	62.5%

<sup>1</sup> Service level agreement categories include time frame, delivery, installation, technical support and repair, maintenance, training, and meetings.

<sup>2</sup> Monitoring plans with identified service level agreement requirements.

Reviewing the completion and submission of monitoring plans and reports to identify those missing or incomplete and following up with agency staff would help CPS identify when it needs to enhance its guidance and/or provide additional training to help ensure the effective management of State contracts.

**RECOMMENDATION**

We recommend that CPS continue to improve its controls to ensure that agency staff sufficiently complete and submit monitoring plans and reports.

**AGENCY PRELIMINARY RESPONSE**

CPS provided us with the following response:

*CPS agrees with this finding.*

*CPS agrees with the recommendation and has complied.*

*CPS sends an annual report to the Michigan legislature detailing compliance by each agency and overall compliance exceeded 95% in 2020 and 90% in 2021. In each year, these percentages were based on over 1000 submissions.*

*Additionally, Program Management Training will be delivered to Program Managers (approximately 1000+) of active contracts by the end of the first quarter 2022.*

## FINDING 5

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**CPS needs to ensure vendor performance information is comprehensive and up to date.**

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CPS should ensure the vendor performance information it makes available for agency staff to assess vendors for contract awards is comprehensive and up to date.

CPS is responsible for the overall direction, control, and oversight of State purchasing, including the development and implementation of related policies, procedures, and processes. Through its MPPM, CPS requires solicitation managers to determine if bidding vendors are responsible and have demonstrated the ability to successfully perform the duties specified in contract solicitations. This includes reviewing the vendors' past performance on State contracts and any contracts terminated for cause (i.e., material breach and noncompliance) during the preceding five-year period. Because SIGMA limits vendor performance information available to agency staff to contracts let by their own departments, CPS periodically uploads certain vendor performance information from SIGMA to its SRM SharePoint site where it is viewable by agency staff Statewide. CPS informed us that a purchasing professional, in conjunction with the procurement executive, may determine a bidding vendor has not demonstrated the ability to successfully complete the duties of a contract solicitation and elect not to further evaluate the bid response.

Our review of the vendor performance information in SharePoint disclosed that CPS did not:

- a. Include information that identified contracts terminated for cause. Consequently, purchasing professionals did not have access to this information on a Statewide basis when they evaluated the responsibility of vendors for contract awards.

In addition, CPS's guidance allowed purchasing professionals to use discretion when recording termination reasons in SIGMA. CPS also encouraged them to record contract closures with a reason other than for cause when terminating contracts for poor performance. CPS explained that this was to avoid any potential legal issues from the vendors. To ensure reliable and accurate termination information in future SharePoint reports, CPS should revise its guidance and better define the options available to purchasing professionals to record terminations in SIGMA.

- b. Timely update or document that it timely updated SharePoint with vendor performance information from SIGMA. CPS initially uploaded vendor performance information to SharePoint on April 29, 2019 and then again on September 4, 2019. Although CPS informed us that it updated the vendor performance information in SharePoint quarterly thereafter, CPS could not provide supporting documentation that it had done so. Contrary to CPS's claim, the vendor performance information in SharePoint on January 17, 2020 matched the information from

September 4, 2019. CPS also informed us that it did not update SharePoint from March 2020 through May 2020 because employees were handling COVID-19 related purchasing efforts.

Although poor performance on prior State contracts would not necessarily preclude a vendor from receiving new State contract awards, ensuring purchasing professionals have access to comprehensive and up-to-date vendor performance information should help provide for more efficient and well-informed contracting decisions.

**RECOMMENDATION**

We recommend that CPS ensure the vendor performance information it makes available for agency staff to assess vendors for contract awards is comprehensive and up to date.

**AGENCY  
PRELIMINARY  
RESPONSE**

CPS provided us with the following response:

*CPS agrees with the finding.*

*CPS agrees with the recommendation and has complied.*

*As of March 2020, CPS amended training materials to include additional guidance regarding options available for termination and recommended descriptions in SIGMA. In addition, SRM updates and timestamps three distinct reports (Terminations (TM), Vendor Performances (PRTST), and Performance Evaluations (PE)) on a monthly basis.*



# SUPPLEMENTAL INFORMATION

UNAUDITED

## STATEWIDE CONTRACTING PRACTICES FOR COMMODITIES AND PROFESSIONAL SERVICES

Central Procurement Services

Department of Technology, Management, and Budget

Agency-Managed Contracts by Department or Agency  
From October 1, 2019 Through September 30, 2020

<u>Department/Agency</u>	<u>Contract Count</u>	<u>Awards Value</u>
Department of Attorney General	129	\$ 6,092,810
Department of Civil Rights	7	283,153
Civil Service Commission	14	610,770
Department of Insurance and Financial Services	35	3,633,044
Department of Military and Veterans Affairs	594	74,679,131
Department of Natural Resources	766	14,879,184
Department of State	241	6,382,890
Department of Technology, Management, and Budget	790	58,592,251
Department of Environment, Great Lakes, and Energy	577	117,779,103
Executive Office	9	251,746
Department of Labor and Economic Opportunity	146	17,041,379
Department of Licensing and Regulatory Affairs	574	22,101,424
Bureau of State Lottery	30	3,137,638
Michigan Department of Agriculture and Rural Development	86	3,149,927
Michigan Department of Corrections	3,591	289,990,741
Michigan Department of Education	202	63,932,987
Michigan Department of Health and Human Services	841	91,920,643
Michigan Department of State Police	193	14,677,509
Michigan Department of Transportation	564	318,252,606
Michigan Gaming Control Board	3	58,896
Michigan Strategic Fund	2	183,080
Department of Treasury	86	93,091,236
Total	<u>9,480</u>	<u>\$1,300,722,150</u>

Source: The OAG created this exhibit based on information provided by CPS.

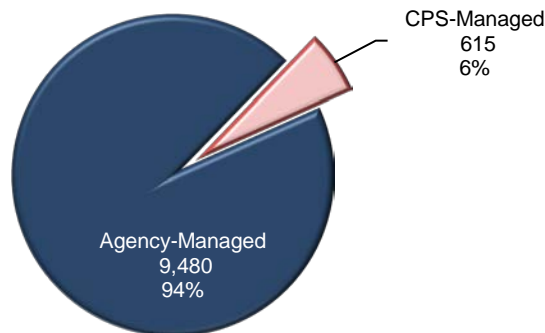
## AGENCY DESCRIPTION

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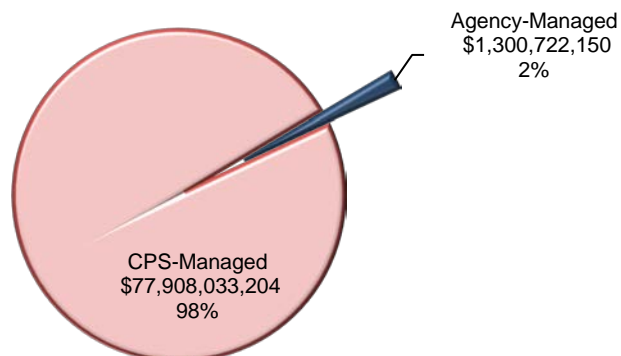
The Management and Budget Act (Public Act 431 of 1984) gave DTMB the responsibility to provide for the procurement of supplies, materials, services, insurance, utilities, third party financing, equipment, printing, and all other items as needed by State agencies for which the Legislature has not otherwise expressly provided. DTMB created CPS to be the State's central purchasing office with the responsibility for the purchasing and contracting of all goods and services needed by State agencies, unless the Legislature provides for direct agency purchasing, and for setting forth policies and procedures for purchasing across all State agencies.

CPS's mission is to provide State agencies with the mechanism to purchase the products and services required to serve the citizens of the State of Michigan on time, of good quality, and at a reasonable price. For fiscal year 2020, CPS reported it managed 615 commodity and professional service contracts totaling \$77.9 billion and oversaw 9,480 agency-managed commodity and professional service contracts totaling \$1.3 billion:

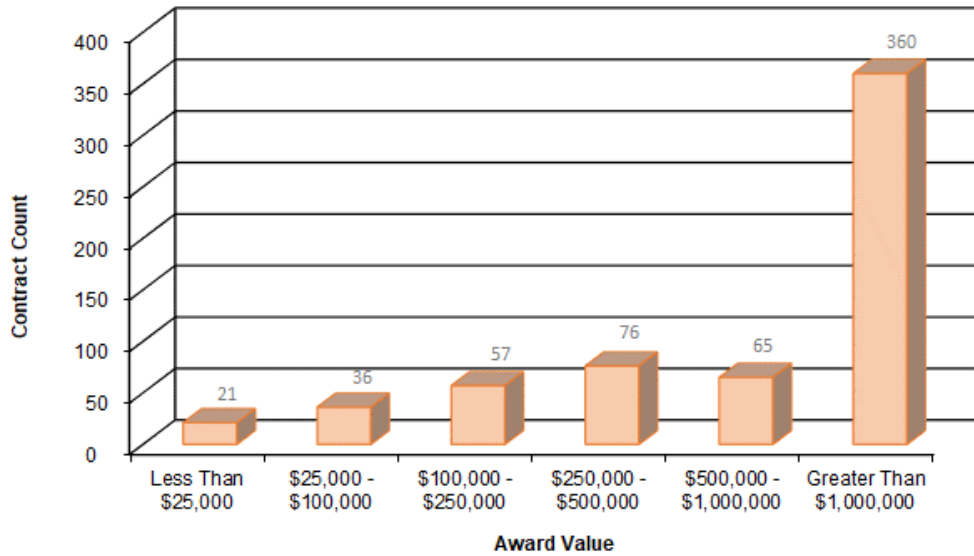
### Contract Counts



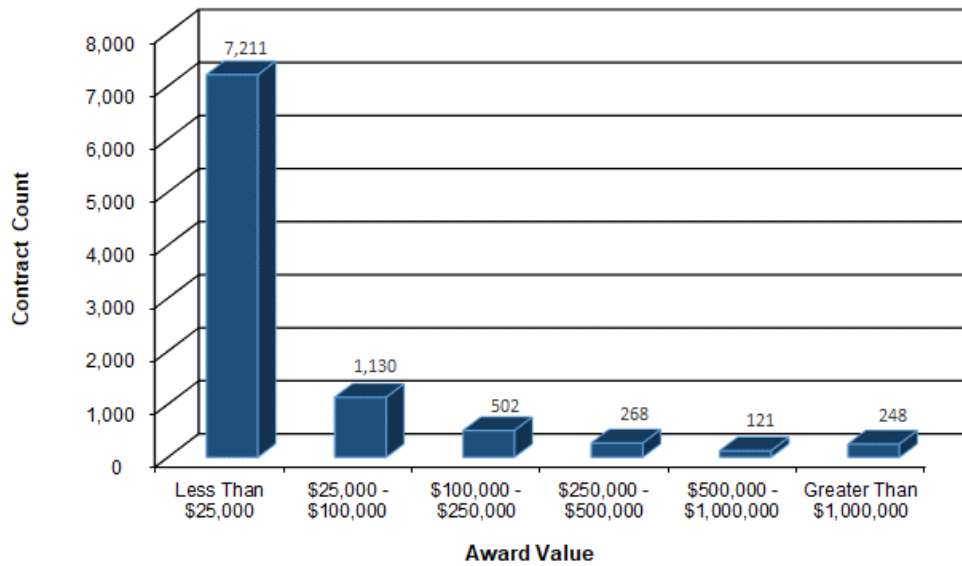
### Contract Awards



**CPS Contract Count by Award Value**



**Agency Contract Count by Award Value**



As of September 2020, CPS had 59 full-time equated positions.

## **AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION**

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### **AUDIT SCOPE**

To examine CPS's policies, procedures, and documentation related to Statewide procurement of commodities and professional services. We conducted this performance audit\* in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We directed our audit objectives and corresponding audit procedures toward concluding on CPS's role and operations related to Statewide procurement. We specifically excluded IT-related procurement from our review as there are additional considerations and processes involved over these transactions. We also excluded purchases related to Statewide purchasing cards because DTMB's Financial Services administers these purchases.

### **PERIOD**

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered October 1, 2017 through July 31, 2019.

### **METHODOLOGY**

We conducted a preliminary survey to gain an understanding of CPS's operations and internal control\* related to Statewide procurement to formulate a basis for establishing our audit objectives, scope, and methodology. During our preliminary survey, we:

- Examined applicable State laws, rules, CPS policies, and administrative guidance applicable to Statewide procurement.
- Analyzed available data and reviewed reports regarding Statewide procurement activities.
- Conducted interviews with CPS management and staff regarding their processes, job functions, and responsibilities.
- Reviewed applicable forms, templates, and procedures to gain an understanding of CPS's procurement processes.

\* See glossary at end of report for definition.

- Reviewed selected contract documentation and analyzed data records and reports to gain an understanding of operational activities.

## **OBJECTIVE 1**

To assess CPS's compliance with selected laws, rules, and regulations related to solicitations, contracts, and change notices.

To accomplish this objective, we:

- Compared Michigan laws impacting Statewide procurement with purchasing and contracting requirements within the MPPM and the Administrative Guide to State Government. We identified a population of 741 CPS managed commodity and professional service contracts active during our audit period. We randomly and judgmentally selected a sample of 40 commodity and professional service contracts and their 45 related change notices and tested them against the requirements of the MPPM.
- Reviewed statutorily required reports CPS submitted to the Legislature as of July 31, 2019.

We selected our random sample to eliminate bias and enable us to project the results to the respective populations. For our judgmental samples, we could not project our results to the respective populations.

## **OBJECTIVE 2**

To assess the effectiveness of CPS's efforts to monitor State agency compliance with delegated purchasing authority requirements.

To accomplish this objective, we:

- Interviewed staff responsible for CPS's Delegated Authority Audit Program and obtained an understanding of the process.
- Evaluated CPS's Delegated Authority Audit Program criteria used to test agency compliance with MPPM requirements.
- Compared 18 of 22 Delegated Authority Audit Program agency reports with CPS's testing work sheets to ensure that CPS reported identified instances of noncompliance to the agencies and included them in the 2018 Delegated Authority Audit Program report to DTMB management. We also reviewed agencies' responses to determine if they sufficiently addressed all corrective action required by CPS.

### **OBJECTIVE 3**

To assess the effectiveness of CPS's efforts to monitor vendor performance.

To accomplish this objective, we:

- Reviewed MPPM and Guide requirements related to vendor monitoring.
- Reviewed all 11 major contract issues recorded in SIGMA between February 28, 2019 and July 18, 2019 for compliance with CPS's current issue resolution procedures and MPPM and Guide requirements.
- Identified 108 contracts that required a monitoring plan between October 1, 2018 and July 18, 2019 and tested a randomly selected sample of 8 (8%) of 100 submitted plans for required components and descriptions of monitoring activities.
- Identified 5 monitoring plans that required a monitoring report between October 1, 2018 and July 18, 2019 and verified whether the reports had been submitted to CPS.

We selected our random samples to eliminate bias and enable us to project the results to the respective populations.

### **CONCLUSIONS**

We base our conclusions on our audit efforts and any resulting material conditions\* or reportable conditions.

When selecting activities or programs for audit, we direct our efforts based on risk and opportunities to improve State government operations. Consequently, we prepare our performance audit reports on an exception basis.

### **AGENCY RESPONSES**

Our audit report contains 5 findings and 5 corresponding recommendations. CPS's preliminary response indicates that it agrees with all of the recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion at the end of our fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require an audited agency to develop a plan to comply with the recommendations and to submit it to the State Budget Office upon completion of an audit. Within 30 days of receipt, the Office of Internal Audit Services, State Budget Office, is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

\* See glossary at end of report for definition.

**SUPPLEMENTAL  
INFORMATION**

Our audit report includes a table of agency-managed contracts by department or agency presented as supplemental information. Our audit was not directed toward expressing a conclusion on this information.

## **GLOSSARY OF ABBREVIATIONS AND TERMS**

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CAP	corrective action plan.
chief procurement officer	The director of Central Procurement Services and the State agent authorized to contract on behalf of the State and to delegate this authority to other State personnel.
COI	certificate of insurance.
CPS	Central Procurement Services.
DTMB	Department of Technology, Management, and Budget.
effectiveness	Success in achieving mission and goals.
Guide	Contract Monitoring Plan User Guide.
internal control	The plan, policies, methods, and procedures adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes the systems for measuring, reporting, and monitoring program performance. Internal control serves as a defense in safeguarding assets and in preventing and detecting errors; fraud; violations of laws, regulations, and provisions of contracts and grant agreements; or abuse.
IT	information technology.
material condition	A matter that, in the auditor's judgment, is more severe than a reportable condition and could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program. Our assessment of materiality is in relation to the respective audit objective.
monitoring plan	A plan that outlines and describes activities necessary to ensure compliance with the requirements of an executed contract.



monitoring report	A report used by program managers to certify that all required monitoring is being completed and to document the contractor's performance on a contract.
MPPM	Michigan Procurement Policy Manual.
performance audit	An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision-making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.
procurement executive	The senior-level purchasing position, identified by the director of each principal department and agency that performs procurement functions, accountable to both the department or agency and the chief procurement officer.
program manager	A subject matter expert, identified by the business owner, who is responsible for the technical oversight and direction of the day-to-day administration of the contract.
purchasing professional	Any State employee that issues contracts, including purchase orders, and makes sourcing decisions.
reportable condition	A matter that, in the auditor's judgment, is less severe than a material condition and falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the audit objectives; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.
SAB	State Administrative Board.
solicitation manager	The agency purchasing professional identified by the procurement executive responsible for addressing agency concerns related to the solicitation.
SRM	Supplier Relationship Management section.

Statewide Integrated  
Governmental  
Management  
Applications (SIGMA)

The State's enterprise resource planning business process and software implementation that support budgeting, accounting, purchasing, human resource management, and other financial management activities.





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