

Office of the Auditor General
Performance Audit Report

IT Contracting
Department of Technology, Management, and Budget

April 2026

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

IT Contracting

Department of Technology, Management, and Budget (DTMB)

Report Number:
171-0510-24

Released:
April 2026

DTMB's Central Procurement Services (CPS) sets purchasing policies and procedures for the State and is responsible for managing all aspects of bids to help State agencies achieve their missions and ensure the best value is obtained for Michigan residents. CPS manages IT contracts over \$500,000. When an IT contract is associated with an IT project, Enterprise Portfolio Management Office (EPMO) project managers may be assigned to help ensure business and technical needs are coordinated between the agency, DTMB, and the vendor. Also, EPMO is responsible for assembling a quarterly report to provide key information on enterprise-wide IT projects to the Legislature. As of January 12, 2026, CPS had approximately 276 IT contracts with a total value of \$6.6 billion.

| Audit Objective | | | Conclusion |
|---|--------------------|----------------------|-----------------------------|
| Objective 1: To assess the sufficiency of DTMB's monitoring of IT contracts. | | | Not sufficient |
| Findings Related to This Audit Objective | Material Condition | Reportable Condition | Agency Preliminary Response |
| Insufficient oversight diminished DTMB's ability to identify and address vendor performance issues in a timely manner (Finding 1). | X | | Partially agrees |
| Uncoordinated efforts to monitor the IT contract and its corresponding IT project may impact the effectiveness of managing vendor performance. Consequently, this deficiency may increase project costs and delay IT system completion (Finding 2). | X | | Partially agrees |
| We noted 156 (54%) of 287 expected contract monitoring reports were not completed for 20 (83%) of 24 sampled IT contracts. As a result, DTMB could not determine if the contracted vendors were meeting expectations or if issues needed to be addressed (Finding 3). | | X | Partially agrees |
| Failure to identify and train program managers who monitor IT contracts increases the risk of undetected vendor performance issues and financial losses to the State (Finding 4). | | X | Partially agrees |

| Observations Related to This Audit Objective (Continued) | Material Condition | Reportable Condition | Agency Preliminary Response |
|---|----------------------------------|-----------------------------|------------------------------------|
| IT system development projects could benefit from utilizing independent verification and validation contracts (<u>Observation 1</u>). | Not applicable for observations. | | |
| Although this audit focused on IT contracts, the recommendations contained in this audit report related to improving oversight of vendor performance, contract and contract program manager monitoring and training, processes for terminating contracts, and maintaining independence during vendor solicitation can likely be applied more broadly to all DTMB administered contracts (<u>Observation 2</u>). | | | |

| Audit Objective | | | Conclusion |
|---|---------------------------|-----------------------------|------------------------------------|
| Objective 2: To assess the sufficiency of the design of DTMB's controls over the IT contract termination process. | | | Sufficient, with exceptions |
| Findings Related to This Audit Objective | Material Condition | Reportable Condition | Agency Preliminary Response |
| A clear, well-defined contract termination process is needed to manage vendor performance issues and ensure relevant documentation is available when awarding future IT contracts (<u>Finding 5</u>). | | X | Partially agrees |

| Audit Objective | | | Conclusion |
|--|----------------------------------|-----------------------------|------------------------------------|
| Objective 3: To assess the sufficiency of DTMB's compliance with select State laws, regulations, and policies related to IT procurement. | | | Sufficient, with exceptions |
| Findings Related to This Audit Objective | Material Condition | Reportable Condition | Agency Preliminary Response |
| IT project costs may be inaccurate and undervalued because State agencies' employee payroll-related IT costs are not included in DTMB's reports to the Legislature (<u>Finding 6</u>). | X | | Disagrees |
| Without reviewing all procurement transactions, DTMB cannot ensure it is monitoring all IT procurements in accordance with the <i>Michigan Compiled Laws</i> (<u>Finding 7</u>). | | X | Disagrees |
| Observations Related to This Audit Objective | Material Condition | Reportable Condition | Agency Preliminary Response |
| The State of Michigan and its taxpayers could benefit from reevaluating policies regarding vendor debarment (<u>Observation 3</u>). | Not applicable for observations. | | |

| Audit Objective | | | Conclusion |
|--|---------------------------|-----------------------------|------------------------------------|
| Objective 4: To assess the sufficiency of DTMB's controls to ensure the independence of those involved in the IT contracting process. | | | Sufficient, with exceptions |
| Findings Related to This Audit Objective | Material Condition | Reportable Condition | Agency Preliminary Response |
| Conflicts of interest need to be disclosed for all Joint Evaluation Committee members prior to evaluating vendors to ensure an unbiased vendor contract solicitation process (Finding 8). | | X | Partially agrees |

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Auditor General

April 21, 2026

Kyle Guarrant, Acting Director
Department of Technology, Management, and Budget
Elliott-Larsen Building
Lansing, Michigan

Acting Director Guarrant:

This is our performance audit report on IT Contracting, 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* require an audited agency to develop a plan to comply with the recommendations and submit it to the State Budget Office (SBO) upon audit completion. State administrative procedures require the audited agency to develop the plan as early as practicable and within 60 days after report issuance and submit the plan to the Office of Internal Audit Services (OIAS), SBO. Within 30 days of receipt, OIAS will 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

MONITORING IT CONTRACTS

BACKGROUND

The Management and Budget Act (Public Act 431 of 1984) established the Department of Technology, Management, and Budget (DTMB) as the unit of State government charged with providing centralized administrative purchasing services. DTMB created Central Procurement Services (CPS) to ensure compliance with the Act.

CPS is responsible for preparing the solicitation and contract award documents and notifying vendors of awarded IT contracts greater than \$500,000 (see Exhibit 1A). CPS establishes guidance to assist agencies with their monitoring requirements throughout contract duration. Contract program managers from the agency and DTMB Agency Services act as the primary source for monitoring contract requirements. The monitoring process includes completing contract monitoring plans* (CMPs), contract monitoring reports* (CMRs), and vendor performance evaluations (PEs) (see Exhibit 1B). Also, CPS oversees all training requirements for contract program managers.

In addition to CPS, several other divisions within DTMB are involved in contracting and monitoring processes (see Exhibit 2).

Specifically:

- DTMB and agency contract program managers are subject matter experts who are responsible for oversight and day-to-day administration of the contract, work with agency designated contract program managers to ensure technical and business requirements are included in the contract, and perform contract monitoring once awarded.
- DTMB Financial Services awards and manages IT contracts valued at less than or equal to \$500,000, even if those contracts later increase above \$500,000. These IT contracts follow CPS's policies and standards for contract management.
- Enterprise Portfolio Management Office (EPMO) project managers are primarily involved at the post-award stage exclusively for IT contracts which have a corresponding IT project and assist with the overall IT project management. EPMO ensures all members of the project team understand their assigned roles and responsibilities at each step of the project and utilize project management plans (PMPs) to track deliverables, manage the budget, and establish roles and responsibilities.

* See glossary at end of report for definition.

- Cyber security representatives create the security requirements document included in IT contracts and participate in the vendor selection process for all IT contracts.

AUDIT OBJECTIVE To assess the sufficiency of DTMB's monitoring of IT contracts.

CONCLUSION Not sufficient.

- FACTORS IMPACTING CONCLUSION**
- Material conditions* related to insufficient oversight of vendor performance for IT contracts and improved controls needed for IT system development contracts (Findings 1 and 2).
 - Reportable conditions* related to improving CMRs and improving controls for identifying and training program managers (Findings 3 and 4).
 - DTMB designed contract program manager training.

* See glossary at end of report for definition.

FINDING 1

Insufficient oversight of vendor performance for IT contracts.

Contract documentation is not up to date or in one location.

DTMB did not provide sufficient oversight of vendor performance for IT contracts to ensure issues were identified and addressed in a timely manner.

The Control Objectives for Information and Related Technologies* (COBIT) Vendor Management publication states entities should define and document criteria to monitor vendor performance and compliance with contract requirements. Results of monitoring should be periodically documented and reviewed. Entities should establish and maintain vendor and contract evaluation criteria to enable overall review and comparison of vendor performance in a consistent way. Also, entities should assign relationship owners to each contract and make them accountable for the quality of services provided.

Our review noted DTMB did not:

- a. Maintain a central location for contract information to use during the monitoring process. DTMB maintains a database; however, information in the database, including the IT contract program managers and contract category, was not always up to date. Also, DTMB maintains a network drive with key documents, including original contracts, change notices, CMPs, and other communications to vendors, including e-mail correspondence, stop work orders, corrective action plans, and termination letters. However, we identified documentation omitted from this network drive (see Finding 5). If multiple data locations are necessary, a control should be in place to ensure the data in each location is identical.

DTMB informed us it relies on the knowledge and expertise of its team to administer and monitor contracts and, if discrepancies between the various data sources arise, the contract is the source of truth.

- b. Maintain sufficient contact with contract program managers assigned to each IT contract to ensure they completed training, understood their responsibilities, and properly monitored assigned contracts.

DTMB informed us it generally had little to no contact with the agency or DTMB contract program managers unless a change notice was needed or an issue arose and relied heavily on the contract program managers or the agencies to update CPS when contract program managers changed (see Finding 4, part a.).

* See glossary at end of report for definition.

Monitoring requirements not clearly defined.

c. Effectively design contract monitoring requirements. DTMB requires contract program managers to develop a CMP for each new contract; however, we noted DTMB did not ensure:

- (1) Contract program managers completed CMPs for 2 (12%) of 17 sampled contracts.
- (2) CMPs clearly defined how monitoring was to be performed. The monitoring descriptions often lacked specific details. For example, one statement said program managers ". . . will be responsible for monitoring milestones and deliverables and will facilitate written approvals . . ." Some descriptions listed contract program managers' names. These statements did not address:
 - How the monitoring will be performed.
 - How to ensure quality deliverables are received prior to issuing payments.
 - What to do if issues are encountered.
 - When to notify DTMB of potential issues.
- (3) Monitoring activities were performed by the contract program managers as planned in the CMP, which require the program managers to track contract deliverables. However, DTMB did not follow up to ensure program managers were completing this monitoring.

We noted at least 1 program manager for 14 of 15 sampled contracts tracked deliverables and milestones as noted in the CMPs. However, inconsistencies existed in the tracking method and documented level of detail. One of the 15 sampled contracts with a CMP did not have specific deliverables identified because of the nature of the contract.
- (4) New contract program managers were aware of the CMPs when they transitioned onto an existing contract as they were not listed in the CMPs nor required to sign off on them. Therefore, DTMB is unable to ensure new contract program managers were aware of their responsibilities in the monitoring plan.

Contract program managers generally copy the requirements from the contract into the CMP. DTMB directs its staff and the program managers to the contract for monitoring because they need to be aware of and understand all contract requirements to effectively monitor contracts, not just the summary statements in the CMP. Because of the emphasis on the contract and the vagueness of the planned monitoring defined in the CMP, there is no guarantee the contract program managers use the CMPs as a guide to monitor contracts.

DTMB asserted missing or incomplete documents are the result of CPS staff oversight. Updates to the CMP document typically occur only if there are significant changes to the contract. Contract program managers are required to complete training, so they should know about the CMPs. They have access to the CMP for their contracts even if it is not explicitly provided to them. Further, the CMP templates do not have a place to note a monitoring task is complete, and DTMB does not have a procedure to follow up with contract program managers to ensure they are adequately tracking deliverables and performing necessary monitoring.

- d. Ensure contract program managers completed all required CMRs for each contract in a timely manner. Without timely monitoring report feedback, DTMB may not be able to effectively manage contracts if issues arise (see Finding 3).

DTMB informed us contract program managers are aware of the requirement to complete CMRs; however, contract program managers do not report to CPS management, so CPS does not feel it has enforcement authority. Also, no monitoring reports were completed for contracts managed by Financial Services because of staffing shortfalls and delays in rolling out and integrating Financial Services' contracts into CPS's new database.

- e. Provide sufficient guidance or consistently require the use of PE documents*, which are used to document vendor performance in the Statewide Integrated Governmental Management Applications* (SIGMA). PE documents are used to record events related to a vendor's performance, either a commendation or a complaint, based on the terms and conditions of the contract. While not required, DTMB recommends completing these documents frequently. During our audit period, six PEs were completed for IT contracts (see Finding 5, part a).

* See glossary at end of report for definition.

We consider this finding to be a material condition because of the lack of key documentation to effectively manage vendor contracts, lack of clearly defined monitoring activities, no central document location where all parties can access the same monitoring information, the critical nature of some of the systems developed and maintained by vendors, and the risk of loss to the State if a vendor fails.

RECOMMENDATION

We recommend DTMB provide sufficient oversight of vendor performance for IT contracts.

**AGENCY
PRELIMINARY
RESPONSE**

DTMB partially agrees. Given the length of DTMB's preliminary response, the response and our auditor's comments to Finding 1 are presented on page 43.

FINDING 2

Insufficient monitoring controls over IT system development contracts.

DTMB did not sufficiently design and implement monitoring controls over IT system development contracts. Lack of these controls may impact timely identification of vendor performance and compliance issues which can lead to increased project costs and completion delays.

The COBIT Vendor Management publication states entities should define and document criteria to monitor vendor performance and compliance with contract requirements. Entities should assign relationship owners to each contract, make them accountable for the quality of services provided, and ensure monitoring results are periodically reviewed and documented.

System development contracts are, generally, higher risk and have larger dollar values than those for routine maintenance. We reviewed the procedures to manage IT system development contracts and noted DTMB did not:

- a. Clearly define when the agencies need to have an EPMO project manager assigned to IT system development contracts. DTMB established policy and guidance regarding the use of EPMO project managers, which is outlined in *Michigan Compiled Laws (MCL)*, DTMB policy, and the project management methodology. The project management methodology says to immediately assign an EPMO project manager; however, the policy and guidance does not clearly define when a project manager may not be needed or whether the agency or DTMB makes the final decision. Therefore, further clarification is needed to ensure consistent understanding and application across agencies.

DTMB informed us most system development contracts have an assigned EPMO project manager, but the agency makes the determination whether to request EPMO's involvement because of agency associated costs. Project managers provide additional monitoring of project progress and vendor performance which can lead to earlier detection and resolution of vendor performance issues.

- b. Effectively coordinate vendor monitoring activities between EPMO and CPS regarding vendor performance. Specifically, DTMB did not:

- (1) Implement an effective method to identify IT projects* related to IT system development contracts. Large system development contracts typically have one or more EPMO IT projects and project managers. DTMB does not have an easy way to tie an IT system development contract to

Communication improvements needed between EPMO and CPS to promptly address vendor issues.

* See glossary at end of report for definition.

the associated IT project. During the audit, CPS and EPMO staff manually tried to identify projects related to selected contracts using project name, date, and description. DTMB could not identify a project or definitively confirm no projects existed for 4 (36%) of 11 IT system development contracts reviewed.

(2) Establish effective communication between contract program managers and project managers to ensure the CPS contract administrator was promptly informed of vendor performance issues. CPS requires agencies to provide contract program managers for each contract, typically at least one from the agency and one from DTMB Agency Services team. These contract program managers' responsibilities include:

- Technical oversight and direction of the day-to-day administration of the contract.
- Monitoring and reporting the vendor's performance, including quality and timeliness of deliverables.
- Reporting issues to CPS and ensuring issue resolution.

When an EPMO project is created for a contract, the EPMO's project manager coordinates with both agency and DTMB project sponsors for acceptance of contract deliverables, project status, and any project or vendor issues. Project managers stated, when issues arise, the DTMB project sponsor would escalate the issues to CPS if needed because the project managers do not generally contact CPS or the contract program managers directly, unless the project sponsor is also the contract program manager.

When the contract program managers and the project sponsors are different, DTMB should have a clearly defined process in place to ensure vendor performance information is communicated to CPS. We randomly and judgmentally selected 7 contracts, active as of April 19, 2024, which had at least 1 EPMO project and noted the assigned agency and DTMB project sponsors for 4 (57%) of the 7 were not the contract program managers.

Also, we identified one contract terminated for vendor performance issues for which EPMO recorded performance issues starting in March 2020. CPS said it was first notified of the

vendor performance issues in March 2021. In this instance, the EPMO sponsors and the contract program managers, who did not complete CMRs until July 2022 to notify CPS of vendor performance concerns, were different.

Cadence of monitoring reports for IT system development contracts should be reassessed.

- c. Fully assess if the risk and nature of IT system development contracts warrant a different cadence schedule for completing monitoring reports and/or if monitoring should be tied to specific milestones, deliverables, or payments. Also, CPS did not fully consider if a different mechanism for reporting vendor performance should be used to include EPMO's project managers. CPS currently monitors vendor performance using CMRs completed on a monthly, semiannual, or annual schedule.

Regarding parts b. and c., DTMB informed us CPS and EPMO use different systems and processes to track contract and project progress. While both the contract program managers and the project managers should be involved in day-to-day monitoring, it is not always the case. In addition, contract program managers are not CPS employees and do not always report on contract status and vendor performance even when issues start to arise.

We consider this finding to be a material condition because of the lack of communication and coordination between the teams managing the corresponding IT system development contract and monitoring of the vendors' performance on the IT project, the significant cost of developing systems, and the risk of loss to the State if these projects are not successful or need to be terminated and rebid.

RECOMMENDATION

We recommend DTMB sufficiently design and implement contract monitoring controls over IT system development contracts.

**AGENCY
PRELIMINARY
RESPONSE**

DTMB partially agrees. Given the length of DTMB's preliminary response, the response and our auditor's comments to Finding 2 are presented on page 45.

FINDING 3

Monitoring improvements needed for IT contracts.

DTMB did not sufficiently follow up with contract program managers to ensure timely monitoring for all IT contracts. Timely monitoring is necessary to ensure vendor performance meets expectations and issues are addressed.

The Michigan Procurement Policy Manual (MPPM) states the contract program manager is responsible for completing CMRs and certifying all required monitoring is being completed and the contractor's performance is meeting or exceeding expectations. Also, COBIT Vendor Management publication states the results of contract monitoring should be periodically documented and reviewed.

We reviewed 154 CPS-managed and 7 Financial Services-managed IT contracts active as of April 19, 2024 and the 6 CPS-managed IT contracts terminated between October 1, 2020 and June 30, 2024. We randomly and judgmentally selected 24 of the remaining 125 active CPS-managed IT contracts with CMRs and noted DTMB did not:

Contract program managers did not complete any CMRs for 33 (21%) of 154 active IT contracts.

156 (54%) of 287 CMRs were not completed for sampled IT contracts.

- a. Ensure contract program managers completed any CMRs during the life of the contract for 33 (21%) of 154 active IT contracts managed by CPS. Also, contract program managers did not complete CMRs for the five selected IT contracts greater than \$500,000 managed by Financial Services.
- b. Ensure contract program managers completed all expected CMRs for 20 (83%) of 24 sampled IT contracts which had at least 1 CMR completed during the life of the contract. In total, 156 (54%) of 287 expected CMRs for the selected contracts were not completed. The table below shows the number of CMRs expected, completed, and missing from agency and DTMB contract program managers:

| Responsible Contract Program Managers | Contract Monitoring Reports | | | Percentage Missing |
|---------------------------------------|-----------------------------|------------|------------|--------------------|
| | Expected | Completed | Missing | |
| DTMB | 154 | 69 | 85 | 55% |
| Agency | 133 | 62 | 71 | 53% |
| Total | 287 | 131 | 156 | 54% |

- c. Document follow-up with contract program managers for 7 (88%) of 8 sampled contracts with negative comments and/or scores reported in the CMRs. Follow-up helps ensure potential vendor performance issues are identified and addressed in a timely manner and documented for consideration for future deliverables and contracts.

CPS informed us the follow-up is often conducted by phone calls between the buyer and the contract program managers and therefore is not typically documented.

- d. Provide a method for contract program managers completing CMRs to indicate items were not applicable. Instead, DTMB instructed the respondents to answer "agree" if the item was not applicable. This can lead users of the CMR to believe a vendor successfully performed a task which was not part of the contract or was not yet relevant to the contract and skew overall results in favor of the vendor, potentially impacting future contract awards when vendor histories are reviewed.

While we acknowledge the agencies share responsibility with DTMB for completion of the CMRs, our audit focused on DTMB's monitoring processes.

DTMB informed us contract program managers should be aware of the requirement to complete CMRs, and the required frequency based on the CMPs. DTMB generally sent reminders to the contract program managers based on the scheduled CMR due dates; however, reminder e-mails were stopped in November 2023 because of a system glitch which sent reminders to all program managers regardless of whether a CMR was due for a particular contract. Also, the program managers are not CPS employees, so CPS escalates non-responses to their management. However, CPS does not feel it has enforcement authority.

In addition, some contracts are managed by DTMB Financial Services, not CPS. Those contracts are not in the CPS database, therefore CMR notifications are not sent. Completing and tracking these CMRs are manual processes. Because of staffing shortfalls and delays in rolling out and integrating Financial Services' contracts into CPS's new database, no CMRs were completed for contracts managed by Financial Services.

RECOMMENDATION

We recommend DTMB sufficiently follow up with contract program managers to ensure timely and complete monitoring of all IT contracts.

**AGENCY
PRELIMINARY
RESPONSE**

DTMB partially agrees. Given the length of DTMB's preliminary response, the response and our auditor's comments to Finding 3 are presented on page 47.

FINDING 4

Improved controls for identifying and training contract program managers are needed.

DTMB did not establish sufficient controls to identify and train all active contract program managers which could lead to insufficient monitoring, thereby increasing the risk of undocumented vendor performance and contract compliance issues and financial losses to the State.

The COBIT Vendor Management publication recommends implementing a system to store critical information on vendors, such as contract information. Sections 18.1124(2)(d) and 18.1131(2) of the *MCL* task DTMB's Chief Information Officer to serve as the general contractor between executive branch IT users and private sector vendors and authorizes DTMB to promulgate rules as necessary to implement these responsibilities. To carry out these responsibilities, DTMB created the MPPM which requires CPS to develop training and ensure all department or agency personnel who perform procurement functions are registered for and complete the training. MPPM refers to the Achievement in Michigan Procurement Program Manager Training document, which requires all State contract program managers to complete training within 90 days of being assigned to a contract.

We reviewed DTMB's controls for identifying and training contract program managers and noted:

- a. DTMB did not have a single source to identify contract program managers currently assigned to active IT contracts. DTMB records program manager information in three different data sources. The data sources are used to identify and track different aspects of IT contracts, including program manager contact information.

We sampled 17 of 122 active IT contracts monitored by DTMB with a start date between October 1, 2018 and April 19, 2024 and noted 11 (65%) contracts with different contract program managers listed in one or more of the data sources.

For one contract, the DTMB Agency Services' program manager listed as active in all of CPS's data sources retired in October 2023. Also, the agency program manager informed us they changed departments over two years prior to our audit. Both program managers were listed on the most recent contract change notice, effective October 2023. CPS provided new program managers after contacting Agency Services and the agency. When we contacted the new agency program manager, this individual informed us they were not aware they were now the program manager, even though they had recently taken the program manager training. This individual agreed they were the agency program manager only after CPS reached out to the agency a second time to confirm the current contract program manager.

DTMB informed us it heavily relies on contract program managers or the agencies to provide notice of any personnel changes to the contract administrator so DTMB can update its listings. After the contract is awarded, DTMB typically has contact with the program managers when change notices are needed and if issues arise, but it does not have a mechanism to periodically contact program managers to confirm the information is kept up to date.

- b. CPS did not ensure all contract program managers were registered for and completed the required program manager training. We obtained the current information from multiple data sources and identified 286 unique program managers assigned to active IT contracts between November 15, 2021 and June 27, 2024. We noted 143 (50%) of 286 program managers did not complete all or part of the training. Specifically, CPS did not:

- (1) Register 116 (41%) contract program managers for training.
- (2) Ensure 27 (9%) contract program managers registered by CPS completed the required training.

CPS informed us contract program managers did not complete the training for various reasons, specifically:

- CPS could not identify all contract program managers on active IT contracts, so it never registered those program managers for training (see part a.).
- Some contract program managers were not registered for training because the report used to identify new program managers erroneously captured only the first program manager assigned to a contract.
- While the State's training system sends reminders to program managers who were registered for the training, some program managers still did not complete the training, and CPS does not have a way to enforce compliance because the contract program managers are not CPS employees.

When contract program managers are not identified and trained, they may not be fully aware of their job responsibilities and are less likely to identify and promptly report issues to CPS. Without prompt notification, CPS cannot address issues in a timely

manner, which could lead to more severe deficiencies, possibly resulting in contract termination and additional costs for:

- Deliverables accepted by contract program managers which did not meet contract requirements and need more time to complete or to be redone entirely, likely for an additional fee.
- Rebidding the contract with a new vendor.
- State employee wages and productivity for time working with the vendor.

CPS informed us it is responsible for developing and notifying procurement personnel of required training according to MPPM, but the agency procurement executive*, not CPS, is responsible for ensuring the agency staff complete it.

Because DTMB is responsible for providing centralized administration of purchasing services and the chief procurement officer is responsible for establishing training programs, ensuring completion of required training by all appropriate DTMB and agency personnel involved in the procurement process is DTMB's responsibility.

RECOMMENDATION

We recommend CPS implement sufficient controls to identify and train active contract program managers.

**AGENCY
PRELIMINARY
RESPONSE**

DTMB partially agrees. Given the length of DTMB's preliminary response, the response and our auditor's comments to Finding 4 are presented on page 49.

* See glossary at end of report for definition.

OBSERVATION 1

Considerations for IV&V contracts.

While reviewing the State's IT contracts, we identified several different contract types. One type is classified as an independent verification and validation* (IV&V) contract. According to the IV&V Institute, these projects provide independent verification in which a system is built according to defined requirements and validates the final product fulfills the intended purpose and meets the user's needs. These contracts are separate from, and in addition to, an IT system development contract. The goal is to bring in a neutral third party, independent of the development team, to help identify issues and ensure quality.

IV&V project benefits include:

- Identifying problems early in the development process.
- Saving time and money.
- Reducing the need for fixes later in the development process.
- Increasing quality because defects are identified and resolved earlier in the development process.

We identified two instances in which IV&V services were utilized. These projects were initially planned to last two to three years and cost between \$1.9 million and \$3.3 million. DTMB informed us IV&V contracts are entered into at the discretion of the agency and do not occur often. Also, when IV&V contracts are initiated, they are generally for larger IT development contracts to help ensure successful and efficient* project completion.

DTMB does not define parameters to determine when IV&V contracts should be entered into, and perhaps it should. As noted in our July 2012 performance audit* 231-0590-11 [Business Application Modernization \(BAM\)](#) – available on the OAGs website under the completed projects tab, for high-risk and complex IT projects, some federal agencies and state governments use an IV&V vendor to provide an objective assessment of the project's products and processes. These contracts are intended to complement and extend the work the agency-assigned contract program managers or EPMO project managers are already performing.

Questions for the Legislature and other decision-makers to consider:

- Are IV&V contracts effective in reducing overall costs on large IT development contracts? For example, do projects with IV&V contracts have fewer budget increases and finish quicker than projects which do not have an associated IV&V contract?

* See glossary at end of report for definition.

- Are IV&V contracts duplicating work already being performed by the EPMO project managers, agency-assigned contract program managers, or others involved in the contract administration and monitoring process? If so, could using IV&V services allow CPS and EPMO to reassign resources to other contracts or projects?
- Which system development projects would benefit from the extra layer of verification and monitoring performed by IV&V vendors?
- Should guidance be developed and provided to determine when IV&V contracts should be utilized?
- Is it appropriate for the agency to make the determination to contract for IV&V services or should DTMB be involved in the decision? Or should DTMB alone make the determination?

OBSERVATION 2

Recommendations contained in this report can likely be applied to all DTMB administered contracts.

Contracting processes are similar for IT contracts and non-IT contracts. This audit report focuses on IT contracts, yet the recommendations may be applicable to all contracts administered by DTMB, including recommendations reported in the following findings:

- Finding 1 related to improving contract oversight. Specifically, centralizing storage of contract information, maintaining contact with contract program managers, and designing and implementing contract monitoring requirements.
- Finding 3 related to improving follow-up with contract program managers for timely contract monitoring, specifically, the completion and timeliness of CMRs and improving the documentation when following up on negative results.
- Finding 4 related to controls to identify and train contract program managers. Without the accurate identification of contract program managers, DTMB cannot ensure they are properly trained on their responsibilities and monitoring designated contracts.
- Finding 5 related to contract terminations. Specifically:
 - Clearly defining and following a process to identify and address vendor performance issues.
 - Defining guidance for when vendor performance issues rise to a level to terminate a contract for cause or convenience.
 - Consistently tracking terminated contracts so if vendors apply for future contracts, prior performance issues can be factored into the vendor selection process.
 - Storing key documents related to vendor performance issues in a central location.
 - Documenting lessons learned after contracts are terminated to improve processes and help avoid future issues.
- Finding 8 related to improving controls to ensure Joint Evaluation Committee* (JEC) independence when selecting vendors for contracts.

Considering DTMB uses similar processes on all DTMB administered contracts, we encourage DTMB to apply its corrective action from this report's recommendations more broadly to all DTMB administered contracts.

* See glossary at end of report for definition.

IT CONTRACT TERMINATION PROCESS

BACKGROUND

DTMB IT contracts include standard language allowing the State to terminate a contract for convenience or cause. Contracts may be terminated for convenience at any time, for any or no reason, including budget shortfalls. Terminating a contract for cause can occur for reasons including not meeting contract deliverable requirements or vendor performance issues.

When contract or vendor issues arise, DTMB attempts to remediate the issue as soon as possible to avoid contract termination.

DTMB's process to remediate issues can include:

- Discussing issues with the vendor, and if necessary, sending a written notice.
- Issuing a stop work order, typically lasting 90 days, giving DTMB time to evaluate remediation options. At the end of the stop work order period, DTMB can issue a notice to resume work, extend the stop work order, or terminate the contract.
- Developing and implementing corrective action plans (CAPs) which detail how performance issues will be addressed and monitored.
- Seeking legal advice from the Department of Attorney General.

DTMB works closely with the agency to remediate vendor performance issues and when deciding whether to terminate a contract. If remediation is unsuccessful, contracts can be terminated by CPS with the approval of the chief procurement officer or designee. If the decision is made to terminate a contract, DTMB sends the vendor a termination letter stating whether the cancellation is for convenience or cause and the termination date. Once terminated, DTMB enters a termination (TM) document* into SIGMA to close out the contract.

AUDIT OBJECTIVE

To assess the sufficiency of the design of DTMB's controls over the IT contract termination process.

CONCLUSION

Sufficient, with exceptions.

* See glossary at end of report for definition.

**FACTORS
IMPACTING
CONCLUSION**

- EPMO project managers identified, tracked, and documented vendor performance issues for the five contracts terminated for poor vendor performance.
- DTMB established and implemented some elements of the contract termination process including stop work orders, corrective action plans, and termination notification letters.
- One reportable condition related to improving the contract termination process.

FINDING 5

Improvements needed to the contract termination process.

Process to identify and address vendor performance is lacking.

DTMB needs to improve its contract termination process. Without a sufficiently defined process, the State may be unable to ensure its resources are spent efficiently and effectively.

COBIT recommends maintaining and enforcing a standard approach to project management based on standard processes, including measuring and evaluating performance against established key criteria, recommending and monitoring remedial action, defining steps for project closure, collecting lessons learned, and making recommendations for improving future projects.

From October 1, 2020 through June 30, 2024, we identified and reviewed six IT contracts terminated early by CPS and noted all were terminated for convenience. Vendor performance issues were noted in 5 (83%) of the 6 contracts.

Our review of the contract termination documentation noted CPS did not:

- a. Clearly define and consistently follow a process to identify and address vendor performance issues as they arise, which may lead to successful resolution of the issue, avoiding contract termination. An issue management process would provide CPS guidance on whether various actions in the contract termination process are needed and, if so, when to execute each action. This process would include actions such as implementing corrective action plans, issuing stop work orders, creating PE documents, determining whether to terminate a contract, and determining whether seeking guidance from the Department of Attorney General is necessary.

CPS currently has guidance on its intranet site for contract issue resolution. For example, the first step in the process is to create a PE document. If the issue is not resolved after the PE document is created, preparing a CAP is another step in the process prior to termination. We noted 3 (60%) of 5 terminated contracts with vendor performance issues reviewed did not have PE or CAP documents. The intranet site states creating PE documents is optional but does not comment on other documents or steps later in the process.

- b. Define guidance to assist CPS in determining when vendor performance issues rise to a level to terminate a contract for cause.
- c. Consistently track terminated contracts. Specifically:
 - (1) 4 (67%) of the 6 terminated contracts were not included in CPS's terminated contract report. CPS informed us contracts terminated for cause or

convenience are added to the report when a TM document is entered in SIGMA.

- (2) Of the 6 terminated contracts 3 (50%) lacked timely entry of a TM document into SIGMA and 1 was not completed until the OAG brought the issue to CPS's attention. TM documents should be entered into SIGMA after the vendor's final payment and termination letter has been issued. However, these TM documents were entered between 8 and 10 months after the final payments and termination letters were sent. Without TM documents in SIGMA, these contracts are excluded from the terminated contract report, a resource which CPS uses to review vendor history when awarding future contracts.

CPS attributed the delay to staff oversight.

DTMB does not have a central location for all key contract documents.

- d. Utilize a central location as a master location for completed key supporting contract termination documentation. Key documents such as corrective action plans, stop work orders, correspondence regarding vendor issues, and termination letters were stored in various locations. Maintaining a central document location will help CPS efficiently manage vendor issues and terminations. Also, if multiple data locations are used, a control should be in place to ensure the same data is in all locations.
- e. Conduct meetings to discuss and document lessons learned after contract terminations to identify areas for future improvement and best practices to prevent recurring and avoidable issues.

DTMB informed us CPS has historically relied on the collective knowledge and professional experience of the team when determining how to address vendor performance issues, so DTMB does not follow a consistent process.

RECOMMENDATION

We recommend DTMB improve its contract termination process.

**AGENCY
PRELIMINARY
RESPONSE**

DTMB partially agrees. Given the length of DTMB's preliminary response, the response and our auditor's comments to Finding 5 are presented on page 51.

COMPLIANCE WITH SELECT STATE LAWS, REGULATIONS, AND POLICIES

BACKGROUND

Public Act 431 of 1984 established guidance for the IT contracting process and designated DTMB to serve as the State's general contractor between executive branch IT users and IT vendors and specifically assume responsibility for the Michigan Department of Health and Human Services (MDHHS) IT procurement, development, and maintenance services by October 1, 2022.

MCL Section 18.1490 requires DTMB's EP MO to provide the Legislature with quarterly reports regarding IT projects which include:

- Status of active and completed projects.
- Indication if it is an EP MO managed project.
- Budgetary and actual cost information.
- Initial planned completion date.
- Current estimated completion date.

MCL Section 18.1261 requires DTMB to:

- Establish and document a process for accounting for and monitoring project costs that aligns with industry best practices.
- Accurately track and account for all IT project spending within the Information Technology Fund, including costs for contractors, State employees, hardware, software, and maintenance.
- Require State agencies to provide and report any additional technology project spending outside of the Information Technology Fund, including costs for contractors, State employees, hardware, software, and maintenance.

MCL Section 18.1264 allows DTMB to debar vendors from participating in the contracting process if it is determined they cannot perform responsibly or if the vendor, or its owners or officers, demonstrated a lack of integrity that could jeopardize the State's interest if the State were to contract with the vendor.

AUDIT OBJECTIVE

To assess the sufficiency of DTMB's compliance with select State laws, regulations, and policies related to IT procurement.

CONCLUSION

Sufficient, with exceptions.

**FACTORS
IMPACTING
CONCLUSION**

- DTMB has a process to validate IT vendors who are not suspended or debarred by the federal government prior to awarding contracts, and we verified no IT vendors were suspended or debarred.
- DTMB EPMO has a project management dashboard available to the public, legislature, and other decisions-makers providing information, including the status of active and closed IT development projects.
- One material condition related to including all project costs in DTMB's reports to the Legislature (Finding 6).
- One reportable condition related to defining and documenting a process for ensuring compliance with select *MCLs* (Finding 7).

FINDING 6

Incomplete IT project costs reported to the Legislature.

IT project reports omit agency payroll-related costs.

DTMB did not include other agencies' employee payroll-related IT system project costs in its reports to the Legislature. Without capturing total IT project costs, the Legislature and other decision-makers cannot make informed decisions regarding resource allocation and DTMB is unable to easily calculate total damages for poor vendor performance.

MCL Section 18.1490 requires DTMB EPMO to report budget and actual IT system project costs quarterly to the Legislature but does not clearly define which IT system project costs to include. However, *MCL* 18.1261e requires agencies to report their employees' costs on IT projects to DTMB. EPMO provides guidance within manuals and templates to include agency payroll-related costs in the total cost of an IT system development project.

DTMB includes its own employee payroll-related costs in the reports to the Legislature. However, DTMB does not include other agencies' employee payroll-related costs for IT development projects because it does not believe it is required to do so and indicated it has no policy or mechanism for collecting the data for these costs.

DTMB and the Department of State agreed with a similar condition from our June 2012 performance audit of the Business Application Modernization (BAM) Project, Department of State and Department of Technology, Management, and Budget (231-0590-11). In Finding 12, part a., we noted the departments did not include employee payroll-related costs in the total system costs reported in accordance with Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

Further, in May 2020, GASB expanded accounting and financial reporting for intangible assets with the issuance of Statement No. 96, *Subscription-Based Information Technology Arrangements*, which capitalizes IT software subscription costs, including implementation costs, beginning October 1, 2022. When agency employee payroll-related costs are not included in the asset, the asset may be undervalued on the State's financial statements.

Although EPMO is not directly responsible for including these costs in the State's accounting records and financial statements, it is responsible to ensure the costs are included in the mandated legislative reports. Subsequently, DTMB should have a mechanism to include the costs reported to the Legislature in the assets accounting records and financial statements compiled and maintained by DTMB. By having a complete picture of the financial impacts, which includes other agencies' employee payroll-related IT system development and acquisition costs, the Legislature can make more strategic and informed decisions.

We consider this a material condition because of the size and high cost of system development projects and the unknown costs associated with agency staff, who are crucial for successful system implementation.

RECOMMENDATION

We recommend DTMB include other agencies' employee payroll-related IT system project costs in its reports to the Legislature or seek revisions to *MCL* Section 18.1490 to clearly define the components required to be included in IT system project costs.

**AGENCY
PRELIMINARY
RESPONSE**

DTMB disagrees. Given the length of DTMB's preliminary response, the response and our auditor's comments to Finding 6 are presented on page 52.

FINDING 7

Unclear process for ensuring compliance with selected Michigan Compiled Laws.

DTMB did not have a clearly defined and documented process for ensuring compliance with two *MCL* Sections involving DTMB's authority over State purchases.

MCL Section 18.1261(1) requires DTMB to provide for the purchasing of and contracting for all items needed by State departments. Also, *MCL* Section 18.1385 requires DTMB to assume responsibility for the procurement of all IT services for MDHHS. However, under specific conditions, *MCLs* grant State departments the authority to make direct IT purchases without utilizing DTMB. Procurements made under this process are known as statutory authority purchases.

According to COBIT, organizations should define policies and procedures to ensure legal, regulatory, and contractual requirements are addressed and communicated.

DTMB typically performs a review of procurement transactions; however, DTMB's last review was performed in fiscal year 2022. These reviews exclude statutory authority purchase transactions. Not performing regular reviews of all transactions, including statutory authority transactions, increases the risk departments may misclassify IT purchases, thereby limiting DTMB's monitoring and oversight of IT procurements.

DTMB informed us it only periodically completes a review of the transactions and believes it does not have the authority to oversee departments' statutory purchases.

RECOMMENDATION

We recommend DTMB clearly define and document processes for ensuring compliance with *MCL* Sections 18.1261(1) and 18.1385.

AGENCY PRELIMINARY RESPONSE

DTMB disagrees. Given the length of DTMB's preliminary response, the response and our auditor's comments to Finding 7 are presented on page 53.

OBSERVATION 3

Lack of authority to debar vendors.

A debarment* process can help protect the State from fraud, waste, and abuse by encouraging vendor accountability. Debarments are administrative remedies used to prevent the government from working with entities who are not presently responsible, specifically, entities who have engaged in criminal or other improper conduct or demonstrated serious poor performance of such a compelling and serious nature that it would lead one to question their honesty, ethics, or competence.

DTMB maintains a public debarred vendor list; however, the list includes no debarred vendors. DTMB's policy was based in part on *MCL* Section 18.1264 which grants DTMB the ability to debar a vendor from participation in the bid process and from contract award upon notice and finding the vendor is not able to perform responsibly or an officer or owner with 25% or more share of the vendor has a demonstrated lack of integrity which may jeopardize the State's interests.

In 2005, the Macomb County Circuit Court negated DTMB's debarment policy citing noncompliance with the Administrative Procedures Act of 1969 (APA). The court found:

- The debarment policy clearly affected the rights of, and procedures and practices available to, the public and should have followed APA.
- The administrative record lacked details to support the conclusion that the vendor should be debarred because it was not able to perform responsibly or lacked integrity. As written, the *MCL* is silent on what circumstances would constitute debarment, when to place vendors on a debarment list, or how and when to remove them.

Also, DTMB cited several reasons for the lack of policies and procedures for vendor debarment, including:

- The use of other methods of considering a vendor's past performance, responsibility, and integrity.
- Concerns utilizing debarment opens the State up to legal liabilities it would not otherwise face.
- The possibility of shared responsibility between the State and the vendor for contract performance issues.
- The variability of vendor performance across different projects.
- The significant costs associated with rebidding contracts for suspended or debarred vendors.

* See glossary at end of report for definition.

- Implementing a debarment policy under the APA process requirements would require additional staff and funding because DTMB lacks staff of the proper classifications to conduct administrative hearings.

We reviewed debarment policies and debarred vendor listings for other states and noted varying levels of detail regarding how and what actions lead to debarment, the debarment period, and whether the processes were established in State law or an administrative policy or procedure.

Based on our review of the *MCLs*, APA, MPPM, and current State of Michigan standard contract and solicitation language, DTMB should work with the Legislature and the Attorney General to create a vendor debarment process by considering:

- a. Adding legally binding debarment language in all State vendor contracts.
- b. Evaluating *MCL* Section 18.1264 for possible updates so rule promulgation is not required, including more clearly defining poor performance or lack of integrity and the types and amount of documentation required.
- c. Utilizing the process laid out in APA to create a comprehensive and enforceable debarment policy.
- d. Updating the MPPM to address DTMB's authority to issue a debarment policy, and the alternative ways it ensures the State only does business with responsible vendors with high integrity. Also, update the DTMB website labeled debarment list to avoid confusion.
- e. Developing policies and procedures considering factors such as:
 - Defining debarment.
 - Specific reasons why vendors may be debarred.
 - Timing to determine if a vendor should be debarred.
 - Duration of the debarment.
 - Responsible State parties for making final determinations.
- f. Reviewing federal and other states' debarment policies.

IT CONTRACTING INDEPENDENCE

BACKGROUND

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 process 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 which they have direct contact with while performing official duties. Also, the disclosure serves to avoid the appearance of impropriety and unethical conduct and help ensure the integrity of State government and maintain effective services.

In addition to the annual disclosure of interest form, all JEC members participating in vendor solicitation, evaluation, and the vendor award process must sign a code of conduct form. The JEC code of conduct form is used to acknowledge the member understands the expected type of conduct, the expectations of the evaluation process (such as attending meetings and reading proposals), and the identification of any conflicts of interest.

AUDIT OBJECTIVE

To assess the sufficiency of DTMB's controls to ensure the independence of those involved in the IT contracting process.

CONCLUSION

Sufficient, with exceptions.

FACTORS IMPACTING CONCLUSION

- DTMB established controls to ensure all IT solicitation managers* completed annual disclosure of interest forms and considered and appropriately addressed any potential conflicts with any parties participating in the solicitation and contracting process prior to assigning managers to solicitation projects.
- One reportable condition related to improving controls over JEC member independence (Finding 8).

* See glossary at end of report for definition.

FINDING 8

**Improved controls
needed to ensure JEC
member
independence.**

DTMB did not implement sufficient controls to ensure all JEC members completed a code of conduct form prior to participating in each IT contract's solicitation process. Without completed forms, DTMB cannot ensure an unbiased vendor selection process.

MPPM requires solicitation managers to obtain and maintain code of conduct forms from all individuals who have or will be participating in the solicitation evaluation and award process prior to the evaluation of contracts greater than \$5,000. JEC members completing a code of conduct form assert they will notify the solicitation manager of any actual or potential conflicts of interest which may impair, or give the appearance of impairing, their ability to participate in the solicitation process impartially and without bias.

We requested JEC members' code of conduct forms for the nine IT contracts DTMB awarded from October 1, 2023 through April 19, 2024 and noted DTMB did not maintain code of conduct forms for 2 (22%) of the contracts. Also, once the bidding vendors are known, there is no compensating control to confirm independence of the JEC members later in the solicitation process.

DTMB informed us the missing forms were likely due to an oversight by the solicitation managers on those contracts; however, solicitation managers have conversations with the JEC throughout the solicitation process. DTMB believes these conversations sufficiently mitigate the risk it would not identify and address existing conflicts of interest among JEC members.

RECOMMENDATION

We recommend DTMB implement sufficient controls to ensure all JEC members complete a code of conduct form prior to participating in each IT contract's solicitation process.

AGENCY PRELIMINARY RESPONSE

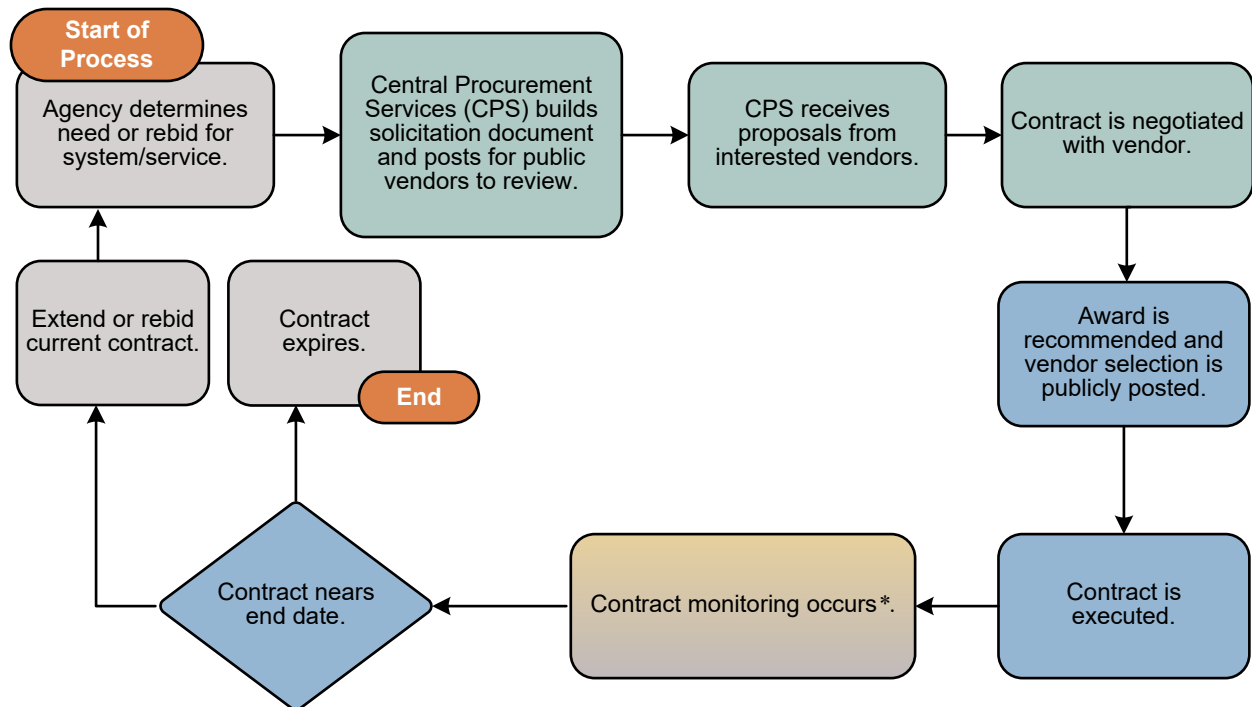
DTMB partially agrees. Given the length of DTMB's preliminary response, the response and our auditor's comments to Finding 8 are presented on page 54.

SUPPLEMENTAL INFORMATION

UNAUDITED
Exhibit 1A

IT CONTRACTING Department of Technology, Management, and Budget

Procurement Process



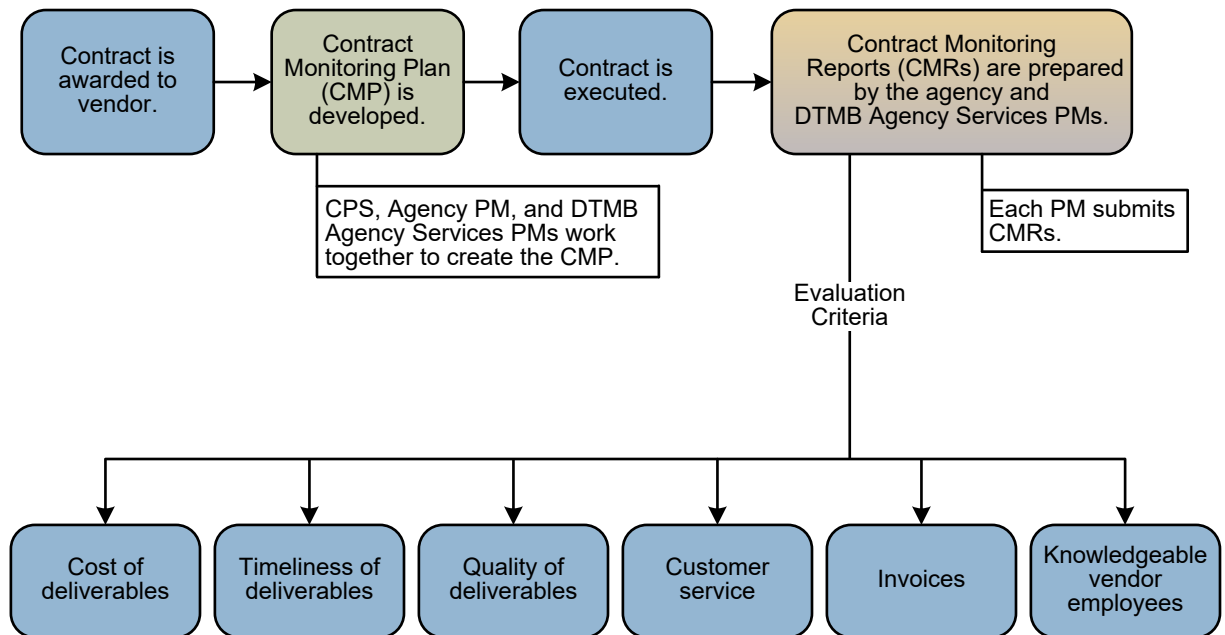
| KEY | |
|-----|---|
| ● | General process steps |
| ○ | Agency |
| ● | CPS |
| ○ | Agency and DTMB Services Program Managers (PMs) |

* Contract monitoring includes development of the Contract Monitoring Plan between the agency PM and the DTMB Agency Services PM as well as completion of Contract Monitoring Reports throughout the life of the contract done by the agency and DTMB Agency Services PMs.

Source: The OAG prepared this flow chart using information obtained from DTMB.

IT CONTRACTING
Department of Technology, Management, and Budget

Contract Monitoring



| KEY | |
|-----|---|
| ● | General process steps |
| ● | CPS and agency and DTMB Agency Services PMs |
| ● | Agency and DTMB Agency Services PMs |

Source: The OAG prepared this flow chart using information obtained from DTMB.

IT CONTRACTING
Department of Technology, Management, and Budget

IT Contracting Roles and Job Responsibilities

DTMB Agency Services Contract Program Manager (or delegate):

- Drafts and provides technical requirements for the contract statement of work.
- Works with agency contract program manager and EPMO project manager.
- Ensures contract deliverables are met.
- Ensures technical requirements are in the statement of work.
- Reviews and approves invoice for payment to the vendor.
- Completes CMR and participates in the development of CMP.
- Communicates with vendor about contract deliverables.
- Monitors day-to-day contract progress.
- Responsible to notify CPS of any contract non-conformances and/or vendor issues.

Agency Contract Program Manager (or delegate):

- Drafts and provides business requirements for the contract statement of work.
- Works with DTMB Agency Services contract program manager and EPMO project manager.
- Ensures contract deliverables are met.
- Reviews and approves invoice for payment to the vendor.
- Completes CMR and participates in the development of CMP.
- Communicates with vendor about contract deliverables.
- Monitors day-to-day contract progress.
- Responsible to notify CPS of any contract non-conformances and/or vendor issues.

EPMO Project Manager:

- Monitors compliance with State Unified Information Technology Environment (SUITE).
- Communicates about deliverables with agency, DTMB, and contractor.
- Manages time lines.
- Works with agency and DTMB Agency Services program sponsors.

Source: The OAG prepared this definition of IT contracting roles and job responsibilities using information obtained from DTMB.

AGENCY PRELIMINARY RESPONSES

IT CONTRACTING

Department of Technology, Management, and Budget

Finding 1 Agency Preliminary Response and Auditor's Comments to Agency Preliminary Response

This section contains DTMB's preliminary response to Finding 1 and our auditor's comments providing further clarification and context where necessary.

Overall Auditor's Comment:

During the audit, the OAG and DTMB spent a considerable amount of time vetting the written Findings within this report. DTMB generally agreed with the recommendations prior to providing its preliminary agency responses for this report. Thereafter, its responses appeared to take a change in direction.

While DTMB may not be fully responsible for performing all day-to-day monitoring activities, it is ultimately responsible to ensure proper oversight of the IT contracts for the State of Michigan, as outlined in the *Michigan Compiled Laws (MCL)*.

Finding 1: Insufficient oversight of vendor performance for IT contracts.

The preliminary response DTMB provided for this Finding included duplicating points-of-fact already identified in the Finding, or were editorial in nature, and did not address substantive issues identified in the Finding, methodology, conclusions, or recommendation. In accordance with generally accepted government auditing standards, we included a summarized version of DTMB's response below.

| AGENCY PRELIMINARY RESPONSE | AUDITOR'S COMMENTS TO AGENCY PRELIMINARY RESPONSE |
|---|---|
| <p><i>DTMB partially agrees.</i></p> | |
| <p><i>DTMB does not agree with the overall assertion that DTMB did not provide sufficient oversight of vendor performance for IT contracts.</i></p> | <p>Agency contract program managers perform duties related to vendor oversight; however, <i>MCL</i> Section 18.1261(2) states DTMB is the contract administrator and is to make all discretionary decisions concerning the solicitation, award, amendment, cancellation, and appeal of State contracts.</p> |
| <p><i>While DTMB's Central Procurement Services provides support and guidance to agencies and their Contract Program Managers, Central Procurement Services is not solely responsible for ensuring sufficient oversight of vendor performance for IT contracts. Vendor oversight is a shared responsibility with state agencies.</i></p> | <p>While the contract program managers assist with monitoring activities, DTMB is responsible for overseeing the process and ensuring sufficient monitoring is being performed.</p> |
| <p><i>For subpart a., DTMB partially agrees. DTMB agrees we did not maintain a central master location for the contract monitoring process. Central Procurement Services will clarify guidance to staff to ensure relevant finalized documents are stored within an identified location by May 2026.</i></p> | <p>We are unclear which portion DTMB partially disagrees with, considering DTMB states it agrees the master location does not exist; however, plans to comply by May 2026.</p> |
| <p><i>For subpart b., DTMB disagrees that we did not have sufficient contact with Contract Program Managers (CPMs). Contract Monitoring Reports (CMRs) were consistently sent to the agency assigned CPMs for completion. DTMB agrees not all CMRs have been completed by the Contract Program Managers. It is the responsibility of the assigning State agency to ensure CMRs are complete by the named CPMs for their assigned contracts.</i></p> | <p>DTMB may have e-mailed CMR notifications to the contract program managers, but this does not constitute sufficient or appropriate contact. In some instances, responses were not received and in others the notification was not sent to the correct CPM because the wrong CPM was listed in the database (see Finding 4, part a.). Also, notifications were suspended throughout a portion of the audit period (see Finding 3).</p> |
| <p><i>For subpart c., DTMB agrees that improvements can be made to guidance to reinforce the agency's roles and responsibilities in contract management and vendor performance monitoring.</i></p> | <p>We are unsure how improving guidance for agencies applies to effectively designing contract monitoring requirements. Reinforcing the agencies roles and responsibilities in its guidance has no bearing on DTMB's lack of oversight.</p> |

DTMB agrees that the guidance regarding Contract Monitoring Plans may need improvement. Every contract is different; deliverables are different, and the method of tracking may vary depending on how the agency defines how the monitoring will be done.

The OAG is not recommending a one-size-fits-all monitoring plan for all contracts. The current plan requirements allow monitoring plans to be tailored to each specific contract. However, many plans are still completed with little or no detail regarding the planned monitoring activities, making them of little value.

DTMB agrees newly assigned CPMs were not always informed of CMP requirements when transitioning onto contracts. DTMB will review and update the Contract Monitoring Plan guidance to better define expectations, reinforce the agency's role in defining monitoring methods, and strengthen onboarding practices so new Contract Program Managers are aware of their monitoring responsibilities by July 2027.

For subpart d., DTMB partially agrees we did not ensure CPMs timely completed all required CMRs for each contract. The agency Procurement Executive is responsible for "ensuring that the necessary steps are taken to effectively execute and meet the Statewide procurement aligned objectives" per the MPPM, which includes completion of CMRs. Further, MPPM Chapter 12 Section 12.4 states the Contract Program Manager "is responsible for completing Contract Monitoring Reports (CMRs) and certifying that all required monitoring is being completed and the contractor's performance is meeting or exceeding expectations".

While the agency and DTMB contract program managers complete CMRs, DTMB is responsible for continually monitoring and overseeing the process to ensure CMRs are completed in a timely manner and follow-up is initiated when CMRs are missed.

Central Procurement Services has implemented automated enhancements within the contract management system to streamline the process for CMRs that contract program managers are responsible for completing, as noted in DTMB's response in Finding 3.

For subpart e., DTMB disagrees Central Procurement Services does not have sufficient guidance regarding the use of Performance Evaluation (PE) documents. Central Procurement Services has a clearly defined process and guidance for completion of PE documents. PE documents are optional; professional judgment is used to determine if a formal complaint needs to be documented as a PE document filed on a contractor's permanent record within SIGMA. A PE document is not the only document used in contract management to address vendor performance issues. Central Procurement Services utilizes Correction Action Plans (CAPs) as a part of CPS's vendor issue resolution process to address and correct vendor performance issues.

A PE document is formalizing a vendor's performance whether it be a commendation or a complaint within SIGMA. When CPS solicits vendors for a new IT contract, having all pertinent information about a vendor in one spot is necessary. PE documents are used by DTMB for historical vendor performance when a vendor applies for a new contract. The fact that only six PE documents were created over a span of three-and-a-half years indicates the PE documents are severely underutilized for documenting both good and poor vendor performance.

Corrective action plans (CAPs) do not serve the same purpose as a PE document and are irrelevant to the Finding.

Therefore, the Finding stands as written.

Go Back to Finding 1

Go to Finding 2

IT CONTRACTING
Department of Technology, Management, and Budget

Finding 2 Agency Preliminary Response and Auditor's Comments to Agency Preliminary Response

This section contains DTMB's preliminary response to Finding 2 and our auditor's comments providing further clarification and context where necessary.

Finding 2: Controls needed for IT system development contracts.

The preliminary response DTMB provided for this finding included duplicating points-of-fact already identified in the Finding, or were editorial in nature, and did not address substantive issues identified in the Finding, methodology, conclusions, or recommendation. In accordance with generally accepted government auditing standards, we included a summarized version of DTMB's response below:

| AGENCY PRELIMINARY RESPONSE | AUDITOR'S COMMENTS TO AGENCY PRELIMINARY RESPONSE |
|--|--|
| <p><i>DTMB partially agrees.</i></p> <p><i>For subpart a., DTMB partially agrees.</i></p> <p><i>DTMB believes that the existing definitions and guidance regarding when Enterprise Portfolio Management Office (EPMO) project management services including an assigned project manager should be used for IT system development contracts are sufficient.</i></p> <p><i>DTMB acknowledges that more consistent understanding and application of these existing expectations across agencies are needed. To address this, DTMB will enhance communication and education regarding State of Michigan policies when a system development contract is initiated to reinforce consistent application by January 2027.</i></p> | <p>The OAG clearly states, further clarification is needed to ensure consistent understanding and application across agencies.</p> <p>Enhanced communication and education will not ensure long-term consistent application if requirements are not clear.</p> |
| <p><i>For subpart b., DTMB partially agrees.</i></p> <p><i>DTMB acknowledges that there is opportunity for improved coordination between the Enterprise Portfolio Management Office (EPMO) and Central Procurement Services regarding vendor performance during system implementation for associated contracts.</i></p> <p><i>DTMB recognizes the need to improve the ability to associate IT system development contracts with related EPMO projects. DTMB will evaluate and implement improvements to its systems and processes to better associate IT contracts with related projects. This may include enhancements to project and contract tracking tools, as well as updated procedures for capturing and maintaining these relationships throughout the project lifecycle by October 1, 2027.</i></p> <p><i>DTMB will revise State Unified Information Technology Environment (SUITE) project management methodology to ensure that CPMs are included as key stakeholders within the project management plan. This will help ensure that vendor performance issues identified during the course of a project are communicated promptly and appropriately to CPS. Additionally, DTMB will clarify and reinforce the roles and responsibilities of the Contract Program Manager, project manager, and project sponsor. This clarification will emphasize that any of these roles may escalate vendor performance concerns to Central Procurement Services, regardless of whether they are the designated CPM. These changes will be implemented by October 1, 2026.</i></p> | <p>We are unclear which portion DTMB partially disagrees with considering DTMB states it agrees the improvements are needed to coordinate monitoring between EPMO and CPS and plans to comply by October 2027.</p> |

For subpart c., DTMB disagrees.

DTMB disagrees with the recommendation to change contract monitoring cadence based solely on whether a contract is maintenance or non-maintenance. Central Procurement Services established and implemented a risk-based approach for contracting in 2016 aligned with Category Management, which is an industry best practice. Contracts with similar characteristics are grouped into a category, Central Procurement Services evaluates each category using risk criteria that consider both impact and likelihood and assigns a score that correlates to a Category Level (1–5). The Category Level determines the minimum required cadence for Contract Monitoring Reports (CMRs). This ensures monitoring frequency is based on the inherent risk profile of the category rather than whether a contract is maintenance or non-maintenance.

Part c. does not recommend changing the cadence based solely on the contract being maintenance related or not. We recommend DTMB reassess if the IT development contracts warranted a different cadence. This is because of the inherent cost and risk of these contracts.

Despite exhaustive due process between us and DTMB, our point appears to be lost on DTMB, and it responded with a lengthy, confusing narrative which does not assist the reader with understanding whether corrective action will occur or not.

Monitoring of project milestones and deliverables already occurs through Contract Program Managers and EPMO Project Managers as part of their day-to-day oversight. Both roles are expected to monitor work progress tied to milestones, deliverables and payment points, and they are required to escalate issues to Central Procurement Services when the issue is discovered. This escalation is not dependent on the timing of the next Contract Monitoring Report and should occur immediately when vendor performance concerns arise.

While DTMB is stating all EPMO and contract program managers should escalate issues to CPS, regardless of whether a CMR is due, as noted in the Finding, this is not always occurring.

Therefore, the Finding stands as written.

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Go to Finding 3

IT CONTRACTING

Department of Technology, Management, and Budget

Finding 3 Agency Preliminary Response and Auditor's Comments to Agency Preliminary Response

This section contains DTMB's preliminary response to Finding 3 and our auditor's comments providing further clarification and context where necessary.

Overall Auditor's Comment

DTMB fails to acknowledge responsibility for oversight of the process regardless of whether the agency or DTMB contract program managers are completing the CMRs. DTMB cannot expect compliance from the agencies if it cannot ensure compliance within its own organization. This directly points back to the need for improved oversight of the process.

Finding 3: Monitoring improvements needed for IT contracts.

The preliminary response DTMB provided for this Finding included duplicating points-of-fact already identified in the Finding, or were editorial in nature, and did not address substantive issues identified in the Finding, methodology, conclusions, or recommendation. In accordance with generally accepted government auditing standards, we included a summarized version of DTMB's response below:

| AGENCY PRELIMINARY RESPONSE | AUDITOR'S COMMENTS TO AGENCY PRELIMINARY RESPONSE |
|---|---|
| <p><i>DTMB partially agrees.</i></p> <p><i>While follow-up with Contract Program Managers was conducted, DTMB agrees the follow up was not always documented as referenced in subpart c.; however, potential vendor performance issues are identified and addressed timely. DTMB performs follow up with CPMs and does not deem it necessary to document when the follow-up confirmed the CPM was satisfied with the vendor's performance.</i></p> <p><i>For subpart a. & b., DTMB partially agrees.</i></p> <p><i>DTMB agrees not all Contract Monitoring Reports (CMR) have been completed by the CPMs. The assigning State agency (inclusive of DTMB) is responsible for ensuring CMRs are completed by the agency CPMs for their assigned contracts.</i></p> | <p><i>While tracking details of the follow up may not always be necessary, tracking is needed to ensure follow up was completed and whether additional follow up is necessary. Without any tracking and documentation, it is unclear if any follow-up occurred. Also, if CPS has staff turnover, it will be difficult to determine the status without going back through each CMR and performing another follow-up. In addition, DTMB cannot state it addressed or identified all vendor performance issues when Finding 1 states DTMB had insufficient oversight of vendor performance. Failure to maintain follow-up documentation to address poor vendor performance may make it difficult to defend the State's position if a lawsuit is initiated.</i></p> |
| <p><i>Starting in May of 2024, Central Procurement Services implemented a new Project and Contract Management system which fixed system glitches and reinstated automated CMR reminders. The new system also included functionality to alert the Contract Administrator when a negative CMR is submitted which prompts the Contract Administrator to reach out to the CPM to discuss the negative CMR result and potential vendor performance issue.</i></p> <p><i>The added functionality included the ability to include the Contract Program Manager's supervisor on automated notifications when CMRs were not completed by the Contract Program Manager. In August of 2025, further enhancements include additional reminders sent to each CPM 30 days, 15 days, and 1 day prior to the CMR being due. Overdue reminder is then sent to the CPM and their supervisor every 7 days until the CMR is complete.</i></p> | <p><i>Audit testing of CMRs was for the period October 1, 2020 through April 19, 2024; therefore, the OAG did not test or conclude on the process updates described. However, during the audit period, 54% of required CMRs were missing. More than half of those CMRs were the responsibility of DTMB employees.</i></p> |

Since the implementation of the additional controls, the agencies' completion of CMRs has risen to an overall 83% for IT contracts which exceeds DTMB's internal threshold for agency compliance.

This information was not provided during the audit; therefore, the OAG did not test or conclude on the accuracy of this information. Also, DTMB notes 83% compliance exceeds DTMB's internal threshold indicating it is acceptable for at least 17% failed compliance rate for monitoring multimillion-dollar contracts. This equates to \$1.1 billion based on the IT contract dollar value of \$6.6 billion as of January 12, 2026.

For subpart d., DTMB disagrees with the recommendation to provide a non-applicable option in the CMR. Based on past experience, the harm to the integrity of the CMR data by allowing a non-applicable option is greater than the harm caused by asking the CPM to mark agree if the question is non-applicable. In the past the non-applicable option was abused and selected in lieu of answering the question(s).

The potential exists for more harm to the integrity of CMR data when a "Not Applicable" option is not available. DTMB's response appears to imply it would rather skew vendor performance results by instructing respondents to answer "agree" rather than provide an alternative option. If vendors apply for future contracts, they may get an advantage if they received "agree" scores for items which were "not applicable."

Based on the above, Central Procurement Services has implemented sufficient processes and controls to reduce the risk. DTMB accepts the residual risk.

For example, indicating "Agree" rather than "Not Applicable" for timeliness or quality of deliverables when deliverables have not been received, seems to inappropriately give credit to the vendor for work not performed. If a vendor later has unsatisfactory performance for timeliness or quality, DTMB would have multiple CMRs with mixed performance results when the vendor performed poorly throughout the contract.

Training contract program managers on when the "Not Applicable" option is appropriate and following up on "Not Applicable" similar to a negative response would allow CPS to understand if the usage is appropriate and more accurately track vendor performance. Also, CPS could require a comment to indicate why the "Not Applicable" option is used. CPS seems to be implying a one-size-fits-all checkbox must suffice for all contracts.

Therefore, the Finding stands as written.

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IT CONTRACTING
Department of Technology, Management, and Budget

Finding 4 Agency Preliminary Response and Auditor's Comments to Agency Preliminary Response

This section contains DTMB's preliminary response to Finding 4 and our auditor's comments providing further clarification and context where necessary.

Finding 4: Improved controls over contract program managers are needed.

The preliminary response DTMB provided for this Finding included duplicating points-of-fact already identified in the Finding, or were editorial in nature, and did not address substantive issues identified in the Finding, methodology, conclusions, or recommendation. In accordance with generally accepted government auditing standards, we included a summarized version of DTMB's response below:

| AGENCY PRELIMINARY RESPONSE | AUDITOR'S COMMENTS TO AGENCY PRELIMINARY RESPONSE |
|--|---|
| <p><i>DTMB partially agrees.</i></p> <p><i>Subpart 4. a., DTMB disagrees.</i></p> <p><i>Agency business owners and the CPM are responsible for informing Central Procurement Services of any changes to the contract, including changes to the assigned CPM. DTMB implements various processes to enable state agencies to notify Central Procurement Services when an agency contract program manager changes. However, it's important to note that the ultimate responsibility for updating contract program managers lies with the State agency. One such process is the Contract Monitoring Report (CMR) process. While the CMR does not explicitly confirm the CPM assignment, it serves as a practical checkpoint and provides instructions on what to do if the CPM of record is no longer the CPM.</i></p> <p><i>For subpart 4b., DTMB partially agrees.</i></p> <p><i>DTMB agrees that during the audit period, the identification of Contract Program Managers (CPMs) was affected by Central Procurement Service's transition to a new Project and Contract Management system, which introduced some technical challenges.</i></p> <p><i>Agencies are responsible for ensuring training completion by CPMs.</i></p> <p><i>In July 2024, DTMB identified a reporting gap where only one CPM was being identified for training in instances where multiple CPMs existed on the contract. This was only a reporting gap resulting in incomplete registration of CPMs for training. Once DTMB identified the issue, DTMB corrected the issue and previously missed CPMs were registered for the required training (completed in September 2024).</i></p> <p><i>Central Procurement Services initiates the registration of agency CPMs for the training. Once registered, agency CPMs are assigned the appropriate training course. If an agency CPM does not take the assigned training, the manager of the Agency CPM is automatically notified the training is past due until the CPM completes the training. Central Procurement Services also publishes a status completion report of CPM training on their SharePoint site which is available to agencies.</i></p> | <p>DTMB's response does not address the overall issue for having a single data source to easily identify the contract program managers for any given contract at any given time. Agencies and other divisions of DTMB can confirm the name of the contract program manager, but they do not have access to make updates in CPS's database or other data sources. DTMB can send CMRs as confirmation of the contract program manager, but if the CMRs are not completed it does not necessarily mean the contact is incorrect. Ultimately, if DTMB has multiple names listed in different locations, CPS staff will not know which is correct.</p> <p>DTMB's correction was completed after the OAG's review, and we did not validate this information.</p> <p>In part b., CPS stated it could not identify 116 contract program managers to register them for training, some of which did not show up in CPS's report because it erroneously picked up only the first assigned contract program manager. It is unclear how those responsible for the agency contract program managers would be notified the training was past due when they were never registered in the first place.</p> |

Agencies are responsible for ensuring their staff take the training that has been assigned to them within the State of Michigan Learning Center.

As stated in the Finding, DTMB is tasked with providing centralized administration of purchasing services and establishing training programs. Again, DTMB is trying to shift ownership of its responsibilities for training contract program managers back to the agency. Under the *MCLs* stated in this Finding, DTMB has the ultimate responsibility to ensure it has sufficient controls for identifying and training contract program managers.

While DTMB can hold its own staff accountable for completing assigned trainings, its authority does not extend to other agencies' employees.

While DTMB says it can hold its own employees accountable to complete assigned training, the individuals noted in the Finding, who either were never registered for or did not complete the training, included DTMB employees.

Therefore, the Finding stands as written.

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Go to Finding 5

IT CONTRACTING
Department of Technology, Management, and Budget

Finding 5 Agency Preliminary Response and Auditor's Comments to Agency Preliminary Response

This section contains DTMB's preliminary response to Finding 5 and our auditor's comments providing further clarification and context where necessary.

Finding 5: Improvements needed to the contract termination process.

The preliminary response DTMB provided for this Finding included duplicating points-of-fact already identified in the Finding, or were editorial in nature, and did not address substantive issues identified in the Finding, methodology, conclusions, or recommendation. In accordance with generally accepted government auditing standards, we included a summarized version of DTMB's response below:

| AGENCY PRELIMINARY RESPONSE | AUDITOR'S COMMENTS TO AGENCY PRELIMINARY RESPONSE |
|--|---|
| <p><i>DTMB partially agrees.</i></p> <p><i>For subpart a & b, DTMB disagrees. Central Procurement Services has a clearly defined process and guidance for contract termination based on the Michigan Procurement Policy Manual (MPPM) and defined in the contracts themselves. The reviews are conducted by experienced professionals who have the expertise to conduct said reviews in a flexible manner and not be limited to a step-by-step procedure. The approach to termination may be different given each scenario. The termination process reviews are conducted by a team of experienced professionals and legal staff from the Office of the Attorney General who have expertise and use professional judgement when deciding whether a contract should or should not be terminated and if it rises to the level of cause versus convenience.</i></p> | <p>DTMB's response focuses on the termination process itself, not preventing the contract from entering the termination stage. The Finding states DTMB did not establish a "sufficiently defined" process, not a step-by-step process. The process does not provide guidance of the actions which may be necessary or provide sufficient guidance on when specific actions may or may not be needed. Without this type of guidance, less experienced staff may struggle to appropriately manage situations where contract performance is not sufficient, increasing the risk of termination and potential lawsuits.</p> <p>Based on our findings, CPS does not have a clear, defined process for terminating IT contracts. Sixty percent of the IT contracts we reviewed with vendor performance issues did not have the corrective action plans nor a PE document; both are part of the "documented process." PE documents are listed as the starting point of the DTMB termination process even though on DTMB's intranet site PE documents are not required. In fact, PE documents are the only document in SIGMA which identifies vendor performance. CMRs are tracked outside of SIGMA; however, as noted in Finding 3 part b., 54% of expected CMRs were not completed for sampled contracts.</p> |
| <p><i>For subpart c., DTMB agrees not all Termination documents were entered immediately after final payment was issued which also impacted the contract termination report not being the most up to date. DTMB has addressed this oversight by reinforcing the process with staff during the audit.</i></p> | <p>The OAG did not validate this process during audit fieldwork and did not conclude on this information.</p> |
| <p><i>For subpart d., DTMB partially agrees. DTMB agrees we did not maintain a central master location for contract termination information. DTMB disagrees that this impacts Central Procurement Service's ability to efficiently manage vendor issues and terminations. However, Central Procurement Services will develop a process to ensure relevant finalized documents are stored within an identified master location by December 2026.</i></p> | <p>Having termination documentation in various locations is not only inefficient but could hinder CPS's ability to effectively manage vendor issues or terminate a contract for cause if only some documentation is available. Although DTMB indicates disagreement, CPS is developing a process to store all relevant documentation in a central location.</p> |
| <p><i>For subpart e., DTMB agrees with the value in documenting lessons learned after contract terminations to identify areas for future improvement and best practices. In the summer of 2025, DTMB implemented a process to capture lessons learned for terminated contracts based upon the State's business needs.</i></p> | <p>The OAG did not validate this process during audit fieldwork and did not conclude on this information.</p> |
| | <p>Therefore, the Finding stands as written.</p> |

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Go to Finding 6

IT CONTRACTING
Department of Technology, Management, and Budget

Finding 6 Agency Preliminary Response and Auditor's Comments to Agency Preliminary Response

This section contains DTMB's preliminary response to Finding 6 and our auditor's comments providing further clarification and context where necessary.

Overall Auditor's Comment:

The Legislature cannot make informed spending decisions for IT projects when all IT project costs are not being reported.

Finding 6: Incomplete IT costs reported to the Legislature.

The preliminary response DTMB provided for this Finding included duplicating points-of-fact already identified in the Finding, or were editorial in nature, and did not address substantive issues identified in the Finding, methodology, conclusions, or recommendation. In accordance with generally accepted government auditing standards, we included a summarized version of DTMB's response below:

AGENCY PRELIMINARY RESPONSE

DTMB disagrees.

DTMB recognizes the importance of providing a complete and accurate picture of information technology (IT) system project costs to the Legislature to support informed decision-making.

MCL 18.1490 requires reporting of IT System project costs associated with information technology services delivered by DTMB. DTMB has reported costs in accordance with current statutory requirements and established reporting processes. MCL 18.1261e outlines IT project requirements related to procurement activities. These statutes serve different purposes and do not establish a direct reporting linkage requiring DTMB to collect and report agency-incurred personnel costs.

AUDITOR'S COMMENTS TO AGENCY PRELIMINARY RESPONSE

MCL Section 18.1490, referenced in the Finding, does not require IT service costs to be reported, but rather IT system project costs. The MCL requires DTMB's EPMO to submit reports on a quarterly basis containing "key information on all executive branch department and enterprisewide projects involving information technology services".

This requirement does not limit the requested cost information to strictly DTMB provided IT service costs. Agency employee involvement is necessary for a successful IT project, which delivers IT products or services needed by those users, so it is logical the employee payroll related IT costs would be included in the IT system project cost calculation.

On October 8, 2020, both MCL Sections 18.1261e and 18.1490 were amended. It would seem logical if one MCL was amended to state "collect the agency costs" and the other MCL to "report all costs," DTMB would be responsible for reporting not only its own costs, but also the agencies. We believe the intent behind the changes was to encompass all IT project costs.

Therefore, the Finding stands as written.

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IT CONTRACTING
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Finding 7 Agency Preliminary Response and Auditor's Comments to Agency Preliminary Response

This section contains DTMB's preliminary response to Finding 7 and our auditor's comments providing further clarification and context where necessary.

Overall Auditor's Comment

DTMB's response is distracting from the issue, which is complying with the law, not the lack of a process.

Finding 7: Process improvements needed for procuring IT contracts.

The preliminary response DTMB provided for this Finding included duplicating points-of-fact already identified in the Finding, or were editorial in nature, and did not address substantive issues identified in the Finding, methodology, conclusions, or recommendation. In accordance with generally accepted government auditing standards, we included a summarized version of DTMB's response below:

| AGENCY PRELIMINARY RESPONSE | AUDITOR'S COMMENTS TO AGENCY PRELIMINARY RESPONSE |
|--|---|
| <p><i>DTMB disagrees and accepts the residual risk. Central Procurement Services has performed comprehensive reviews of agency procurement transactions within DTMB's procurement authority on a regular basis for almost a decade (started in 2017) as business needs have dictated. There is no requirement in the MCL or the MPPM that Central Procurement Services conduct such reviews annually. Prior to implementing a review, Central Procurement Services determines which criteria to focus on and develops a project plan. Central Procurement Services subsequently provides detailed instructions to the agencies on Central Procurement Service's process for conducting the reviews, the agency's related responsibilities, and Central Procurement Services communicates with the agency regularly throughout the review period.</i></p> | <p>Residual risk is the risk remaining after applying controls or other mitigation actions. Because DTMB does not have clearly defined processes and it is accepting the residual risk, the multimillion-dollar IT contracts are in essence operating in an uncontrolled environment.</p> |
| <p><i>This process is clearly defined based on the Michigan Procurement Policy Manual (MPPM), well-designed templates, and review result letters. The reviews are conducted by experienced professionals, who have the expertise and professional judgement to conduct comprehensive reviews specific to each case.</i></p> | <p>While DTMB performs reviews of agency transactions, no review of transactions with statutory authority are included in this review. Also, this audit focused on CPS's process to review procurement transactions, not the agency's review.</p> |
| <p><i>Central Procurement Services' review excludes purchases made by other state agencies under their authority granted through law.</i></p> <p><i>Central Procurement Services only has the authority to review purchases made as defined in MCL 18.1261(1). This excludes agency purchases that are made under a law granting statutory procurement authority. Central Procurement Services has documented and implemented a process and program to review agency purchases under delegated authority. CPS does not have the authority to review or make determinations of other agencies' statutory authority.</i></p> <p><i>Central Procurement Services has a mature process which reduces the risk that an IT procurement within DTMBs authority could occur by a state agency without Central Procurement Service's knowledge. DTMB accepts the residual risk.</i></p> | <p>The Finding focuses on a need to review statutory authority purchases and the need to complete the delegated authority purchase review at a reasonable frequency, since the last review was completed over two years prior to our testing in 2024.</p> <p>MPPM contains processes for contracts managed by CPS and describes instances in which delegated or statutory authority would allow an agency to manage the contracting process without DTMB involvement. When DTMB reviews delegated authority contracts, it walks through contract requirements from MPPM, such as require contract terms, requirements to complete CMRs, and document change notices. However, there are no clearly defined processes, guidance, or well-designed templates we could locate defining the steps DTMB needs to take when reviewing the entire population of procurement transactions to ensure no IT procurements are occurring without DTMB involvement, which is the focus of the Finding.</p> |
| | <p>The recommendation states DTMB should review agency purchase transactions made using the agency's statutory authority for appropriateness. Without such a review, DTMB cannot determine if agencies are misapplying statutory authority for purchases which should fall under DTMB's purchasing responsibility.</p> |
| | <p>Therefore, the Finding stands as written.</p> |

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Go to Finding 8

IT CONTRACTING
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Finding 8 Agency Preliminary Response and Auditor's Comments to Agency Preliminary Response

This section contains DTMB's preliminary response to Finding 8 and our auditor's comments providing further clarification and context where necessary.

Finding 8: Improved controls needed to maintain JEC member independence when soliciting vendor contracts.

The preliminary response DTMB provided for this Finding included duplicating points-of-fact already identified in the Finding, or were editorial in nature, and did not address substantive issues identified in the Finding, methodology, conclusions, or recommendation. In accordance with generally accepted government auditing standards, we included a summarized version of DTMB's response below:

| AGENCY PRELIMINARY RESPONSE | AUDITOR'S COMMENTS TO AGENCY PRELIMINARY RESPONSE |
|---|---|
| <p><i>DTMB partially agrees.</i></p> <p><i>DTMB agrees that not all Joint Evaluation Committee (JEC) members completed a code of conduct form, however, Central Procurement Services has implemented automated controls to collect the forms and increase compliance. Additionally, CPS has implemented processes which reduce the ongoing risk JEC members will be biased related to specific bidders. DTMB accepts the residual risk.</i></p> | <p>The code of conduct form serves as a reminder of the requirement to report conflicts of interest and documents they acknowledge their responsibility to report conflicts as they arise. Without documented acknowledgment, the JEC member could have a conflict and claim they were not aware of the requirement to report.</p> <p>DTMB states it accepts the residual risk; however, it is not following the MPPM requirement for obtaining and maintaining code of conduct forms.</p> |
| <p><i>In May 2024 the Project and Contract Management System went live and Central Procurement Services implemented enhanced functionality in the system enabling the assigned Solicitation Manager to easily monitor attestation statuses of Code of Conduct forms by JEC members. Solicitation Managers send the Code of Conduct forms via an automated process to identified JEC members for attestation.</i></p> <p><i>Central Procurement Services does not solely rely on the Code of Conduct forms. The risk of JEC member independence is also mitigated by ongoing conversations between the Solicitation Manager and the JEC members throughout the solicitation process.</i></p> | <p>The system was implemented outside of our audit period and, therefore, we did not test or conclude on the system's monitoring effectiveness. Even though the system automatically sends the form to the JEC member, the system cannot ensure the form has been completed. There is no documentation of "ongoing conversations" which have taken place to verify the requirements have been communicated and conflicts are reported.</p> |
| <p><i>Additionally, Central Procurement Service's JEC Code of Conduct form supplements Civil Service Rules around Conflicts of Interests and an employee's duty to timely disclose conflicts. Civil Service Rule 2-8.2 Prohibitions requires "... (a) All employees. A classified employee shall not do any of the following: ... (12) Fail to timely, fully, and accurately report to the employee's appointing authority any of the following: (A) Any interest of the employee or the employee's immediate family in any business or entity with which the employee has direct contact while performing official duties as a classified employee." The JEC Code of Conduct form serves as a compensating control to reduce risk.</i></p> | <p>DTMB's response indicates the code of conduct supplements Civil Service policy and serves as a compensating control. While the JEC usually is made up of end users from the relevant agencies, CPS may include subject matter experts in the JEC. Since these individuals may not be classified employees, they may not be bound by the Civil Service rules, and so the code of conduct process would not be a compensating control but rather the primary control to ensure they know their responsibility to report conflicts of interest.</p> |
| <p><i>Based on the above, Central Procurement Services has implemented sufficient processes and controls to reduce the risk. DTMB accepts the residual risk.</i></p> | <p>During our audit, the automated process was not implemented and conflict of interest forms were missing.</p> <p>Therefore, the Finding stands as written.</p> |

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DESCRIPTION

DTMB serves as a general contractor between IT users within the executive branch and private-sector providers of IT products and services while working to build stronger partnering relationships with providers. Competitive bids should be solicited when practical to efficiently and effectively meet the State's needs.

DTMB's CPS sets purchasing policies and procedures for the State and is responsible for managing all aspects of bids to help State agencies achieve their missions and ensure the best value is obtained for Michigan residents. IT contracts initially estimated over \$500,000 are managed by CPS. DTMB Financial Services has delegated authority to manage IT contracts under \$500,000 and continues to manage these contracts even if the dollar value increases over \$500,000.

When an IT contract is associated with an IT project, EPMO project managers may be assigned at the request of the agency to help ensure business and technical needs are coordinated between the agency, DTMB, and the vendor. Also, EPMO is responsible for assembling a legislatively mandated quarterly report detailing key information for all executive branch department and enterprise-wide IT projects.

JEC reviews bid proposals and assists in making the vendor contract award recommendations. JEC is led by the solicitation manager and is composed of end users from key agencies and recruited subject matter experts.

As of February 2024, CPS had approximately 56 employees, of which 15 worked specifically with IT contracts. CPS managed approximately 276 IT contracts with a total value of \$6.6 billion as of January 12, 2026.

AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

AUDIT SCOPE

To examine DTMB's policies, procedures, and documentation related to Statewide procurement of IT 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 DTMB's role and operations related to Statewide IT procurement. We specifically excluded non-IT related procurement contracts from our review.

As part of the audit, we considered the five components of internal control* (control environment, risk assessment, control activities, information and communication, and monitoring activities) relative to the audit objectives and determined all components were significant.

PERIOD

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered October 1, 2020 through September 30, 2024.

METHODOLOGY

We conducted a preliminary survey to gain an understanding of CPS's and DTMB's processes and internal control to establish our audit objectives, scope, and methodology. During our preliminary survey, we:

- Interviewed CPS, Financial Services, and EPMO staff to help obtain an understanding of the procurement process and the various roles throughout the life of a contract.
- Reviewed CPS and DTMB policies and procedures related to the procurement process.
- Obtained an understanding of CPS's monitoring policies and procedures.
- Obtained an understanding of EPMO's process for IT project monitoring and legislative reporting.

* See glossary at end of report for definition.

- Obtained an understanding of CPS's process for terminating contracts.
- Reviewed CPS's training requirements and process for tracking training completion for individuals involved in the procurement process.

OBJECTIVE 1

To assess the sufficiency of DTMB's monitoring of IT contracts.

To accomplish this objective, we:

- Randomly and judgmentally sampled 13 of 118 CPS contracts and judgmentally selected the 4 Financial Services contracts requiring CMPs with start dates between October 1, 2018 and April 19, 2024 from CPS's IT contract population to determine if:
 - An IT project and PMP existed for each contract, as applicable.
 - CMPs existed and were appropriately completed for all contracts.
 - Duplication existed between CMP (CPS) and PMP (EPMO) information.
 - Multiple/incorrect contract program managers were listed. Specifically, we looked to identify contract program manager discrepancies between the CMP, latest change notice, and CPS's database and Financial Services' tracking sheet.
 - Contract program managers listed had completed the required training assigned by CPS.
- Reviewed all PEs and corresponding CMRs for IT contracts active between October 1, 2020 and April 19, 2024 to determine if:
 - Duplicative criteria existed between PEs and CMRs.
 - Criterion scores were similar between the two evaluation tools.
- We identified a population of 167 IT contracts requiring CMRs to be completed during our audit period. Specifically, our population included:
 - 150 CPS managed IT contracts active as of April 19, 2024 starting on or after September 1, 2016 at more than \$50,000.

- 7 Financial Services managed IT contracts active as of April 19, 2024 starting on or after September 1, 2016 valued at more than \$500,000.
- 6 CPS managed IT contracts terminated between October 1, 2020 and June 30, 2024.
- 9 CPS managed IT contracts active as of April 19, 2024 which had the same vendors as the terminated contracts, 5 of which had a start date on or after September 1, 2016 and were included in the 150 contracts noted above.

From the population above, we completed the following testing:

- We reviewed the CMR records for the 160 CPS managed contracts and 5 of the 7 judgmentally selected Financial Services managed contracts to identify contracts with no CMRs completed during the life of the contracts.
- For the 125 CPS managed contracts which had CMRs completed, we randomly and judgmentally selected 24 contracts and reviewed all CMRs completed by contract program managers between October 1, 2020 and April 19, 2024 to determine:
 - Contract program managers (agency and DTMB Agency Services) completed the expected number of CMRs based on the category level of the contract.
 - The number of missing CMRs for each contract.
 - Consistency between the agency and DTMB contract program managers' CMR scores for each contract.
 - Whether CPS completed follow-up with the contract program managers for CMRs which had poor scores or had negative comments.
 - Whether e-mail reminders were sent to contract program managers notifying them a CMR was due.
- Surveyed CPS staff, contract program managers, and EPMO project managers to gain a better understanding of the contract monitoring process.

Our random samples were selected to eliminate bias and enable us to project the results to the respective populations. Our judgmental samples were selected based on risk; therefore, we could not project the results to the respective populations.

OBJECTIVE 2

To assess the sufficiency of the design of DTMB's controls over the IT contract termination process.

To accomplish this objective, we:

- Interviewed DTMB CPS staff and management to obtain an understanding of the issue resolution and contract termination process.
- Identified six IT contracts terminated between October 1, 2020 and June 30, 2024 by reviewing various contract information, including:
 - CPS terminated contracts report.
 - SIGMA TM documents.
 - Results of OAG contract monitoring testing (Objective 1).
- Analyzed all six terminated IT contracts to identify irregularities and trends in the issue resolution and contract termination process through interviews with CPS employees and contract documentation review, including:
 - Contract and change notices.
 - CMPs and CMRs.
 - CAPs, stop work orders, written communication between CPS and the vendor, and termination letters.
 - SIGMA PE and TM documents.
 - Vendor payments.
 - Other active contracts with the vendor.
 - Attorney General communications.
 - EPMO issue logs.

OBJECTIVE 3

To assess the sufficiency of DTMB's compliance with select State laws, regulations, and policies related to IT procurement.

To accomplish this objective, we:

- Reviewed various sections of the *MCLs* to identify requirements for State procurements and IT project reporting requirements.
- Evaluated DTMB's processes to ensure complete and accurate legislative reports.
- Assessed DTMB's process to review Statewide expenditures to verify agencies were not inappropriately administering contracts without DTMB involvement.
- Randomly and judgmentally sampled 8 of 29 DTMB IT contracts with an initial value of at least \$500,000 and an effective date from January 1, 2023 through April 19, 2024 to determine if the contracted vendor was suspended or debarred by the State or the federal government and whether DTMB verified the vendor's suspension and debarment status prior to awarding the contract.

Our random samples were selected to eliminate bias and enable us to project the results to the respective populations. Our judgmental samples were selected based on risk; therefore, we could not project the results to the respective populations.

OBJECTIVE 4

To assess the sufficiency of DTMB's controls to ensure the independence of those involved in the IT contracting process.

To accomplish this objective, we:

- Obtained an understanding of the conflict of interest disclosure process by interviewing DTMB staff, reviewing the forms, and reviewing policies stated in MPPM.
- Obtained an understanding of the JEC code of conduct acknowledgment process by reviewing a code of conduct form and the related sections of MPPM.
- Identified the 14 IT solicitation managers as of February 21, 2024 and reviewed the annual disclosure of interest forms to determine:
 - Existence of completed conflict of interest disclosure forms.
 - DTMB properly addressed all disclosed conflicts of interest.

- Identified the JEC members for the nine IT contracts equal to or greater than \$500,000 starting from October 1, 2023 through April 19, 2024 and reviewed each JEC member's code of conduct acknowledgment form for each contract.

Specifically, we:

- Determined the existence of completed code of conduct acknowledgment forms.
- Determined whether DTMB appropriately addressed all disclosed conflicts of interest.
- Conducted research on the JEC members for evidence of independence from the vendor awarded contracts.

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 8 findings and 8 corresponding recommendations. DTMB's preliminary responses indicate it partially agrees with 6 of the recommendations and disagrees with 2 of the recommendations.

The agency preliminary response following 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* requires an audited agency to develop a plan to comply with the recommendations and submit it to SBO upon audit completion. The State of Michigan Financial Management Guide (Part VII, Chapter 3, Section 100) requires the audited agency to develop the plan as early as practicable and within 60 days after report issuance and submit the plan to OIAS, SBO. Within 30 days of receipt, OIAS will either accept the plan as final or contact the agency to take additional steps to finalize the plan.

SUPPLEMENTAL INFORMATION

Our audit report includes supplemental information presented as Exhibits 1A, 1B, and 2. Our audit was not directed toward expressing a conclusion on this information.

GLOSSARY OF ABBREVIATIONS AND TERMS

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| APA | Administrative Procedures Act of 1969. |
| auditor's comments to agency preliminary response | Comments the OAG includes in an audit report to comply with <i>Government Auditing Standards</i> . Auditors are required to evaluate the validity of the audited entity's response when it is inconsistent or in conflict with the findings, conclusions, or recommendations. If the auditors disagree with the response, they should explain in the report their reasons for disagreement. |
| CAP | corrective action plan. |
| contract monitoring plan (CMP) | A document drafted by the solicitation manager in coordination with the program manager(s) outlining how a contract should be monitored after execution. |
| contract monitoring report (CMR) | A report periodically completed by the program managers based on the contract category level to evaluate vendor performance. |
| Control Objectives for Information and Related Technology (COBIT) | A framework, control objectives, and audit guidelines published by ISACA and the IT Governance Institute as a generally applicable and accepted standard for good practices for controls over IT. |
| CPS | Central Procurement Services. |
| debarment | The removal of a vendor from bidder lists and from consideration for award of State or federal contracts. |
| DTMB | Department of Technology, Management, and Budget. |
| effectiveness | Success in achieving mission and goals. |
| efficiency | Achieving the most outputs and the most outcomes practical with the minimum amount of resources. |
| EPMO | Enterprise Portfolio Management Office. |
| Governmental Accounting Standards Board (GASB) | An arm of the Financial Accounting Foundation established to promulgate standards of financial accounting and reporting with respect to activities and transactions of state and local governmental entities. |

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| independent verification and validation (IV&V) | A process in which a neutral third party reviews a product, typically software, to ensure it is built according to defined requirements and fulfills the intended purpose. |
| internal control | The plan, policies, methods, and procedures adopted by management to meet its mission, strategic plan, 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. |
| IT project | A temporary endeavor undertaken to create a unique IT product, IT capability, or IT service. |
| Joint Evaluation Committee (JEC) | Group of end users from key agencies and subject matter experts who assist in developing the vendor award recommendation for a contract. |
| material condition | A matter, in the auditor's judgment, which 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. |
| MCL | <i>Michigan Compiled Laws.</i> |
| MDHHS | Michigan Department of Health and Human Services. |
| MPPM | Michigan Procurement Policy Manual. |
| observation | A commentary highlighting certain details or events which may be of interest to users of the report. An observation may not include all of the attributes (condition, effect, criteria, cause, and recommendation) presented in an audit finding. |
| OIAS | Office of Internal Audit Services. |

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| PE | performance evaluation. |
| PE document | Vendor performance evaluation document processed in SIGMA. |
| performance audit | An audit which 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. |
| PMP | project management plan. |
| procurement executive | Senior-level, agency-purchasing-employee accountable to the department or agency management and the State's chief procurement officer for procurement matters to support the procurement needs and requirements of the department or agency and the State. Other responsibilities include the recruitment, selection, and training of department or agency personnel performing procurement functions. |
| reportable condition | A matter, in the auditor's judgment, less severe than a material condition and falls within any of the following categories: a deficiency in internal control; noncompliance with provisions of laws, regulations, contracts, or grant agreements; opportunities to improve programs and operations; or fraud. |
| SBO | State Budget Office. |
| solicitation manager | The DTMB individual responsible for leading and facilitating all aspects of the solicitation process through contract award, including leading the JEC and serving as the point of contact for potential vendors. |
| Statewide Integrated Governmental Management Applications (SIGMA) | The State's enterprise resource planning business process and software implementation suite supporting budgeting, accounting, purchasing, human resource management, and other financial management activities. |
| TM | termination. |
| TM document | Termination document processed in SIGMA. |



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