

LBA Performance Audit Report Summary:

Service Contracting – March 2009

This audit addresses the efficiency and effectiveness of State service contracting practices. The audit period includes State fiscal years 2006 and 2007. We focused on determining which State agencies procure services and how agencies with the highest service contract-related encumbrances procure them, how the State controls agency service procurement, and how State service procurement practices compare to best practice. While the recommendations in many observations focus on the Department of Administrative Services (DAS), this audit examined the statewide service procurement system and most of our recommendations are contingent upon significant legislative changes to provide the DAS needed authority.

The majority of service contracting activity is decentralized with no one agency responsible for oversight, data collection, or internal audit, thereby compromising management control. According to G&C minutes, during the audit period the G&C approved 1,744 service contracts with a total value over \$926 million and approved 711 amendments to service contracts totaling nearly \$129 million for the ten agencies with the highest service contract-related encumbrances.

Results In Brief

Effective procurement can reduce the cost of government, inspire public confidence, and improve service quality. Management controls can provide reasonable assurance operations are effective and efficient, financial reporting is reliable, and entities comply with applicable laws and regulations. Our audit of service contracting practices found areas within each aspect of management control warranting improvement.

Best practice calls for using competitive procurement, centralized oversight, and technology to maximize procurement process efficiency and effectiveness. We found the State's service procurement process is decentralized, has no overarching statute or clear statewide requirements for full and open competition, and relies on fragmented, outdated technology. The lack of training and procurement-focused personnel in the State and outdated and incomplete policies and procedures may prevent the State from maximizing efficiency and effectiveness. Further, because service contracting is decentralized and the State lacks standard contracting practices, agencies act independently of, and differently from, each other. Our review of service contracting found duplication of effort and other inefficiencies. Service procurement-related thresholds are dispersed among statute, rules, and policies and procedures, and approval thresholds are lower than best practice suggests. Additionally, State practice does not align with best practice regarding needs identification, solicitation tools, public notice, award processes, vendor processes, insurance and bonding requirements, dispute resolution, contract administration, and technology.

Established review mechanisms for service contracts do not provide sufficient control. Though single-agency service contracts are reviewed by the DAS (Budget Division, Bureau of Accounts,

Division of Personnel) and the Department of Justice (DOJ) Civil, Transportation, and Environmental bureaus, neither of these reviews are substantive. Substantive reviews are typically the responsibility of contracting agencies. Additionally, there is no entity in the State responsible for reviewing the broader service procurement system, although G&C review and approval is required for personal service contracts of \$2,500 or more and other contracts of \$5,000 or more. While providing some centralized oversight, the level of review, inconsistency in agency processes, and current thresholds may limit efficiency and effectiveness.

Our audit presents 26 observations addressing areas where centralization and improved controls could facilitate more effective and efficient service procurement. Twenty-three of these recommendations may require legislative action. Our recommendations include the State establish: a single procurement statute; a central procurement office authorized to delegate service contracting authority to agencies with robust management control structures; service contracting administrative rules, policies, and procedures; formal procurement training for all State employees involved in service contracting; a policy board to create and regularly update contracting policy; user groups to offer feedback on the process; cross-functional contract teams; standardized forms and templates; and a process for substantive review of individual contracts by DAS or DOJ, as well as review and audit of the procurement system.