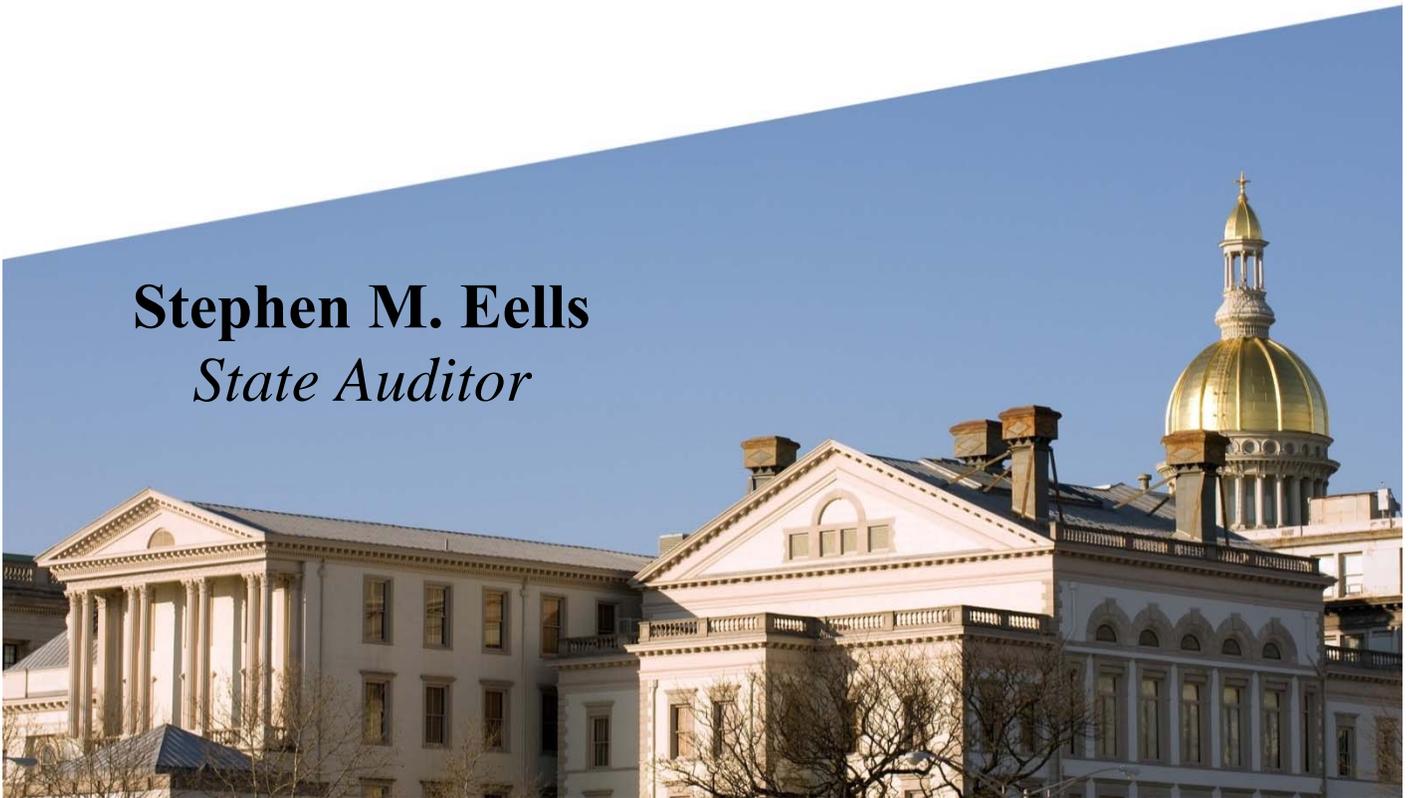


New Jersey Legislature
★ *Office of* LEGISLATIVE SERVICES ★
OFFICE OF THE STATE AUDITOR

Department of the Treasury
Division of Purchase and Property
Procurement of Professional Services Contracts

July 1, 2016 to September 30, 2018

Stephen M. Eells
State Auditor



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The Honorable Stephen M. Sweeney
President of the Senate

The Honorable Craig J. Coughlin
Speaker of the General Assembly

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Office of Legislative Services

Enclosed is our report on the audit of the Department of the Treasury, Division of Purchase and Property, Procurement of Professional Services Contracts for the period of July 1, 2016 to September 30, 2018. If you would like a personal briefing, please call me at (609) 847-3470.

A handwritten signature in dark ink, appearing to read "Stephen M. Eells".

Stephen M. Eells
State Auditor
January 16, 2019

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Scope

We have completed an audit of the Department of the Treasury, Division of Purchase and Property, Procurement of Professional Services Contracts for the period July 1, 2016 through September 30, 2018. Our audit included financial activities related to contracts accounted for in the state's accounting systems. Our audit did not include third-party contracts or construction-related services contracted by the Division of Property Management and Construction or the Department of Transportation. In addition, our audit did not include the following professional services contracts recently audited by our office in the following audit reports; the [Department of the Treasury, Division of Purchase and Property, Temporary Staffing Services Contract](#) issued on February 28, 2017 and the [Department of Education, Administration](#) issued on December 20, 2016.

Expenditures for the 235 contracts in professional services-related accounts included in the testing period of July 1, 2016 through June 13, 2018 were \$670 million. Expenditures for the 55 additional contracts using waivers of advertising accounted for in professional services-related accounts, for the same period, were \$62 million.

The Department of the Treasury, Division of Purchase and Property (division) is responsible for administering a centralized statewide procurement system and the setting of procurement standards and specifications. Professional services are generally defined as private sector skills acquired by the state for a fee under contract or agreement that defines an end product or service to be delivered. Professional services also refers to consulting advisory services, which typically result in an analysis and recommendation for operating improvement.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the state's contracts and were reasonable. We verified compliance with laws and regulations, and the overall effectiveness of the contracting process. We also determined whether contracts were awarded properly based on established regulations and procedures.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section I, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

In preparation for our testing, we studied legislation, the administrative code, and circulars

promulgated by the Department of the Treasury. Provisions we considered significant were documented, and compliance with those requirements were verified by interview, observation, and through our testing of financial transactions. We interviewed agency personnel to obtain an understanding of the contracts and the internal controls.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions on our audit objectives as well as internal controls and compliance. Sample populations were sorted and transactions were judgmentally selected for testing.

Conclusions

We found the financial transactions included in our testing were related to the division's programs and were reasonable. We found general compliance with laws and regulations and an overall effective contracting process. We also found contracts were awarded properly based on established regulations and procedures. In making these determinations, we noted certain internal control weaknesses and matters of compliance with a state circular that merit management's attention.

State Contract Managers

State agencies were not in compliance with Treasury's circular.

Pursuant to N.J.S.A. 52:34-10.7, "the state agency using the contract shall designate the State Contract Manager for that contract and inform the Director of the Division of Purchase and Property of its designation, except that the director may designate the State Contract Manager when the director deems necessary." Additionally, Treasury Circular 14-08-DPP outlines the State Contract Manager responsibilities. The circular states that all State Contract Managers must pass an online test offered through the State Learning Management System (LMS) training module. The circular also states, "the State Contract Manager must file a biannual report to the Division of Purchase and Property identifying overall project status, schedule adherence or slippage, budget adherence or overage, and any other contract performance or fulfillment issues" where the contract's estimated value exceeds \$1.0 million. The first report is to be filed with the division's Contract Compliance and Audit Unit (CCAU) six months after the contract start date, and an updated report is due every six months thereafter for the duration of the contract.

We sampled seven professional services contracts and seven contracts procured with waivers of advertising totaling \$326.5 million and \$26.2 million in expenditures, respectively. The expenditures were for the period of July 1, 2016 to June 13, 2018.

We interviewed State Contract Managers for 14 professional services contracts and found 7 were not trained or did not complete the online LMS test. Of those seven who were not trained or did not take the online LMS test, three were the original designated State Contract Managers. We also found 4 of 5 designated State Contract Managers, who were subsequently replaced, were not trained or did not complete the online LMS test. Four of the 14 State Contract Managers we sampled were unfamiliar with the circular, and in one instance the State Contract Manager was not aware he was designated as the State Contract Manager. Untrained or improperly trained State Contract Managers could lead to the mismanagement or ineffectiveness of contracts. We also found in 9 of 11 contracts requiring the submission of a biannual report, the agency did not file one with the division. Biannual reports not filed timely could inhibit the division from effectively monitoring the contracts, and the state could be at increased risk of improper payments and deliverables not being met. Without proper knowledge of and regard for the circular, State Contract Managers will have difficulty complying with its requirements.

Recommendation

The division's CCAU should continue to annually request updated State Contract Manager information from state agencies thereby making them aware of the circular. The division can then set up online LMS training as necessary. The division should instruct all state agencies to notify the CCAU when any new State Contract Managers are designated. The division should notify state agencies when biannual reports have not been received and require their submission.





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SHEILA Y. OLIVER
Lt. Governor

ELIZABETH MAHER MUOIO
State Treasurer

January 8, 2019

Mr. John J. Termyna
Assistant State Auditor
Office of Legal Services
Office of the State Auditor
125 South Warren Street
PO Box 067
Trenton, New Jersey 08625-0067

Dear Mr. Termyna:

This letter is in response to your correspondence dated November 30, 2018 regarding the Office of Legislative Services audit report of the Department of the Treasury, Division of Purchase and Property, Procurement of Professional Services Contracts. Below you will find the Department of the Treasury's response to your recommendation.

OLS Recommendation:

The division's CCAU should continue to annually request updated State Contract Manager information from state agencies thereby making them aware of the circular. The division can then set up online LMS training as necessary. The division should instruct all state agencies to notify the CCAU when any new State Contract Managers are designated. The division should notify state agencies when biannual reports have not been received and require their submission.

Treasury Response:

The CCAU will continue to send, at minimum, an annual email to all agency fiscal managers making them aware of the State Contract Manager (SCM) Circular, and requesting notification of any SCM changes, or requests for training. If training is requested, the CCAU will schedule the individual for the training in the LMS system. The CCAU email will also inform the fiscal managers that the CCAU must be notified of any changes to the SCM in a timely manner. The CCAU will then notify the DPP Procurement Specialist so that all SCM contact information can be updated in the NJSTART Procurement System. Finally, the CCAU will maintain a record of required biannual reports and contact the SCM for submission of all overdue reports.

Sincerely,

A handwritten signature in blue ink, appearing to read "Elizabeth Maher Muoio".

Elizabeth Maher Muoio
State Treasurer