



New Jersey Legislature
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OFFICE OF THE STATE AUDITOR

Department of the Treasury
Division of Purchase and Property
Procurement of Information Technology Contracts

July 1, 2018 to April 30, 2020



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NEW JERSEY STATE LEGISLATURE
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OFFICE OF THE
STATE AUDITOR
609-847-3470
Fax 609-633-0834

Vacant
State Auditor

David J. Kaschak
Assistant State Auditor

Thomas Troutman
Assistant State Auditor

OFFICE OF THE STATE AUDITOR
125 SOUTH WARREN ST. • P.O. BOX 067 • TRENTON, NJ 08625-0067
www.njleg.state.nj.us

The Honorable Philip D. Murphy
Governor of New Jersey

The Honorable Stephen M. Sweeney
President of the Senate

The Honorable Craig J. Coughlin
Speaker of the General Assembly

Ms. Peri A. Horowitz
Executive Director
Office of Legislative Services

Enclosed is our report on the audit of the Department of the Treasury, Division of Purchase and Property, Procurement of Information Technology Contracts for the period of July 1, 2018 to April 30, 2020. If you would like a personal briefing, please call (609) 847-3470.

Handwritten signature of David J. Kaschak in black ink.

David J. Kaschak
Assistant State Auditor
September 23, 2020

Handwritten signature of Thomas Troutman in black ink.

Thomas Troutman
Assistant State Auditor
September 23, 2020

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Scope

We have completed an audit of the Department of the Treasury, Division of Purchase and Property (division), Procurement of Information Technology (IT) Contracts for the period July 1, 2018 to April 30, 2020. The division's primary responsibility is to procure, in a timely and effective manner, contracts for the goods and services necessary for the daily operation of state government. It serves as the state's central procurement agency and is responsible for procurements valued at about \$2.0 billion annually.

Our audit focused on the division's procurement activities related to IT hardware, software, and IT-related services contracts of all funds accounted for in the state's accounting systems. This includes, but is not limited to, contracts for the following: computers and laptops; communication devices; data and voice lines; hosting services; web-based applications; cloud computing; protection plans; and other services or equipment related to these items. These contracts can be state-wide contracts, which are utilized by various state agencies, or agency-specific contracts, which are utilized by a single state agency. All goods and services must be procured, to the extent feasible, through publicly advertised bidding. Waivers of Advertising are granted under certain statutorily defined circumstances, including public exigency or the services to be performed are of a technical and professional nature.

During our audit period, there were 134 active IT contracts with expenditures totaling \$379,200,182 and \$371,130,817 for fiscal years 2019 and 2020 (through April 13), respectively. During our audit period, 64 contracts were re-procured prior to their expiration, 63 were in the re-procurement process, and 7 became inactive. During the same period, there were 59 contracts approved through Waivers of Advertising with expenditures totaling \$66,755,256 and \$105,809,958.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the state's contracts, were reasonable, and were recorded properly in the accounting systems. Additional objectives were to determine compliance with laws and regulations, and whether contracts were awarded properly and timely.

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

We assessed the reliability of contract data by performing electronic testing, reviewing existing information about the data and the system that produced them, and interviewing division officials knowledgeable about the data. We determined the data were sufficiently reliable for the purposes of this report.

A nonstatistical sampling approach was used. Our samples 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 that the financial transactions included in our testing were related to the state's contracts, were reasonable, and were recorded properly in the accounting systems. We also found general compliance with laws and regulations and contracts being awarded properly. In making these determinations, we noted certain weaknesses meriting management's attention regarding the timely procurement of contracts and non-compliance with a state circular. We also made an observation regarding a possible opportunity for revenue enhancement.

Timely Procurement of Information Technology Contracts

The division can improve its monitoring of the procurement process by establishing benchmarks in order to achieve its primary mission.

The division did not procure some information technology contracts in a timely manner. The division's primary mission, established in the administrative code, is to procure, in a timely and effective manner, contracts for goods and services necessary for the daily operation of state government. However, the division has not established a clear definition of what it considers timely or established performance benchmarks regarding procurement timelines. According to division management, timelines vary with each procurement. In addition, processing benchmarks are not established for each individual contract, or for contracts based on type or any other criterion.

There are twenty possible steps in the procurement process, beginning with central intake of the request initiating the procurement process and ending with contract award. Not all steps are applicable to all contracts, and four steps are completed by parties outside of the division. After the procurement initiation, the using agency and the division agree in writing on the expected dates of completion for each of the remaining steps in the process, and these dates are entered into a database for tracking. The database was implemented approximately in the first quarter of calendar year 2018.

We obtained a report from the database that included the expected and actual dates of completion for each step in the procurement process for 54 of the 134 awarded contracts in our population. The report included an additional 18 contracts that were not part of our population because there were no expenditures during our audit period. Division management stated this report is used to monitor the overall progress and duration of each step in the procurement process in an effort to reduce processing times. Throughout the procurement process, a procurement specialist is to update the database with the date of completion for each procurement step. However, we reviewed the data for the 41 contracts that had been awarded after completing the procurement process and found the data incomplete. Of the 328 possible entries for the steps applicable to each contract, 62 of the expected dates were blank (19 percent), while 138 of the actual dates were blank (42 percent).

The division's report could be a useful tool for management to monitor the progress of an award and evaluate the procurement process if each field is updated timely. However, its usefulness is limited by its incompleteness. In order for management to evaluate the timeliness of a particular step in the procurement process, either overall or for a specific contract, both an expected date and an actual date must be tracked. We found this occurred only 56 percent of the time for the 41 contracts we reviewed. Additionally, in order to evaluate the overall timeliness of each contract, there would have to be an actual central intake date and actual contract award date entered. However, although there was an actual contract award date in all but one instance, an actual central intake date was entered for only 32 percent of the reviewed contracts.

We analyzed the 56 percent of instances of contract steps having both expected and actual dates entered to identify whether the steps were being completed by their expected date. We found that, on average, each step took 76 days longer than expected, with averages ranging from on time to 210 days longer than expected. The steps completed within the division averaged 63 days longer than expected, while the average was 120 days longer for those steps performed by external parties. Tracking both expected and actual dates for all steps would allow management to identify potential problem areas and ascertain whether additional attention is needed on those steps performed by external parties.

We further analyzed the data for all 72 contracts in the division's report to measure the overall duration of the procurement process. We determined there was an average of 496 days from central intake to contract award, ranging from 57 to 1,619 days. Each step in the 20-step process took an average of 33 days, with the most time between sequential steps being 470 days. There was significant variation among the steps in the process. For example, the average number of days between the first two steps in the process was 102, ranging from 0 to 399. The average number of days between steps 16 and 17 was 3, ranging from 0 to 17. The following table illustrates the total duration of the procurement process for these contracts from central intake to contract award.

Number of Days	Number of Contracts	FY 18-20 Expenditures	Estimated Maximum Contract Cost
<100	3	\$ 1,949,375	\$ 24,900,000
101-200	4	355,474	35,275,000
201-300	7	1,134,799	7,300,000
301-400	6	2,359,765	106,272,574
401-500	15	156,560,822	275,750,000
501-600	10	17,941,753	326,300,000
601-700	11	26,770,919	106,841,246
701-800	3	85,051,752	220,565,000
801-900	11	47,890,202	100,100,000
901-1,600	1	-	500,000
> 1,601	1	255,981	12,500,000
Total	72	\$ 340,270,842	\$ 1,216,303,820

Recommendation

The division should determine what it considers timely by establishing benchmarks for procurement processing times. It should track each step in the process and use the established benchmarks to help determine the timeliness of each procurement, as well as the effectiveness of the overall procurement process. If management is going to continue to use its timeline report, it should also ensure the report is complete, includes actual dates, and is updated timely.



Biannual Reports

State Contract Managers are not filing required biannual reports.

Treasury Circular No. 14-08-DPP states that a State Contract Manager (SCM) for an agency-specific contract must file a biannual report with the division “identifying overall project status, schedule adherence or slippage, budget adherence or overage, and any other contract performance or fulfillment issues” for contracts where the 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, with an updated report due every six months thereafter for the duration of the contract. However, we found that SCMs for IT hardware, software, and other related services contracts are not submitting the required reports. Failure to submit the biannual reports could make it difficult for the division to determine if the contract deliverables have been met and if the expenditures to date have exceeded the anticipated amount.

The CCAU maintains a database that allows it to track the receipt of biannual reports from SCMs. When a contract in the database requires a biannual report, the CCAU emails the SCM and follows up with the SCM if the report is not received. Of the 134 contracts related to IT hardware, software, and other related services, there were 120 with an estimated value exceeding \$1.0 million, three with an estimated value less than \$1.0 million, and 11 that we could not determine the estimated value. Of the 120 contracts, 40 were agency-specific contracts that would require the submission of a biannual report. However, 29 of the 40 (73 percent) were not in the CCAU database and had no biannual report filed. The expenditures for these 29 contracts totaled \$177.1 million. According to the CCAU, it does not review contracts related to hardware, software, and cloud solutions. However, the circular does not include any exceptions for those types of contracts.

Recommendation

The CCAU should review all information technology contracts, keeping track of all those that require a biannual report. It should continue its efforts to enforce the requirements of the circular regarding the submission of biannual reports, including for contracts related to hardware, software, and cloud solutions. If it finds that an SCM is unresponsive, the CCAU should replace that SCM.



State Contract Manager Training

State Contract Managers are not completing required training.

According to Treasury Circular No. 14-08-DPP, all State Contract Managers are to have formal contract management training in state procurement law, policy, procedure, and efficient and effective procurement practices by completing an online training course. In addition, they must

pass an online exam offered through the state’s Learning Management System training module administered by the CCAU. According to the SCM training course instructions, the training takes approximately two to three hours to complete. The training is meant to promote effective and efficient contract management to ensure the state receives all goods and services pursuant to a contract without overpaying. However, we found not all active SCMs have completed the training and passed the required exam. Furthermore, there is no required timeframe for SCMs to enroll in the training and pass the exam, or any repercussions for those who do not do so.

The CCAU maintains a database of all active SCMs. It is updated annually based on a survey sent to each user agency’s procurement officer, as well as periodically based on agency notifications or requests. The CCAU also receives quarterly reports from its NJSTART coordinator listing all new contracts and the assigned SCMs. The CCAU database also includes the date each SCM was assigned training and their current status.

As of February 20, 2020, there were 55 active SCMs for the 134 contracts in our scope, 28 of whom had completed the training and passed the exam, as required. Five SCMs had not started the training, while two had started the training but not yet passed the exam. We also found 20 SCMs who were not in the CCAU’s database. For those who completed the training and passed the exam, it took an average of 64 days to pass the exam after registration, with the most being 465 days. For those who had not even started the training, there was one individual for whom it had been 1,215 days since registration. For the remaining individuals, it was an average of 25 days. For the two individuals who started the training but had not yet passed the exam, it had been 1,215 days since registration for one and 365 days for the other.

According to our audit report on the Procurement of Professional Services Contracts issued on January 16, 2019, it was also noted that 7 of 14 SCMs were not trained or did not complete the online test. In order to determine whether this was a systemic issue, we reviewed all 600 active SCMs included in CCAU’s database, which includes the 55 SCMs discussed above. According to the database, only 388 active SCMs had completed the training and passed the exam, as required. Another 83 started the training but had not yet passed the exam, and 127 had not even started the training. Two SCMs were waived from the requirements. The following table illustrates the average and maximum length of time for all active SCMs who have been assigned training, as well as their completion status.

Completion Status	Count of SCMs	Average Days from Registration	Most Days from Registration
Completed	388	150	2,990
In Progress	83	2,066	3,658
Not Attempted	127	1,254	3,635
Waived	2	N/A	N/A

Based on this information, the issue appears to be systemic. It may be that some individuals in the database are no longer acting as a contract’s SCM and the CCAU was not properly notified.

Recommendation

The CCAU should establish a required timeframe for SCMs to complete the training and pass the exam. If an SCM fails to do so in the required timeframe, a new SCM should be designated for that contract. In addition, the CCAU should continue to update its database regularly to ensure all active SCMs are identified on their database. If it finds individuals in the database who are no longer acting as a contract's SCM, they should be identified as such or removed.



Observation

Blanket Contract for Computer Equipment, Peripherals, and Related Services

The division takes part in a national cooperative purchasing program between the Western States Contract Alliance, the National Association of State Procurement Officials, the State of Minnesota, and 33 other participating states. Computer equipment, peripherals, and related services purchased under this contract may include desktops, laptops, tablets, servers, storage, and ruggedized devices. As part of this contract, vendors are required to submit quarterly sales reports identifying all products sold. For calendar year 2019, we reviewed quarterly sales reports submitted by four vendors in our population and noted approximately \$148.9 million in total sales.

According to Section 2 of the cooperative agreement, vendors shall pay an administrative fee equal to one-tenth of one percent following the end of each calendar quarter, based on the sales of products and services. The agreement allows states to require an additional fee be paid directly to the state based on purchases made by entities within the state. The requirement for this fee would be documented in the participating addendums (PA) for each state. A PA is a written statement of agreement signed by vendors and each participating state that clarifies the operation of the contract and may add other state specific language or other requirements. According to the model PA included in the cooperative agreement, the first item to consider for inclusion in a PA is a state administrative fee.

We reviewed PAs for seven states, including New Jersey. While four states require the vendors to submit an additional one percent administrative fee based on total sales during each quarter, the PA for New Jersey did not require an additional administrative fee to be paid to the state. However, New Jersey's PA does allow the director of the division to amend the contract if it is determined by the director to be in the best interest of the state.

N.J.A.C. 17:12-1.5 requires the division's director to make an assessment from each contract proposal in order to maintain the state's procurement system at a level to meet common industry standards of efficiency. According to the division, user agencies of state contracts pay an assessment of 0.25 percent of total purchases, including users of the aforementioned blanket

contract. Based on the \$148.9 million in total sales noted above, user agencies should have paid \$372,250 in assessments for purchases made under the blanket contract during calendar year 2019. However, during that same period, an administrative fee of one percent would have enhanced revenue by \$1.48 million, assuming sales had remained unchanged.

We recognize the division may not want to utilize both methods for the same contract, and charging an administrative fee to vendors may negatively impact pricing structures and other competitive measures negotiated within the contract. However, utilizing an administrative fee charged to vendors may be beneficial in certain instances.





State of New Jersey

DEPARTMENT OF THE TREASURY
DIVISION OF PURCHASE AND PROPERTY
PROCUREMENT BUREAU
33 WEST STATE STREET
P. O. BOX 230
TRENTON, NEW JERSEY 08625-0230
<https://www.njstart.gov>

PHILIP D. MURPHY
Governor

ELIZABETH MAHER MUOIO
State Treasurer

SHEILA Y. OLIVER
Lt. Governor

MAURICE A. GRIFFIN
Acting Director

September 16, 2020

Division of Purchase and Property Response to Procurement of IT Services Audit by OLS

The division can improve its monitoring of the procurement process by establishing benchmarks in order to achieve its primary mission.

OLS Recommendation:

The division should determine what it considers timely by establishing benchmarks for procurement processing times. It should track each step in the process and use the established benchmarks to help determine the timeliness of each procurement, as well as the effectiveness of the overall procurement process. If management is going to continue to use its timeline report, it should also ensure the report is complete, includes actual dates, and is updated timely.

DPP Response:

The Division of Purchase and Property is committed to improving all aspects of the procurement process for our client agencies and vendor community. In recognition of the need for an accurate measurement tool, the procurement database was created in 2018 to track the projected length of time for each procurement phase in order to establish a baseline procurement timeline. This baseline would then be compared to actual procurement completion times to determine areas of significant variances. Ideally, this process would allow management to analyze areas with seemingly inaccurate projections and re-adjust (if necessary) resource allocation, training guidelines, and task management.

The procurement process in the State is highly complex and regulated, with many contributors and outside obstacles which may create the perception that procurements are “not completed in a timely fashion.” Each procurement is different, making baseline setting problematic due to a multitude of factors including specification details, large bidding population, priority escalation or de-escalation, and resource limitations both internal and external.

The challenge of accuracy and universal use became apparent in 2019 as the database software functionality proved unstable. The Business Analysis Unit of the Division was given ownership to rectify the instability. Over the past several months, and prior to the receipt of the State Auditor’s report, the Unit developed and implemented a new data feed solution that is easier to use, allowing procurement specialists to fulfill the requirements of procurement tracking. At the time of this report, the database is fully up to date with all procurement projects and the Division is utilizing this data benchmarking tool in its intended manner.

Biannual Reports

OLS Recommendation:

The CCAU should review all information technology contracts, keeping track of all those that require a biannual report. It should continue its efforts to enforce the requirements of the circular regarding the submission of biannual reports, including for contracts related to hardware, software, and cloud solutions. If it finds that an SCM is unresponsive, the CCAU should replace that SCM.

DPP Response:

The CCAU will continue to monitor its Agency State Contract Manager (SCM) records for required biannual reports by contract type and amount. CCAU is in the process of updating the circular and clarifying the required biannual report language to eliminate any ambiguity.

State Contract Manager Training

OLS Recommendation:

The CCAU should establish a required timeframe for SCMs to complete the training and pass the exam. If an SCM fails to do so in the required timeframe, a new SCM should be designated for that contract. In addition, the CCAU should continue to update its database regularly to ensure all active SCMs are identified on their database. If it finds individuals in the database who are no longer acting as a contract's SCM, they should be identified as such or removed.

DPP Response:

The CCAU will continue to send, at minimum, an annual email to all agency fiscal managers making them aware of the Agency State Contract Manager (SCM) Circular, and requesting notification of any of their SCM changes, or requests for training. If training is requested, the CCAU will continue to schedule the Agency individual for the training in the LMS system and set applicable timeframes. The CCAU will remind the fiscal managers that the CCAU must be notified of any changes to the SCM in a timely manner. The CCAU will also continue to notify the DPP Procurement Specialist so that all SCM contact information can be updated in the NJSTART Procurement System. Finally, the CCAU will address the current status of the SCMs to determine if they are active or should be removed on the current reports.

In addition, the Division also developed a supplier engagement strategy to be piloted in 2020. This roll-out has been on hold due to the COVID-19 response, but it is slated to commence in FY '21. This strategy includes increased expectations on Agency SCMs in the area of supplier partnership development and performance metrics. The Division will partner with the Agency and review these metrics on a quarterly basis to drive continuous improvement of vendor performance.

Blanket Contract for Computer Equipment, Peripherals, and Related Services (Observation)

DPP Response to Observation:

As stated in the Observation, the Division had historically determined that the assessment rather than a vendor fee structure was the most applicable way to offset procurement expenses. However the Division does continue to look at both methodologies for their potential use. In this specific contract the Division did not want to utilize both methods for the same contract, and charging an additional fee, beyond the cooperative fee to vendors, seemed excessive and unnecessary and would ultimately be passed along to the State.



09/18/2020

Gregg Olivera
Deputy Director
Department of the Treasury
Division of Purchase and Property