



# OFFICE OF THE STATE AUDITOR

*Suzanne M. Bump*

**TESTIMONY OF STATE AUDITOR SUZANNE M. BUMP  
BEFORE THE JOINT COMMITTEE ON STATE ADMINISTRATION  
AND REGULATORY OVERSIGHT IN SUPPORT OF HOUSE BILL  
NO. 5 – AN ACT RELATIVE TO VENDOR CONTRACTS**

**MAY 3, 2011**

Good morning Chairman Donnelly, Chairman Kocot, and members of the Committee. My name is Suzanne Bump and I want to thank you for the opportunity to testify today in support of House Bill 5, *An Act Relative to Vendor Contracts*.

Making government work better is a goal I have championed in every public service position I have held. I believe that the public deserves no less than an efficient, effective, accountable and transparent government. As the new State Auditor I am intent upon raising the professional parameters under which we work to protect the taxpayers of the Commonwealth. House Bill 5 would enhance our ability to perform our job as the state's fiscal watchdog.

As you know, the Commonwealth contracts with vendors and awards grants to provide vital public services. In fact, a substantial portion of the services funded by government are not actually provided by state employees, but by private organizations. Because vendors and grantees are paid with taxpayers' money, these contracts and grants are subject to review by the Office of the State Auditor (OSA). The private organizations' accounts, books, records, and activities are open to OSA inspection to the extent that it is necessary to determine compliance.

Vendors and grantees do not always provide all services themselves and frequently enter into subcontract with third-party entities. The law however does not specifically provide for review of these subcontracts. House Bill No.5 would clarify that these subcontracts *are* subject to review by the State Auditor, *when a contract is funded by the taxpayers.*

Let me provide a couple of examples of why it is in the taxpayers' interest to provide the OSA the authority to review these subcontracts. A 2004 audit of a major health care vendor (Spectrum Health Systems, Inc.), revealed that over \$10 million in excessive management fees were paid to a *third-party* vendor (CiviGenics), which was actually their management company, through a series of noncompetitive contracts. During the audit, the vendor was unable to produce these contracts, and because the Commonwealth *lacked a contractual relationship* with the third-party vendor, the subcontractor could and did refuse to allow the Auditor's Office to review the

contracts these parties had entered into. We couldn't follow the money, as you would expect we should have been able to do. Eventually, the case was referred to the Attorney General's Office which subsequently settled the case for over \$7.5 million.

Currently, we are auditing two Special Education collaboratives. In both cases there are related third parties that have denied us access to documents even though the third parties are receiving state monies through subcontracts. We have run into this problem at a charter school and other state vendors.

Passage of this bill would close a loophole that unnecessarily places taxpayers' money at risk of fraud, waste, and abuse. Thank you for this opportunity to provide testimony on this important piece of legislation, which, I believe, will help us all in our goal of making government work better. Please contact me if I may provide any further information or if you have any questions.