

REPORT HIGHLIGHTS
PERFORMANCE AUDIT

Department should further align its procurement strategic planning with model planning practices

Our Conclusion

The Arizona Department of Administration (Department) is the State's central procurement authority with responsibility to procure and supervise state purchases of goods and services. Some important elements of a sound state-wide procurement system include a strategic plan, a comprehensive procurement manual, and oversight and management of procurement processes and activities. Although the Department has updated its strategic plan to better focus on improving the state procurement system, it needs to strengthen its procurement strategic planning by conducting an assessment of the state-wide procurement system, developing specific action steps to implement the plan, and developing and monitoring sufficient performance measures. The Department also needs to develop a comprehensive procurement manual to guide the solicitation and administration of state contracts. Finally, the Department should further strengthen its oversight of state agencies' procurements by implementing a risk-based compliance review approach and improving its compliance review checklist and policy.

Procurement strategic planning supports a sound procurement system—The Department is the State's central procurement authority with responsibility to procure and supervise state purchases of goods and services. Literature and best practices indicate that strategic planning is a critical step in managing and improving the performance of a procurement system and creates a more unified approach to procurements. Establishing a cohesive and comprehensive procurement approach is particularly important for Arizona's decentralized procurement system, which includes 95 state agencies with delegated procurement authority that allows these agencies to procure goods and services up to their authorized purchasing amount without the Department's prior approval, more than 5,560 active department and state agency contracts as of July 1, 2014, and approximately \$9.8 billion in expenditures for goods and services in fiscal year 2014.

Department should further improve its procurement strategic plan—Although the Department's fiscal years 2016 through 2020 draft strategic plan includes procurement-related objectives that align with model planning practices, it should further improve its procurement strategic planning by conducting a comprehensive assessment of the state-wide procurement system. According to the Governor's Office of Strategic Planning and Budgeting, the data gathered during this assessment becomes the basis for all other phases of the strategic planning process and will often lead to the identification of strategic issues. The Department should also conduct an overall analysis of state spending on the procurement of goods and services. Literature indicates such an analysis would identify opportunities to leverage buying power, reduce costs, improve operations, and provide better management and oversight of vendors. Finally, the Department should develop and monitor specific action steps and sufficient performance measures to assess the achievement of its procurement-related strategic issues and objectives and report the results to internal and external stakeholders.

Recommendations

The Department should:

- Conduct a comprehensive assessment and spend analysis of the state-wide procurement system; and
- Develop and monitor action steps and performance measures and report the results to internal and external stakeholders.

Department should develop and implement a comprehensive procurement manual

Department lacks a comprehensive procurement manual—Best practices indicate that a comprehensive procurement policy and procedure manual is critical for the operation of an effective procurement system because it helps to ensure the appropriate and consistent application of procurement laws and regulations. Although we previously recommended that the Department develop and implement a compre-



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hensive procurement manual, it has yet to do so. Instead, the Department has published some individual procurement policies and procedures, but these have gaps and do not provide staff with detailed, practical instructions on how to conduct key procurement processes appropriately and consistently.

Lack of guidance has contributed to poor contract administration—Effective contract administration is critical, but historically has been a weakness of the State’s procurement system. The Department’s sole policy on contract administration lacks detailed instruction and the Department does not require state agencies to implement contract administration policies and procedures. The lack of procedures had contributed to contract administration problems in some state agencies. For example, the Arizona Department of Economic Security spent nearly \$19 million on performance-based contracts for foster care recruitment-related services in fiscal year 2012, but lacked guidance for effectively monitoring critical elements of these contracts and could not ensure that vendors met all performance expectations.

Recommendation

The Department should develop and implement a comprehensive procurement policy and procedure manual that includes a contract administration section.

Department should further strengthen its oversight of state agency procurements

Department implemented a procurement compliance program in July 2014—Although oversight of state procurement activities is a critical component of an effective procurement system, the Department has historically provided little oversight of state agencies’ procurements. However, in July 2014, it took steps to implement a compliance program to assess and oversee state agencies’ compliance with procurement laws and regulations. Through this program, agencies with unlimited delegated procurement authority will receive an on-site review once every 4 years, and agencies delegated \$100,000 procurement authority will complete a self-assessment once every 4 years. Agencies delegated \$10,000 procurement authority will be reviewed on an as-needed basis. To perform these reviews, the Department developed a review checklist and policy, and instituted mechanisms for corrective action and positive recognition based on compliance review results.

Department should take additional steps to strengthen its procurement compliance program—Some elements of the Department’s compliance program do not align with best practices. These practices indicate that compliance reviews should be conducted frequently enough to ensure compliance and should be based on an assessment of agencies’ risk of noncompliance. Therefore, the Department should implement a risk-based approach for overseeing state agencies’ procurements including developing standard criteria for assessing the risk of noncompliance, conducting regular risk assessments of state agencies, and using the results of these assessments to target oversight efforts. Further, the Department should include additional instructions in its review checklist and policy. Finally, although the Department accepts procurement-related questions and concerns from state employees through an anonymous online system, it lacks formal procedures for investigating and resolving information received through this system. The Department’s compliance officer plans to address received questions and concerns on a case-by-case basis, but this raises issues of timeliness, adequacy, and confidentiality.

Recommendations

The Department should:

- Strengthen its procurement compliance program by implementing a risk-based review approach;
- Revise its compliance review checklist and policy; and
- Develop and implement formal policies and procedures to govern its confidential and anonymous reporting system.