

The August 2019 Arizona Department of Health Services performance audit found that the Department did not follow some procurement requirements and paid for some services without ensuring they were provided and contract requirements were met. We made 22 recommendations to the Department, and its status in implementing the recommendations is as follows:

Status of 22 recommendations

Implemented	14
Implemented in a different manner	2
Partially implemented	2
In process	2
Not implemented	2

The Department has implemented, implemented in a different manner, or partially implemented 18 of 22 recommendations, including fully implementing 3 recommendations since our previous followup. Although the Department is in the process of implementing 2 recommendations and has not implemented 2 recommendations, it has made some progress toward implementing these outstanding recommendations. Specifically, consistent with these 4 recommendations, the Department has developed and, in some cases, begun implementing recommended policies, procedures, templates, and tools for monitoring contracts, tracking the completion of contract requirements, and overseeing its programs' compliance with contract monitoring policies. However, the Department reported it started implementing some of these policies and templates in January 2024 after we completed our work, which did not allow us the opportunity to review their implementation. Additionally, we found that for 2 of the recommendations, Department staff did not adhere, or consistently adhere to, or use the contract monitoring policies and/or tools. Based on the Department's progress in implementing all of the recommendations and unless otherwise directed by the Joint Legislative Audit Committee, this report concludes our follow-up work on the Department's efforts to implement the recommendations from the August 2019 performance audit report.

Finding 1: Department did not follow some State procurement requirements for 22 of 25 contracts reviewed

1. The Department should include policies and procedures in its draft procurement manual that address issues identified in this finding to help ensure compliance with the Code and purchasing requirements. The Department's procurement manual should provide policies and procedures that require the following:
 - a. Appropriately procuring professional services, including guidance for how to establish evaluation criteria, under what circumstances it will use a professional services contract, and how to document this procurement, including the statement of work and offer and acceptance of the award. In doing so, the Department should work with its Assistant Attorney General to determine how these contracts may be used to comply with the Code.

Implemented at 30 months

- b. Approving only contract amendments that include requirements considered in the original solicitation and amounts allowed by the Code unless otherwise determined in writing by SPO.

Implemented at 30 months

- c. Justifying limited competition contracts and documenting these efforts and decisions.

Implemented at 30 months

- d. Tracking the completion of each procurement step to ensure all required procurement steps were performed.

Implemented at 30 months

- e. Tracking contract spending and contract expirations to prevent Department staff from spending more than is allowed per the contract type or using expired contracts.

Implemented in a different manner at 30 months—Although not included in its procurement manual, the Department has developed and implemented procedures for tracking contract spending and contract expirations to help ensure Department staff do not spend more than is allowed by a contract or use expired contracts.

- f. Conducting a supervisory review to help ensure the completion of key procurement steps, such as obtaining signed conflict-of-interest statements, informing all Department staff that a solicitation is beginning, and ensuring that both parties sign the contract offer and acceptance of award to finalize the contract.

Implemented at 30 months

- g. Training appropriate staff on State procurement requirements and Department policies and procedures once they have been fully developed.

Implemented at 30 months

- 2. The Department should complete its draft procurement manual and implement it.

Implemented at 30 months

- 3. The Department should modify the procurement checklist it began using during the audit to include guidance for missing procurement requirements, such as procuring professional services and ensuring contract amendments are approved only if they align with requirements in the Code, and implement the use of the checklist, including supervisory review.

Implemented in a different manner at 30 months—Although the Department did not update its procurement checklist to include specific steps related to procuring professional services or amending contracts, the Department has finalized its procurement policies and procedures manual, which includes policies and procedures for procuring professional services. Additionally, the Department has developed contract-administration-specific procedures that outline Procurement Code requirements for contract amendments and the process staff must follow for requesting, receiving approval for, and adopting contract amendments, including time frames and supervisory review requirements.

Finding 2: Department paid for some services without ensuring they were provided and contract requirements were met

- 4. The Department should develop and implement written policies and procedures to direct and guide its contract monitoring. Consistent with best practices, these policies and procedures should specify and/or require:

- a. Program requirements and staff roles and responsibilities for monitoring contracts.

Implementation in process—As of our 30-month followup, the Department had developed and begun implementing a contract administration and monitoring policy that outlined Department program and staff roles and responsibilities for monitoring contracts and required Department programs to develop a contract administration plan for each contract they enter. The Department has also developed a standardized contract administration plan template and system that specifies staff roles and responsibilities for monitoring

contracts and program requirements for monitoring all Department contracts and reported that it began implementing the new template and system in January 2024.

- b. Developing a written contract administration plan outlining monitoring activities for each contract.

Implementation in process—See explanation for Recommendation 4a.

- c. Including specific and measurable contract terms, and reporting requirements in the contracts.

Implemented at 48 months

- d. Taking appropriate action to address noncompliance, such as withholding payment.

Implemented at 48 months—The Department's contract administration and monitoring policy and its procurement manual require program staff to report contract noncompliance concerns to the Department's procurement staff who are required to take steps to resolve the noncompliance. Although our review of a judgmental sample of 3 contracts did not include any instances of noncompliance, our review of a Department-provided example of contractor noncompliance found the Department followed its policy to address the noncompliance.

- e. Developing and using tools and/or methods to effectively track completion of contract requirements, including spending.

Not implemented—As reported in our 30-month followup, the Department has developed tools and methods to track the completion of contract requirements. However, our review of a judgmental sample of 3 contracts found that the Department either did not track the completion of all contract requirements or had not used tools and/or methods to effectively track the completion of contract requirements. For example, 1 contract required the establishment of a Help Desk accessible to the public within specified hours. However, the contract's administration plan did not include a tool or method for tracking the establishment and operation of the Help Desk. Additionally, although the Department developed processes for tracking completion of contract requirements included in the other 2 contracts, Department staff did not use or consistently use these processes to ensure 1 contractor's insurance addressed a specific requirement and the contractor submitted required quarterly reports; and it did not consistently use the tracking tool it established to track the other contractor's spending.

- 5. The Department should develop and implement a centralized process, including written policies and procedures, for overseeing its programs' monitoring efforts to ensure compliance with the contract policies and procedures it developed.

Not implemented—As reported in our 30-month followup, the Department has developed a policy that allows its internal audit unit to conduct risk-based periodic reviews of programs' monitoring efforts to assess compliance with the Department's contract monitoring policies. Although the Department's internal audit unit has conducted reviews of various programs, these reviews have focused on subrecipients' expenditure reports and programs' processes for approving these expenditures for payment and have not included an overall assessment of programs' compliance with Department contract-monitoring policies.

- 6. The Department should develop and implement policy and procedures for working with contractors that will provide guidance on recovering any monies that may have been inappropriately paid, including specifying in what circumstances it will work with its Assistant Attorney General to recover these monies.

Implemented at 30 months

- 7. The Department should continue to implement its newly developed policy for monitoring contracts that receive federal funding to ensure that its programs conduct risk assessments to determine the appropriate level of monitoring to perform for contractors or subrecipients.

Implemented at 30 months

Finding 3: Department’s payment processing does not consistently provide adequate oversight to ensure appropriate use of public monies

8. The Department should continue to develop and implement written payment-processing policies and procedures to better safeguard public monies and prevent payments for unauthorized services, overcharges, and paying for services without ensuring they were received by:

- a. Requiring program staff with the expertise and knowledge about the contract requirements to obtain and review adequate supporting documentation prior to approving invoices for payment. In instances when resources do not permit a review of all supporting documentation, the Department should use a risk-based approach to review the supporting documentation.

Implemented at 30 months

- b. Conducting a risk-based supervisory review of the invoices and supporting documentation that program staff approved.

Partially implemented at 30 months—The Department has developed and implemented a policy requiring its internal audit unit to review Department contracts with subrecipients that receive federal monies for compliance with contract terms and requirements. The Department’s internal audit unit uses a risk-based approach to select contracts for compliance reviews, including reviewing invoices and supporting documentation related to subrecipients’ reimbursement requests that Department staff have approved. However, the Department has not developed policies, procedures, or processes for conducting a supervisory review of invoices and supporting documentation related to other Department contracts and does not plan to do so.

- c. Documenting program staff’s invoice review and approval with a consistent approval method, such as initials, signatures, or another method, to show that they reviewed and approved the invoice and supporting documentation.

Implemented at 30 months

9. The Department should train all appropriate staff on its payment-processing policies and procedures once they are developed.

Implemented at 48 months

10. The Department should ensure that its various programs and program staff adhere to its payment-processing policies and procedures as part of overseeing its programs for compliance with its contract-monitoring policies and procedures as recommended in Finding 2.

Partially implemented at 30 months—As discussed in the explanation for Recommendation 8b, the Department has developed and implemented a policy requiring its internal audit unit to review Department contracts with subrecipients that receive federal monies for compliance with contract terms and requirements. The internal audit unit’s reviews include assessing staff’s adherence to the Department’s payment-processing policies and requiring program staff who did not obtain sufficient documentation prior to payment to obtain more information from the contractor. According to the Department, these reviews should occur prior to the Department making payment. In instances where payment has already been made, the Department will withhold future payments until sufficient documentation is submitted to support any previous payments that have been made. However, the Department has not developed policies, procedures, or processes for reviewing programs’ and program staff’s adherence to its payment-processing policies and procedures for other Department contracts and does not plan to do so.