



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

March 3, 2016

The Honorable John Allen, Chair
Joint Legislative Audit Committee

The Honorable Judy Burges, Vice Chair
Joint Legislative Audit Committee

Dear Representative Allen and Senator Burges:

Our Office has recently completed an initial followup of the Arizona Department of Administration—Arizona State Purchasing Cooperative Program regarding the implementation status of the 19 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in November 2014 (Auditor General Report No. 14-108). As the attached grid indicates:

- 4 have been implemented;
- 12 are in the process of being implemented;
- 1 is not yet applicable; and
- 2 have not been implemented.

Our Office will conduct a 24-month followup with the Arizona Department of Administration on the status of those recommendations that have not yet been fully implemented.

Sincerely,

Dale Chapman, Director
Performance Audit Division

DC:kf
Attachment

cc: Mr. Craig Brown, Director
Arizona Department of Administration

**Arizona Department of Administration—
Arizona State Purchasing Cooperative Program
Auditor General Report No. 14-108
Initial Follow-Up Report**

Recommendation

Status/Additional Explanation

Finding 1: Program fee revenue exceeds program costs and is misapplied

1.1 To ensure its program fee better aligns with its costs to administer the purchasing cooperative program, the Department should implement a structured approach to evaluate its program fee. Specifically, the Department should do the following:

- a. Assess the efficiency of its purchasing cooperative program operations to ensure costs are as low as possible while considering service quality, and document the results of its assessment. As the Department assesses the efficiency of its operations, it should seek to minimize costs where possible.
- b. Develop and implement a method for determining purchasing cooperative program costs, including both direct and indirect costs, and create policies and procedures for using this method.
- c. Establish a cost allocation methodology for tracking and allocating the direct and indirect costs for operating the purchasing cooperative program.
- d. After the method is developed and costs are appropriately tracked, the Department should use the costs to analyze its program fee structure, determine the appropriate program fee to charge, and set it accordingly.

Not implemented

As of November 2015, the Department had not assessed the efficiency of its Arizona State Purchasing Cooperative (Program) operations to ensure costs are as low as possible while considering service quality.

Implemented at 12 months

Implementation in process

The Department contracted for and was provided with a cost allocation methodology for the Program in October 2015. The methodology identified direct and indirect program costs and includes policies and procedures for managing the cost allocation methodology. However, as recommended by the contractor, the Department needs to improve its ability to track and capture data needed to accurately implement the cost allocation methodology. For example, the Department should query data from its financial system in a manner more consistent with cost allocation model inputs and enhance its ability to validate the Program's workload, staff, and financial inputs into the model.

Implementation in process

See explanations for recommendations 1.1b and 1.1c.

Recommendation

Status/Additional Explanation

e. Develop and implement formal fee-setting policies and procedures that require a periodic review of the purchasing cooperative program's costs and fee.

Implementation in process

The Department has developed draft policies and procedures for the Program that include a biannual review of program cost data and an annual review of the anticipated program fee revenue to determine if a fee adjustment is necessary. However, in February 2016, the Department reported that the procurement office has initiated a reevaluation and realignment of its processes and focus with the change in department leadership that occurred in August 2015. This includes reexamining the Program's draft policies and procedures to ensure the included guidance and direction supports new initiatives and direction. The Department indicated that it has established a deadline of September 2016 to finalize and distribute the Program's policies and procedures.

f. Consider the effect that proposed program fee changes may have on purchasing cooperative members and obtain their input when reviewing and revising the program fee.

Implementation in process

The Department has developed draft policies and procedures that require the Department to annually invite purchasing cooperative members to an open forum to discuss the Program and share ideas for its improvement. However, the draft policies and procedures do not specifically indicate that program fees will be part of the annual forum discussion. As explained in recommendation 1.1e, the Department plans to finalize and distribute the Program's policies and procedures by September 2016.

Finding 2: Department needs to improve collection of program fee revenue

2.1 The Department should pursue collection of any unpaid program fee revenue payments, including those identified in this audit, and resolve any discrepancies between vendor-reported sales amounts and state accounting records.

Not implemented

Based on auditors' work, as of November 2015, the Department had not changed its practices for pursuing collection of unpaid fee revenue payments, including those identified in this audit, and resolving discrepancies between vendor-reported sales amounts and state accounting records.

Recommendation

Status/Additional Explanation

2.2 The Department should develop and implement program fee collections policies and procedures that:

- a. Ensure program fee rates are accurately documented and communicated between staff establishing the program fee and staff responsible for collecting the program fee revenue;
- b. Verify vendor-reported sales and program fee revenue amounts to help ensure these amounts are properly reported and all program fee revenue is remitted to the Department;
- c. Formalize its 30-day notification process and require department staff to follow up on delinquent and/or deficient reports and program fee revenue payments. The policies and procedures should address the timing, form, and content of department communications with vendors to address deficient and/or delinquent reports and program fee revenue payments; and

Implementation in process

The Department has developed draft policies and procedures that include communicating fee information between staff establishing the program fee and staff responsible for collecting program fee revenue. However, these draft policies and procedures do not specifically indicate all the elements that should be communicated, the time frame for communicating information, and the method to communicate the information to the staff responsible for collecting program fee revenue. As explained in recommendation 1.1e, the Department plans to finalize and distribute the Program's policies and procedures by September 2016.

Implementation in process

The Department has developed draft policies and procedures that require verifying vendor-reported sales and program fee revenue amounts from purchases made by purchasing cooperative members. However, these draft policies and procedures do not specifically indicate what the verification process entails and how the Department will verify vendor-reported sales and program fee revenue amounts for these purchases. As explained in recommendation 1.1e, the Department plans to finalize and distribute the Program's policies and procedures by September 2016.

Implementation in process

The Department has developed draft policies and procedures for notifying vendors that their required quarterly report information and fee payments are coming due and to guide department staff in following-up on delinquent and/or deficient program fee revenue payments. However, these draft policies and procedures do not specifically indicate that the notification reminder is to be sent to the vendors 30 days prior to the quarterly report due date. Additionally, the draft policies and procedures do not specify when contract officers should send the demand for assurance letter when the vendor fails to respond to delinquent payment notifications. As explained in recommendation 1.1e, the Department plans to finalize and distribute the Program's policies and procedures by September 2016.

Recommendation**Status/Additional Explanation**

- d. Guide staff on specific measures to take when enforcing reporting and program fee requirements on noncompliant vendors using any recourse available under the state-wide contract or law.

Implementation in process

The Department has developed draft policies and procedures that include guidance for staff on action to take when enforcing reporting and program fee requirements on noncompliant vendors. However, these draft policies and procedures do not specifically indicate time frames for each step of the process to collect program reports and fee revenue payments. As explained in recommendation 1.1e, the Department plans to finalize and distribute the Program's policies and procedures by September 2016.

- 2.3 As part of its collections policies and procedures, the Department should include provisions requiring supervisory oversight of its collections processes and practices.

Implementation in process

Although the Department has developed draft collections policies and procedures for the Arizona State Purchasing Cooperative Program, these draft policies and procedures do not include provisions requiring supervisory oversight of its collections processes and practices. As explained in recommendation 1.1e, the Department plans to finalize and distribute the Program's policies and procedures by September 2016.

- 2.4 The Department should ensure that its staff are trained on the collections policies and procedures.

Not yet applicable

Although the Department has developed draft collections policies and procedures for the Arizona State Purchasing Cooperative Program, it has yet to finalize these policies and procedures. Thus, it has not been able to train its staff on these policies and procedures. As explained in recommendation 1.1e, the Department plans to finalize and distribute the Program's policies and procedures by September 2016.

Finding 3: Department should continue to improve its controls over program fee collections

- 3.1 The Department should continue to implement the changes it has made to help ensure that program fee revenue payments are protected and accurately recorded and deposited, including:

- a. Transferring all cash-handling responsibilities from the Department's procurement office to its accounting office;
- b. Ensuring that vendors remit program fee revenue payments to the accounting office; and
- c. Immediately restrictively endorsing, logging, and depositing all program fee revenue payments.

Implemented at 12 months**Implemented at 12 months****Implemented at 12 months**

Recommendation

Status/Additional Explanation

3.2 The Department should develop and implement detailed policies and procedures that address all accounting and cash-handling functions including segregation of duties, required endorsements, logs and receipts, and performing reconciliations.

Implementation in process

Program fee payments are now processed by the Department's accounting office staff, who follow cash-handling policies and procedures specified in the *Arizona State Accounting Manual*. The Department developed draft cash-handling policies and procedures for program staff that handle fee payments mistakenly sent to the procurement office, but has not yet finalized them. It has also not developed policies and procedures to ensure all fee payments the accounting office receives are reconciled to vendor-reported sales that program staff track. As explained in recommendation 1.1e, the Department plans to finalize and distribute the Program's policies and procedures by September 2016.

3.3 The Department should distribute the detailed policies and procedures to all applicable staff and provide training on them, as appropriate to staff's assigned duties.

Implementation in process

Although the Department's accounting office staff have access to and have been trained on cash-handling policies and procedures specified in the *Arizona State Accounting Manual*, as explained in recommendation 3.2, the Department has yet to finalize cash-handling policies and procedures for fee payments mistakenly sent to the procurement office. It also has not developed policies and procedures for reconciling program fee payments and vendor-reported sales. Thus, appropriate staff have not been trained on these policies and procedures.

3.4 The Department should monitor staff's implementation of the policies and procedures to ensure they are being appropriately followed.

Implementation in process

The Department's accounting office supervisors monitor staff's implementation of cash-handling policies and procedures specified in the *Arizona State Accounting Manual*. However, as explained in recommendation 3.2, the Department has yet to finalize its cash-handling policies and procedures for fee payments mistakenly sent to the procurement office and develop policies and procedures for reconciling program fee payments and vendor-reported sales. Monitoring cannot occur until these policies and procedures have been finalized and implemented.