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May 5, 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—State-wide Procurement* regarding the implementation status of the 26 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in March 2015 (Auditor General Report No. 15-102). As the attached grid indicates:

- 4 have been implemented;
- 13 are in the process of being implemented;
- 3 are not yet applicable; and
- 6 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:ka
Attachment

cc: Craig Brown, Director
Arizona Department of Administration

Arizona Department of Administration— State-wide Procurement Auditor General Report No. 15-102 Initial Follow-Up Report

Recommendation

Status/Additional Explanation

Finding 1: Department should further align its procurement strategic planning with model planning practices

<p>1.1 The Department should conduct a comprehensive assessment of the state-wide procurement system to help ensure that the Department has identified the most critical state-wide procurement system strategic issues and objectives in its strategic plan. This comprehensive assessment should be reviewed and/or updated as part of the Department's annual process for updating and/or revising its strategic plan.</p>	<p>Not implemented</p> <p>As of February 2016, the Department had not conducted a comprehensive assessment of its state-wide procurement system. The Department reported that it will conduct a comprehensive assessment after the relevant functionalities and performance of the new state financial system implemented in July 2015 have stabilized. The new state financial system is expected to facilitate more reliable analyses of state spending on goods and services, which is a component of a comprehensive assessment and driver of procurement strategic planning. The Department estimated that the new financial system's relevant functionalities and performance are still approximately 6 months away from being stable.</p>
<p>1.2 The Department should conduct a spend analysis as part of the comprehensive assessment. To do so, the Department should:</p> <ul style="list-style-type: none"> a. Evaluate its internal data systems, including its newly integrated procurement and financial systems, once implemented, to determine how to best use these systems to conduct a spend analysis; b. Develop and implement policies and procedures for conducting a spend analysis; and c. Train staff on these policies and procedures and using the various data systems to conduct a spend analysis. 	<p>Implementation in process</p> <p>In February 2016, the Department reported that it is investigating processes to test the validity of potential spend data gathered from multiple internal data sources, including the State's electronic procurement and financial systems, and the system used to record vendor-reported sales from state-wide contracts.</p> <p>Not yet applicable</p> <p>Implementation of this recommendation is dependent on implementation of Rec. 1.2a.</p> <p>Not yet applicable</p> <p>Implementation of this recommendation is dependent on implementation of Rec. 1.2b.</p>
<p>1.3 The Department should develop and document action steps to guide the implementation of its procurement-related objectives. The Department should ensure that its action steps align with SMART principles, include information on who is responsible for implementing them and when they should be completed, and are regularly monitored.</p>	<p>Not implemented</p> <p>As of February 2016, the Department had not developed documented action steps to guide the implementation of its procurement-related objectives, including information on who is responsible for implementing the action steps and when they should be completed.</p>

Recommendation

Status/Additional Explanation

1.4 The Department should ensure it has developed sufficient performance measures to assess the achievement of its procurement-related strategic issues and objectives, including ensuring that an appropriate combination of performance measure types are used, that the measures are clearly defined, and that realistic performance targets are identified through comparisons to external standards and/or best practices.

Not implemented

During the audit the Department developed some procurement-related performance measures for its 2016 through 2020 strategic plan, but the measures did not adequately assess its progress towards achieving its strategic issues and objectives. As of February 2016, the Department had not clarified the existing measures and developed additional documented measures to accurately assess the achievement of its current procurement-related strategic issues and objectives, including ensuring that an appropriate combination of performance measure types were used, that the measures were clearly defined, and that realistic performance targets were identified.

1.5 The Department should monitor its performance measures and report the results to internal and external stakeholders on an annual basis at a minimum.

Not implemented

As of February 2016, the Department had not shown that it monitored and reported to internal and external stakeholders, at least annually, its performance on the procurement-related performance measures it developed during the audit, as explained in Rec 1.4.

Finding 2: Department should develop and implement a comprehensive procurement manual

2.1 The Department should develop and implement a comprehensive procurement policy and procedure manual to help ensure appropriate and consistent application of procurement laws and regulations throughout the State. As part of this process, the Department should ask state agencies to review and provide input on the draft manual, and should provide additional clarification, explanation, or examples where statutes, rules, and existing policies and procedures are not sufficiently clear or defined. At a minimum, the manual should include the following elements recommended by best practice:

Implementation in process

In lieu of a comprehensive procurement policy and procedure manual, the Department has begun drafting a procurement guidelines manual to supplement the Arizona Procurement Code, which is a compilation of state procurement laws and regulations, and various technical bulletins and standard procedures posted on the Department's procurement Web page. However, in February 2016, the Department reported that the procurement office has initiated a re-evaluation and realignment of its processes and focus with the change in department leadership that occurred in August 2015. The Department indicated that as part of this effort, it is examining the manual to ensure it supports the new initiatives and direction. This review of the manual will also impact Recommendations 2.1a through 2.1g. The Department reported that it intends to finalize and distribute the manual by September 2016. Additionally, prior to finalizing the manual, the Department will distribute it to state agency chief procurement officers for review and comment.

a. Clear definitions of procurement terms and processes;

Implementation in process

The Department's draft procurement guidelines manual provides an overview of terms and processes or will point the reader to other sources where the information can be found. However, there are still sections of the manual that need to be completed, including the informal solicitations, and protests and appeals processes.

Recommendation

Status/Additional Explanation

- b. Instructions for appropriately defining goods or services being procured;

Implementation in process

The Department's draft procurement guidelines manual references sources that may assist the user in developing their specifications and also includes descriptions of the elements of a complete specification, such as defining the group, class, and type of the good or service being procured.

- c. Instructions and requirements for different contracting methods;

Implementation in process

The Department's draft procurement guidelines manual provides instructions and requirements for some contracting methods, such as requests for proposals and limited competition procurements. However, there are other contracting methods included in the manual where this information is incomplete, such as informal solicitations.

- d. Instructions for conducting special procurement programs, such as cooperative purchasing;

Implementation in process

Although the Department's draft procurement guidelines manual provides instructions for conducting some special procurement programs, such as the procurement purchase card program, it does not include instructions for conducting other special purchasing programs, such as the cooperative purchasing program or small businesses.

- e. Ethical guidelines and a procurement code of conduct;

Implementation in process

The Department's draft procurement guidelines manual provides high-level guidance on ethical behavior, including that all Arizona procurement professionals should adhere to the minimum moral, ethical, legal, and professional standards/values outlined in other department documents. However, the manual and the sources it directs readers to lack practical instruction for identifying and avoiding potential ethical violations or situations that may give the appearance of a conflict of interest, such as meeting too frequently with one vendor or allowing a vendor to pay for meals.

- f. Outline of required procurement personnel qualifications, certifications, and training; and

Implementation in process

The Department's draft procurement guidelines manual refers the reader to a department technical bulletin that lists the delegation levels and training and certification requirements of various state agency procurement staff positions. The delegation level allows specific positions to procure goods and services up to their authorized purchasing amount without the Department's prior approval. However, neither the manual nor the technical bulletin address the training requirements for procurement staff who do not have delegated purchasing authority.

Recommendation

Status/Additional Explanation

- g. Guidance on the delegated authorities, roles, and responsibilities of the procurement office and personnel.

Implementation in process

The Department's draft procurement guidelines manual includes information on the authorities, role, and responsibilities of the State Procurement Administrator. In addition, it indicates that all agencies follow the procurement authority and activity limitations as stated in their certificates of delegated procurement authority. These certificates are issued to employees with delegated procurement authority and include information on the employee's delegated role, authorities, and responsibilities. The manual also refers the reader to a department technical bulletin that provides information and guidance on the delegation levels, training, and certification requirements of various agency procurement staff positions.

- 2.2 The Department's comprehensive procurement policy and procedure manual should include a contract administration section that, at a minimum, includes instructions for contract-monitoring activities, correctly amending and renewing contracts, evaluating vendors' performance, addressing poor vendor performance, and maintaining appropriate records.

Not implemented

Although the Department is developing a draft procurement guidelines manual, it has yet to include a contract administration section.

- 2.3 Once developed and implemented, the Department should train procurement staff throughout the State on the policies, procedures, requirements, and guidance contained in its comprehensive policy and procedure procurement manual.

Not yet applicable

The Department has begun drafting a procurement guidelines manual, and reported that it intends to finalize and distribute it by September 2016. The Department also reported that it will begin scheduling trainings after the manual is finalized.

Finding 3: Department should further strengthen its oversight of state agency procurements

- 3.1 To help ensure effective management and oversight of the state procurement system while also considering its limited oversight resources, the Department should strengthen its procurement compliance program by taking the following steps:

- a. Develop standard criteria for assessing state agencies' risk of noncompliance with procurement laws, regulations, policies, and procedures;
- b. Regularly conduct risk assessments of state agencies;

Implemented at 12 months

Implementation in process

As of February 2016, the Department had developed a procurement risk assessment process and piloted an assessment tool. According to the Department, this assessment tool will be administered annually to all state agencies with delegated purchasing authority. The Department also reported that the first non-pilot risk assessment will occur in June 2016.

Recommendation

Status/Additional Explanation

- c. Implement a risk-based state agency review schedule by using the results of its risk assessments to target high-risk state agencies for more frequent reviews, while conducting fewer reviews of low-risk state agencies; and
- d. Conduct a small number of unscheduled or random compliance reviews annually as a deterrence mechanism to all agencies.

Implementation in process

According to the Department's risk assessment procedure, the Department will use the results of the June 2016 risk assessments to set the fiscal year 2017 compliance review schedule. However, until the Department fully implements Rec. 3.1b, it cannot target high-risk agencies for more frequent compliance reviews and conduct fewer reviews of low-risk agencies.

Not implemented

The Department reported that it has not yet established a policy for annually conducting a small number of random or unscheduled compliance reviews.

- 3.2 The Department should revise its procurement compliance review checklist to provide additional instructions, definitions, assessment criteria, and examples for staff conducting compliance reviews.

Implementation in process

The Department has made some revisions to its procurement compliance review checklist to provide additional instructions, definitions, and clarifications on assessment criteria to assist staff conducting compliance reviews. However, the Department did not revise some of the specific areas the audit report indicated lacked criteria and guidance, including whether a bid generated a sufficient number of qualified bidders, whether evaluation criteria was fair and appropriate, and whether the procurement officer negotiated a contract that was advantageous to the State.

- 3.3 The Department should revise its procurement compliance policy to indicate that the Department will monitor state agencies' implementation of requested corrective action to address noncompliance issues or procurement review findings.

Implementation in process

The Department established a procedure for monitoring state agencies' corrective actions, as a part of its procurement compliance desk manual, including time frames, for monitoring state agencies' implementation of procurement corrective actions. Additionally, the Department reported that it is developing a framework that will require documented evidence of state agencies' procurement corrective action plans prior to approving an agency's delegated procurement authority renewal, extension, or increase. The Department plans to implement the framework in fiscal year 2017.

- 3.4 The Department should develop and implement formal policies and procedures to govern its confidential and anonymous reporting system. Specifically, these policies and procedures should:

- a. Stipulate how the Department will investigate and resolve information received through this reporting system, the time frames for investigating and resolving complaints, and determine how records will be maintained;
- b. Address how the Department will maintain the confidentiality and anonymity of reports and pending investigations; and

Implemented at 12 months

Implemented at 12 months

Recommendation**Status/Additional Explanation**

- c. Define how the Department will incorporate any information received through this system as part of its risk assessment framework.

Implemented at 12 months
