

Arizona Department of Health Services Procurement and Contract Monitoring

CONCLUSION: The Department's mission is to promote, protect, and improve the health and wellness of individuals and communities in Arizona. The Department reported that it administers over 300 programs, such as the Special Supplemental Nutrition Program for Women, Infants and Children (WIC); the Immunization Program; and the Medical Marijuana Program; and uses contracts and agreements to help fulfill its mission and carry out these programs. For example, in fiscal years 2017 and 2018, the Department spent an estimated \$183 million and \$193 million, respectively, on more than 1,100 contracts and agreements. However, we found that the Department did not follow some State procurement requirements for 22 of the 25 contracts we reviewed. In addition, the Department paid for some services without ensuring they were provided and contract requirements were met, and its payment processing does not consistently provide adequate oversight to ensure the appropriate use of public monies.

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

The Department is required to follow statutes and rules that comprise Arizona's Procurement Code and State purchasing requirements established by the State's Procurement Office, which help protect the State's interests by increasing transparency, reducing costs to the State through competition, and helping prevent unethical conduct. Our review of a stratified random sample of 25 contracts for which the Department made payments in fiscal year 2017 identified several discrepancies where the Department incorrectly procured professional services, paid a contractor more than allowed, and did not follow key purchasing requirements. For example, the Department selected a GIS mapping services contractor for its Medical Marijuana Program without first establishing selection criteria, paid this contractor more than \$167,000 allowed by statute for a professional services contract, and inappropriately approved contract amendments that included unallowable tasks and exceeded allowable amounts. In addition, 11 of the 25 contracts we reviewed lacked conflict-of-interest statements for Department program staff involved in the procurement, and 4 of the 25 lacked sufficient justification for limiting competition. Because the Department lacked sufficient procedures to guide procurement staff in complying with these requirements, it is at risk for circumventing Procurement Code and not complying with State purchasing requirements.



Department did not maintain conflict-of-interest statements for **11 of 25** contracts reviewed.

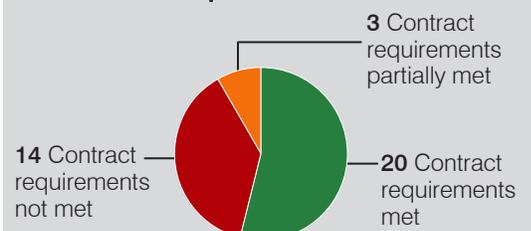
Recommendation

The Department should include policies and procedures in its draft procurement manual that help ensure compliance with the Procurement Code and purchasing requirements, complete the manual, and then implement it.

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

We reviewed a sample of 12 Department contracts reflecting nearly \$17.5 million in contract payments made during fiscal year 2017 and found that the Department did not ensure 17 of the 37 contract requirements we reviewed were met. For example, according to the Department, it did not withhold payments for 2 of the 12 contracts even though 1 contractor did not provide all of the specified services and the other provided services

Department did not ensure 17 contract requirements were met



without the required staff training to help ensure the expected quality of the services provided. In addition, we found that the Department inadequately monitored 5 of the contracts that received federal funding by not assessing subrecipient risk and inadequately conducting onsite reviews for 2 of these contracts. Finally, the Department did not adequately monitor spending for its GIS mapping services and exceeded the estimated costs for these services by more than \$390,000. By not ensuring that contractors meet all contract requirements, the Department risks paying for services that contractors did not provide or for contract requirements that were not met. The Department has not established policies and procedures to guide program staff's contract monitoring, and although some Department programs had developed their own monitoring practices, these monitoring practices were inadequate when compared to best practices.

Recommendations

The Department should:

- Develop and implement contract-monitoring policies and procedures that specify and/or require staff roles and responsibilities for monitoring contracts; develop contract administration plans that outline monitoring activities for each contract, including specific and measurable terms in its contracts; and take appropriate action to address noncompliance.
- Develop and implement a centralized process for overseeing its programs' contract-monitoring efforts.
- Develop and implement policy and procedures for working with contractors to recover monies that may have been inappropriately paid and specify in what circumstances it will work with its Assistant Attorney General to recover these monies.

Department's payment processing does not consistently provide adequate oversight to ensure appropriate use of public monies

To help protect State monies from loss, theft, waste, and abuse, the *State of Arizona Accounting Manual* recommends that State agencies implement various payment-processing practices and procedures. We reviewed a sample of 68 invoice payments totaling nearly \$4.9 million from 12 Department contracts with billing dates or reporting periods from May 2016 through October 2018 and identified concerns with several of the invoices that the Department processed. For example, the Department overpaid a contractor by more than \$12,500 for an invoice that lacked evidence of staff review and, for 5 of the 12 contracts we reviewed, paid more than \$4 million for services without obtaining and reviewing adequate supporting documentation to ensure the services were received. Finally, the Department did not consistently review and approve invoices prior to paying 8 of the 12 contractors. Although the Department has a process for reviewing invoices before paying them, this process does not ensure the Department pays for only authorized services, nor has it ensured that services were received before payment.



More than \$4 million paid without adequate supporting documentation

More than \$862,000 paid with adequate supporting documentation

Recommendations

The Department should:

- Continue to develop and implement written payment-processing policies and procedures to better safeguard public monies.
- Require appropriate program staff to review supporting documentation before approving invoices for payment and document their review and approval of invoices and supporting documentation.
- Require supervisors to conduct a risk-based review of the invoices program staff approve.