



Auditor General reply to agency response

We appreciate the Arizona Department of Health Services' (Department) response. However, the Department has included certain statements in its response to the audit findings that necessitate the following comments and clarifications.

1. The Department states that it does not believe our report findings convey appropriate context, give proper perspective of the work conducted, or include a clear statement that the sample size and methodology are not generalizable across all Department activities. We disagree with these assertions. As can be observed in the report, we do not generalize our findings beyond the sample we reviewed. However, the results of our review sufficiently demonstrate the impact of the Department's inadequate procurement, contract monitoring, and payment processing practices. Specifically:
 - a. For Finding 1, our finding heading clearly states that our finding is specific to the 25 Department contracts that we reviewed. This sample of 25 contracts was stratified by contract type to ensure that our review included different types of procurements. Further, within each contract type grouping, the sample was randomly selected, ensuring that each of the Department contracts of that contract type had an equal likelihood of being included in our sample. Although we did not generalize the results of our review to the population, our sample size was sufficient, in the context of other evidence we provided, to conclude that the Department did not always follow all procurement code requirements and may continue to be at risk of doing so. Further, our report clearly states the results of our review and provides necessary context to understand our findings. For example, we reported that 1 of the 25 contracts was inappropriately procured, 11 of the 25 contracts lacked conflict of interest statements, and 20 of the 25 contracts lacked evidence that the Department provided the required notification to its staff. For more information about our sampling methodology, see Appendix B, pages b-1 through b-2, and a detailed footnote on page 7.
 - b. For Findings 2 and 3, we judgmentally selected a sample of 12 contracts and agreements to ensure we reviewed the Department's contract monitoring practices and payment processing for a cross-section of Department programs (please see Appendix B, pages b-1 through b-2, for more information on our sampling methodology). From these 12 contracts, we judgmentally selected a total of 37 contract requirements and 68 invoice payments for further review (see point 3 below for more information about our review of invoice payments). Again, we did not generalize the results of our review, which found that the Department did not ensure 17 of the 37 requirements we reviewed were met, and we limited our findings to our review of these 37 requirements. Similar to Finding 1, our sample size was sufficient, in the context of other evidence we provided, to conclude that the Department did not ensure that all contract requirements were met and may continue to be at risk of doing so.
2. The Department's response indicates, specific to Finding 1, that it received guidance from the State Procurement Office (SPO) that its GIS mapping services contract was not under the Professional Services provisions of the Code and not subject to the \$500,000 limit. First, as indicated in the Department's response, SPO has granted the Department unlimited procurement authority based on SPO's evaluation of Department procurement staff's experience, performance and capacity, and demonstrated ability to follow appropriate procurement and contracting policies and procedures. As such, the Department should understand and adhere to all procurement requirements, regardless of the type of procurement it conducts. Second, although the Department indicates it received guidance from SPO that its GIS mapping services

contract was not under the professional services procurement provisions, Department documentation shows that the Department procured these services under professional services procurement provisions. The Department did not provide documentation or other evidence that its GIS mapping services were contracted through another type of procurement or contract, such as a Request for Proposal or Invitation for Bid.

3. Finally, specific to Finding 3, the Department's response indicates that it does not believe the wording in the finding accurately reflects the overall audit and the finding could be misinterpreted. We disagree with this statement and the evidence we present in Finding 3 supports our findings in this area. Specifically, to assess the Department's payment processing practices, we selected and reviewed 68 invoice payments totaling nearly \$4.9 million from among the 12 Department contracts previously described. This work identified \$10,000 paid for unauthorized services, \$12,500 overpaid to 1 contractor, and more than \$4 million paid without Department staff reviewing adequate supporting documentation to ensure the appropriateness of the amounts billed on the invoices. In fact, we found and reported that the Department reviewed adequate supporting documentation for more than \$862,000 of the \$4.9 million. However, the practices employed to review this supporting documentation did not exist Department-wide. Based on this work and the evidence gathered, we appropriately concluded that the Department's payment processing practices did not consistently provide adequate oversight to ensure the appropriate use of public monies.