



ARIZONA DEPARTMENT OF HEALTH SERVICES

August 22, 2019

Ms. Lindsey Perry, Auditor General
Arizona office of the Auditor General
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

Re: Procurement and Contract Monitoring Performance Audit

Dear Ms. Perry:

Attached please find our response to your audit on our procurement and contract monitoring. We appreciate the critical role that the Auditor General plays in ensuring state agencies are performing at the highest level and in accordance with statutory requirements and generally accepted standards.

At the Arizona Department of Health Services (Department), as part of our mission of supporting *Health and Wellness for all Arizonans*, we are committed to continuous quality improvement and updating processes and procedures to ensure we are appropriate fiduciaries of limited taxpayer resources, follow statutory and regulatory guidelines, and deliver high-quality services to our customers.

Indeed, this commitment is evident in the fact that as you note, as of August 2018, the Arizona State Procurement Office (SPO), the central procurement authority for the State of Arizona, which is responsible for overall oversight and procurement policies for the State, has granted the Department's chief procurement officer unlimited procurement authority. This is the highest tier of responsibility and recognition of compliance. This determination was based on the SPO experts' evaluation of our procurement staff's experience, performance and capacity, and a demonstrated ability to follow appropriate procurement and contracting policies and procedures.

In our response to your findings, we make clear we will undertake activities that will enhance our processes and ensure appropriate oversight. We also appreciate your staff working with us on how the findings are presented and we are able to agree with two out of your three findings. However, we remain concerned with how your findings are conveyed, as we believe they are presented without appropriate context, do not give proper perspective of the work conducted and lack clarity regarding the limits of the conclusions of your findings. As a result, the presentation has the potential to leave the readers with an inaccurate understanding of our

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performance. Specifically, we are concerned with a lack of clear statement that, due to the small sample size and overall sampling methodology, the results are not generalizable across all our activities. We appreciate you adding detail about your sampling approach. However, readers without familiarity with sampling methodology might not understand the context and limits of your findings, which could cause readers to believe the findings represent a comprehensive assessment of our performance.

(See Appendix C: Auditor General reply to agency response, items #1a and #1b)

In addition, we would also note that, although we are agreeing with several of your findings, and will implement all the recommendations, there are examples throughout the document with which we do not agree. For brevity, we will not note each instance of disagreement. However, we do wish to highlight one example, on the GIS mapping services contract. While the audit notes the Department exceeded the \$500,000 limit on a professional services contract, the Department had received guidance from SPO that this contract was not under the Professional Services of the Code and therefore not subject to the limit. Because Auditor General reports are now being cited in litigation over the Medical Marijuana program, we want to ensure we are on the record with disagreeing with this example.

(See Appendix C: Auditor General reply to agency response, item #2)

As we note throughout the response, we are committed to ongoing improvement opportunities and will implement your recommendations through strategies that will strengthen our activities.

We appreciate your partnership and the opportunity to respond, and we are moving forward to implement recommendations to enhance oversight of our procurement and contracting activities.

Sincerely,

Cara M. Christ, MD
Director

Attachment

Douglas A. Ducey | Governor Cara M. Christ, MD, MS | Director

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

Recommendation 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:

Recommendation 1a: 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.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: As outlined in our cover letter, the Department does not believe that the wording of the finding accurately reflects the results of the overall audit and feels those who may not fully read the audit could misinterpret the finding. However, the Department is committed to undertaking activities that will enhance our processes and plans to implement the recommendation in 1a by February 1, 2020.

(See Appendix C: Auditor General reply to agency response, item #1a)

Recommendation 1b: 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.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: While the Department understands that the auditors have identified one of the contracts as being a Professional Services contract that has contract limits, the Department had worked with the State Procurement Office (SPO) under the belief that the contract was not used under the Professional Services provision of the Code. However, the Department will continue to implement the recommendation in 1b by September 1, 2019.

(See Appendix C: Auditor General reply to agency response, item #2)

Recommendation 1c: Justifying limited competition contracts and documenting these efforts and decisions.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: As outlined in our cover letter, the Department feels those who may not fully read the audit could misinterpret the finding. However, the Department will implement the recommendation specified in 1c to better document and justify contract decisions. Procedures will be developed and implemented by November 1, 2019.

(See Appendix C: Auditor General reply to agency response, item #1a)

Recommendation 1d: Tracking the completion of each procurement step to ensure all required procurement steps were performed.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The recommendation specified in 1d will be developed and implemented, by February 1, 2020.

Recommendation 1e: Tracking contract spending and contract expirations to prevent Department staff from spending more than is allowed per the contract type or using expired contracts.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department had worked with SPO under the belief that this was a contract that could be extended and was not subject to the Personnel Services limit provision of \$500,000. However, the Department will develop and implement the recommendation specified in 1 e for tracking contract spending and contract expirations, by February 1, 2020.

(See Appendix C: Auditor General reply to agency response, item #2)

Recommendation 1f: 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.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department will implement the recommendation specified in 1f by September 1, 2019.

Recommendation 1g: Training appropriate staff on State procurement requirements and Department policies and procedures once they have been fully developed.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department will begin training as policies and procedures are developed as specified by February 1, 2020.

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

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department will complete the draft procurement manual and implement it by February 1, 2020.

Recommendation 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.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: This recommendation will be implemented, by February 1, 2020.

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

Recommendation 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:

Recommendation 4a: Program requirements and staff roles and responsibilities for monitoring contracts.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Program requirements and staff roles and responsibilities for monitoring contracts will be developed and implemented as specified in recommendation 4a, by February 1, 2020.

Recommendation 4b: Developing a written contract administration plan outlining monitoring activities for each contract.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADHS will develop a written contract administration plan outlining monitoring activities for all contracts as specified in recommendation 4b.

Recommendation 4c: Including specific and measurable contract terms, and reporting requirements in the contracts.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department will include specific and measurable contract terms, and reporting requirements in its contracts as specified in recommendation 4c, beginning immediately.

Recommendation 4d: Taking appropriate action to address noncompliance, such as withholding payment.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department will develop and implement a policy as specified in recommendation 4d by February 1, 2020.

Recommendation 4e: Developing and using tools and/or methods to effectively track completion of contract requirements, including spending.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department will continue to make efforts to enhance our practices to implement the recommendation in 4e. For example, the program has updated the Community Health Nursing Policy and Procedure manual and made revisions to Orientation and Training program requirements to ensure improved monitoring and tracking. The new manuals went into effect 7/1/2019.

Recommendation 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.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: This recommendation will be implemented by February 1, 2020.

Recommendation 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.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department will develop and implement a payment recovery process, including identifying when to consult the Attorney General, by February 1, 2020.

Recommendation 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.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department will continue to implement the Sub-recipient monitoring policy that was recently developed. The policy fully meets the use of risk assessments to determine the appropriate level of monitoring to perform for contractors or sub-recipients as specified in recommendation 7.

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

Recommendation 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:

Recommendation 8a: 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.

Department Response: The finding of the Auditor General is not agreed to, but the recommendation will be implemented.

Response explanation: As outlined in our cover letter, the Department does not believe that the wording of the finding accurately reflects the results of the overall audit and feels those who may not fully read the audit could misinterpret the finding. The Department is strongly committed to safeguarding public money. However, the recommendation will be implemented Department-wide by February 1, 2020. The Department's recent implementation of the Sub-recipient Monitoring Policy when fully deployed, will fully meet recommendation 8a.

(See Appendix C: Auditor General reply to agency response, item #3)

Recommendation 8b: Conducting a risk-based supervisory review of the invoices and supporting documentation that program staff approved.

Department Response: The finding of the Auditor General is not agreed to, but the recommendation will be implemented.

Response explanation: The Department will continue to implement the Sub-recipient monitoring policy that was recently developed. The policy fully meets the risk-based supervisory review of the invoices and supporting documentation specified in recommendation 8b. The Department will incorporate the risk-based approach to all invoices and supporting documentation by February 1, 2020.

Recommendation 8c: 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.

Department Response: The finding of the Auditor General is not agreed to, but the recommendation will be implemented.

Response explanation: The recommendation will be implemented by February 1, 2020.

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

Department Response: The finding of the Auditor General is not agreed to, but the recommendation will be implemented.

Response explanation: The Department will develop payment-processing policies and procedures and, once they are developed, will train all appropriate staff by February 1, 2020.

Recommendation 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.

Department Response: The finding of the Auditor General is not agreed to, but the recommendation will be implemented.

Response explanation: The recommendation will be implemented by February 1, 2020.