ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR

100 North 15th Avenue ● ROOM 401
PHOENIX, ARIZONA 85007

(602) 542-1500

June 8, 2005

Debbie Davenport
Auditor General
2910 North 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

Thank you for the cooperation of your review team during the site visit and subsequent discussions. We are appreciative of the efforts of your team to make the time to listen and understand the complexities of our business.

Please find enclosed our agency's comments on the revised preliminary report draft of the performance audit and sunset review of the Arizona Department of Administration, Financial Services Division.

Our goal is to serve the citizens and employees of the state of Arizona in the most effective and efficient manner possible. We appreciate the feedback and recommendations from your Office that will help us improve the management and operations of our agency.

Very truly yours,

Betsey Bayless
Director

Enclosure

Program Fact Sheet – General Accounting Office

Agency Response:

The Department finds the fact sheet accurate. But there is an important detail about the General Accounting Office that was beyond the scope of the fact sheet which cannot go without comment. Specifically, the General Accounting Office (GAO) is experiencing a severe employee turnover problem that threatens the ability of that office to provide timely and accurate accounting information to the state. In general, GAO cannot attract new employees and retain existing employees due to deficiencies in salaries that place the state significantly below market rates for accountants. The Governors' budget recommendation for FY 2006 included $454,200 from the General Fund to address this problem. Ultimately this recommendation was not funded in the FY 2006 budget.

ADOA was informed that the Auditor General will address this issue in a separate letter to the Joint Legislative Budget Committee. ADOA would appreciate that a copy of this letter be provided to legislators, just as the performance audit will be. Because of the severity of the problem and the potential for adverse statewide results, ADOA must continue to inform state decision makers about this issue.

Finding 1 – ADOA needs comprehensive plan to ensure completion of HRIS system

Agency Response:

Two years ago, the State was faced with a significant challenge. The existing payroll system (HRMS) was obsolete, key software components were no longer supported by vendors, and the State was facing a severe budget crisis. The Department overcame this challenge and successfully implemented the State's first integrated payroll, personnel and benefits system (HRIS). This was a significant accomplishment given the diversity and complexity of state government. It required the Department and all state agencies to work together to achieve technical readiness, agree on business practices and prepare staff to embrace a new way of doing business.

The Department of Administration believes that the recommendations in the audit report pertaining to HRIS represent the Department's efforts to be customer focused and to have sound planning processes in place. We, therefore, generally support the recommendations outlined.

Approximately six months ago, the Department made a strategic decision to move the leadership of HRIS into the Human Resources Division. This move served to focus attention on strategic planning, customer involvement and managing the system as an integral part of the division.

Significant strides have already been made not only to ensure the core payroll system is stabilized but to deploy the additional functionality of HRIS in a methodical and customer oriented manner. Tremendous efficiencies are already being realized as the additional functionality is implemented throughout state government using customer involvement and structured planning. For example, one agency has already experienced a 35% improvement in the time to hire after fully implementing the new Hiring Gateway feature of HRIS.

A comprehensive plan will be in place as we consolidate the current plans of system upgrades, tactical efforts (i.e. open enrollment, end of year processing, etc.) and implementation of additional features. Another key component of this plan will include the customer requirements over the next two to five years as we work with agencies to strategically prioritize the future direction of HRIS.

With regard to the budget analysis of HRIS, it is important to note that of the $7.5 million appropriated for the project outside of the $35 million generated through the Certificate of Participation, nearly $6 million was for debt service. ADOA believes that the financing costs of the project are separate costs from the actual project development. The approved ADOA budget during the fiscal years of the project implementation mirrors that belief.

Recommendations

> *Recommendation #1 – "The Department, in collaboration with the user community, should develop a comprehensive plan to direct the completion of the HRIS system. This plan should specify the goals and objectives for completing the project, and the remaining functions to be implemented; and identify a process for addressing user requests for system features and changes, and the funding, staff resources, and time frames for completing the system's remaining functions and fully implementing the system."*

Agency Response:

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

The HRIS Executive Committee has been meeting on a regular basis to direct the planning and implementation of the remaining functionality of the HRIS system. Action plans have been developed for key elements of the operation, and input from the customers will be solicited to develop long-range planning and to aid in the prioritization of enhancements.

Recommendation #2 – The Department should follow its process for formally assessing the impact of requested system changes and for approving their implementation and priority on the list of items awaiting action.

Agency Response:

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

The HRIS team has an established process for assessing requested changes to the system. This is a necessary process to ensure adequate review of the impact of the proposed changes and an estimate of the impact to the staff (e.g. programming and testing hours). The agency will ensure that a formalized process will be followed for all requested system changes.

Recommendation #3 – The Department should continue to address the concerns with its acceptance testing process, including developing a testing methodology, individual test plans, and documenting test results.

Agency Response:

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

The HRIS team has an established testing methodology that is used for all system enhancements and programming changes. The agency will ensure that this process is adhered to for all system changes.

Recommendation #4 – The Department should enhance user participation in the HRIS project by:
    a. Following through with its plans to involve users in the development of a comprehensive plan to direct the completion of HRIS;
    b. Establishing documented processes by which the executive committee obtains, considers, and takes action on user input regarding overall project policy, and by which the project team obtains user participation and approval at critical project phases;
    c. Including users in the process for prioritizing system changes; and
    d. Involving users in all phases of system design and acceptance testing.

Agency Response:

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

Gathering input from the end-user has been an important practice from the beginning of the project. In fact much of the complexity of our current system is due to the many modifications that have been made – modifications that were requested by the customers. As any Phase 2 components are being rolled out to the user community, a customer user group is established for planning and testing purposes. We will continue this strategy.

Finding 2 - Planned changes should improve procurement oversight, but more can be done

Recommendations:

> *Recommendation #1 – The Department should continue with its plans to develop and implement a state-wide procurement policy and procedure manual that will not only contain policies and procedures for procurement within Arizona's regulatory framework, but also provide guidance and examples of best practices in key procurement processes.*

> *Recommendation #2 – The Department should continue with its plans to implement a process, polices, and procedures for conducting reviews at least once every 3 years of the procurement practices of state agencies with delegated procurement authority of $100,000 or more.*

> *Recommendation #3 – In conjunction with its review of state agency procurement practices and as time and resources permit, the Department should annually review a random sample of individual procurements.*

> *Recommendation #4 – As part of its effort to develop a procurement policies and procedures manual, the Department should develop and implement policies, procedures, and/or guidelines for contract administration.*

> *Recommendation #5 – The Department should conduct a cost-benefit study of various options to determine the best approach for collecting and analyzing needed data on state contracting activities. Potential options for study include:*

> a. Using the current capability that exists on the Arizona Financial Information System (AFIS) to collect basic contracting information.
> b. Identifying a new financial/accounting system to replace AFIS that has a procurement/contract component with the ability to collect the desired contracting data.

Agency Response:

All of the findings of the Auditor General are agreed to and the audit recommendations will be implemented.

Finding 3 - Department can improve its workers' compensation claims process

Recommendations:

> *Recommendation #1- Risk Management should take steps to ensure that injured employees clearly understand the workers 'compensation claims process and their rights and responsibilities in this process. Specifically:*
> a. *Through its automated phone and Web site, Risk Management should explain the workers' compensation claims process, actions that injured employees are required to take to file a claim, and the information and reports and report that Risk Management needs to process a claim; and*
> b. *Risk Management should expand the information on its Web site to inform injured employees of the importance of filling out a report of injury when treated by a physician, requesting that the physician immediately send reports to the Industrial Commission and Risk Management, asking all medical providers to send reports to Risk Management, and keeping adjusters informed of their work status.*

Agency Response:

1a.The finding of the Auditor General is agreed to and the audit recommendation will be implemented. Our Web site, employee brochures and injured worker welcome letters will be revised to add additional information.

1b.The finding of the Auditor General is agreed to and the audit recommendation will be implemented. Our web site, employee brochures and injured worker welcome letters will be revised to add additional information.

> *Recommendation #2 – Risk Management should improve its policies and procedures for claims processing by:*
> a. *Adopting procedures to more promptly identify time-loss claims by asking injured employees to identify the first day they missed time*

*from work because of a work related injury, and then for potential
time-loss claims, contacting the employee and/or agency supervisor
7 days after the injury occurred to determine if payment for time lost
from work is due;*

b. *Monitoring its revised supervisory review policy to ensure that the
existing backlog of claims awaiting review is eliminated and that
claims are reviewed as scheduled; and*

c. *Developing a standard instrument for the supervisory review of
claims, using this form to evaluate adjuster performance, and the
using the information collected to identify any training needs.*

Agency Response:

2a. The finding of the Auditor General is agreed to and the audit recommendation will
be implemented.

2b. The finding of the Auditor General is agreed to and the audit recommendation will
be implemented. The backlog of claims waiting for supervisory review has been
eliminated.

2c. The finding of the Auditor General is agreed to and the audit recommendation will
be implemented.

*Recommendation #3 – Risk Management should explore options
for obtaining the information it needs from state agencies in a
timely manner. These options include:*

a. *Sending a letter or e-mail, or making a telephone call requesting the
needed information from state agencies; and*

b. *Adopting an administrative rule establishing a penalty, such as a flat
fee, for noncompliance with the statutory reporting requirement.*

Agency Response:

3a. The finding of the Auditor General is agreed to and the audit recommendation will
be implemented.

3b. The finding of the Auditor General is agreed to and a different method of dealing
with the finding will be implemented. A thorough review of the potential options for
penalties will be conducted and a rule change will be proposed that provides for the
most effective means of dealing with late reporting. Establishing a flat fee penalty
may not be the best option.

*Recommendation #4 – Risk Management should provide
guidance to agencies on how to report injury information, as well
as periodically informing them whether they are providing injury
information in a timely manner.*

Agency Response:

The finding of the Auditor General is agreed to and the audit recommendation will be implemented. Our new Customer Relations Coordinator has begun meetings and training with agencies on this subject. A seminar was held on 5/17/2005 for Workers' Compensation Liaisons on reporting criteria and to exchange information. 67 agency liaisons attended. We are also planning several mini seminars for selected large agencies.

> *Recommendation #5 – To help ensure the accuracy of information in its claims management system, Risk Management should develop procedures directing staff on data-entry requirements, including defining key terms and dates.*

Agency Response:

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

> *Recommendation #6 – Risk Management should more effectively monitor the claims process by developing additional management reports for key times in the workers' compensation claims process.*

Agency Response:

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