

REPORT HIGHLIGHTS
PERFORMANCE AUDIT

Subject

The Financial Services Division provides state agencies with accounting and financial services, conducts state-wide and individual agency procurements, and provides state agencies and employees with property, liability, and workers' compensation insurance.

Our Conclusion

The Department needs to continue with its efforts to develop a detailed plan for completing the Human Resources Information Solution (HRIS) system. The Department should also continue with and augment its plans to increase oversight of state agency procurement practices. Further, the Department could improve its workers' compensation claims process so injured state workers will receive benefits more promptly.



2005

Plan Needed To Complete HRIS System

The HRIS system is designed to administer payroll, personnel, employee benefits, and other related functions. This single system is replacing several other systems previously used for these functions, including the Human Resources Management System, which was obsolete and could not provide key management information regarding state personnel.

Time frames missed and funding mostly exhausted—The Department planned to implement the HRIS in two phases. Phase 1 contains the payroll and benefits enrollment functions. Phase 2 will automate a number of functions currently performed by administrative staff.

Although the Department initially planned to implement the first phase of the HRIS system in April 2003, this date was revised and it was not implemented until December 2003. Phase 2 was targeted for implementation in July 2003, but the implementation dates have also been revised several times. As of April 2005, this phase does not have any components fully implemented. Further, the delays in implementing HRIS have exhausted most of the project's original funding of \$42.5 million, leaving little money left to complete the remaining work. Funding for this remaining work must now be taken out of the Department's operating budget. The Department has allocated about \$2 million for fiscal year 2005.

Extensive modifications have been made to the system's primary software to adapt HRIS to the varied business practices of

Because of the drastically reduced budget, staff resources available to finish the development and implementation of Phase 2 have been reduced from almost 60 to 16. Many of these staff are also needed to operate Phase 1 of the system.

Arizona state agencies. This largely contributed to the delay in implementing the system. The primary contractor assumed that the standard, out-of-the-box software would be used, requiring state agencies to standardize their business practices. Although state agencies committed to do so, they were either unwilling or unable to fit their practices within the framework of the system.

Some agencies continue use of alternative systems—One of the major objectives of the HRIS project was to eliminate duplicate automated systems and processes. However, due to the delayed implementation of Phase 2 with its new features, and agency-specific requirements that could not be implemented as part of the system, some agencies continue to use their own in-house manual and automated systems. Interviews with four of six agency users indicated that the HRIS system, as currently operating, has not eliminated this need. One major agency has even discussed developing a new system at its own cost.

Department needs to continue efforts to develop a plan to complete the project—In January 2005, the Department began

a strategic planning effort to address the future direction of HRIS, as well as user requirements and requests for system changes. This effort includes individual project plans for implementing the remaining system components. However, the Department still needs a comprehensive plan detailing the direction/priority of remaining work, funding required, and a completion time line.

Department needs to increase user participation—To ensure that the project meets user needs, the Department should continue with and expand its efforts to involve users in all facets of project management and development. These include obtaining input on overall project policy and direction, system design, evaluation and approval of changes, and determining project priorities, both for the outstanding system components and user requirements or requests.

Recommendations

The Department should:

- Complete development of a comprehensive plan to complete HRIS.
- Enhance user participation on the continued development and implementation of HRIS.

Planned Changes Will Improve Procurement Oversight

Enterprise Procurement Services (EPS), formerly known as the State Procurement Office (SPO), is another program in the Financial Services Division. EPS conducts strategic state-wide contracting for specific goods and services, and also procures contracts for individual state agencies when the amount exceeds their procurement limit.

Although data is not available regarding the total amount of money the State spends through procurement, it is estimated that over \$6 billion was spent in 2003 when state, federal, and other funds are included. The State Comptroller suggested that this appeared to be a conservative figure. However, poorly planned and executed purchases can lead to significant waste.

Department has performed little oversight of agencies' procurement practices—Prior to establishing EPS in January 2005, SPO's primary focus had been obtaining state-wide contracts for goods and

A 2003 Auditor General audit of the Government Information Technology Agency (GITA) found that it entered into a \$30.6 million contract that had multiple problems because it lacked funding, planning, stakeholder input, legal review, and contract management.

A 2001 Auditor General audit of the Department of Corrections found that poor contract planning and management led to a cost overrun of \$5.8 million on an information system contract, more than twice the \$2.5 million budgeted.

services or conducting individual agency procurements. Statute allows the department director to delegate procurement authority to state agencies. Twenty agencies have delegated authority of \$100,000 or more, including 14 with unlimited authority. This permits these agencies to enter into multi-million dollar contracts without outside review or approval. However, SPO has never

reviewed many of these agencies' procurement practices.

New procurement model should provide savings and improve oversight—The Governor's Efficiency Review concluded that the State could realize savings if state agencies purchased collectively instead of individually. In response to the recommendation, the Department and state agency procurement officers initiated the Value in Procurement effort in July 2004, which has resulted in a new contracting model for the State.

According to the model, one state agency will serve as the strategic contracting center for the procurement of specific goods or services. In consultation with other agencies, that agency will procure for the benefit of all agencies. The Department estimates that this will save the State \$29 million to \$34 million in fiscal year 2006.

Examples of Planned Procurements As of April 2005

Strategic Contracting Center	Item	Other Agencies Using Contract
Department of Commerce	Grant writing services	All agencies needing the service
Department of Transportation	Automotive parts	Departments of Administration, Corrections, and Game and Fish
Arizona Health Care Cost Containment System	Physician services	Departments of Corrections, Economic Security, and Health Services
Department of Administration	Commercial flooring	All agencies needing flooring

The new model should aid in oversight. Because contracts will need to meet the needs of multiple agencies, good

planning and needs assessment will be essential. Further, representatives from several agencies will likely be involved in evaluating contract proposals.

Oversight will be strengthened—In addition, EPS includes a best practice and compliance unit. This group will oversee state agency procurement activities. It also plans to create a procurement policy and procedure manual to provide agencies with detailed guidance on how to perform key purchasing processes. This group also plans to conduct best practice reviews of agency purchases, focusing on the agencies with high and unlimited procurement authority.

Guidelines for contract administration will also benefit procurement—Procurement staff and officials indicated that contract administration is an area of weakness. After a contract is awarded, agencies may not ensure that contractors deliver the goods and/or services within the time frame specified and that the accurate amount is billed. Policies, procedures, and guidelines would help improve contract administration.

The Department recently discovered that the State was over-billed by more than \$2 million under its telecommunication contracts with Qwest and AT&T.

Recommendations

The Department should:

- Continue to develop and implement a state-wide procurement policy and procedure manual.
- Continue to implement a process to review purchasing practices of agencies with procurement authority of \$100,000 or more.
- Develop guidelines for contract administration.

Workers' Compensation Claim Process

- Injured employee notifies agency and visits doctor.
- Employee and/or agency notifies Risk Management.
- Doctor or employee files claim with state Industrial Commission.
- Risk Management must accept or deny claim within 21 days of notice by the Commission.

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Department Can Improve the Workers' Compensation Claims Process

The State of Arizona provides workers' compensation coverage through self-insurance. In fiscal year 2004, the State paid \$19.2 million in workers' compensation claims covering medical treatment and lost wages for employees hurt on the job. The Department's Risk Management Office handles these claims for the State. The Office handles two kinds of claims—the cost of medical care only, or medical care and lost wages from time off for recovery.

Prompt acceptance or denial of claims is important to ensure injured employees receive needed medical care and, where applicable, wages. Auditors found that Risk Management meets the 21-day requirement for accepting or denying claims after receiving notice from the Industrial Commission of Arizona (Commission).

Employees may not file claims in a timely manner—While state employees generally notify Risk Management when an injury occurs, they may not realize that they must also file a claim with the Commission. Even though Risk Management begins to process some claims before receiving Commission notification, filing is important because Risk Management is not required to act on a claim until notified by the

Commission. Auditors saw cases in which the claims were not accepted for weeks or months after Risk Management had been notified of the injuries because of employee delays in filing claims with the Commission.

Risk Management can assist employees by improving communication—Risk Management has an automated phone system and a Web site to aid employees in reporting injuries. However, the Web site provides limited and somewhat difficult-to-find instructions on how to file a claim and the need to report injuries to the Commission. The phone system does not provide instructions to employees. In contrast, the State Compensation Fund, the State's largest workers' compensation insurer, uses its Web site to inform workers how to process their claims in a prompt manner.

Further, following its existing and establishing additional policies and procedures could improve claims processing. These include:

- Following up on potential time-loss claims if an employee has reported missing any work.
- Following its policies for the supervisory review of claims.
- Ensuring that state agencies provide needed information in a timely manner.
- Developing additional automated reports on claim status.

Recommendations

Risk Management should:

- Provide injured employees with the information necessary for the employee to file a claim with ICA.
- Follow its existing and establish additional claims processing policies and procedures.