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OFFICE OF THE  
AUDITOR GENERAL

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May 10, 2018

The Honorable Anthony Kern, Chair  
Joint Legislative Audit Committee

The Honorable Bob Worsley, Vice Chair  
Joint Legislative Audit Committee

Dear Representative Kern and Senator Worsley:

Our Office has recently completed a 36-month followup of the Arizona Department of Administration—State-wide Procurement regarding the implementation status of the 26 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in March 2015 (Auditor General Report No. 15-102). As the attached grid indicates:

- 4 have been implemented;
- 3 have been partially implemented;
- 2 are in the process of being implemented;
- 5 are not yet applicable;
- 1 is no longer applicable; and
- 11 have not been implemented.

Given the status of the Arizona Department of Administration's efforts to implement the report's recommendations, we believe that additional followup would be of limited value. Therefore, unless otherwise directed by the Joint Legislative Audit Committee, this concludes our follow-up work on the Department's efforts to implement the recommendations from the March 2015 performance audit report.

Sincerely,

Dale Chapman, Director  
Performance Audit Division

DC:ka  
Attachment

cc: Gilbert Davidson, Acting Director  
Arizona Department of Administration

Kevin Donnellan, Deputy Director  
Arizona Department of Administration

# Arizona Department of Administration— State-wide Procurement Auditor General Report No. 15-102 36-Month Follow-Up Report

## Recommendation

## Status/Additional Explanation

### **Finding 1: Department should further align its procurement strategic planning with model planning practices**

<p>1.1 The Department should conduct a comprehensive assessment of the state-wide procurement system to help ensure that the Department has identified the most critical state-wide procurement system strategic issues and objectives in its strategic plan. This comprehensive assessment should be reviewed and/or updated as part of the Department’s annual process for updating and/or revising its strategic plan.</p>	<p><b>Partially implemented at 36 months</b> The Department uses various methods to obtain input from most state agencies operating in the state-wide procurement system to identify critical issues and priorities, and to direct its strategic actions. However, the Department reported that since the 30-month follow-up report, it had not updated its fiscal years 2016 to 2020 strategic plan for its State Procurement Office (SPO) to reflect this input due to undesirable attrition and because the Department had focused its resources on other procurement priorities.</p>
<p>1.2 The Department should conduct a spend analysis as part of the comprehensive assessment. To do so, the Department should:</p> <ul style="list-style-type: none"> <li>a. Evaluate its internal data systems, including its newly integrated procurement and financial systems, once implemented, to determine how to best use these systems to conduct a spend analysis;</li> <li>b. Develop and implement policies and procedures for conducting a spend analysis; and</li> <li>c. Train staff on these policies and procedures and using the various data systems to conduct a spend analysis.</li> </ul>	<p><b>Implementation in process</b> In March 2017, the Department awarded a contract for a new automated procurement system, which will have the capability to analyze and report contract spending across the state-wide procurement system. The Department has initiated implementation of the new system, established a system implementation schedule, and reported that it expects the new system to be completely implemented in October 2018.</p> <p><b>Not yet applicable</b> Implementation of this recommendation is dependent on implementation of Recommendation 1.2a.</p> <p><b>Not yet applicable</b> Implementation of this recommendation is dependent on implementation of Recommendation 1.2b.</p>
<p>1.3 The Department should develop and document action steps to guide the implementation of its procurement-related objectives. The Department should ensure that its action steps align with SMART principles, include information on who is responsible for implementing them and when they should be completed, and that they are regularly monitored.</p>	<p><b>Partially implemented at 36 months</b> At the time of the 30-month follow-up report, the Department had developed a fiscal years 2016 to 2020 strategic plan and action steps to guide the implementation of its strategic objectives that generally align with SMART principles and are assigned to individuals for implementation. However, the Department reported that it has not consistently monitored the completion of its action steps due to undesirable attrition and because it has focused its resources on other procurement priorities.</p>

## Recommendation

## Status/Additional Explanation

1.4 The Department should ensure it has developed sufficient performance measures to assess the achievement of its procurement-related strategic issues and objectives, including ensuring that an appropriate combination of performance measure types are used, that the measures are clearly defined, and that realistic performance targets are identified through comparisons to external standards and/or best practices.

**Implemented at 30 months**

1.5 The Department should monitor its performance measures and report the results to internal and external stakeholders on an annual basis, at a minimum.

**Partially implemented at 30 months**

The Department has established internal performance measures and reports its results internally and to state agency chief procurement officers (CPOs) who attend its monthly CPO forums. However, not all state agency CPOs attend these forums. Additionally, as of the 36-month followup, the Department was in the process of establishing standardized key performance indicators for state agencies that are in the state-wide procurement system but had not yet established a process to monitor and report the results of these indicators to internal and external stakeholders.

## Finding 2: Department should develop and implement a comprehensive procurement manual

2.1 The Department should develop and implement a comprehensive procurement policy and procedure manual to help ensure appropriate and consistent application of procurement laws and regulations throughout the State. As part of this process, the Department should ask state agencies to review and provide input on the draft manual, and should provide additional clarification, explanation, or examples where statutes, rules, and existing policies and procedures are not sufficiently clear or defined. At a minimum, the manual should include the following elements recommended by best practice:

**Not Implemented**

Although the Arizona procurement code directs the Department to establish procurement policies and procedures for the State and the Department has been in the process of developing a comprehensive procurement policy and procedure manual since 2005, the Department reported that as of March 2018, based on consultation with its legal counsel, it has determined that it would not be in the State's best interest to develop and implement a procurement policy and procedure manual. The Department further reported that it believes a procurement manual could subject the State to an increased risk of liability, and as a result, indicated that this recommendation should no longer be applicable. However, as reported in the Office of the Auditor General's 2015 performance audit and sunset review, auditors found that the Department's existing procurement policies and procedures were inadequate. Additionally, despite the Department's determination that it would not develop a comprehensive procurement policy and procedure manual, the requirement to establish procurement policies and procedures for the State remains in effect and the Department reported that it does not have any plans to pursue changes to this requirement.

a. Clear definitions of procurement terms and processes;

**Not Implemented**

See explanation for Recommendation 2.1.

b. Instructions for appropriately defining goods or services being procured;

**Not Implemented**

See explanation for Recommendation 2.1.

Recommendation	Status/Additional Explanation
<ul style="list-style-type: none"> <li>c. Instructions and requirements for different contracting methods;</li> <li>d. Instructions for conducting special procurement programs, such as cooperative purchasing;</li> <li>e. Ethical guidelines and a procurement code of conduct;</li> <li>f. Outline of required procurement personnel qualifications, certifications, and training; and</li> <li>g. Guidance on the delegated authorities, roles, and responsibilities of the procurement office and personnel.</li> </ul>	<p><b>Not Implemented</b> See explanation for Recommendation 2.1.</p> <p><b>Not Implemented</b> See explanation for Recommendation 2.1.</p> <p><b>Not Implemented</b> See explanation for Recommendation 2.1.</p> <p><b>Not Implemented</b> See explanation for Recommendation 2.1.</p> <p><b>Not Implemented</b> See explanation for Recommendation 2.1.</p>
<p>2.2 The Department's comprehensive procurement policy and procedure manual should include a contract administration section that, at a minimum, includes instructions for contract-monitoring activities, correctly amending and renewing contracts, evaluating vendors' performance, addressing poor vendor performance, and maintaining appropriate records.</p>	<p><b>Not Implemented</b> See explanation for Recommendation 2.1.</p>
<p>2.3 Once developed and implemented, the Department should train procurement staff throughout the State on the policies, procedures, requirements, and guidance contained in its comprehensive policy and procedure procurement manual.</p>	<p><b>Not yet applicable</b> Implementation of this recommendation is dependent on implementation of Recommendation 2.1.</p>

**Finding 3: Department should further strengthen its oversight of state agency procurements**

<p>3.1 To help ensure effective management and oversight of the state procurement system while also considering its limited oversight resources, the Department should strengthen its procurement compliance program by taking the following steps:</p> <ul style="list-style-type: none"> <li>a. Develop standard criteria for assessing state agencies' risk of noncompliance with procurement laws, regulations, policies, and procedures;</li> <li>b. Regularly conduct risk assessments of state agencies;</li> </ul>	<p><b>Implementation in process</b> As of March 2018, the Department reported that it is in the process of developing a procedure that will define how it will prioritize assessing state agencies' compliance with procurement requirements based on different sources of information and other risk factors. For example, the Department reported that as part of its prioritization process, it plans to consider the results of state agencies' self-assessments and prior performance on department onsite compliance reviews, and information from its compliance hotline, which is used by state procurement employees to confidentially or anonymously report compliance concerns and complaints. The Department estimates completing this procedure in June 2018.</p> <p><b>Not yet applicable</b> Implementation of this recommendation is dependent on implementation of Recommendation 3.1a.</p>
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## Recommendation

## Status/Additional Explanation

- c. Implement a risk-based state agency review schedule by using the results of its risk assessments to target high-risk state agencies for more frequent reviews, while conducting fewer reviews of low-risk state agencies; and
- d. Conduct a small number of unscheduled or random compliance reviews annually as a deterrence mechanism to all agencies.

### **Not yet applicable**

Implementation of this recommendation is dependent on implementation of Recommendation 3.1a.

### **Not implemented**

The Department has not conducted unscheduled or random compliance reviews as a deterrence mechanism, but reported that it plans to update its existing compliance policy to incorporate random compliance reviews by June 2018.

- 3.2 The Department should revise its procurement compliance review checklist to provide additional instructions, definitions, assessment criteria, and examples for staff conducting compliance reviews.

### **No longer applicable**

This recommendation applied to the compliance review checklist that existed at the time of the audit and the initial follow-up report issued in May 2016. However, although this checklist is still posted on the Department's website for state agencies' use, the Department no longer uses it for compliance reviews because it revised its compliance review process in late 2016, including developing a different review tool. The Department's new tool differs significantly from the prior checklist and was not assessed by auditors.

- 3.3 The Department should revise its procurement compliance policy to indicate that the Department will monitor state agencies' implementation of requested corrective action to address noncompliance issues or procurement review findings.

### **Not implemented**

The Department has not revised its compliance policy to indicate that it will monitor state agencies' implementation of corrective action plans to address non-compliance issues.

- 3.4 The Department should develop and implement formal policies and procedures to govern its confidential and anonymous reporting system. Specifically, these policies and procedures should:

- a. Stipulate how the Department will investigate and resolve information received through this reporting system, and the time frames for investigating and resolving complaints, and determine how records will be maintained;
- b. Address how the Department will maintain the confidentiality and anonymity of reports and pending investigations; and
- c. Define how the Department will incorporate any information received through this system as part of its risk assessment framework.

**Implemented at 12 months**

**Implemented at 12 months**

**Implemented at 12 months**