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AUDITOR GENERAL

STATE OF ARIZONA  
OFFICE OF THE  
**AUDITOR GENERAL**

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

August 19, 2005

The Honorable Robert Blendu, Chair  
Joint Legislative Audit Committee

The Honorable Laura Knaperek, Vice Chair  
Joint Legislative Audit Committee

Dear Senator Blendu and Representative Knaperek :

Our Office has recently completed a 30-month followup of the Arizona Health Care Cost Containment System—Medical Services Contracting regarding the implementation status of the 4 audit recommendations presented in the performance audit report released in September 2002 (Auditor General Report No. 02-07). As the attached grid indicates:

- 3 recommendations have been implemented; and
- 1 recommendation has not been implemented.

Unless otherwise directed by the Joint Legislative Audit Committee, this report concludes our follow-up work on the agency's efforts to implement the recommendations resulting from the September 2002 performance audit.

Sincerely,

Debbie Davenport  
Auditor General

DKD:Acm  
Attachment

cc: Anthony Rodgers, Director  
Arizona Health Care Cost Containment System

**ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM**  
**Medical Services Contracting**  
**30-Month Follow-Up Report To**  
**Auditor General Report No. 02-07**

**FINDING I: Contracting process needs minor improvements**

<b>Recommendation</b>	<b>Status of Implementing Recommendation</b>	<b>Explanation for Recommendations That Have Not Been Implemented</b>
1. AHCCCS should develop general policies and procedures for its medical services procurement process.	<b>Implemented at 6 Months</b>	
2. AHCCCS should ensure that its process for evaluating current contractors' past performance as part of the competitive procurement process is well-documented and sufficiently supported.	<b>Implemented at 12 Months<sup>1</sup></b>	

<sup>1</sup> AHCCCS conducted its 2004 Acute Care RFP process from September 2002 through July 2003, with contract implementation scheduled for October 1, 2003. AHCCCS established a policy for the 2004 Acute Care RFP to consider past performance only in the event of a tie. However, according to an AHCCCS official, the policy was not used because there were no tied bids.

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**FINDING I: Contracting process needs minor improvements (cont'd)**

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
<p>3. AHCCCS should continue its efforts to develop guidelines that consider current contractors' past performance for its ALTCS competitive procurement processes.</p>	<p><b>Not Implemented</b></p>	<p>While AHCCCS indicated in its response to the report and in previous followups that it would implement this recommendation, but was waiting until it initiated the ALTCS state-wide RFP process to do so, it now reports that, based on the advice of legal counsel, it will not develop guidelines that consider current contractors' past performance. According to AHCCCS counsel, doing so would subject any such RFP to a protest. However, at the time the report was issued, AHCCCS considered current acute care contractors' performance when evaluating these contractors' acute care proposals. Additionally, although AHCCCS is not subject to the State procurement code, according to an Enterprise Procurement Services official, the State procurement code is silent on the issue of using contractors' past performance as an evaluation factor. Thus, there is nothing in the code that would prohibit the consideration of the current contractors' performance. Finally, federal procurement guidelines permit federal agencies to use past contractor performance information in source selection and explain that the "use of past performance as a major evaluation factor in the contract award process is instrumental in making 'best value' selections."<sup>1</sup></p>

<sup>1</sup> United States Executive Office of the President, Office of Management and Budget, Office of Federal Procurement Policy. *Best Practices for Collecting and Using Current and Past Performance Information*. May 2000.

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**FINDING I: Contracting process needs minor improvements (concl'd)**

<b>Recommendation</b>	<b>Status of Implementing Recommendation</b>	<b>Explanation for Recommendations That Have Not Been Implemented</b>
4. AHCCCS should develop an agency-wide system for tracking and retaining contract documents and correspondence.	<b>Implemented at 30 Months</b>	