

**REPORT HIGHLIGHTS**  
PERFORMANCE AUDIT

**Our Conclusion**

The Arizona Department of Administration (Department) administers a purchasing cooperative program that allows members to purchase goods and services from state-wide contracts. Statute authorizes the Department to establish a program fee that covers the costs of administering the purchasing cooperative program. However, the program's fee revenue has exceeded the program's administrative costs. Not only has the Department used program fee revenue to administer the purchasing cooperative program, it has also used this revenue to pay for most of the cost of the state electronic procurement system, ProcureAZ, and to pay the salaries and benefits of more than half of the Department's procurement staff. Therefore, the Department needs to better align the program fee with program costs. In addition, the Department needs to improve the collection of program fee revenue and continue to strengthen its cash-handling controls over the processing of program fee revenue.



2014

**Program fee revenue exceeds costs and is misapplied**

**Department administers state purchasing cooperative**—The Department established a purchasing cooperative program in 1984 that allows members to purchase goods and services from state-wide contracts. As of July 2014, 957 state-wide contracts were available to purchasing cooperative members. The advantages of purchasing through the cooperative program include volume discounts, guaranteed pricing, and a reduction in administrative costs. Members include Arizona political subdivisions, nonprofit organizations, the federal government, and tribal nations. State agencies also use state-wide contracts, but are not purchasing cooperative members. Between fiscal years 2012 and 2014, purchasing cooperative members purchased at least \$1 billion in goods and services through the state-wide contracts.

To cover the Department's cost of administering the purchasing cooperative program, state-wide contract vendors are required to remit to the Department on a quarterly basis a 1 percent program fee based on the dollar value of sales to purchasing cooperative members. This fee applies to all state-wide contract vendors unless defined differently in the contracts. In fiscal years 2013 and 2014, the Department collected more than \$3.2 and \$3.7 million in program fee revenue, respectively.

**Program fee revenue has exceeded program's costs and used for other procurement costs**—Statute authorizes the Department to establish a program fee to cover the cost of administering the purchasing cooperative program, but in fiscal years 2013 and 2014, program fee revenue exceeded purchasing cooperative program costs by approximately \$987,000 and \$1.3 million, respectively. This resulted in a fiscal year 2014 year-end fund balance of nearly \$3.4 million.

The Department has used program fee revenue to pay for some nonpurchasing cooperative program costs. For example:

- Although the Department used program fee revenue to pay the salaries and related benefit costs for more than half of its 38 procurement positions, it had not conducted any type of cost analysis to determine how many of its procurement positions program fee revenue should support. Additionally, even though the Department's state-wide contracts and ProcureAZ functions primarily support state agencies, the Department used program fee revenue to pay for 86 percent of procurement personnel costs related to these functions.
- The Department also used program fee revenue to pay for \$7.4 million of the \$8.6 million spent to purchase, implement, manage, and maintain ProcureAZ between fiscal years 2008 and 2014. However, only 17 percent of the active contracts on ProcureAZ as of July 2014 were available for purchasing cooperative members' use.

Therefore, the Department should take steps to evaluate the purchasing cooperative program's costs and better align the program fee with these costs.

**Recommendation**

The Department should implement a structured approach to evaluate purchasing cooperative program costs and establish a program fee that is consistent with these costs.

## Department needs to improve collection of program fee revenue

**Department cannot ensure that all state-wide contract vendors appropriately report and remit program fee revenue**—The Department has not established adequate policies and practices for collecting program fee revenue from state-wide contract vendors. We reviewed 20 vendor files for the time period July 1, 2009 through December 31, 2013, and found improperly reported fee amounts and inadequate followup by the Department on late and missing fee payments. Specifically:

- 15 vendors did not submit required quarterly reports documenting sales to purchasing cooperative members and state agencies. One vendor did not provide any reports and it was subsequently determined that the vendor owed approximately \$1,700 in program fees.
- 5 vendors had outstanding program fee amounts due. For example, one vendor had \$109,309 in unpaid program fee monies, including \$21,354 that had been outstanding for nearly 2 years and \$64,074 that had been outstanding for more than a year prior to the vendor remitting payment in April 2014.
- 5 vendors had discrepancies between their reported sales amounts to state agencies and state accounting records. One of these vendors under-reported \$51.8 million in sales. Because it did not verify the sales amounts that this vendor reported, the Department did not collect at least \$323,000 and possibly as much as \$518,000 in program fee revenue.

**Department should develop and implement various collections policies and procedures**—These policies and procedures should address documenting and communicating contractually established program fee rates to the staff responsible for tracking collections, verifying vendor-reported sales and program fee amounts, following up on deficient or delinquent sales reports and program fee revenue payments, and the supervisory oversight of the Department's collections processes and practices.

### Recommendations

The Department should:

- Pursue collecting unpaid program fee revenue and resolve discrepancies in reported sales amounts; and
- Develop and implement various program fee collections policies and procedures to help ensure that program fee amounts are appropriately remitted to the Department.

## Department should continue to improve its controls over program fee collections

The Department should continue to strengthen its internal controls over the processing of program fee revenue. The Department lacked several cash-handling controls that the *State of Arizona Accounting Manual* requires and are important for reducing the risk of fraud, theft, and loss. Although the Department has begun taking steps to strengthen its controls, including moving all cash-handling responsibilities from the Department's procurement office to its accounting office, additional steps are needed. These include developing detailed cash-handling policies and procedures that address all cash-handling functions, including restrictively endorsing checks upon receipt, depositing checks daily, storing checks in a secure location before deposit, and segregating cash-handling duties.

### Recommendation

The Department should develop and implement detailed cash-handling policies and procedures, and train staff on them.