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ARIZONA DEPARTMENT OF ADMINISTRATION

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March 10, 2015

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

Dear Ms. Davenport:

The Department of Administration has reviewed the preliminary draft of the Arizona State-wide Procurement provided by your office. As requested, our written response is detailed below.

1.a. The Auditor General finds that 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.

The finding of the Auditor General is agreed to and the audit recommendation will be implemented. However, since the state-wide procurement system (ProcureAZ) is currently in process of integrating with the new financial accounting system any current assessment of the system would be invalid. The Department will conduct the review after implementation when the newly integrated systems are determined to be stable and provide a valid baseline.

1.2 The Auditor General finds that the Department should conduct a spend analysis as part of the comprehensive assessment. To do so the Department should:

The finding of the Auditor General is agreed to and the audit recommendation will be conducted as noted in finding 1.a.

1.2.a Evaluative its internal data systems, including its newly integrated procurement and financial systems, once implemented, to determine how best to use this data to conduct a spend analysis.

The finding of the Auditor General is agreed to and the recommendation will be implemented. After July 1, 2015 the newly integrated ProcureAZ and new financial system will have a sufficient data repository to allow for conducting spend analysis.

1.2.b. Develop and implement policies and procedures for conducting a spend analysis; and

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

1.2.c. Train staff on these policies and procedures for using the various data systems to conduct a spend analysis.

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

1.3. The Auditor General finds that 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 are regularly monitored.

The finding of the Auditor General is agreed to and the recommendation will be implemented. The Department has developed action plans for the current strategic plan. The plans align with the SMART objectives and include responsible parties and target dates.

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 comparison to external standards and/or best practices.

The finding of the Auditor General is agreed to and the recommendation will be implemented. The Department has developed performance measures for the current strategic issues and objectives. Those documents were developed using a SMART process.

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

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

2.1. The Auditor General finds that 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:

The finding of the Auditor General is agreed to and will be implemented but state procurement is heavily regulated through statutes and rules. Additionally, the SPA has enacted technical bulletins (policy) and Standard Procedures (procedures) that all delegated procurement staff adhere to as part of their procurement delegation. The uniqueness of each agency's need requires a procurement office to use discretion for determining applicability. The Department agrees that a comprehensive policies and procedures manual would be useful to include additional instructions and best practices for activities that are not explicitly outlined in statute/rule/technical bulletins or standard procedure. The SPO will seek to provide guidance related to procedure and policy, but a one-size fits all state will be challenging.

2.1.a. Clear definitions of procurement terms and processes;

The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented. The Arizona State Procurement code contains the definition of procurement terms. The procurement manual will make reference to the appropriate section of the code but will not "re-state" definitions already in place in statute and rule.

2.1.b. Instructions for appropriately defining goods and services being procured;

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

2.1.c. Instructions and requirements different contracting methods;

The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented. The Arizona State Procurement code contains the definition of procurement terms. The procurement manual will make reference to the appropriate section of the code but will not "re-state" definitions already in place in rule.

2.1.d. Instructions for conducting special procurement programs, such as cooperative purchasing;

The finding of the Auditor General is agreed to and will be implemented. The SPO will issue instructions as part of its series of standard procedures and incorporate appropriate information as part of the procurement manual.

2.1.e. Ethical guidelines and a procurement code of conduct;

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

2.1.f. Outline of required procurement personnel qualifications, certifications, and training; and

The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented. The Arizona State Procurement Office has already provided this information in a technical bulletin. The procurement manual will reference the appropriate technical bulletin but it will not "re-state" the requirements.

2.1.g. Guidance on the delegated authorities, roles and responsibilities of the procurement office and personnel.

The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented. The Arizona State Procurement Office has already provided this information in a technical bulletin. Specific authority for a procurement office and individual personnel is also managed through a delegation or sub-delegation agreement. The procurement manual will reference the appropriate technical bulletin but it will not "re- state" the requirements.

2.2. The Auditor General finds that 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.

The finding of the Auditor General is agreed to and will be implemented. The procurement manual under development will include a section on contract administration.

2.3. The Auditor General finds that once developed and implemented, the Department should train procurement staff throughout the State on policies, procedures, requirements, and guidance contained in its comprehensive policy and procedure procurement manual.

The finding of the Auditor General is agreed to and will be implemented. As part of the changes to the procurement statute during procurement reform, the Department hired a training officer to begin a comprehensive training and compliance program for all State employees in the procurement series.

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:

3.1.a. Develop standard criteria for assessing state agencies' risk of non-compliance with procurement laws, regulations, policies, and procedures;

The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The SPO Compliance Unit will establish standard criteria for assessing state agencies' risk of noncompliance with procurement laws, regulations, policies, and procedures. Collected data will be maintained on the SPO Compliance Unit's "Compliance Dashboard" to establish state procurement areas of high risk.

3.1.b. Regularly conduct risk assessments of state agencies;

The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The SPO Compliance Unit will conduct an annual risk assessment at the end of

every fiscal year based on an assessment tool using data collected from the Chief Procurement Officers and information compiled from the compliance reviews completed that year. This process will assist SPO in identifying areas of high risks and opportunities for improvement to state procurement.

3.1.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

The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The SPO Compliance Unit will coordinate with the State Procurement Administrator each fiscal year to establish the following year's agency compliance review schedule based on the current fiscal year's risk assessment.

3.1.d. Conduct a small number of unscheduled or random compliance reviews annually as a deterrence mechanism to all state agencies.

The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The SPO Compliance Unit will implement quarterly random sampling reviews of contracts for agencies not scheduled for either onsite procurement review or self-assessment. This review will be conducted on the State's eProcurement system, ProcureAZ. The results of this review will be transmitted to the State Procurement Administrator and the respective agency Chief Procurement Officer. The focus of the random sampling review will be on the areas of high risks identified in the aforementioned annual risk assessment. The quarterly sampling will begin in Q1 FY16.

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

The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The SPO compliance checklists will be updated to provide additional instructions, definitions, assessment criteria, and examples for staff conducting reviews. Revised checklists will be made available to state agencies.

3.3. The Auditor General finds that 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.

The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The compliance program will request the development of a corrective action plan as part of the compliance review process. The SPO will initiate a follow up review process to monitor progress of the corrective action plans. However, the Department will continue to utilize currently

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available processes, such as those defined in A.R.S. § 41-2511, in conjunction with the review process if the issues discovered during a compliance review warrant intervention. A.R.S. § 41-2511 provides the State Procurement Administrator the authority to reduce, modify, or suspend an agency's delegated procurement authority due to noncompliance, as well as to select agencies for unscheduled compliance review. Agencies non-compliant to procurement laws, regulations, policies, and procedures are subject to these provisions.

3.4. The Auditor General finds that the Department should develop and implement formal policies and procedures to govern its confidential and anonymous reporting system. Specifically, these policies and procedures should:

3.4.a. Stipulate how the Department will investigate and resolve information received through this reporting system, the time frames for investigating and resolving complaints, and determine how records will be maintained;

The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The SPO Compliance Unit will develop a comprehensive procedure for investigating and resolving complaints. The SPO Compliance Unit will identify, within the written procedure, record retention policies consistent with Arizona Records Management Division policy. The procedure for investigating and resolving complaints will be maintained in the SPO Policy and Procedure Manual.

3.4.b. Address how the Department will maintain the confidentiality and anonymity of reports and pending investigations; and

The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The SPO Compliance Unit shall address, within the aforementioned procedure, how the Department will maintain the confidentiality and anonymity of reports and pending investigations.

3.4.c. Define how the Department will incorporate any information received through this system as part of its risk assessment framework.

The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The SPO Compliance Unit will define, within the aforementioned procedure, how the Department will incorporate any information received through the E-Comply system as part of the SPO Compliance Unit's risk assessment framework.

If you have any questions about this reply, please contact me at 602-542-1500.

Sincerely,

Kathy Peckardt
Interim Director