

ARIZONA STATE SENATE

RESEARCH STAFF



TO: JOINT LEGISLATIVE AUDIT COMMITTEE

RE: Sunset Review of the Arizona Department of Administration

DATE: December 23, 2015

CHERIE STONE
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GOVERNMENT COMMITTEE
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JEFFREY ONG
LEGISLATIVE RESEARCH
ASSISTANT ANALYST
GOVERNMENT COMMITTEE

Attached is the final report of the sunset review of the Arizona Department of Administration, which was conducted by the Senate Government and House of Representatives Government and Higher Education Committee of Reference on Wednesday, December 9, 2015.

This report has been distributed to the following individuals and agencies:

Governor of the State of Arizona
The Honorable Douglas A. Ducey

President of the Senate
Senator Andy Biggs

Speaker of the House of Representatives
Representative David Gowan

Senate Members
Senator John Kavanagh, Co-Chair
Senator Sylvia Allen
Senator Lupe Contreras
Senator Martin Quezada
Senator Steve Smith

House Members
Representative John Ackerley, Co-Chair
Representative Lela Alston
Representative Jonathan Larkin
Representative Phil Lovas
Representative Warren Petersen

Arizona Department of Administration
Arizona State Library, Archives and Public Records
Office of the Auditor General

Senate Majority Staff
Senate Research Staff
Senate Minority Staff
Senate Resource Center

House Majority Staff
House Research Staff
House Minority Staff
Chief Clerk

**Senate Government and House of Representatives Government and Higher Education
Committee of Reference Report**

ARIZONA DEPARTMENT OF ADMINISTRATION

Background

Pursuant to A.R.S. § 41-2953, the Joint Legislative Audit Committee (JLAC) assigned the sunset review of the Arizona Department of Administration (ADOA) to the Senate Government and House of Representatives Government and Higher Education Committee of Reference.

ADOA was established in 1972 under A.R.S. § 41-701 in order to provide centralized administrative services for the State of Arizona. Accordingly, ADOA provides state employees with medical and health benefits, maintains office buildings, purchases goods and services, and provides information technology and telecommunication services.

The Department is organized into the Director's Office and six divisions. The Director's Office is the central management of all divisions and houses the ADOA Controller, the Government Transformation Office, the Grants and Federal Resources Office, the Governor's Office of Energy Policy, and the State Demographer and Employment and Population Statistics functions. Additionally, Department personnel work in the General Accounting Office; the General Services Division; Human Resources; the Arizona Strategic Enterprise Technology Office; the Risk Management Division; and the State Procurement Office.

While the Department's operating budget consists of monies appropriated from the State General Fund, it also receives revenues from other funding sources, including charges assessed to state agencies for the various services it provides. According to the Joint Legislative Budget Committee, the Department's operating budget includes \$9,329,100 from the general fund and \$80,090,200 from other appropriated funds with 501.1 FTE positions in FY 2016.

Committee of Reference Sunset Review Procedures

The Committee of Reference held one public meeting on December 9, 2015 to review ADOA's response to the sunset factors, as well as four additional questions, as required by A.R.S. § 41-2954, subsections D and F, and to accept public testimony. The Committee of Reference received testimony from Rosa Ellis, Performance Auditor from the Office of the Auditor General; Craig Brown, Director of the Arizona Department of Administration; Elizabeth Thorson, Assistant Director of Human Resources, ADOA; Morgan Reed, Chief Information Officer, ADOA; Barbara Corella, State Compliance Officer from the State Procurement Office, ADOA; and Paul Shannon, Assistant Director of Budget and Resource Planning, ADOA.

Committee of Reference Recommendations

The Committee of Reference recommended that the Arizona Department of Administration be continued for eight years.

Attachments

1. Agency Response
2. Meeting Notice
3. Minutes of the Committee of Reference Meeting
4. "Arizona Department of Administration" PowerPoint presentation
5. "ADOA Arizona Department of Administration Performance Audit Sunset & Review-2015"
PowerPoint presentation

Douglas A. Ducey
Governor



Kevin Donnellan
Acting Director

ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR

100 NORTH FIFTEENTH AVENUE • SUITE 401
PHOENIX, ARIZONA 85007

(602) 542-1500

July 20, 2015

The Honorable John Kavanagh
c/o Cherie Stone
Arizona State Senate
1700 West Washington Street, Room 303A
Phoenix, Arizona 85007

Re: ADOA Sunset Committee of Reference Sunset Factors Response

Dear Senator Kavanagh:

ADOA is pleased to provide the following response to the Committee of Reference's five sunset factors questions received June 1, 2015. Each question is restated as presented in the Committee's letter, for your convenience. The Department presents the responses by division due to its divisions' distinct responsibilities supporting the mission of state executive agencies, boards and commissions.

1. An identification of the problem or the needs that the agency is intended to address.

ADOA was established in July 1973 by the Arizona State Legislature to provide support to the operation of state government. The primary customers of the Arizona Department of Administration (ADOA) include State of Arizona government agencies and State of Arizona employees. The ADOA is a state government agency dedicated to enabling, and in many cases enhancing, the ability of other agencies to conduct their business. The agency acknowledges its importance in the service delivery chain, ensuring that those agencies that directly provide services to the people of Arizona are in turn supported by ADOA.

ADOA mission statement: *"To serve State government by delivering the highest quality services to our partners in support of all Arizonans."* This mission statement accurately identifies the dual role of ADOA: providing centralized support services to agencies so they can focus their efforts on their unique missions and embracing the leadership role of

the agency to introduce and implement statewide efficiencies and solutions that no other agency has the leverage to embrace.

These needs can often be met most effectively and economically through common systems and processes shared by all state government organizations. These common needs include:

- Developing employees through training
- Paying employees for the work they do
- Processing claims when the employees get injured
- Providing medical and dental health benefit options to employees and state retirees
- Maintaining office buildings for employees to work
- Purchasing goods and services needed to conduct state business
- Providing accounting systems, services and reports to state agencies
- Providing information technology and telecommunication services for employees
- Providing vehicles for business trips
- Recruiting a pool of qualified applicants to fill job openings

For further understanding of the problem or the needs that the agency is intended to address, ADOA is organizationally comprised of the Director's Office and six divisions. The Director's Office functions as the central management of all divisions at ADOA, but also houses unique services. The Director's Office houses the ADOA Controller, the Government Transformation Office, the Grants and Federal Resources Office, the Governor's Office of Energy Policy, and the State Demographer and Employment and Population Statistics functions that would require allocation to another entity, in the event that ADOA sunsets.

Functions and responses from respective divisions of ADOA are included below for the questions posed by the Committee of Reference.

General Accounting Office (GAO)

This group administers the statewide accounting system, Arizona Financial Information Systems (AFIS), which maintains information on over 44,000 vendors and involves processing over nine million transactions each year. The division also administers payroll for nearly 39,000 state employees through the Human Resources Information Solution (HRIS). Every two-week pay period, over \$95 million is processed through the payroll system. The division also coordinates and prepares multiple statewide financial reports, establishes statewide accounting policies and procedures (principally through the State of Arizona Accounting Manual), conducts internal audits, and assists agencies with financial and accounting problem resolution.

General Services Division (GSD)

The GSD provides project management and contract review services for capital projects and other construction projects. The GSD also maintains ADOA-managed office buildings (plumbing, electrical, heating/cooling, and general maintenance), provides

custodial services, maintains landscaping, inspects facilities, and manages the modification of office space. In total, the GSD provides property management services for over 4,227 structures comprised of approximately 23.5 million Gross Square Feet (GSF) with an estimated value of \$4.0 billion. The GSD also maintains a statewide fleet of vehicles ensuring agencies have appropriate vehicles for both long-term and short-term transportation needs. The management and disposition of surplus property is also coordinated through the division.

Human Resources (HR)-

The division is responsible for administering the State Personnel System and health benefits to nearly 34,000 employees. The division has four primary functions:

- Benefit Services, whose programs currently include a self-funded medical plan, self-funded dental plan, and fully insured plans for vision, basic life, supplemental life, dependent life, short-term disability, flexible spending accounts, and a statewide wellness program. ADOA is legislatively mandated to offer continuation of health and dental insurance coverage to state retirees and their dependents. In total, Benefit Services has a total customer population of over 125,000 members, making the State the largest self-insured health insurance group in Arizona. Benefit Services assists members with a variety of benefits related issues. Additional services provided include a Wellness Program and contracted services for an Employee Assistance Program. The Member Services staff works closely with the Benefit Liaisons assigned to each agency to ensure initial enrollments are correctly completed. Additionally, each year the staff conducts an open enrollment allowing members to modify their insurance choices (www.benefitoptions.az.gov).
- Maintaining the infrastructure for personnel administration, including the classification and compensation system, as well as personnel rules and policies governing all employees within the ADOA Personnel System. In addition, HR maintains the State's payroll/personnel system-Human Resources Information Solution (HRIS), which links together a centralized job board (azstatejobs.com), the hiring system (Hiring Gateway) and the State's centralized employee self-service website-Your Employee Services (YES).
- Providing a number of services to state employees including a State Career Center, an internship program, a Travel Reduction Program, and training through the Arizona Learning Center.
- Supporting state agencies by providing human resources services in the areas of employee relations, staffing and recruitment, job classification, employee compensation, employee development, recognition, workforce planning and analysis, and operational support.

This division also contains the following subprograms:

- Human Resources Operations
- Travel Reduction
- Benefits Services Operations
- Benefits Vendor Payments

Arizona Strategic Enterprise Technology (ASET) Office

ASET is responsible for defining and executing the statewide strategic IT plan, including statewide information technology strategy, policies and security standards as well as providing capabilities, services and infrastructure to ensure the continuity of mission critical and essential systems for the State of Arizona's agencies, boards and commissions. ASET reduces unnecessary expenditures, leverages technology as a force-multiplier, and protects the security and privacy information of our State's citizens. The Strategic Transformation and Innovation Office sets the technology, security, privacy, and communication strategies, policies, and procedures for the State of Arizona government. In addition, ASET is the body responsible for monitoring and overseeing high-risk technology projects across all state agencies. Lastly, ASET manages several large, state-wide programs and initiatives such as e-Government, the Health Information Exchange, and Broadband.

Risk Management Division (RMD)

- The Property and Liability Claims Section of RMD is responsible for the investigation and settlement of all insurance claims related to state property and liability issues. The section also manages and provides defense for lawsuits against the State in conjunction with the Attorney General's Office and recovers moneys from third parties responsible for loss or damage to state property. The section also purchases insurance policies that provide excess coverage and agency assistance with insurance and indemnification issues.
- The Workers' Compensation Section is responsible for investigation and management of all workers' compensation claims filed by state employees. The Workers' Compensation Section manages the Return to Work and Modified Duty programs for the State and provides assistance to state employees in receiving quality medical care for injuries sustained on the job.
- The Loss Prevention/Insurance Section's primary responsibility is to work with state agencies to reduce the frequency and severity of losses. Risk Management Loss Prevention Consultants provide advice and assistance in a variety of areas including exposure analysis, environmental assessments and industrial hygiene concerns. The section also oversees post-offer physical exams for persons entering jobs with a high risk of occupational illness or injury.

State Procurement Office (SPO)

SPO serves as the central procurement authority for the State of Arizona. The office conducts strategic sourcing for statewide cooperative contracts including: office supplies and equipment, temporary services, marketing and advertising services, information technology equipment, software, and telecommunication equipment and services. SPO also conducts specialized procurements for a large number of small agencies with limited procurement authority. Additionally, SPO provides and supports a central e-procurement system (ProcureAZ) for use by state agencies and cooperative members (i.e., counties, cities, schools).

2. A statement, to the extent practicable, in quantitative and qualitative terms, of the objectives of such agency and its anticipated accomplishments.

Each issue listed below is described in more detail in the strategic plan, including appropriate objectives and strategies that will lead to realizing efficiencies and improved service delivery.

- Strategic Issue 1: Attract a Highly Engaged and Highly Motivated Workforce*
- Strategic Issue 2: Leverage HRIS (Human Resources Information Solution)*
- Strategic Issue 3: Control & Contain Benefit Costs*
- Strategic Issue 4: To Improve Consistency in the Delivery of Procurement Services, Using Standardized Formats and Procedures*
- Strategic Issue 5: Provide, Enhance and Support a Transparent, Effective eProcurement System*
- Strategic Issue 6: Development of Knowledgeable and Skilled Public Procurement Professionals*
- Strategic Issue 7: Enhance Capitol Mall/Tucson Office Complex Physical Security*
- Strategic Issue 8: Continue Building Renewal*
- Strategic Issue 9: Develop Certificate of Insurance Tracking System*
- Strategic Issue 10: Implement Workers' Compensation Medical Cost Containment Program*
- Strategic Issue 11: Expand Enterprise Capabilities*
- Strategic Issue 12: Proactively Manage Enterprise Risk*
- Strategic Issue 13: Implement and Continuously Develop the Statewide Enterprise Resource Planning Solution*
- Strategic Issue 14: Increase the Office of Employment and Population Statistics Participation in the Workforce Investment Community*

ADOA Strategic plan: FY 2016-2020 available at <https://doa.az.gov/>

In addition, each ADOA Division provides objectives and anticipated accomplishments, below:

General Accounting Office (GAO)

Performance measures as reported in the FY16 Budget Submission (FY14 actuals):

- Percentage of warrants available for distribution by 1:00 PM following the day of processing on Arizona Financial Information System (AFIS) – 99.9%;
- Percentage of warrants distributed to correct agency – 99.9%;
- Percentage of security requests for financial applications processed within three business days – 99.8%;
- Customer satisfaction with accounting policies and procedures – 6.48 out of 8 maximum;
- Customer satisfaction with the administration of AFIS – 6.36; and
- Customer satisfaction with administration of payroll process – 6.77

General Services Division (GSD)

By December 31, 2015, successfully and completely implement the new security access system for ADOA managed buildings. (Strategic issue number 7)

By October 15th, submit the annual ADOA Capital Improvement Plan (CIP) to the Governor's Office. Arizona Revised Statutes mandate that priority funding consideration should be given to projects affecting fire and life safety. The Department of Administration, as part of each year's ADOA Building System building renewal allocation plans, will engage and educate ADOA Building System agencies and budget offices to appropriately identify and justify priorities and validate scope and budget of proposed projects. (Strategic issue number 8)

Human Resources (HR)

ADOA has multiple objectives that include: attracting a highly engaged and highly motivated workforce, leveraging the Human Resources Information Solution (HRIS), and controlling and containing benefit costs. Quantitative and qualitative measures of these objectives include:

- By June 30, 2015, increase the average length of service of high-performing employees by 5 percent
- By June 30, 2015, increase turnover of low-performing employees by 5 percent
- Generate \$61.7 million of cumulative productivity savings and efficiencies over the FY15 – FY 19 Strategic Plan period
- Each fiscal year, continue to provide a competitive, comprehensive and cost effective benefits program
- Each fiscal year, contribute toward improving the health and lifestyle of state employees, retirees and their families

Anticipated Accomplishments:

By continuing to focus on implementing strategies to mitigate anticipated departures of our valuable employees, ensuring our salary ranges are consistent with market pricing of jobs, and reinforcing the value of effective performance management, the Department anticipates meeting its workforce objectives. Over the past seven years, the Department has successfully leveraged HRIS to generate millions of dollars in efficiencies and productivity savings through the deployment of functionality, streamlining business processes across state government. By upgrading HRIS and continuing to deploy HRIS functionality to all agencies, the Department anticipates it will be able to continue to generate significant savings and efficiencies. The Department has effectively controlled the rise in health care costs through quality benefit design, administrative oversight, strategic planning, auditing and effective contract management. By continuing to evaluate and assess the benefit offering and to promote wellness through our robust Wellness Program, the Department anticipates it will be able to continue controlling and containing benefit costs.

Arizona Strategic Enterprise Technology (ASET)

The goal of ADOA-ASET is to transform Arizona into a nationwide leader of advanced IT strategies, methodologies, services and business processes. By leveraging technology as a catalyst for state reform, ADOA-ASET enables efficient, innovative and sustainable services. ADOA-ASET sets the technology, security, privacy, and communication strategies, policies, and procedures for the State of Arizona. As good stewards of the taxpayer's dollars, it is the body responsible for monitoring and overseeing high-risk technology projects across all state agencies and managing large, statewide programs and initiatives such as Digital Government, IT Security, 911, Digital Arizona and AzNet the outsourced voice and data state network. In addition, ADOA-ASET manages critical operations and state services including the State's telecommunications and data network, the State Data Center and disaster recovery. Other services offered by ADOA-ASET include application design, architecture and integration, process automation, business intelligence and IT security.

Risk Management Division (RMD)

As identified in the strategic plan; the RMD has as an objective to implement an improved Workers' Compensation Medical Cost Containment Program. The new program will allow the RMD better flexibility to make program changes, improve care for injured employees, improve productivity by returning employees back to work sooner, and based on an independent evaluation, there will be an anticipated financial benefit. The program is currently being implemented and we expect full implementation early in calendar 2016.

State Procurement Office (SPO)

SPO has been engaged in procurement reform over the past two legislative sessions. The goals of procurement reform are to adopt measures concerning state employee interactions with potential vendors, creation of new practices and rules governing areas of cooperative purchasing, vendor performance, and includes a comprehensive training and compliance program. As a result of legislation and reform, SPO has promulgated new rules, most recently effective February 2015.

3. An identification of any other agencies having similar, conflicting or duplicate objectives, and an explanation of the manner in which the agency avoids duplication or conflict with other such agencies.

As the central support agency for the State of Arizona government, no other agency has similar scope of objectives as broad as ADOA. The Department provides common administrative services for all agencies which not only capture economies of scale and reduce unnecessary duplication, but also allows state government agencies and their employees to focus their resources and efforts on their unique missions and meeting the various needs of the people of Arizona.

Other entities do have similar programs for which they have organic authority to perform a similar function, such as procurement authority or fleet services. Those entities tend to

be larger and only have authority to provide the function within their entity, thus no conflict exists with ADOA. In addition, ADOA operates a central services bureau in coordination with smaller entities to provide the function to meet their needs.

GAO

GAO conducts audits, as does the Office of the Auditor General. The Office of the Auditor General has specific statutes outlining the duties and responsibilities of the agency differing from GAO in scope. In addition, some agencies have internal audit groups that focus on the agency or federal program requirements, not compliance with state accounting policies and procedures. GAO considers the scope of authority and planned audit coverage to ensure audits are not redundant or unduly burdensome to state agencies.

GSD

Concerning GSD, in limited cases the legislature has extended other agencies similar but unique authority to maintain buildings or fleet vehicles. For example, the Departments of Transportation, Economic Security, Child Safety, Corrections, and Public Safety, and the Cotton Research Council have statutory authority to maintain their own fleets of vehicles. However, ADOA-GSD has authority for building inspections, statutory review, building renewal and capital projects.

A number of agencies also maintain their own internal mailroom facilities. However, GSD provides mail room services to the vast majority of the small to medium sized agencies, boards and commissions; and interagency mail delivery to almost all agencies.

GSD avoids conflicts in these areas by allowing each agency to exercise its authority, but also by providing support and sharing experience upon request.

HR

Although almost every state agency has agency staff that perform human resources functions specifically for the employing agency, the Department considers the state personnel system as a whole, and acts consistently in the best interests of the State.

HR provides a career center, resume, recruiting, and training and services, pay scales for classifications and compensation used in filling positions, and administers the performance measurement and disciplinary system consistently throughout the state.

ASET

There is little to no overlap in the purpose and objectives of ADOA-ASET with other state agencies. No other state agency is tasked with statewide information technology strategy or the development and delivery of sustainable centralized IT services and systems to support the needs of state agencies.

RMD

Medium and large agencies have internal loss prevention employees. The expertise range varies from one loss prevention coordinator to a large loss prevention unit consisting of several individuals. The RMD role is to provide oversight, guidance and training to agencies in the development of agency specific loss prevention programs.

SPO

Limited agencies have been granted exemptions from the Arizona Procurement Code (APC) by the legislature. Often the exemption comes with the requirement in law that the agency adopt rules similar to the provisions of the APC administered by SPO. In these cases, there is no overlap or conflict, and similar to other statewide programs that ADOA administers, SPO can play a vital role in guiding and advising these agencies regarding procurement. In addition, the Director of ADOA (or State Procurement Administrator, if delegated), may extend a limited delegation of procurement authority where risk analysis demonstrates little risk in permitting the agency autonomy in making limited procurements.

4. An assessment of the consequences of eliminating the agency or consolidating it with another agency.

Regarding the agency's assessment of the consequences of eliminating the agency or consolidating it with another agency, as discussed, the agency provides common services which not only capture economies of scale and reduce unnecessary duplication, but also to allow other state government agencies and their employees to focus their resources and efforts on their unique missions and meeting the various needs of the citizens of Arizona.

If ADOA were eliminated, either of two things would necessarily occur: 1) each agency would need to establish, recruit for, train and implement the common services that ADOA currently provides, or 2) since no other entity has ADOA's scope of powers and duties, another agency or agencies would need to be created to fulfill the basic requirements in law fulfilling the programs managed under the authority of ADOA.

GAO

If GAO was eliminated, the functions of the office would still need to be performed in accordance with state and federal laws. Further, the State cannot function without essential accounting and payroll functions. Eliminating the centralized administration of these functions would dramatically increase the costs of these activities through redundant and inefficient systems and operations. Statewide reporting would also become extremely difficult, costly, and ineffective.

ADOA is not aware of any benefits that would be derived from consolidating GAO with another agency.

GSD

GSD was created to consolidate functions performed by numerous agencies to reduce costs, improve executive and legislative oversight, provide budgetary transparency and increase operational efficiency. The division provides a centralized location for information which decision makers can use with respect to facilities costs, building inventories, and other functions housed within the division. Eliminating the division would re-create the specific situations and problems the division was established to eliminate.

If GSD was eliminated, there would be no centralized building management leaving building tenants little leverage or dedicated employees to maintain State-owned buildings, including utilities, routine maintenance, grounds services, operating supplies, janitorial services, contract management staff salaries and building renewal. Moreover, the task of managing the Capital Planning process would fall by default on the budget offices. The budget offices of individual agencies would be required to hire additional staff to solicit, evaluate, and prioritize capital and building renewal requests and/or hire private consulting firms to do this work.

HR

Elimination of the ADOA would result in the loss of a stand-alone, independent agency that administers for the benefit of all agencies:

- A centralized employment system, including a centralized job announcement system, application process, career center and automated onboarding process
- A statewide job classification system and compensation system
- A statewide training program
- A statewide performance management system
- A competitive, comprehensive and cost effective benefits program
- Reporting and auditing to review state agencies' processes and compliance with applicable statutes, personnel rules and policies
- An integrated system to process personnel, payroll and benefits transactions and serve as the system of record for state employees
- A statewide travel reduction program

Consolidation of the Department with another agency would not be useful unless the consolidating agency's mission and objectives retained the ADOA's ability to provide common administrative services for all agencies.

ASET

If ADOA-ASET were eliminated there would be no single agency focused on statewide IT strategy, IT policies, or IT standards. There would be no agency to establish statewide standards to provide efficiencies and economies of scale. In addition, each agency would be required to develop and use redundant systems and processes that could be

inconsistently adopted, increasing risk and costs to the State, thereby, impacting agency business needs. Additionally, there would be no agency to deliver centralized, statewide IT services to other agencies and be empowered by statute to recover for those services.

With regard to consolidation, the former Government Information Technology Agency (GITA) was merged with ADOA-ISD, forming ADOA-ASET in 2011.

RMD

There are numerous consequences to eliminating the RMD including the loss of the following benefits the RMD provides:

- Agencies can concentrate on their mission rather than the financial consequences of property, liability or workers' compensation claims.
- Independent decision making – Best interests of State v. Best interests of agency
- One source of contact and information
- Economies of scale
- Best Practices
- Professional Experience

SPO

The consequence of consolidating SPO into another agency is similar to all divisions in ADOA; the loss of a centralized unit of government that would address interest of statewide importance and focus, and then loss of a central place for customers and the public to go to find out information on statewide activities, including procurement.

5. The extent to which the agency potentially creates unexpected negative consequences that might require additional review by the committee of reference, including increasing the price of goods, affecting the availability of services, limiting the abilities of individuals and businesses to operate efficiently and increasing the cost of government.

ADOA operates in support of state government, as such ADOA does not identify that it creates unexpected negative consequences such as increasing the price of goods, affecting the availability of services, limiting the abilities of individuals and businesses to operate efficiently and increasing the cost of government.

GAO

GAO does not identify any negative consequences being produced by GAO functions, particularly relative to the examples given. Accounting practices and policies set by GAO, or reporting requirements of GAO to ensure proper and timely financial reporting, and general oversight may be perceived as a burden on agencies, but are enforced consistent with law and to mitigate risk to the State.

GSD

No unexpected negative consequences fitting the description provided were identified by GSD that might require additional review by the committee of reference.

HR

Unrelated to the specific examples above, however, legislation passed in 2012 required the Department to implement significant personnel reform. Some of the key factors of reform involved consolidating 97 agencies, boards and commissions into one personnel system, transitioning the state work force to a predominantly at-will status and improving management of the workforce. Most agencies viewed this reform as positive; however, when the Department sought the input of a number of agencies in early 2015 to inquire about any concerns, the feedback received from the agencies identified several unexpected negative consequences. Agency feedback included perceived reduced authority at the agency level and cumbersome approval processes where ADOA approval was required. The Department has already taken significant steps to address issues identified in agency feedback, including revising the Compensation Guidelines through delegated authority and streamlining the statutorily required ADOA review of certain disciplinary actions and dismissals.

In January 2015, the Governor announced an executive personnel hiring freeze and directed the Department to implement the hiring freeze for all executive agencies, boards and commissions. Although the Department streamlined the process as compared to prior hiring freezes, the Department is still faced with negative consequences and perceptions because agencies subject to the freeze are limited in their ability to hire staff which impacts the agency's availability of services and their ability to operate efficiently.

ASET

The expectation that IT can quickly respond to new business requirements without necessary funding or investment in staff and/or resources is unrealistic. When an outage is experienced, multiple agencies may be affected by the centralized services that deliver efficiencies and economies of scale.

RMD

No unexpected negative consequences fitting the description provided were identified by the RMD that might require additional review by the committee of reference.

SPO

SPO does not identify any unexpected negative consequences created by SPO's function, including increasing the price of goods, affecting the availability of services, limiting the abilities of individuals and businesses to operate efficiently and increasing the cost of government. Necessarily, SPO has an impact on vendors and businesses doing business through state procurements through its terms and conditions and instructions. SPO continually revises terms and conditions to reflect best practices for distinct areas of procurement, such as IT versus commodities. In order to assure the best interests of the state are served by providing ample competition, SPO invites vendors to stakeholder meetings to assess the best path forward in a given area.

Thank you for opportunity to respond to the Committee regarding ADOA's sunset review process. We anticipate ADOA will demonstrate to the Committee and the Legislature that ADOA ably serves as a vital link in the overall function in support of the state agencies, boards and commissions.

Sincerely,

A handwritten signature in black ink, appearing to read 'Kevin Donnellan', with a large, sweeping flourish extending to the right.

Kevin Donnellan
Acting Director

ARIZONA STATE LEGISLATURE

INTERIM MEETING NOTICE OPEN TO THE PUBLIC

SENATE GOVERNMENT AND HOUSE GOVERNMENT AND HIGHER EDUCATION COMMITTEE OF REFERENCE FOR THE SUNSET REVIEWS OF THE ARIZONA PIONEERS' HOME / DISABLED MINERS' HOSPITAL AND THE ARIZONA DEPARTMENT OF ADMINISTRATION

Date: Wednesday, December 9, 2015

Time: 2:00 P.M.

Place: SHR 109

AGENDA

1. Call to Order
2. Roll Call
3. Approval of Minutes
4. Opening Remarks
5. Sunset Review of the Arizona Pioneers' Home / Disabled Miners' Hospital
 - Public Testimony
 - Discussion
 - Recommendation by the Committee of Reference
6. Sunset Review of the Arizona Department of Administration
 - Presentation by the Office of the Auditor General
 - Presentation by the Arizona Department of Administration
 - Public Testimony
 - Discussion
 - Recommendation by the Committee of Reference
7. Adjourn

Members:

Senator John Kavanagh, Co-Chair
Senator Sylvia Allen
Senator Lupe Contreras
Senator Martin Quezada
Senator Steve Smith

Representative John Ackerley, Co-Chair
Representative Lela Alston
Representative Jonathan Larkin
Representative Phil Lovas
Representative Warren Petersen

11/19/15
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For questions regarding this agenda, please contact Senate Research Department.

Persons with a disability may request a reasonable accommodation such as a sign language interpreter, by contacting the Senate Secretary's Office: (602) 926-4231 (voice). Requests should be made as early as possible to allow time to arrange the accommodation.

ARIZONA STATE LEGISLATURE

SENATE GOVERNMENT AND HOUSE GOVERNMENT AND HIGHER EDUCATION COMMITTEE OF REFERENCE FOR THE SUNSET REVIEWS OF THE ARIZONA PIONEERS' HOME / DISABLED MINERS' HOSPITAL AND THE ARIZONA DEPARTMENT OF ADMINISTRATION

Minutes of the Meeting
December 9, 2015
2:00 p.m., Senate Hearing Room 109

Members Present:

Senator John Kavanagh, Co-Chair
Senator Sylvia Allen

Representative John Ackerley, Co-Chair
Representative Lela Alston
Representative Jonathan Larkin
Representative Phil Lovas
Representative Warren Petersen

Members Absent:

Senator Lupe Contreras
Senator Martin Quezada
Senator Steve Smith

Staff:

Cherie Stone, Senate Research Analyst
Sharon Carpenter, House Research Analyst

Co-Chairman Kavanagh called the meeting to order at 2:11 p.m. and attendance was taken.

APPROVAL OF MINUTES

Senator Kavanagh stated that without objection, the minutes of September 30, 2015 and October 21, 2015 were approved.

Opening Remarks

Senator Kavanagh gave opening remarks regarding testimony on the Arizona Pioneers' Home/Disabled Miners' Hospital.

SUNSET REVIEW OF THE ARIZONA PIONEERS' HOME/DISABLED MINERS' HOSPITAL

Cherie Stone, Senate Research Analyst, answered questions posed by the Committee.

Discussion

The Committee members discussed the Arizona Pioneers' Home/Disabled Miners' Hospital.

Recommendation by the Committee of Reference

Representative Ackerley moved that the Committee of Reference make the recommendation to continue the Arizona Pioneers' Home/Disabled Miners' Hospital for eight years. The motion CARRIED by voice vote.

SUNSET REVIEW OF THE ARIZONA DEPARTMENT OF ADMINISTRATION

Presentation by the Office of the Auditor General

Rosa Ellis, Performance Auditor, Office of the Auditor General, distributed and explained a PowerPoint presentation entitled "Arizona Department of Administration" (Attachment A). Ms. Ellis answered questions posed by the Committee.

Presentation by the Arizona Department of Administration

Craig Brown, Director, Arizona Department of Administration, Director Brown gave a personal background and overview of the Arizona Department of Administration. Director Brown distributed and explained a PowerPoint presentation entitled "ADOA Arizona Department of Administration Performance Audit Sunset & Review-2015" (Attachment B). Director Brown answered questions posed by the Committee.

Elizabeth Thorson, Assistant Director, Human Resources Division, Arizona Department of Administration, gave a personal background and continued with the PowerPoint presentation (Attachment B).

Director Brown continued with the PowerPoint presentation (Attachment B).

Morgan Reed, Chief Information Officer, Arizona Department of Administration, answered questions posed by the Committee.

Director Brown answered additional questions posed by the Committee.

Barbara Corella, State Compliance Officer, State Procurement Office, continued with the PowerPoint presentation (Attachment B) and answered questions posed by the Committee.

Paul Shannon, Assistant Director, Budget and Resource Planning, answered questions posed by the Committee.

Director Brown gave closing remarks.

Recommendation by the Committee of Reference

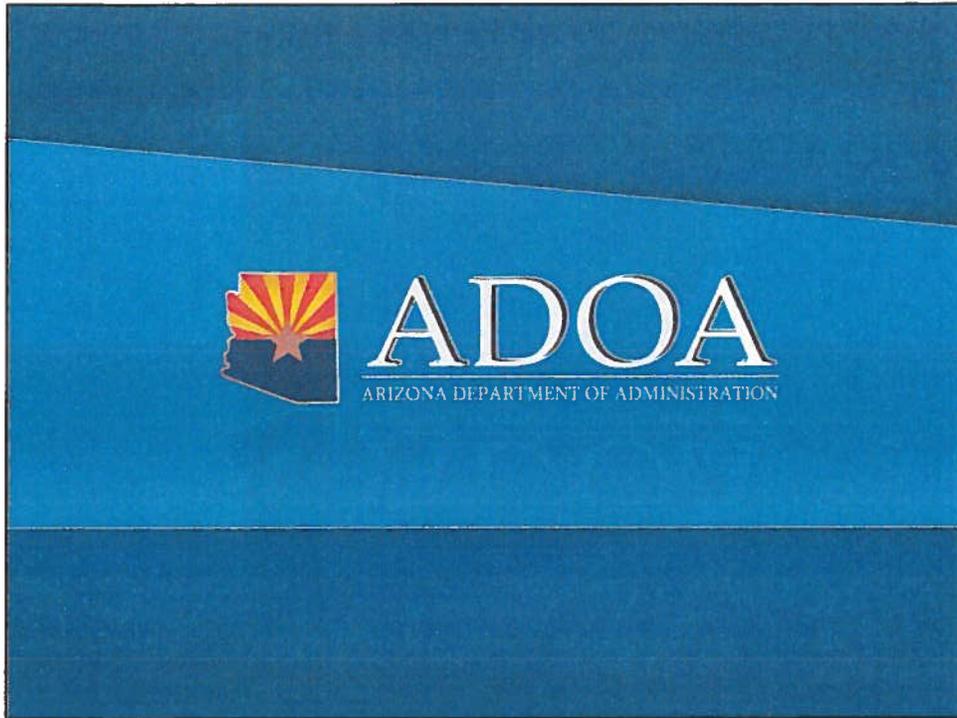
Representative Ackerley moved that the Committee of Reference make the recommendation to continue the Arizona Department of Administration for eight years. The motion CARRIED by voice vote.

There being no further business, the meeting was adjourned at 3:23 p.m.

Respectfully submitted,

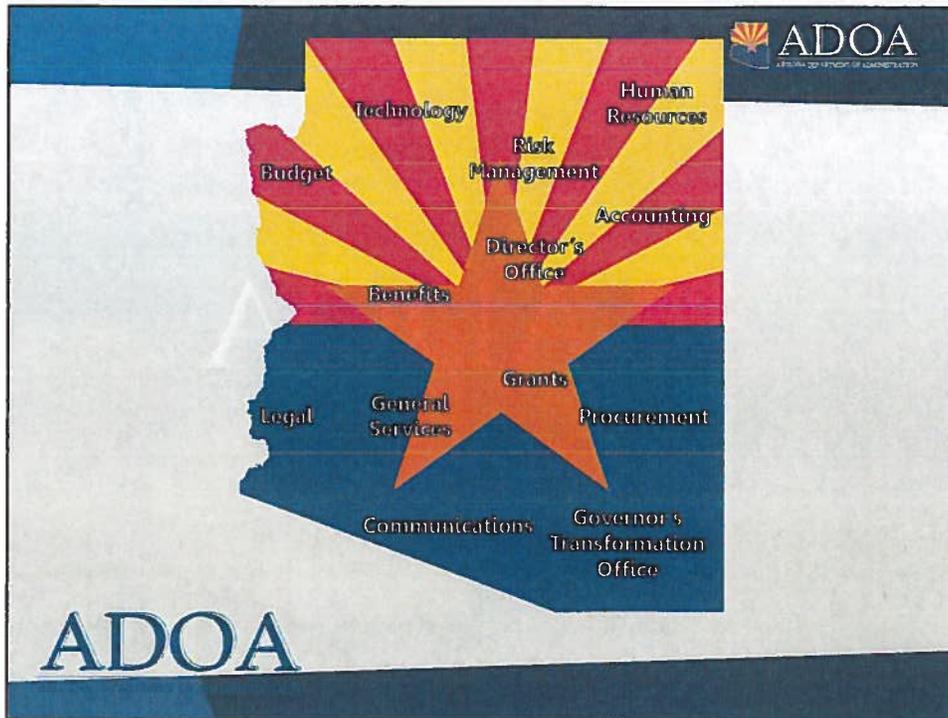
Toy Brown
Committee Secretary

(Audio recordings and attachments are on file in the Secretary of the Senate's Office/Resource Center, Room 115. Audio archives are available at <http://www.azleg.gov>)



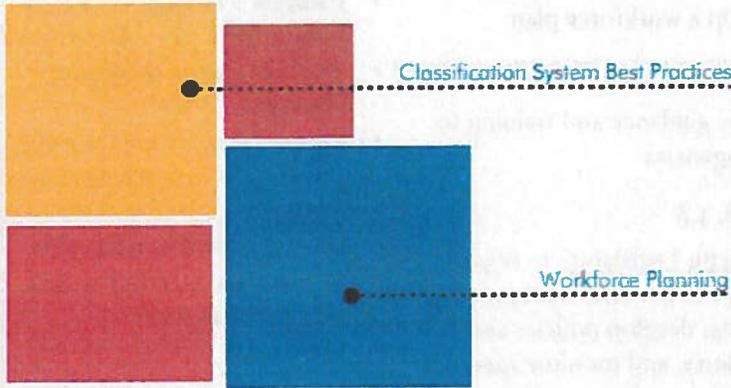
Performance Audit & Sunset Review – 2015 

1. Introduction & Agency Overview:	Director Craig Brown
2. Human Resources Division:	Assistant Director Elizabeth Thorson
3. State Procurement Office:	Director Craig Brown & State Compliance Officer Barbara Corella



Performance Audit & Sunset Review – 2015 

HUMAN RESOURCES



HRD – Classification System 

<u>Finding/Recommendation</u>	<u>Action Plans</u>
<p>1.1, a, b, c, d</p> <p>Identify classification best practices, develop an implementation plan, staff accordingly, and implement and monitor the progress.</p>	<ul style="list-style-type: none"> Evaluate classification systems; NASPE, FL, OK, TX COMPLETE Develop compensation guidelines for agencies COMPLETE Develop model/template for classification structure COMPLETE Develop implementation plan for review/assessment of every occupational family Develop database to assess market pricing for all occupations Systematically review and update all occupations on a cyclical plan



HRD – Workforce Planning

<u>Finding/Recommendation</u>	<u>Action Plans</u>
1.2 Develop a workforce plan	<ul style="list-style-type: none"> Establish a Strategic Workforce Unit in HRD COMPLETE
1.3 Provide guidance and training to other agencies	<ul style="list-style-type: none"> Train key staff in Workforce Planning Review OPM , GA, TX for best practices for statewide workforce planning
1.4; 1.5; 1.6 Work with Legislature to require agencies to conduct workforce planning; develop policies and procedures, and monitor agency efforts	<ul style="list-style-type: none"> Develop statewide action plan Review, update, expand training provided to agencies



Performance Audit & Sunset Review – 2015

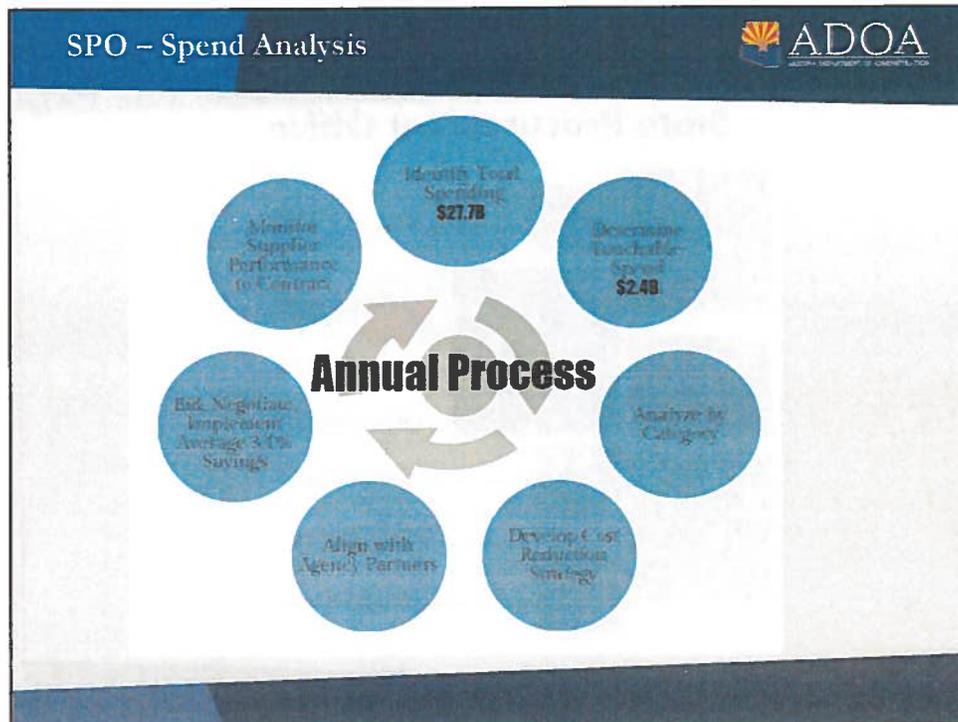
State Procurement Office



- Spend Analysis
- Cooperative Program Costs
- Unpaid Fee
- Comprehensive Policy
- Compliance Program
- Performance Measures
- Collection Policies & Procedures

SPO – Spend Analysis 

<u>Finding/Recommendation</u>	<u>Action Plans</u>
<p>1.2, a, b, c</p> <p>Department should use internal data systems to conduct a spend analysis and train staff on expectations and procedures.</p>	<ul style="list-style-type: none"> Aggregate touchable spend by category COMPLETE Establish category strategy and negotiation plans COMPLETE Engage key agencies and drive for reduced spend through discipline analysis and negotiation process Train and proliferate to all categories in the touchable spend arena




ADOA
ARIZONA DEPARTMENT OF ADMINISTRATION

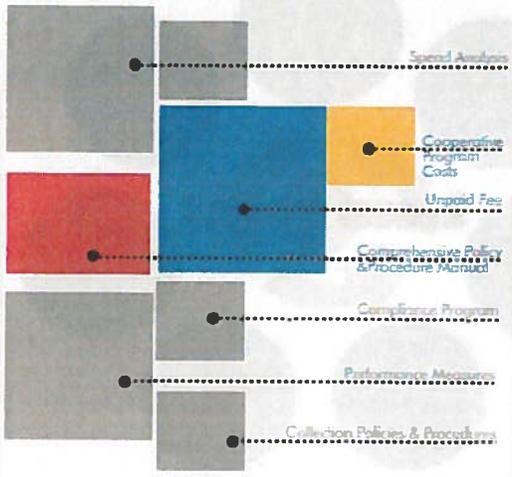
SPO – Spend Analysis

<p><u>Finding/Recommendation</u></p> <p>1.2, a, b, c</p> <p>Department should use internal data systems to conduct a spend analysis and train staff on expectations and procedures.</p>	<p><u>Action Plans</u></p> <ul style="list-style-type: none"> • Aggregate touchable spend by category COMPLETE • Establish category strategy and negotiation plans COMPLETE • Engage key agencies and drive for reduced spend through discipline analysis and negotiation process • Train and proliferate to all categories in the touchable spend arena
--	---


ADOA
ARIZONA DEPARTMENT OF ADMINISTRATION

Performance Audit & Sunset Review – 2015

State Procurement Office



Spend Analysis
 Cooperative Program Costs
 Unpaid Fee
 Comprehensive Policy & Procedure Manual
 Consensus Program
 Performance Measures
 Collection Policies & Procedures

SPO – Cooperative Program Costs



Finding/Recommendation

1.1, a, b, c, d, e, f

Department should better determine and align costs to administer program; assess efficiency to keep costs low; and develop a method for tracking and allocating costs

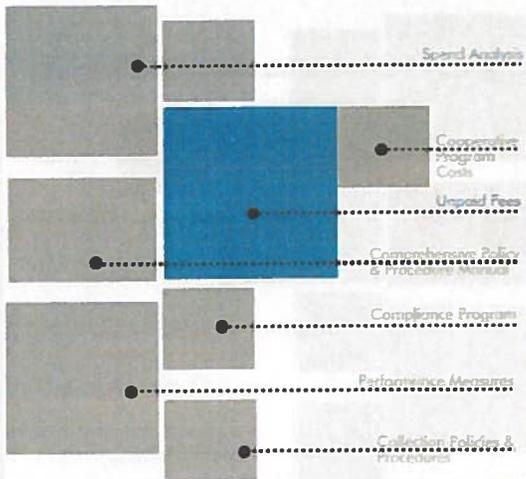
Action Plans

- Conduct cost allocation audit **COMPLETE**
- Develop cost allocation model **COMPLETE**
- Evaluate efficiencies
- Draft policies and procedures manual
- Conduct cost benefit review

Performance Audit & Sunset Review – 2015



State Procurement Office



Finding/Recommendation

2.1; 2.2, a, b, c, d

Department should develop policies and procedures to establish accurately document, communicate, verify, pursue unpaid fees and train staff on expectations and procedures.

Action Plans

- Draft policies and procedures manual
- Follow up on unpaid fees
- Audit process

State Procurement Office



Finding/Recommendation

2.1, a, b

Department should development and implement a comprehensive procurement policy and procedures manual

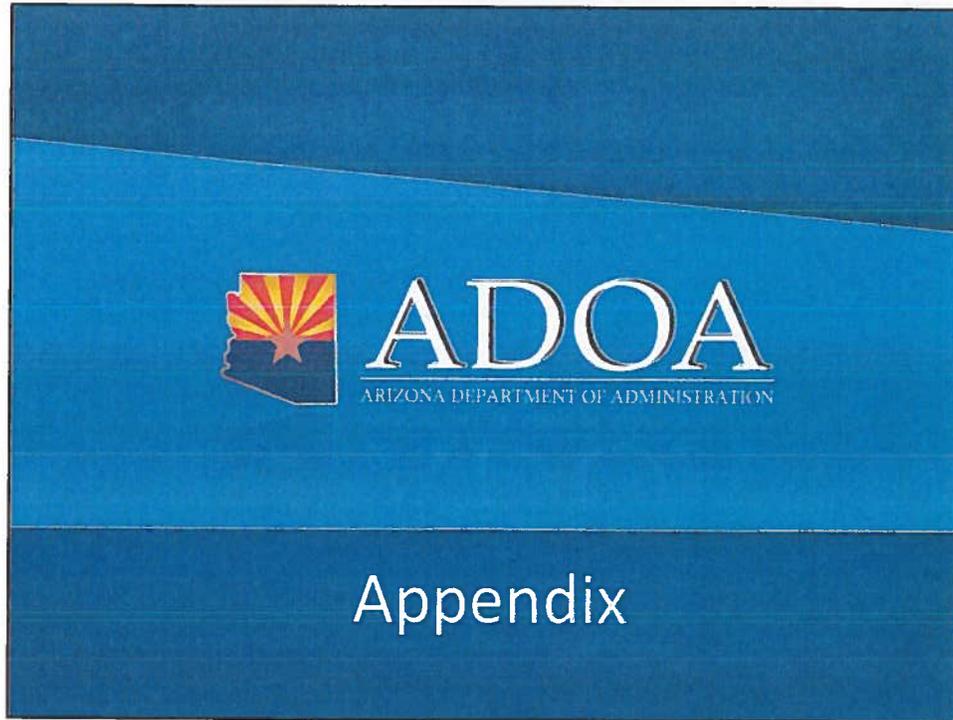
Action Plans

- Draft policy and procedure manual, including definitions, instructions, ethical guidelines, reference to technical bulletins, contract administration and roles and responsibilities
- Train users



ADOA
ARIZONA DEPARTMENT OF ADMINISTRATION

Thank You



ASET – Rule Moratorium Regarding IT
Accessibility Laws



Finding/Recommendation

4

Department should determine whether and when it can proceed with a rule-making to establish the rules required by A.R.S §41-3532.

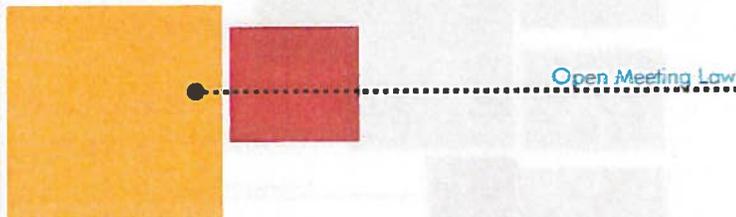
Action Plans

- Draft policies and standards
- Create self-assessment tools
- Establish complaint and undue burden process

Performance Audit & Sunset Review – 2015



Director's Office



Director's Office – Open Meetings



Finding/Recommendation

2

Department should ensure it consistently complies with open meeting law by continuing to train appropriate staff and monitor staff adherence to newly developed desk references and meeting instructions.

Action Plans

- Train public body clerks and administrative support **COMPLETE**
- Create reference guide **COMPLETE**
- Create a centralized physical posting location for all ADOA public bodies available for 24/7/365 public viewing **COMPLETE**
- Evaluate need for additional training
- Develop a self-reporting mechanism to monitor adherence to desk reference and meeting instructions manual

Performance Audit & Sunset Review – 2015



State Procurement Office



SPO – Compliance Program

**Finding/Recommendation**

3.1, a, b, c, d; 3.2; 3.3

Department should strengthen it's program by conducting risk assessments, develop standard criteria for assessing agency's risk of non-compliance, develop a risk based review schedule, conduct random reviews and revise the review checklist to provide better instructions definitions and examples.

Action Plans

- Initiate annual risk review by agency CPO's **COMPLETE**
- Establish annual review schedule **COMPLETE**
- Revise instructions on review checklist **COMPLETE**
- Conduct random reviews

SPO – Performance Measures

**Finding/Recommendation**

1.3, 1.4, 1.5

Department should develop and document actions steps aligning with SMART principles to guide the implementation of its procurement related objectives

Action Plans

- Develop strategic plan including SPO performance measures **COMPLETE**
- Create action plans **COMPLETE**

SPO – Collection Policies & Procedures



Finding/Recommendation

2.3, 2.4

Department should develop collection policies and procedures, including supervisory oversight and train staff on expectations and procedures.

Action Plans

- Develop cooperative program policies and procedures manual
- Train Staff

SPO – Collection Policies & Procedures



Finding/Recommendation

3.1, a, b, c; 3.2; 3.3; 3.4

Department continue to implement changes to address accounting and cash handling functions.

Action Plans

- Transfer all cash handling responsibilities to accounting
COMPLETE
- Draft policies and procedures manual

Arizona Department of Administration

Performance Audits and Sunset Review



OFFICE OF THE
**AUDITOR
GENERAL**

Presenter: Rosa Ellis
Date: December 9, 2015

Audit reports

- Arizona State Purchasing Cooperative Program
 - November 2014
 - State-wide Procurement
 - March 2015
 - Personnel Reform Implementation
 - September 2015
 - Sunset Factors
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-

Arizona Department of Administration

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 - **Support services:**
 - Accounting
 - Benefits services
 - Human resources
 - Information technology
 - General services
 - Procurement
 - Risk management
-

**Arizona Department of
Administration—
Arizona State Purchasing Cooperative
Program
(Report No. 14-108)**

Arizona State Purchasing Cooperative

Program

- Members may purchase from state-wide contracts.
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 - Tribal nationsState agencies are not members.
 - Benefits include volume discounts, guaranteed pricing, and administrative cost reduction/avoidance.
 - Member purchases totaled at least \$1 billion between FYs 2012 and 2014.
-

Arizona State Purchasing Cooperative Program

Finding 1:

Program fee revenue exceeds
program costs and is misapplied

Finding 1

- Department statutorily authorized to charge a fee to cover program administrative costs.
- Since 2009, the fee has been 1 percent of the dollar value of members' purchases and is paid by the contract vendor.

	FY 2012	FY 2013	FY 2014
Fee revenue	\$3.5 million	\$3.2 million	\$3.8 million
Program expenditures	\$2.7 million	\$2.2 million	\$2.5 million
Excess fee revenue	\$0.8 million	\$1.0 million	\$1.3 million
Fund balance, end of year	\$1.1 million	\$2.1 million	\$3.4 million

Finding 1

- Fee revenue paid for non-program expenses, including:
 - 86 percent (\$7.4 million of the \$8.6 million) of ProcureAZ costs
 - 55 percent of the 38 procurement staff positions.
 - **Recommendation:** Department should take steps to evaluate the program's costs and better align the fee assessed with the program's actual costs.
-

Arizona State Purchasing Cooperative Program

Finding 2:

Department needs to improve collection of
program fee revenue

Finding 2

□ We reviewed 20 vendor files and found:

15 vendors did not submit required sales reports.

- 1 vendor owed \$1,700 in fees.

5 vendors did not pay all fees.

- 1 vendor owed nearly \$110,000 in fees.

5 vendors had discrepancies between reports & state records.

- 1 vendor under-reported \$51.8 million in sales.

□ Recommendation: Department should develop and implement fee revenue collection policies and procedures.

Arizona State Purchasing Cooperative

Program

Finding 3:

Department should continue to improve its controls over program fee collections

Finding 3

- We found several weaknesses in the Department's handling of fee revenue, including:
 - Not properly securing checks,
 - Not immediately restrictively endorsing checks,
 - Not depositing checks daily, and
 - Not adequately separating cash handling duties.

 - Recommendation: The Department should develop and implement cash-handling policies and procedures.
-

**Arizona Department of
Administration—
State-wide Procurement
(Report No. 15-102)**

State-wide Procurement

- Department is State's central procurement authority and has delegated purchasing authority to 95 state agencies

Delegated procurement amount	Number of agencies
\$10,000	45
\$100,000	34
Unlimited	16

- State agencies spent an estimated \$9.8 billion in state and federal monies on goods and services in FY 2014.
-

State-wide Procurement

Finding 1:

Department should further align its procurement strategic planning with model planning practices

Finding 1

- Strategic planning is important for improving procurement system performance and creating a unified procurement approach.
 - Department's FYs 2016-2020 draft strategic plan better aligns with model planning practices than prior strategic plans.
 - **Recommendation:** Department should strengthen its procurement strategic planning by:
 - Assessing the procurement system,
 - Developing action steps, and
 - Developing and monitoring performance measures.
-

State-wide Procurement

Finding 2:

Department should develop and
implement a comprehensive
procurement manual

Finding 2

- Department lacks a comprehensive procurement manual and existing policies and procedures are inadequate.
 - Absence of detailed guidance has contributed to contract administration problems in state agencies.
 - In FY 2012, ADES spent nearly \$19 million for foster care related services but could not ensure that the vendors met performance measures.
 - **Recommendation:** Department should develop and implement a comprehensive procurement manual.
-

State-wide Procurement

Finding 3:

Department should further strengthen its oversight of state agency procurements

Finding 3

- Department established a procurement compliance program in July 2014, but some elements do not align with best practices:
 - Compliance review schedule is not based on risk.
 - Compliance review checklist and policy lack sufficient guidance.
 - **Recommendation:** Department should strengthen its management and oversight of the state procurement system to help prevent against fraud, waste, mismanagement, and abuse of state monies.
-

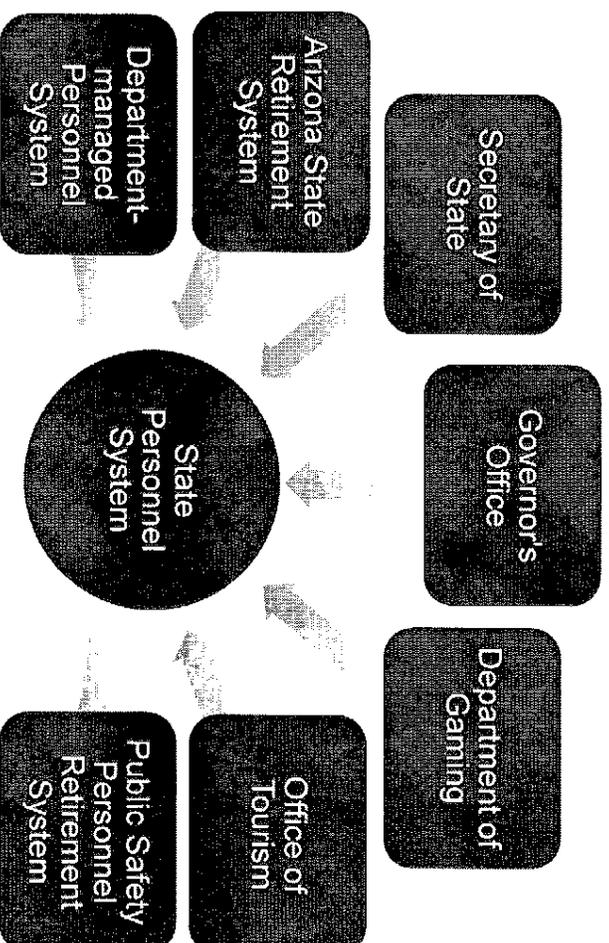
**Arizona Department of
Administration—
Department Should Complete Personnel
Reform Implementation and Strengthen
Workforce Planning State-wide
(Report No. 15-108)**

Personnel Reform Implementation

- Personnel reform intended to modernize outdated state personnel system.
 - Department responsible for implementing reform and overseeing the new State Personnel System (System).
 - As of June 2015, the System included approximately 34,000 state employees from 105 state agencies, boards, and commissions.
-

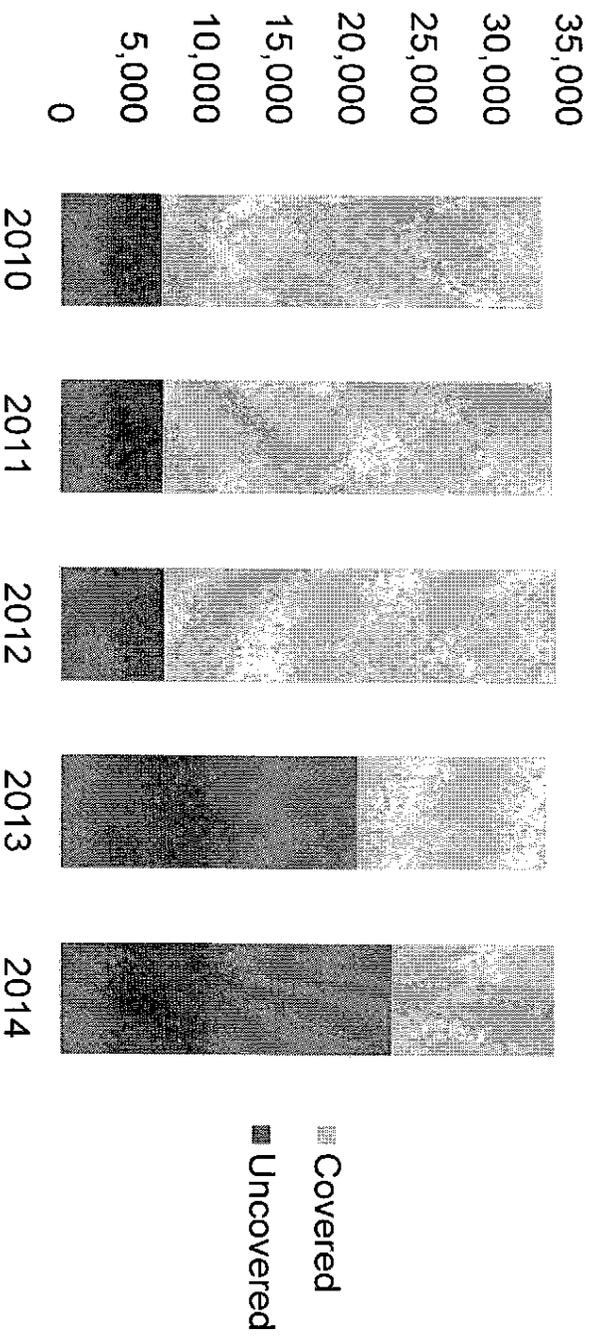
Personnel Reform Implementation

- Provision 1: Consolidated 7 separate personnel systems into the new State Personnel System.



Personnel Reform Implementation

- Provision 2: Transitioned majority of state workforce to uncovered service.



Personnel Reform Implementation

- Provision 3: Improve workforce management
 - New performance management system
 - Nearly all system employees required to have annual evaluation
 - Streamline recruiting and hiring
 - Standard employment application and reference checking process
-

Personnel Reform Implementation

- Provision 3: Improve workforce management
 - Update the state-wide classification and compensation system
 - Includes System's job classes, pay structure, job descriptions
 - No comprehensive update in 40 years

 - Recommendation: Department needs to finalize and implement a classification system update plan that incorporates best practices, specifies tasks, and identifies resources.
-

Workforce Planning

- Workforce planning mitigates loss of knowledge and skills due to retirements, and helps to ensure leadership continuity.
- No requirement that state agencies conduct workforce planning and Department does not have a workforce plan.

State agency	Percentage of employees eligible by FY19
Registrar of Contractors	45%
Department of Gaming	42%
Industrial Commission	41%
Department of Environmental Quality	41%
State Parks	41%
Lottery Commission	40%
Department of Revenue	39%
Department of Agriculture	38%
Department of Insurance	38%
State Land	38%
Nursing	37%
Corporation Commission	35%
AHCCCS	33%
Department of Administration	33%
Game and Fish Department	33%

Workforce Planning

- Recommendation: Department should take steps to strengthen workforce planning state-wide by:
 - Developing a comprehensive internal workforce plan,
 - Providing guidance and training to state agencies, and
 - Working with the State Legislature to statutorily require state agencies to conduct workforce planning.
-

Arizona Department of Administration

Performance Audits and Sunset Review



OFFICE OF THE
AUDITOR
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Presenter: Rosa Ellis
Date: December 9, 2015

Arizona Department of Administration

Performance Audits and Sunset Review



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 - Procurement
 - Risk management
-

**Arizona Department of
Administration—
Arizona State Purchasing Cooperative
Program
(Report No. 14-108)**

Arizona State Purchasing Cooperative

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Arizona State Purchasing Cooperative

Program

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