

ARIZONA STATE LEGISLATURE
Forty-seventh Legislature – Second Regular Session

JOINT LEGISLATIVE AUDIT COMMITTEE

Minutes of Meeting
Monday, May 22, 2006
House Hearing Room 5 -- 11:00 a.m.

Vice-Chairman Blendu called the meeting to order at 11:20 a.m. and attendance was noted by the secretary.

Members Present

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| Senator Ableser | Representative Boone |
| Senator Allen | Representative Downing |
| Senator Huppenthal | Representative Rios |
| Senator Blendu, Vice-Chair | Representative Yarbrough |
| | Representative Knaperek, Chairman |

Members Absent

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| Senator Miranda | Speaker Weiers (Ex-Officio) |
| President Bennett (Ex-Officio) | |

Speakers Present

Debra Davenport, Auditor General
Dave Byers, Director, Administrative Office of the Courts
Joe Moore, Director, Information Technology Services Division, Office of the Auditor General
Sharron Walker, Director, Division of School Audits, Office of the Auditor General
Dennis Mattheisen, Director, Financial Audit Division, Office of the Auditor General

Approval of Minutes of March 6, 2006 Meeting

Vice-Chairman Blendu stated that, without objection, the minutes of March 6, 2006 are approved.

Consideration and Approval of Revised 2007 Performance Audit Schedule

Debra Davenport, Auditor General, explained that the Joint Legislative Audit Committee (JLAC) approved the audit schedule for 2007 in May 2005; however, legislation was passed in the 2006 Session requiring a special audit of the Department of Economic Security (DES) Division of Child Support Enforcement by November 15, 2007. Additionally, JLAC received a written request from Senator Allen to conduct a sunset review of the Board of Homeopathic Medical Examiners by October 1, 2007 (Attachment 1). In order to free up the resources necessary to

conduct these additional audits, she requested that JLAC remove the sunset review of the Arizona State Veterinary Medical Examining Board and reduce the audit hours allocated for the Arizona Department of Transportation (ADOT) audits.

Chairman Knaperek assumed the Chair.

Vice-Chairman Blendu moved that JLAC direct the Auditor General to conduct a special audit to assess the performance of the DES Child Support Enforcement Division and the sunset review of the Homeopathic Medical Examiners Board. He further moved that the appropriate Committee of Reference conduct the review of the Veterinary Medical Examining Board and the audit hours allocated to ADOT audits be reduced. The motion carried.

Presentation to Delay Review of Judiciary Programs

Ms. Davenport related that JLAC is required by statute to conduct reviews of the programs and commissions within the Judiciary. JLAC assigned the Auditor General to conduct those performance audits in May 2005; however, the Administrative Office of the Courts (AOC) requested a delay in order to implement a new financial accounting system, as well as new drug court funding and programs by juvenile and adult probation staff on July 1, 2006. The Auditor General could complete the two audits by December 1, 2007 and accommodate AOC's request.

Dave Byers, Director, Administrative Office of the Courts, explained that the Legislature scheduled the Auditor General to conduct seven audits in about an 18-month period. Four are completed or almost completed and one is scheduled for next summer. While the Auditor General has not determined the target of the two additional performance audits, it looks like the audits will be on probation. Summer to fall is the busiest time for the probation staff, which will be in the process of funding departments after the Legislature adopts a budget and implementing new legislation. In addition, AOC is in the process of bringing on a new financial system. It would not be possible to respond to the Auditor General staff if all of this is done simultaneously, so he requested that two of the seven audits be delayed until the fall or early winter.

Chairman Knaperek indicated that she checked with the legislative attorney in the House, and although this is not something that is generally done because there is a statutory date attached, it can be done.

Mr. Byers related that it is unusual to have so many audits simultaneously; otherwise, it probably would not be a major problem.

Status Update on Information Technology (IT) Audit Team

Joe Moore, Director, Information Technology Services Division, Office of the Auditor General, related that the IT Audit Team was formed as the result of a legislative appropriation this fiscal year. During the course of audits, many IT systems are encountered and the information those systems collect and process is relied upon more and more. The number and types of systems the state is implementing is increasing and changing, and the state is outsourcing more of its IT

functions. While these systems are being implemented throughout the state, there appears to be a gap in ensuring that the systems are adequately controlled and secured. The Government Information Technology Agency (GITA) performs an oversight role during the initiation phase of many of these projects and does some monitoring while the projects are being developed. GITA also developed an instrument that agencies use to self-report their status on a number of security-related issues. These efforts are helpful, but somewhat limited.

Mr. Moore stated that if more reliance is placed on computer systems to accomplish the work that is required and in order to continue to meet professional auditing standards, more testing is needed of the controls agencies implement over these systems. Since many of these controls involve more technical areas than in the past, the expertise and capability to do the type of work that is required needs to be increased. As a result, the FY 2005-2006 budget included a request for an IT Audit Team. Five full-time equivalents (FTEs) were requested in FY 2006 and two additional FTEs in FY 2007 for IT auditors. The Legislature approved five FTEs beginning in July 2005. Two of the positions were filled by staff from the Performance and Financial Audit Divisions who provide important knowledge about the requirements of those types of audits. The other three positions were filled by individuals outside the office who possess a mix of audit and technology-related experience.

He conveyed that the team spent time at the beginning of the year developing audit protocols and methods, receiving technical training, researching best practices, and working with the audit divisions to identify audit areas with substantial IT requirements. So far the team worked on two performance audits, one of the Information Services Division and Telecommunications Program Office at the Arizona Department of Administration (ADOA), which was released in September 2005, and another on the Information Management function at the Arizona Department of Education (ADE), which is scheduled to be released this summer. The team recently began working with the Financial Audit Division on reviews at the Arizona Department of Revenue (DOR) and ADOA. Members of the team will be working with the Financial Audit Division on a review of the University of Arizona next month.

Mr. Moore stated that efforts this past year were focused on building the team's competencies and basic IT control areas. The team is now moving into more technical and security-related areas. A respected consulting firm was contracted for the current audit of ADE to assist with a review of the web-based applications and use by ADE. The intent in contracting for the work was two-fold. First, a strategy was developed to initially use consultants to train members of the team in more technical areas, and through knowledge transfer techniques, begin to build staff competencies in this type of work. In addition to working closely with the consultants during the course of the review, the contract also included provisions that the consultants provide a dedicated training resource session covering the tools and techniques used during their test work. The consultants subsequently provided two separate sessions, a high level overview for members of the management team and other staff auditors, and a more in-depth technical session designed specifically for members of the team and other selected individuals in the office.

He advised that the second reason for using a consultant was to perform a review focused on the security of web-based applications because more of these types of systems are being developed in the state. While he cannot talk about specifics of the work until after the report has been released, the team learned much from the experience and plans to build on that knowledge in future audits. The goal is to be able to perform more technical security audit work on their own

in the future. As originally planned, the current budget request includes two additional FTEs to focus on more technical and security-related areas. If those are approved, the IT Audit Team will be fully staffed at seven positions by early this summer.

Mr. Moore conveyed that over the last several years, dramatic improvements were made in providing audit staff with data needed to perform their work, so the focus now is on finding ways to better leverage the data to perform more efficient and effective audits. Since late last year, opportunities were identified where better data analysis would benefit the audits, which involved staff from all of the audit divisions. Thus far, needs have been identified in data preparation, data cleansing, audit analysis and statistical analysis. A significant amount of time has been spent identifying and analyzing a number of different software products that could fit the needs in each of those areas, and the evaluation process is still going on. Other considerations being looked at are hardware and training requirements and the best approach for implementing new solutions throughout the organization.

He indicated that while the effort just described has been underway, a more concerted effort has also been made to expand the analysis that can be done with software products that are already used. Working with the audit divisions on this effort is key because staff must follow-up to determine whether the analysis is yielding valid issues or whether the things found are explainable or reasonable. The plan is to continue with these efforts as an attempt is made to complete analysis of other possible solutions.

Chairman Knaperek remarked that it is extremely important to understand that the Auditor General's Office is working smarter and not necessarily harder, which she would like to see happen in all of the agencies. She expressed appreciation for the work that has been done.

Senator Blendu envisioned a scenario in which a state building burned down and asked if the audit team addresses the issue of whether data and critical information would be accessible at a different secure location. Mr. Moore responded that the approach generally taken is a high level overview that covers many control areas, which includes disaster recovery. The IT Audit Team looks at controls the agency has in place to ensure that operations could be recovered, if needed, and determines whether those controls are adequate. Senator Blendu surmised that some policies may need to be reviewed to make that job easier.

Chairman Knaperek noted that Mr. Moore said there appears to be a gap in security and control in some of the systems and asked if hiring additional IT auditors will provide the ability to find out more information and make more recommendations in a timely manner so agencies can address the issue. Mr. Moore responded that the hope in forming the IT Audit Team is to concentrate more effort on controls over information systems. What has been attempted within the office is to look at the financial and performance audits to identify the higher risk areas and address those, so within those areas it is possible to provide better coverage to make those assurances.

When Chairman Knaperek asked when the Legislature might be able to obtain better information from the Office of the Auditor General, Mr. Moore replied that since the information is part of the other audits, it is when other audits are released. Some work was done with ADOA that was released in September, and the ADE audit is scheduled to be released in August 2006. The other audits are just starting with the financial audit team.

Presentation and Status Update of School-Wide Audit Team Schedule for 2006

Sharron Walker, Director, Division of School Audits, Office of the Auditor General, explained that school districts are chosen randomly for performance audits and the classroom dollar percentage for school districts is monitored. She provided a document containing the 2005 and 2006 School District Audit Schedules (Attachment 2). She related that in August 2005, JLAC added two audits of the National School Lunch Program to the schedule, and as she told the Committee at that time, this will result in the 2006 audits of Deer Valley Unified and Avondale Elementary not being completed until 2007. It also delayed the Annual Classroom Dollars Report from the usual March 1 publication date, which should be published by June 1, 2006. Since the August meeting, the two lunch program reports and three school audits for Phoenix Elementary, Amphitheater Unified and Bisbee Unified were issued. The Litchfield Elementary audit is almost finished and work is beginning on audits of Alpine Elementary, Deer Valley Unified and Avondale Elementary. Later this fall, the additional school districts will be selected for the 2007 audit schedule, which will be presented to JLAC for review, and the Technology Assisted Project-Based Instruction (TAPBI) program audit will begin, which is due November 1, 2007.

Presentation of Financial Audit Schedule and Consideration of Cost Reimbursement Audits

Dennis Mattheisen, Director, Financial Audit Division, Office of the Auditor General, noted that federal law requires that certain federal compliance work be performed as a prerequisite for receiving federal monies and provides for the recovery of audit costs from the grantors. The auditees are billed to recover the state's cost of performing the audits and in turn seek reimbursement for costs from the federal government; however, state law requires approval from the Committee to recover the audit costs. He provided a list of political subdivisions for which federal work was performed (Attachment 3) and the FY 2007 Audit Schedule showing audits that are statutorily required (Attachment 4).

Vice-Chairman Blendu moved that JLAC approve the Auditor General performed federally mandated work on a cost reimbursement basis for the certain political subdivisions. The motion carried.

Consideration of Special Audit Request

Ms. Davenport related that a request was received last week from Speaker Jim Weiers for a special financial audit of Homeland Security dollars to be performed by October 1, 2006 (Attachment 5).

Vice-Chairman Blendu moved that JLAC direct the Auditor General to conduct a special financial audit of Homeland Security dollars in accordance with the submitted request. The motion carried.

Without objection, the meeting adjourned at 11:40 a.m.

Linda Taylor, Committee Secretary
May 30, 2006

(Original minutes, attachments, and tape are on file in the Office of the Chief Clerk.)