

**ARIZONA STATE LEGISLATURE
INTERIM MEETING NOTICE**

JOINT LEGISLATIVE AUDIT COMMITTEE

**Minutes of the Meeting
Thursday, June 13, 2002
10:00 a.m., House Hearing Room 3**

Members Present:

Senator Dean Martin
Senator Pete Rios
Senator Tom Smith

Representative Roberta Voss, Chair
Representative Robert Blendu
Representative Barbara Leff
Representative James Sedillo

Members Absent:

President Randall Gnant, Ex-Officio
Senator Ken Bennett, Vice Chair
Senator Herb Guenther

Speaker Jim Weiers, Ex-Officio
Representative Gabrielle Giffords

Staff:

Nadine Sapien, Senate Research Analyst
Tami Stowe, House Research Analyst
Jennifer Daily, House Research Analyst

Representative Voss called the meeting to order at 10:10 a.m. and attendance was noted.

Approval of Minutes

Without objection, the minutes of the meeting of May 14, 2002 were approved as distributed.

Consideration and Approval of Committee of Reference Assignments for the 2002 non-Sunset Audits and Evaluations

Tami Stowe, House Research Analyst, presented a handout entitled "Joint Legislative Audit Committee" (JLAC) (Attachment A). She referred to Tab 1 to the five non-Sunset reports that have not been assigned to a Committee of Reference hearing.

Representative Blendu moved that JLAC accept the recommendation to the Committee of Reference Assignments for the 2002 non-Sunset Audits and Evaluations. The motion CARRIED by a voice vote.

Consideration and Approval of Reassignment of Committee of Reference for Department of Weights and Measures

Ms. Stowe referred to Tab 2 and stated that the Speaker has requested that an audit for the Department of Weights & Measures be reassigned to the House Commerce and Economic Development Committee.

Representative Blendu moved that JLAC approve the reassignment of the Committee of Reference for the Department of Weights and Measures. The motion CARRIED by a voice vote.

Consideration and Approval of JLAC Procedures Governing Special Research Requests

Debbie Davenport, Auditor General, referred to Tab 3 of the handout. Her testimony came directly from the handout. She stated all of the procedures for governing a special research request.

Senator Smith stated that the Auditor General needs to state what they need for an audit and he agrees with the recommendations.

Senator Rios asked if the person requesting an audit is part of the joint meeting. Ms. Davenport stated it would include only the Speaker or his designee, the President or his designee and the JLAC chair. If the President or Speaker has designated the requestor to take his place, then it would include the requestor.

Representative Blendu moved that JLAC approve the procedures governing Special Research Requests. The motion CARRIED by a voice vote.

Discussion and Possible Action on School Facilities Board Special Research Project

Ms. Davenport stated that at the last meeting JLAC instructed her office to conduct a special research project of the School Facilities Board limiting the project to 400 hours. It did not constitute a full audit. She presented the report to the Committee (Attachment B). Her testimony came directly from the handout. There were not significant problems other than the Board's approach of entering into and managing its contract with Qwest to provide internet connectivity to the schools.

Senator Smith asked how many hours has been spent on this project. Ms. Davenport stated that it has been in excess of the 400 hours instructed to do. She further stated that there were no significant problems found other than with the Qwest contract.

Representative Leff asked if it is common to have open-ended contracts. Ms. Davenport stated that it is not common.

Ms. Davenport stated that it was the former Executive Director of the School Facilities Board that negotiated solely with Qwest. The current staff has little knowledge prior to the Executive Director's departure.

In further response to Representative Leff, Ms. Davenport stated the equipment being installed is computers and other hardware.

Ms. Davenport further explained the recommendations from Attachment B.

Ms. Davenport stated that if the procurement rules had been put into the rules for the agency, legally the Board would not have been out of compliance with the law if they had moved outside of the rules; however, they would have been out of compliance with the rules. They would have still been legally exempt from the procurement code. She further stated that if the School Facilities Board competitively bid this contract, there probably would have been a fixed fee contract. She stated that effective January 1, 2002, the Board now falls under the State procurement code and hopefully this will not happen again.

Senator Rios asked if there are other departments that are looking at the School Facilities Board. Ms. Davenport stated that she was not aware of any.

In response to Representative Voss, Ms. Davenport stated that under the statutes they are allowed to work with any prosecutorial agency in the scope of the investigation. They notify the chair of JLAC that they have entered into an investigation. She stated that there is no JLAC authorization.

Jim Jurs, Interim Director, School Facilities Board, stated that he is in agreement with the findings in the report and the Board is in a position to handle the recommendations and put in some control over the Qwest contract.

In response to Representative Leff, Dr. Jurs stated that there is a range for continuing costs for the contract. Qwest has provided an estimate for an additional \$80 million to complete the project. The in-house estimate has established that there is an additional \$130 million needed to complete the project.

In response to Representative Leff questioning unexpected expenses, Dr. Jurs stated that as the surveys were conducted, there was information obtained that was beyond the original anticipation. If the surveys had been conducted earlier, it would have been clear that \$100 million would not be adequate.

In response to Representative Blendu, Dr. Jurs stated that the standards adopted by the School Facilities Board provide for the inner-connectivity of every school in the State to the internet. It will provide one computer for every eight students.

Senator Martin asked if the decision has been made to retain Qwest to complete the project and negotiate a cost. Dr. Jurs stated that the decision has not been made yet. He further stated that the equipment belongs to Qwest and the School Facilities Board pays for that equipment as it is installed. The balance of the inventory remains in a Qwest warehouse.

Representative Blendu moved that JLAC accept the report from the Auditor General on the School Facilities Board Special Research Project and adopt the recommendations. The motion CARRIED by a voice vote.

Representative Blendu moved that the Auditor General complete the School Facilities Board Special Research Project with no further research. The motion CARRIED by a voice vote.

Discussion and Possible Action on Governor Hull's Audit Request of the School Facilities Board contract with Qwest

Representative Voss stated that she received a letter from the Governor's office and referred to Tab 5 in Attachment A. The Governor has requested an independent financial performance and compliance audit of the School Facilities Board contract with Qwest.

Senator Smith stated that the Auditor General has already conducted a special project of the School Facilities Board. Dr. Jurs is the new Interim Director. There is also going to be a bi-monthly review of the Board. Dr. Jurs should be given time to take the Board under control.

Representative Blendu agreed with Senator Smith.

In response to Representative Leff, Ms. Davenport stated that the Special Research Project has established all of the areas of concern with the Qwest contract. However, they feel they need to continue monitoring the contract.

Senator Rios asked if the School Facilities Board is on a schedule to be audited by the Auditor General's office. Most agencies are on a ten-year cycle to be reviewed in a sunset fashion to determine if they should continue. Ms. Davenport stated she did not know when the Board is up for that review. She further stated that an audit is done on an annual basis and it is a financial audit. All of the State agencies are included in that audit.

Representative Voss stated that there would be no action taken on the Governor's letter at this time.

Representative Voss stated that the sunset audit for the School Facilities Board is scheduled for 2008.

There being no further business, the meeting was adjourned at 11:10 a.m.

Respectfully submitted,

Debbie Kennedy
Committee Secretary

(Tapes and attachments on file in the Secretary of the Senate's Office/Resource Center, Room 115.)