

**ARIZONA STATE LEGISLATURE**  
**JOINT LEGISLATIVE AUDIT COMMITTEE**

**Minutes of the Meeting**  
**Thursday, September 25, 2003**  
**2:30 p.m., Senate Hearing Room 1**

**Members Present:**

Senator Robert Blendu, Chair	Representative John Huppenthal, Vice Chair
Senator Gabrielle Giffords	Representative Tom Boone
Senator Pete Rios	Representative Ted Downing
Senator Thayer Verschoor	Representative Ken Clark
Senator Jim Weiers	Representative Steve Yarbrough

**Members Absent:**

President Ken Bennett, Ex Officio	Speaker Jake Flake, Ex Officio
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**Staff:**

Nadine Sapien, Senate Research Analyst  
Mike Huckins, House of Representatives Research Analyst

Chairman Blendu called the meeting to order at 2:35 p.m and attendance was noted.

**Representative Huppenthal moved that the Joint Legislative Audit Committee (JLAC) approve the minutes of the meeting of November 20, 2002. The motion CARRIED by a voice vote.**

**Debbie Davenport, Auditor General**, provided a general overview of the Office of the Auditor General (OAG), noting that the office was established as an independent audit function to provide the Legislature with objective information about State agencies. She explained that the OAG's ultimate goal is to improve the quality and accountability of government, pointing out that public money (approximately \$16 billion annually) should be spent for designated purposes and that the individuals responsible for spending that money should be fully accountable to the public. All audits are conducted in accordance with the American Institute of Public Accountants audit standards, as well as some additional audit standards established by the Comptroller General of the United States. These strict standards require auditors to maintain their independence and obtain evidence to support statements included in their reports.

Ms. Davenport indicated that the OAG is audited by an association that ensures auditors follow required standards. Over the last 24 years, eight audits were performed and the OAG received a clean opinion in each one. She explained that the OAG provides a variety of services at the State and local government level. The various duties of the office include: 1) financial audits; 2) special reviews; 3) fraud and abuse investigations; 4) performance audits; 5) school audits; and 6) accounting services.

Ms. Davenport noted that State agencies are under a ten-year sunset review, requiring all agencies to undergo some type of review at least on a ten-year rotating basis. At the

conclusion of the sunset review, it is determined whether the agency should be continued, modified, or terminated. In addition to the sunset law, there are two other ways a performance audit might occur; JLAC resolution or special legislation. She emphasized that JLAC decides which agencies are audited and which agencies are reviewed by a Committee of Reference (COR). JLAC also oversees the implementation of audit recommendations.

**Nadine Sapien, Senate Research Analyst**, explained that five applications for sunrise procedures have been received this year and it is recommended that they be assigned to the Senate and House of Representatives Health Committee of Reference.

**Representative Huppenthal moved that JLAC approve the assignment of the five sunrise applications to the Senate Health Committee of Reference and the House of Representatives Health Committee of Reference. The motion CARRIED by a voice vote.**

**Melanie Chesney, Director, Performance Audit Division, OAG**, referred to the Report to the Arizona Legislature (Attachment 1) and the updated performance audit schedule for 2003, 2004, and 2005. She pointed out that no action is required by JLAC.

Representative Downing wondered if the Department of Economic Security (DES) Child Protective Services (CPS) review will be ready for special session. Ms. Chesney replied that they are in the process of completing that audit and are working towards having it ready by special session.

**Sharron Walker, Director, Division of School Audits, OAG**, referred to the School District Audit Schedule identified in the report, noting that JLAC should review the schedule; however, no action is required.

Ms. Davenport provided an overview of a special audit request regarding a performance audit of the Arizona Medical Board (AMB).

In response to Senator Weiers, Ms. Davenport responded that originally, a series of five audits was scheduled for the Department of Environmental Quality (DEQ); however, one of those audits will be deleted to perform the audit at AMB.

In response to Representative Clark, Ms. Davenport replied that by December, they will be able to reassign a number of auditors who are currently working on other projects. She stated that they anticipate approximately three months of audit work and then AMB will have 40 days to respond. She added that they would be looking at an issuing date of March 1, 2004.

In response to Representative Downing, Ms. Davenport explained that the audit will be limited to the specific complaints. However, JLAC can change the scope of the audit. Representative Huppenthal stated that he feels that auditors should have sufficient flexibility to review any areas where they may notice any problems. Representative Downing indicated that he was concerned about the cost of the audit.

In response to Senator Rios, Ms. Davenport noted that the AMB was last audited in 1998. At that time, the Legislature gave AMB a one-year extension. After the follow-up review in 1999, the agency was given a ten-year extension.

In response to Representative Clark, Ms. Davenport stated that the OAG will still produce reports on the DEQ's water, weights, and air programs, as well as the 12 sunset factors established by statute. These reports are due October 1, 2004 and the auditors anticipate meeting that deadline.

**Senator Allen, Chair, Senate Health Committee**, commented that she and Representative Gullett have received numerous complaints about the current situation at AMB. It is true that many positive things have taken place with the change in the administration; however, allegations have been made by former employees, who say they have been threatened about speaking out. She indicated that she has received phone calls regarding concerns about the AMB Executive Director making decisions about cases without notifying the Board. Other concerns include the troubling turnover rate (between 50% to 80%) and employee terminations without cause. She stressed that it is time to audit AMB.

**Representative Gullett, Chair, House of Representatives Health Committee**, explained that these allegations are serious, specifically the delegated authority issue. The Legislature gave this authority to the AMB Executive Director to determine whether charges against doctors could be deemed without merit and automatically dismissed. She stipulated that the complaints received indicate that the Executive Director has misused this delegated authority. As other boards are asking for this same type of delegated authority, it is important to review how it is working or not working before delegating to others.

Representative Huppenthal suggested that perhaps the Committee should review how the directors are hired for these boards, since there appears to be many concerns about directors. Representative Gullett agreed, mentioning that there are 21 medical boards with similar concerns about the selecting and hiring of the directors.

**Tina Wilcox, Legislative Liaison, Arizona Medical Board**, read the following letter (Attachment 2) into the record:

"The Arizona Medical Board is before the Joint Legislative Audit Committee because of legislative concern regarding the Agency's policies, procedures and practices. Specifically, Senator Allen and Representative Gullett have expressed concerns to this Committee regarding the turnover of staff at the Agency, the legitimacy of certain of the Agency's purchases, and the authority for the Executive Director to dismiss cases (this authority is provided by statute, delegated by the Board and codified in Rule).

We are extremely proud of the progress that has been made at the Arizona Medical Board over the last year. We are building upon the foundation the Legislature enabled, and are an agency in which the state and its citizens can find trust, honesty and confidence. We welcome the audit as an opportunity to quantify our progress toward our goal of protecting the public.

We look forward to the opportunity to show you the greatness you have helped build. “

Ms. Wilcox pointed out that besides the audits in 1998 and 1999, there was a special follow-up audit mandated by the Legislature and conducted in October, 2001 pursuant to Laws 2001, Chapter 270. In that special audit, the auditor went back to issues from the 1999 audit and gave a report to the Legislature. In August 2003, the OAG was present at the AMB meeting to finalize the last issue from the 1998 audit which was the enactment of the disciplinary rules and their use by the Board.

Ms. Wilcox noted that in July 2002, the Board hired a new Executive Director, Dr. Barry Cassidy, who is a certified physician's assistant. It is the first time the Board has had an Executive Director that has been a healthcare professional in approximately 20 years. Since coming on board, Dr. Cassidy has implemented various changes. She provided some statistics that showed the progress the Board has made under the leadership of Dr. Cassidy. She added that the audit should validate or invalidate the current procedures and determine what areas the Board is not addressing.

In response to Senator Weiers, Ms. Wilcox replied that the Board openly welcomes the audit.

Representative Huppenthal commented that although many good things have been accomplished at the AMB, the OAG will only be reviewing the three specific complaints: 1) any spending abuse; 2) turnover; and 3) summary dismissals. Ms. Wilcox indicated that because of the cloud of suspicion, it is difficult for the Board to move forward until there is an audit.

Representative Downing wondered if there should be a time period identified in the request. Ms. Davenport replied that it would be difficult to narrow the audit to a specific timeframe, because some of the issues require more work than others.

Senator Giffords questioned if there is room in the request to look at other things occurring at the agency. Senator Allen explained that the areas that will be audited relate specifically to the complaints received, noting that the major concern is who has the authority to spend the Board's money and how that authority is delegated. Representative Gullett added that the AMB was experiencing difficulty in the late 1990s and great progress has occurred with the current changes. However, there have been numerous allegations that need to be reviewed and the OAG is the area to do that.

Senator Blendu reminded everyone that JLAC is the Legislature's audit group. He feels that monies should not be spent to review the positive things the AMB does; however, the auditors should only review the specific areas in question.

**Representative Huppenthal moved that JLAC approve that the Auditor General perform a special audit of the Arizona Medical Board.  
The motion CARRIED by a voice vote.**

Ms. Davenport explained that a request has been made for a special audit of the Joint Technological Education District (JTED), reviewing one urban and one rural district. There are specific areas that the auditors will be reviewing as identified in the report (Attachment 1). In response to Senator Blendu, Ms. Davenport replied that the OAG will be able to work this audit into their schedule; however, one of the audits may not be completed until 2005.

Senator Rios questioned if this audit is being requested because JTED has been in existence since 1990 without an audit or have issues arisen that need attention. Representative Huppenthal indicated that there are concerns that some schools are receiving triple funding for specific classes which is costing the State millions of dollars. Senator Rios wondered how much the audit will cost. Ms. Davenport replied that the auditors have done some background work already and she believes they can perform this audit in the normal 2300 hours budgeted for a school district audit.

In response to Representative Boone, Ms. Davenport noted that JTED does receive financial audits.

Representative Downing voiced his concern that the request for an audit of the JTED indicates that the auditors should select one of the nine districts, rather than identifying a specific district that may be having problems. By selecting a district at random, the issues may not be uncovered.

**Representative Huppenthal moved that JLAC approve a special audit of the Joint Technological Education Districts. The motion CARRIED by a voice vote. DIVISION was called. The motion CARRIED by a division of 5-4.**

**Kim Hildebrand, Manager, Performance Audit Division, OAG,** provided the background and action required to assign two sunset audits.

In response to Senator Verschoor, Ms. Hildebrand explained that the Arizona Wine Commission only received a one-year extension at the last review and the Commission will end July 2004 unless it is assigned to a COR.

**Representative Huppenthal moved that JLAC approve the assignment of a sunset review for the Board of Naturopathic Physicians to the Senate Health Committee of Reference and House of Representatives Health Committee of Reference and the Arizona Wine Commission to the House of Representatives Commerce and Military Affairs Committee of Reference and the Senate Commerce Committee of Reference. The motion CARRIED by a voice vote.**

Representative Huppenthal suggested that JLAC should carefully consider which agencies are scheduled for an audit review. If an agency is performing well, he feels that perhaps the State's money would be better spent focusing on agencies where there are some concerns or complaints filed.

Ms. Hildebrand next discussed the consideration and approval of COR assignments for the 2003 and 2004 sunset cycles and the 2003 and 2004 nonsunset audits and evaluations. She pointed out that with the 46<sup>th</sup> Legislature, many of the committee names changed and this approval would bring them up to date with the correct names.

**Representative Huppenthal moved that JLAC approve the Committee of Reference assignments for the 2003 and 2004 sunset cycle and the 2003 and 2004 nonsunset audits and evaluation. The motion CARRIED by a voice vote.**

Ms. Walker provided information regarding the consideration and approval of committee of reference assignments for school district audits.

**Representative Huppenthal moved that JLAC approve the committee of reference assignments for school district audits. The motion CARRIED by a voice vote.**

**Dennis Mattheisen, Director of Financial Audits, OAG**, covered the final presentation of financial audit schedule and consideration of cost reimbursement audits. He noted that because the audits are statutorily required, it does not require JLAC approval. The State, counties, and colleges are required to have a federally mandated audit, which is paid by the federal government.

**Representative Huppenthal moved that JLAC approve final audit and the cost reimbursement audits. The motion CARRIED by a voice vote.**

Representative Huppenthal discussed the illegal alien voting concern and wondered if an audit should be performed to determine the extent illegal voting has occurred in Arizona. The OAG did some preliminary work and decided that they are not the appropriate agency to perform this task. He also noted that if JLAC is not the committee that should review this type of issue, then the committee should determine what group should be addressing it. Senator Blendu suggested that members should bring recommendations to the next meeting on how to resolve this issue.

There being no further business, the meeting was adjourned at 3:45 p.m.

Respectfully submitted,

Carol Dager  
Committee Secretary

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