

ARIZONA STATE SENATE

RESEARCH STAFF



TO: JOINT LEGISLATIVE AUDIT COMMITTEE

MIKE HANS
LEGISLATIVE RESEARCH ANALYST
Government Committee
Telephone: (602) 926-3580

DATE: January 17, 2020

SUBJECT: Sunset Review of the Office of the Auditor General

Attached is the final report of the sunset review of the Office of the Auditor General, which was conducted by the Senate Government and House Government Committees of Reference.

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 Karen Fann

Speaker of the House of Representatives
Representative Russell Bowers

Senate Members
Senator David Farnsworth, Co-Chair
Senator Sonny Borrelli
Senator Lela Alston
Senator Vince Leach
Senator Juan Mendez
Senator Frank Pratt
Senator Victoria Steele

House Members
Representative John Kavanaugh, Co-Chair
Representative Kevin Payne
Representative Walter Blackman
Representative Isela Blanc
Representative Domingo DeGrazia
Representative Diego Espinoza
Representative Jennifer Jermaine
Representative Warren Petersen
Representative Steve Pierce
Representative Lorenzo Sierra
Representative Bob Thorpe

Office of the Auditor General
Arizona State Library, Archives & Public Records

Secretary of the Senate
Senate Resource Center
Senate Republican Staff
Senate Democratic Staff
Senate Research Staff

Office of the Chief Clerk
House Republican Staff
House Democratic Staff
House Research Staff

**Senate Government and House Government
Committees of Reference Final Report**

Office of the Auditor General

Background

Pursuant to [A.R.S. § 41-2953](#), the Joint Legislative Audit Committee (JLAC) assigned the sunset review of the Office of the Auditor General (OAG) to the Senate Government and House Government committees of reference. The committees of reference considered the OAG's response to statutorily prescribed sunset factors.

The Auditor General is appointed to a five-year term by JLAC and approved by concurrent resolution of the Legislature ([A.R.S. § 41-1279.01](#)). The Auditor General, with JLAC approval, may appoint and prescribe the duties of additional professional, technical, clerical and other employees necessary to administer the duties of the OAG ([A.R.S. § 41-1279.02](#)). The powers and duties of the OAG include: 1) preparing an audit plan and reporting to JLAC on the results of each audit, investigation and other review conducted by the OAG; 2) performing procedural reviews of all state agencies; 3) performing special research requests, special audits and related assignments designated by JLAC; 4) conducting additional statutorily required performance or financial audits; and 5) prescribing a uniform expenditure reporting system for political subdivisions subject to expenditure limitations (A.R.S. §§ [41-1279.03](#) and [41-1279.07](#)).

The OAG is statutorily set to terminate on July 1, 2020, unless legislation is enacted for its continuation ([A.R.S. § 41-3020.21](#)).

Committee of Reference Sunset Review Procedures

The Senate Government and House Government Committees of Reference held one public meeting on January 9, 2020, to consider the OAG's responses to the sunset factors and to receive public testimony.

Committee Recommendations

The Senate Government and House Government Committees of Reference recommended that the Legislature continue the OAG for eight years until July 1, 2028.

Attachments

1. Meeting Notice
2. Minutes of Committees of Reference Meeting
3. Chairperson's Letter Requesting the Board's Response to the Sunset Factors
4. The Office of the Board's Response to the Sunset Factors

ARIZONA STATE LEGISLATURE

INTERIM MEETING NOTICE OPEN TO THE PUBLIC

SENATE GOVERNMENT COMMITTEE OF REFERENCE AND HOUSE GOVERNMENT COMMITTEE OF REFERENCE FOR THE SUNSET REVIEWS OF THE ARIZONA STATE LIBRARY, ARCHIVES AND PUBLIC RECORDS, LEGISLATIVE COUNCIL, OFFICE OF THE AUDITOR GENERAL, OFFICE OF THE OMBUDSMAN-CITIZENS AIDE AND STATE BOARD ON GEOGRAPHIC AND HISTORIC NAMES

Date: Thursday, January 9, 2020

Time: 1:00 P.M.

Place: SHR 109

AGENDA

1. Call to Order
2. Roll Call
3. Sunset Review of the Arizona State Library, Archives and Public Records
 - a. Presentation by the Arizona State Library, Archives and Public Records
 - b. Public Testimony
 - c. Discussion and Recommendations
4. Sunset Review of Legislative Council
 - a. Presentation by Legislative Council
 - b. Public Testimony
 - c. Discussion and Recommendations
5. Sunset Review of the Office of the Auditor General
 - a. Presentation by the Office of the Auditor General
 - b. Public Testimony
 - c. Discussion and Recommendations
6. Sunset Review of the Office of the Ombudsman-Citizens Aide
 - a. Presentation by the Office of the Ombudsman-Citizens Aide
 - b. Public Testimony
 - c. Discussion and Recommendations
7. Sunset Review of the State Board on Geographic and Historic Names
 - a. Presentation by the State Board on Geographic and Historic Names
 - b. Public Testimony
 - c. Discussion and Recommendations
8. Adjourn

Members:

Senator David C. Farnsworth, Co-Chair
Senator Lela Alston
Senator Sonny Borrelli
Senator Vince Leach
Senator Juan Mendez
Senator Frank Pratt
Senator Victoria Steele

Representative John Kavanagh, Co-Chair
Representative Walter Blackman
Representative Isela Blanc
Representative Domingo DeGrazia
Representative Diego Espinoza
Representative Jennifer Jermaine
Representative Kevin Payne
Representative Warren Petersen
Representative Steve Pierce
Representative Lorenzo Sierra
Representative Bob Thorpe

01/03/2020

sa

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 COMMITTEE OF REFERENCE AND HOUSE GOVERNMENT COMMITTEE OF REFERENCE FOR THE SUNSET REVIEWS OF THE ARIZONA STATE LIBRARY, ARCHIVES AND PUBLIC RECORDS, LEGISLATIVE COUNCIL, OFFICE OF THE AUDITOR GENERAL, OFFICE OF THE OMBUDSMAN-CITIZENS AIDE AND STATE BOARD ON GEOGRAPHIC AND HISTORIC NAMES

Minutes of the Meeting
January 9, 2020
1:00 p.m., Senate Hearing Room 109

Members Present:

Senator David C. Farnsworth, Co-Chair
Senator Lela Alston
Senator Sonny Borrelli
Senator Vince Leach
Senator Juan Mendez

Representative John Kavanaugh, Co-Chair
Representative Walter Blackman
Representative Isela Blanc
Representative Diego Espinoza
Representative Warren Petersen
Representative Steve Pierce
Representative Lorenzo Sierra
Representative Bob Thorpe

Members Excused:

Senator Frank Pratt
Senator Victoria Steele

Representative Domingo DeGrazia
Representative Jennifer Jermaine
Representative Kevin Payne

Staff:

Michael Hans, Senate Research Analyst
Stephanie Jensen, House Research Analyst

Senator Borrelli called the meeting to order at 1:03 p.m. and attendance was noted.

SUNSET REVIEW OF THE STATE BOARD ON GEOGRAPHIC AND HISTORIC NAMES

Presentation by the State Board on Geographic and Historic Names

Dennis Preisler, State Archivist, State Records Officer, Chairman, Geographic Names Board, distributed and explained a PowerPoint presentation entitled "Arizona State Board on Geographic and Historic Names, Sunset Review Presentation" (Attachment A) and distributed a letter from Katie Hobbs, Secretary of State (Attachment B). Mr. Preisler answered questions posed by the Committee.

Public Testimony

Senator Borrelli put out a call for public testimony, however, no one came forward.

Discussion and Recommendations

The Committee discussed the number of years for the continuation of the State Board on Geographic and Historic Names.

Representative Kavanagh moved that the Senate Government and House Government Committee of Reference recommend the State Board on Geographic and Historic Names be continued for eight years. The motion CARRIED by voice vote.

SUNSET REVIEW OF THE ARIZONA STATE LIBRARY, ARCHIVES AND PUBLIC RECORDS

Presentation by the Arizona State Library, Archives and Public Records

Allie Bones, Arizona Assistant Secretary of State, distributed and explained a PowerPoint presentation entitled "State Library Archives and Public Records" (Attachment C) and distributed a letter from Katie Hobbs, Secretary of State (Attachment D). Ms. Bones answered questions posed by the Committee

Holly Henley, Arizona State Librarian, Director, Arizona State Library, Archives and Public Records, gave an overview of the Library and Archives.

Ms. Bones answered additional questions posed by the Committee.

Janet Fisher, Administrator, Arizona Talking Book Library, gave an overview of the Arizona Talking Book Library and answered questions posed by the Committee.

Ms. Bones answered additional questions posed by the Committee.

Michael Hans, Senate Research Analyst, answered questions posed by the Committee.

Ms. Bones answered additional questions posed by the Committee.

Public Testimony

Senator Borrelli put out a call for public testimony, however, no one came forward.

Senator Borrelli stated that a letter addressed to the Sunset Commission would be read into the public record.

Representative Kavanagh read a letter from Ted Hale into the record regarding several concerns. (Attachment E).

Ms. Bones answered additional questions posed by the Committee.

Discussion and Recommendations

Representative Kavanagh moved that the Senate Government and House Government Committee of Reference recommend the Arizona State Library, Archives and Public Records be continued for eight years. The motion CARRIED by voice vote.

SUNSET REVIEW OF LEGISLATIVE COUNCIL

Presentation by Legislative Council

Mike Braun, Executive Director, Arizona Legislative Council, introduced Patricia Probst, Assistant Director, Legislative Council and Steve Primack, Associate Director, Legislative Council. Mr. Braun distributed a letter addressed to Senator David Farnsworth (Attachment F) and gave an overview of the primary purpose of the Council.

Senator Borrelli and Representative Thorpe offered comments.

Public Testimony

Senator Farnsworth put out a call for public testimony, however, no one came forward.

Discussion and Recommendations

The Committee discussed the number of years for the continuation of Legislative Council.

Representative Kavanagh moved that the Senate Government and House Government Committee of Reference recommend the Legislative Council be continued for eight years. The motion CARRIED by voice vote.

SUNSET REVIEW OF THE OFFICE OF THE OMBUDSMAN-CITIZENS AIDE

Presentation by the Office of the Ombudsman-Citizens Aide

Dennis Wells, Arizona State Ombudsman, introduced Joanne MacDonnell, Deputy Ombudsman and Danee Garone, Staff Attorney. Mr. Wells distributed and explained a PowerPoint presentation entitled "Arizona Ombudsman-Citizens' Aide Office" (Attachment G) and a "Sunset Review Report, 2019 Office of the Ombudsman-Citizens'

Aide" (Attachment H). Mr. Wells gave an overview of the Ombudsman-Citizens' Aide Office and answered questions posed by the Committee.

Public Testimony

Senator Farnsworth put out a call for public testimony, however, no one came forward.

Discussion and Recommendations

Representative Kavanagh moved that the Senate Government and House Government Committee of Reference recommend the Office of the Ombudsman-Citizens Aide be continued for eight years. The motion CARRIED by voice vote.

SUNSET REVIEW OF THE OFFICE OF THE AUDITOR GENERAL

Presentation by the Office of the Auditor General

Lindsey Perry, Arizona Auditor General, distributed a report entitled "Office of the Auditor General, Sunset Review Response" (Attachment I) and gave an overview of the Arizona Auditor General's Office. Ms. Perry answered questions posed by the Committee.

Discussion and Recommendations

Senator Farnsworth offered comments.

Ms. Perry answered additional questions posed by the Committee.

Representative Blanc, Senator Alston, Senator Farnsworth and Representative Thorpe offered comments.

Senator Farnsworth offered additional comments.

Representative Kavanagh moved that the Senate Government and House Government Committee of Reference recommend the Office of the Auditor General be continued for eight years.

Senator Farnsworth offered additional comments.

The motion CARRIED by voice vote.

Attached are forms noting the individuals who submitted a Speaker Slip on the agenda items (Attachment J).

There being no further business, the meeting was adjourned at 2:25 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>)



Arizona State Senate

June 12, 2019

Lindsey Perry
Arizona Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ, 85018-7271

Dear Auditor General Perry,

The sunset review process prescribed in Title 41, Chapter 27, Arizona Revised Statutes, provides a system for the Legislature to evaluate the need to continue the existence of state agencies. During the sunset review process, an agency is reviewed by legislative committees of reference. On completion of the sunset review, the committees of reference recommend to continue, revise, consolidate or terminate the agency.

The Joint Legislative Audit Committee (JLAC) has assigned the sunset review of the Arizona Auditor General to committees of reference comprised of members of the Senate Government Committee and the House of Representatives Government Committee.

Pursuant to A.R.S. § 41-2954, the committee of reference is required to consider certain sunset factors in deciding whether to recommend continuance, modification or termination of an agency. Please provide your agency's response to the factors listed below:

1. The objective and purpose in establishing the agency and the extent to which the objective and purpose are met by private enterprises in other states.
2. The extent to which the agency has met its statutory objective and purpose and the efficiency with which it has operated.
3. The extent to which the agency serves the entire state rather than specific interests.
4. The extent to which rules adopted by the agency are consistent with the legislative mandate.
5. The extent to which the agency has encouraged input from the public before adopting its rules and the extent to which it has informed the public as to its actions and their expected impact on the public.
6. The extent to which the agency has been able to investigate and resolve complaints that are within its jurisdiction.
7. The extent to which the attorney general or any other applicable agency of state government has the authority to prosecute actions under the enabling legislation.
8. The extent to which agencies have addressed deficiencies in their enabling statutes that prevent them from fulfilling their statutory mandate.
9. The extent to which changes are necessary in the laws of the agency to adequately comply with the factors listed in A.R.S. § 41-2954.

10. The extent to which the termination of the agency would significantly affect the public health, safety or welfare.
11. The extent to which the level of regulation exercised by the agency compares to other states and is appropriate and whether less or more stringent levels of regulation would be appropriate.
12. The extent to which the agency has used private contractors in the performance of its duties as compared to other states and how more effective use of private contractors could be accomplished.
13. 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.

Additionally, please provide written responses to the following:

1. Identify the problem or the needs that the agency is intended to address.
2. State, to the extent practicable, in quantitative and qualitative terms, the objectives of the agency and its anticipated accomplishments.
3. Identify any other agencies having similar, conflicting or duplicative objectives, and an explanation of the manner in which the agency avoids duplication or conflict with other such agencies.
4. Assess the consequences of eliminating the agency or of consolidating it with another agency.

Your response should be received by September 1, so we may proceed with the sunset review and schedule the required public hearing. Please submit the requested information to:

Mike Hans
Arizona State Senate
1700 West Washington
Phoenix, Arizona, 85007

Thank you for your time and cooperation. If you have any questions, please feel free to contact me at 602-926-3020 or Mike Hans, the Senate Government Committee Research Analyst, at 602-926-3580.

Sincerely,

A handwritten signature in blue ink that reads "David Farnsworth". The signature is written in a cursive style with a large initial "D" and "F".

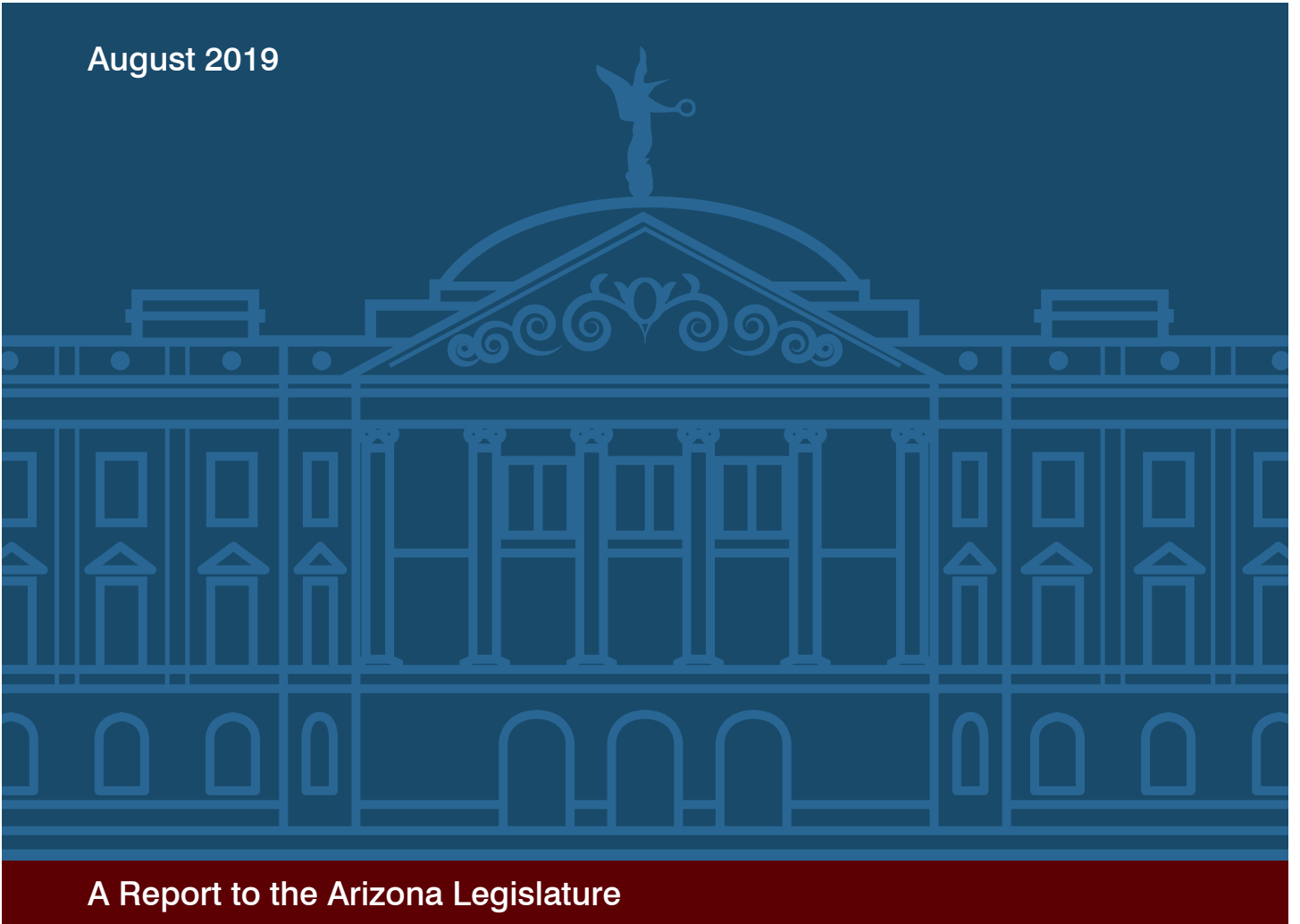
Senator David Farnsworth

cc: Representative John Kavanagh, House Government Committee, Chair
Stephanie Jensen, House Government Committee, Analyst

Office of the Auditor General

Sunset Review Response

August 2019



A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





The Arizona Office of the Auditor General's mission is to provide independent and impartial information and specific recommendations to improve the operations of State and local government entities. To this end, the Office provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, State agencies, and the programs they administer.

The Joint Legislative Audit Committee

Senator **Rick Gray**, Chair
Senator **Lupe Contreras**
Senator **Andrea Dalessandro**
Senator **David C. Farnsworth**
Senator **David Livingston**
Senator **Karen Fann** (ex officio)

Representative **Anthony T. Kern**, Vice Chair
Representative **John Allen**
Representative **Timothy M. Dunn**
Representative **Mitzi Epstein**
Representative **Jennifer Pawlik**
Representative **Rusty Bowers** (ex officio)

Contact Information

Arizona Office of the Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018-7271

(602) 553-0333

contact@azauditor.gov

www.azauditor.gov



MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

ARIZONA AUDITOR GENERAL
LINDSEY A. PERRY

JOSEPH D. MOORE
DEPUTY AUDITOR GENERAL

Members of the Arizona Legislature:

As the Office of the Auditor General undergoes its sunset review, I want to thank you for this opportunity to discuss the important responsibilities we fulfill, report on our significant accomplishments, and share how we make a positive difference by promoting better government.

We provide a unique service to the State. As a legislative agency, we are appropriately positioned to fulfill our many mandates, the most important of which is to provide independent, impartial, accurate, and timely information to the Legislature. As indicated in our responses to the sunset factors and additional questions, our audits and investigations of State agencies, counties, universities, school districts, and other government entities help:

- Hold these entities accountable for the funding they receive.
- Determine how effectively and efficiently they perform and serve Arizona citizens.
- Deter and detect fraud, waste, and abuse.
- Assure compliance with State and Federal laws and regulations.
- Provide recommendations to improve performance and compliance with laws and regulations.

Through our work, we also provide timely and useful information to various government officials for decision-making purposes, help to ensure that Federal monies continue to flow to critical State and local programs, and inform the public about how taxpayer monies are used.

To meet our mission of providing impartial information, impactful recommendations, and stakeholder education to improve Arizona government, we employ highly knowledgeable and skilled professionals who care about Arizona's citizens and the quality of programs that serve them. Because of our staff, we have developed and work diligently to maintain an excellent reputation for the accuracy and quality of our work and the information that we provide. This reputation extends nationally among audit organizations at all levels of government, largely resulting from our leadership in the government auditing field and our nationally recognized work.

Please let me know if you have any questions regarding our sunset review response.

Sincerely,

Lindsey Perry, CPA, CFE
Auditor General





SUNSET FACTORS

In accordance with Arizona Revised Statutes (A.R.S.) §41-2954, the Office of the Auditor General (Office) responds to the 13 sunset factors as follows:

1. The objective and purpose in establishing the Office and the extent to which the objective and purpose are met by private enterprises in other states.

The Office was established in 1969. According to A.R.S. §41-1279.01, the Joint Legislative Audit Committee (JLAC) is required to approve and appoint an Auditor General based on a concurrent resolution of the Legislature. Arizona Revised Statutes also establish several primary responsibilities for our Office as illustrated in Figure 1 below:

Auditor General mission

We are independent and provide impartial information, impactful recommendations, and stakeholder education to improve Arizona government for its citizens.

Figure 1
Office of the Auditor General
Primary statutory responsibilities

Reporting responsibilities	Audit responsibilities	Other statutory responsibilities
Prepare audit plan for JLAC review and approval. Prepare and issue reports on the results of audits and investigations.	Financial and Federal compliance audits of State agencies, universities, counties, and community colleges subject to the Federal Single Audit Act. Performance audits and/or special audits of State agencies, universities, courts, school districts, and other political subdivisions as required by law or as assigned by JLAC. Annual <i>Arizona School District Spending</i> report. Follow up on the status of public entities' implementation of audit recommendations following the release of audit reports.	Approve school district financial and compliance audit contracts, and review and approve the completed audits. Prescribe a uniform expenditure reporting system to control expenditures and limit future increases in spending for all political subdivisions, such as counties, cities and towns, and community college districts, subject to the constitutional expenditure limitations prescribed by the Arizona Constitution, Art. IX, §§20 and 21. Prescribe uniform accounting systems for school districts and charter schools. Provide technical assistance to State and local governmental entities, such as State agencies, school districts, charter schools, and counties.

All 49 other states and the District of Columbia have a state- or district-level agency that performs similar audit functions as the Arizona Office of the Auditor General.

2. The extent to which the Office has met its statutory objective and purpose and the efficiency with which it has operated.

Our Office has effectively met its objective and purpose. We strive to make a positive difference by promoting better government. We focus on helping State agencies, the State universities, counties, community colleges,

school districts, and special taxing districts improve their accountability and performance and use of public monies. During fiscal years 2010 through 2019, our Office issued 1,807 audit, review, investigation, and follow-up reports with 6,601 recommendations. Specifically:

Performance audits and sunset reviews

222 reports | 3,054 recommendations

Our performance audits assess how well State agencies, school districts, and other governmental entities are providing services to Arizona's citizens and fulfilling their statutory mandates. These audits focus on determining how effectively, efficiently, and economically state agencies and school districts conduct business; provide critical information to the Legislature, agency officials, and other stakeholders on their performance; and include recommendations to improve performance. Sunset reviews are performance audits that address statutory questions to help the Legislature determine whether it is in the State's best interest to keep or "sunset" (terminate) an agency. Some of the more notable performance audits and sunset reviews over the last several years include:

- **Arizona Department of Economic Security—Vocational Rehabilitation Services Program (Vocational Rehab Program)**—Our 2017 performance audit found that Arizona had a higher rehabilitation cost and lower rehabilitation rate than comparable agencies in other states. Specifically, when compared to the 32 similar agencies in other states and territories, Arizona's average cost per rehabilitation, \$16,200 per client, was the highest and more than 2.5 times higher than the national average of approximately \$6,300 per client. Further, Arizona's rehabilitation rate of 51 percent was lower than the 32 agencies' average rehabilitation rate of 57 percent. At the time of the audit, the Vocational Rehab Program had 2,800 eligible clients on a waiting list. If it operated at the national average cost of \$6,300 per client, we determined it could have paid for approximately 2,090 additional successfully rehabilitated clients. We found that the Department lacked oversight and training to effectively manage program costs and clients' progress, including guidance on reasonable expenditures and time limits for clients to receive services. Our Office received a 2019 National Legislative Program Evaluation Society (NLPES) Certificate of Impact award for this report.

Our most recent follow-up report, issued in September 2018, found that the Department had implemented or was in the process of implementing 17 of the report's 22 recommendations.

- **Arizona Department of Education (ADE)—Empowerment Scholarship Accounts Program (Program)**—Our 2016 performance audit of this Program found that ADE did not systematically monitor parents' debit card spending for unusual spending patterns, and some parents were able to misspend program monies. ADE also did not review parents' expense reports in a timely manner. Although ADE had worked with the bank to establish debit card controls to automatically deny purchases at unapproved merchants, some parents were able to circumvent these controls. Finally, ADE had not consistently referred parents to the Arizona Attorney General's Office for fraud investigations or collections, and collections efforts had recovered approximately \$14,500 of the \$102,602 ADE identified as misspent monies between August 1, 2015 and January 31, 2016. Our Office received a 2018 NLPES Certificate of Impact award for this report.

Follow-up work on this audit found that although ADE had taken some steps to strengthen its oversight of the Program, many of the issues identified in the 2016 audit persisted (see Followups section, page 4).

- **Arizona Radiation Regulatory Agency (ARRA), the Arizona Radiation Regulatory Hearing Board (Hearing Board), and the Medical Radiologic Technology Board of Examiners (MRTBE)**—Our 2015 performance audit and sunset review recommended that ARRA evaluate ways to address its x-ray inspections backlog and that the MRTBE improve its licensing and complaint resolution processes. ARRA was responsible for inspecting x-ray facilities and nonionizing radiation facilities, such as tanning facilities, to ensure that x-ray machines and other radiation sources operate properly. ARRA had not met its inspection time frames and had problems doing so for 3 decades. As of June 2015, approximately 49 percent of x-ray facilities and 47 percent of nonionizing radiation facilities were overdue for inspection, primarily because ARRA lacked the recommended number of experienced inspectors to perform

inspections and relied on its inspectors to perform administrative tasks. Our Office received a 2017 NLPES Certificate of Impact award for this report.

After our audit findings were published, legislation in 2017 and 2018 eliminated ARRA, the Hearing Board, and the MRTBE, and transferred their authority, powers, duties, and responsibilities to the Arizona Department of Health Services.

- **Parker Unified School District**—This fiscal year 2017 performance audit identified more than \$1.1 million in potential annual operational savings in noninstructional areas—or about \$600 per pupil—that the District could use for instruction. Specifically, the District employed nearly 2.5 times the custodian positions compared to its peer districts, paid 11 of its 24 bus drivers almost \$100,000 in overtime wages (salaries and benefits) because of poor driver scheduling practices, and operated its schools at only 61 percent of their total designed capacities.
- **Common issues identified in our school district performance audits**—We have also identified the following common issues through the school district performance audits we perform State-wide that affect school district accountability and efficiency:
 - **Overstaffing**—Since fiscal year 2010, we have identified at least 10 school districts that had high noninstructional costs because of overstaffing and made recommendations to reduce staffing levels. For example, our 2017 performance audit of Piñon Unified School District made recommendations related to administrative and transportation staffing, which helped eliminate unnecessary positions and reduce bus driver downtime and overtime. By implementing these recommendations, the District reduced administrative and transportation costs by 15 and 21 percent respectively, resulting in savings of over \$700,000 per year that the District could use for instructional purposes.
 - **Solar power system contracts**—We found that several school districts had entered into long-term solar power system agreements that were not advantageous to the districts and were actually increasing their electricity costs rather than lowering them. We made several recommendations to help these districts increase their ability to achieve cost savings, including renegotiating their solar power system agreements and monitoring results after the systems were operational to ensure that the districts received their contractually guaranteed cost savings. We also issued a School District Alert on Solar Power System Agreements in July 2012 to help districts better understand the statutes that allow them to enter into long-term energy savings contracts and provide them with best practices for exploring the feasibility of these types of agreements.
 - **Transportation overfunding**—Since fiscal year 2010, we have identified at least 11 districts that the State overfunded for their transportation programs and were required to refund the State a total of more than \$2.1 million. For example, during our 2016 performance audit of Peoria Unified School District, we found that the District provided an inflated estimate of mileage rather than the actual mileage its school buses traveled. Therefore, the District received more than \$693,000 in State funding over a 3-fiscal-year period that it should not have received. Consistent with our recommendation, the District paid this money back to the State.
 - **Other school district issues**—We have also identified and helped correct other issues through our performance audit work. For example, in our 2015 performance audit of Payson Unified School District, we identified and helped the District to recover more than \$34,000 from a food service vendor in contractually guaranteed refunds. Additionally, our audit recommended the District rebid its food service contract, leading to an increase in guaranteed returns and food program cost savings of more than \$140,000 annually. Our Office received a 2016 NLPES Certificate of Impact award for this report.

We follow up with State agencies, school districts, and other government entities we have audited to assess how many of our recommendations they have implemented and the status of these recommendations. Followups also provide accountability and transparency on the efforts these government entities make to address the findings and recommendations included in our audit reports. For example:

- Our October 2018 followup of our 2016 performance audit of the Arizona Department of Education—Empowerment Scholarship Accounts Program found that although ADE had taken some steps to strengthen its oversight of the Program and safeguard program monies, many of the issues identified in the 2016 audit persisted. For example, ADE had inconsistently monitored for attempted misspending, parents continued to misspend after initial attempts to do so were denied, expense report reviews continued to be untimely and did not adequately prioritize the highest-risk bank accounts, and enforcement and recovery efforts continued to be untimely and recovered only small amounts.
- Our 2013 performance audit of Patagonia Elementary and Union High School Districts found that the 2 districts essentially operated as 1 district, and we recommended that the 2 districts combine operations to save money. As a result, the elementary district closed 1 of its schools and moved those students to the union high school's campus, which led to reduced costs and improved operational efficiencies. In addition, as a result of our recommendations, legislation was passed to clarify in statute that more than 1 school district may not report the same student transportation miles for State funding. Although this law would have State-wide impact for years to come, we estimated taxpayer savings associated with Patagonia Elementary and Union High School Districts of more than \$590,000 for fiscal year 2011. Our Office received a 2015 NLPES Certificate of Impact award for this report.

Recommendations implemented Fiscal years 2010 through 2019



Agencies/school districts **95.6%**



Legislature **74.5%**

Financial investigations and alerts

39 reports | 108 recommendations

Our Office has consistently and vigilantly worked to deter and detect fraud, waste, and abuse, and we have participated in some of the most significant dollar loss criminal investigations in Arizona involving corrupt public officials. We have also served as the cornerstone of civil investigations into improper procurement practices involving more than \$100 million in school district monies. From fiscal year 2010 through fiscal year 2019, in our position as “State watchdog,” we completed 43 investigations that involved the loss of more than \$9.9 million to Arizona taxpayers. These investigations led to criminal indictments of 41 former government employees, elected officials, and conspirators. Additionally, civil judgments have been filed against several public entities that significantly impact the way tax dollars are spent.

We have been effective in investigating, supporting prosecution of, and resolving public officials' and employees' financial corruption. Some of our notable public corruption investigations include:

- **Arizona Department of Veterans' Services**—In September 2010, a former Department Director, Patrick Chorpenning, pled guilty to conflict of interest and solicitation to commit a violation of the procurement code charges. He was sentenced to 2 years of supervised probation and ordered to pay \$421,352 in restitution.
- **Department of Emergency and Military Affairs**—In February 2012, James Burns, the Department's former resources manager of State activities, pled guilty to theft and fraudulent schemes and artifices (attempts to obtain a benefit by fraudulent premises). He was sentenced to 3.5 years in prison, 7 years of supervised probation, and ordered to pay \$2,095,325 in restitution.

- **Show Low Fire District**—In April 2017, Natalie Cluff, the District’s former administrative manager, pled guilty to conspiracy, theft, and misuse of public monies. She was sentenced to 7.5 years in prison and ordered to pay \$1,794,594 in restitution. In February 2018, Ben Owens, the District’s former fire chief, pled guilty to facilitation of illegally conducting an enterprise, and facilitation of fraudulent schemes and enterprises. He was sentenced to 3 years of probation and ordered to pay restitution of \$124,656.
- **Northern Arizona University**—In November 2017, Edwin Talley, the University’s former postal services manager, pled guilty to theft, misappropriation of public monies, and fraudulent schemes and artifices. He was sentenced to 5.5 years in prison, 7 years of supervised probation, and ordered to pay \$342,842 in restitution.
- **Western Arizona Vocational Education District**—In April 2019, Deborah Long, the District’s former business manager, pled guilty to theft and fraudulent schemes and artifices. She was sentenced to 4.5 years in prison and ordered to pay approximately \$171,000 in restitution.

We also issue fraud prevention alerts to educate public officials and other employees on how they can help protect public monies and deter and detect fraud. We often issue these alerts based on deficiencies encountered in our fraud investigations and audits or to highlight issues that are being discussed in the professional community. For example, in July 2019, we issued a fraud prevention alert on the growing threat of ransomware, how using information technology standards and best practices can help protect against ransomware, and what steps entities should take if a ransomware attack were to occur.

Financial and Federal compliance audits

433 reports | 3,147 recommendations

Financial audits examine the State’s, universities’, community college districts’, and counties’ financial reporting for inconsistencies and errors, and help ensure these governments are properly accounting for and reporting their finances. These audits are required for an entity to continue receiving Federal monies and provide the Legislature, Federal government, State and local government decision-makers, and others in the financial community with information regarding the adequacy of financial data; effectiveness of internal controls; and compliance with applicable laws, regulations, and required accounting practices. Financial audits include:

- **Financial audits**—These audits help ensure government entities properly account for and spend their revenues and that their financial statements are accurate. During fiscal year 2018, State agencies, universities, community college districts, and counties reported approximately \$44.8 billion in revenue and \$42.9 billion in expenditures. In addition, we have helped or are in the process of helping 7 entities become compliant and issue their annual financial reports within the required timelines to satisfy the audit requirements imposed by Federal and State laws and regulations, grants, contracts, and long-term debt agreements.
- **Federal compliance audits**—These audits are conducted under the Federal Single Audit Act and help to verify the appropriateness of expenditures of Federal monies in the State and audit for compliance with Federal requirements. In fiscal year 2018, State agencies, universities, community college districts, and counties spent approximately \$17.5 billion in Federal monies to provide a variety of services to Arizona citizens, including healthcare, financial assistance, and education programs.

For example, as part of our fiscal years 2016 through 2018 State of Arizona Federal compliance audits, we reported that the Arizona Department of Child Safety (DCS) did not always comply with requirements for completing the safety background checks of childcare institutions’ employees within a reasonable period after their hire date. The DCS subsequently performed required background checks on all childcare institution employees. However, in 2 instances, an employee did not pass the background check and worked with foster care children for 3 to 4 months before they were terminated. The DCS implemented policies and procedures in fiscal year 2018 to correct this issue.

Similar to our performance audits, we also monitor State agency, university, community college district, and county efforts to implement our recommendations resulting from our financial audits. For financial audits issued in fiscal year 2017, 55 percent of our recommendations had been implemented by the end of fiscal year 2018.

Accountability reviews

494 reports | 145 recommendations

These reviews help ensure that public monies are protected and accounted for and that government entities, such as State agencies, counties, community colleges, and school districts, are following certain laws and regulations, including those related to appropriate uses and expenditure limits of public monies, as applicable. For example, as required by A.R.S. §41-1279.03(A)(10), we perform an annual review of per diem compensation and reimbursement of expenses for members of State boards, commissions, councils, and advisory committees. In our fiscal year 2016 review, we identified 10 boards that overpaid board members per diem compensation and/or expense reimbursements totaling \$3,597. We also recommended that the State establish policies to help ensure compliance with applicable tax withholding requirements. Some of the 10 boards have since recovered the overpayments.

Special audits/reviews

52 reports | 147 recommendations

We conduct these reviews when specific laws require them, or when JLAC requests them. Examples of the special audits/reviews we have conducted include:

- **Arizona Department of Child Safety**—As required by A.R.S. §41-1966, the Office created a permanent audit team dedicated to reviewing the operations of the DCS. Since its inception, our DCS audit team has produced numerous audit reports, and this work has provided critical findings and recommendations on how the DCS can better ensure the safety and well-being of children and families involved with the DCS. For example, from calendar years 2016 through 2018, we issued 5 special reports on the DCS with a total of 48 recommendations. These reports addressed topics such as the DCS' efforts to help ensure that children who have been removed from their homes achieve safe and stable permanent homes, and staff retention, recruitment, and training. We will issue our next DCS report on its practices for recruiting, licensing, using, and retaining foster homes to the Legislature by its September 30, 2019, due date.
- **Arizona School District Spending report**—Issued annually, this report provides information on the percentage of dollars school districts spent in the classroom. The report includes a State summary showing its performance on various financial and student measures and operational trends, as well as summaries for more than 200 school districts in the State. To address legislative and public interest, this report provides information about individual districts' spending, average teacher salary, students' pass rates on State assessments, and other items of interest. Prior to this report, a legislator or other interested party would have had to go to ADE and each individual school district to gather the wealth of information that the report provides for the State and individual school districts.
- **Government property lease excise tax (GPLET)**—Pursuant to Laws 2010, Ch. 321, we conducted a special audit of GPLET. The audit examined whether GPLET was a viable revenue stream for counties, cities and towns, community college districts, and school districts; if the GPLET collection and distribution process was efficient; compliance with laws for administering the GPLET; and various other objectives. Subsequent to our report, the Legislature made several changes to the GPLET statutes.
- **Joint Technical Education Districts (JTEDs)**—Pursuant to Laws 2016, Ch. 4, §7, we reviewed various aspects of the State's JTEDs, which were formed by 2 or more school districts combining to deliver career and technical education (CTE) to students. We reviewed information and data from several JTEDs, JTED member school districts, and school districts that offered CTE but were not JTED members, and made recommendations pertaining to increasing students' access to CTE programs; working with businesses, industry, and the State to provide learning opportunities and to identify future workforce needs; and

consistently collecting data on student outcomes to better measure and evaluate the effectiveness of their programs.

- **Arizona School Facilities Board (Board) Building Renewal Grant (BRG) Fund**—Pursuant to Laws 2018, Ch. 285, §30, we conducted a special audit of the BRG Fund expenditures for the period of July 1, 2016 through June 30, 2018, and the BRG Fund project (BRG project) process. We found that school districts' BRG project delays and the Board's lack of monitoring contribute to potential health and safety risks, increased State costs, and BRG Fund monies sitting idle for years; and that most Board members failed to fully disclose interests related to Board decisions. Finally, we found that Board staff and vendor actions and Board procurement policies could confuse districts and lead to potential conflicts and noncompliance with State procurement requirements, and some districts we reviewed did not always comply with procurement requirements.

Establishing and tracking goals and performance measures helps ensure efficient operations

Finally, we internally monitor our efficiency in conducting our numerous and varied responsibilities through strategic plan goals and self-imposed performance measures, which we monitor regularly. For example, we established and, when appropriate, revised an internal productivity measure to help ensure that we focus our limited resources on audit activities that help us meet our mission. Since establishing this measure in 2001, we have consistently exceeded our productivity goals. Further, we continually implement process improvements designed to use efficient and value-added processes to ensure our reports are issued in a timely manner. For example, we have greatly enhanced and continue to identify opportunities to further enhance our use of technology. This has promoted more efficient operations by allowing the entities we audit to securely send us information electronically.

3. The extent to which the Office serves the entire State rather than specific interests.

The Office operates in the public interest by providing policymakers and citizens with accurate, impartial information on whether taxpayer-provided resources are used effectively, efficiently, and in accordance with law. In fact, various reviews of our Office have recognized the impact of our work and the systems we have in place to ensure the accuracy, integrity, and impartiality of our audits. Specifically:

- **Independent review of our Office attests to the high quality of our work**—Every 3 years, we undergo a Quality Control Review by the National State Auditors Association, which is required by *Government Auditing Standards*, issued by the Comptroller General of the United States, that we follow. This “audit of the auditor” measures our compliance with professional standards when we perform our audit work and issue our reports. Since required to do so by *Government Auditing Standards*, our Office has undergone 12 reviews, and each time we have received a “clean opinion” stating that our Office has an appropriately designed quality control system and that our compliance with that system ensures that we follow *Government Auditing Standards*. These results are the highest mark a state audit organization can receive in such a review. We will undergo our next Quality Control Review in September 2019 and again expect to receive a “clean opinion.”
- **National awards acknowledge significant impact of audits**—We have received numerous awards for the effectiveness and impact of our work. For example, the NLPES has recognized our work on numerous occasions. Specifically, our Office has received the NLPES' annual impact award in each of the past 10 years. This award recognizes performance audits that document public policy impacts.

In 2017, we also received the National Conference of State Legislature's Legislative Research Librarians Notable Documents award for our 2016 *Arizona School District Spending* report. This award recognizes excellence in documents that explore topics of interest to legislators and staff, and present substantive material in an outstanding format.

Our website and focus on developing and providing useful products to communicate audit results and information to policymakers, government officials, various stakeholders, and the public also demonstrate how we serve the entire State. Specifically:

- **Website provides helpful information to the public**—We have a regularly updated website that provides information to the public about completed audit reports and compliance reviews, follow-up reports on State agency and school district efforts to implement recommendations, and technical briefs. Stakeholders and the public can access and download reports and technical briefs free of charge. These reports and briefs provide the public with information regarding State agency, school district, and other government entities' purpose, operations, and performance, including whether these entities are complying with statutory mandates, Federal laws, and applicable accounting standards; and whether they have effectively and efficiently implemented and operated programs designed to assist the public. Additionally, the website provides useful information to State agencies, counties, school districts, and other governmental entities regarding accounting standards, budget forms and guidance, and fraud alerts. During fiscal year 2019, we received between 14,100 and 19,500 visits to our website monthly.
- **New and improved products provide the public with important information**—We have improved and developed several new products that provide important information to the Legislature, other key stakeholders, and the public in quick and easy-to-read formats. These include the following:
 - A redesigned website that provides more intuitive and easier access to the information and reports we produce and supports access from mobile devices. Reports and other products we issue are produced and distributed electronically, reducing costs to the State and increasing report portability.
 - Financial audit user guides that help decision-makers identify and understand the important and useful information presented in government financial and internal control and compliance reports. We provide the following 3 user guides on our website:
 - Financial report user guide—colleges and universities.
 - Financial report user guide—State and local governments.
 - Internal control and compliance reports user guide.
 - At stakeholders' request, we made available on our website a data file to accompany our annual *Arizona School District Spending* report, which includes State-wide analyses of spending, as well as summaries of various financial and student achievement measures for individual school districts and the State. The data file includes the numbers presented in the report's graphics and tables so that stakeholders can use the data to perform their own specific analyses.
 - A redesigned Uniform Expenditure Reporting System (UERS) to help cities, towns, counties, and community colleges easily access applicable requirements for reporting expenditures subject to their constitutional spending limits and additional resources such as webinars and FAQs that help them complete their annual expenditure limitation reports.
 - Redesigned school district and charter school budget forms and worksheets that align with related reports produced by ADE to allow districts and charters to more easily reconcile their budget calculations with ADE's calculations. We also added automation and validation features to the budget forms to improve accuracy of the calculated budget limits and formula funding.
 - Live webinars on school district finance issues to help districts improve their controls in areas such as cash handling and bank accounts, expenditure processing and purchasing, accounting records and financial reporting, information technology (IT) systems, and property control. We have also published video FAQs on our website that districts can use, along with our posted webinars, to review Uniform System of Financial Records (USFR) requirements and train new staff.

Finally, we serve our stakeholders throughout the State by providing numerous trainings and technical assistance to various governmental entities, and by participating in various local and national professional associations and standard-setting bodies. Specifically, we:

- **Share our expertise through numerous trainings**—We are committed to providing training to various stakeholders across the State and peer audit offices. This includes:
 - Providing training on State and Federal school district accounting requirements, establishing or improving internal control policies and procedures, and sharing trends in performance audit findings with school districts through conference presentations, webinars, emails, and alerts. We provided a total of 25 trainings in fiscal year 2019.
 - Beginning in May 2019, we implemented a process to provide preaudit presentations to agencies 2 to 3 months in advance of a State agency performance audit or sunset review. The purpose of the presentation is to familiarize the agency with the Office’s performance audit and/or sunset review process and to provide the agency with an opportunity to ask any questions prior to undergoing such an audit/review.
 - Providing training and presentations on government accounting and auditing standards, and audit results to various organizations and at national and local professional government auditor conferences. We provided 10 such trainings in fiscal year 2019. Additionally, the Office provides training on fraud prevention, detection, and deterrence to external organizations upon request and throughout the year. The trainings often focus on the fraud triangle, including providing information about the opportunities for committing fraud, the typical pressures facing fraudsters, and the way in which fraudsters rationalize their actions. For example, in fiscal year 2019, we provided 6 specialized training sessions to our staff, Arizona governmental entities, and professional organizations.
 - Providing presentations and trainings to share explanations of and/or trends in school district performance audit findings, information on the school district performance audit process, and how our work in school district performance auditing and our *Arizona School District Spending* report can help make a difference for Arizona’s school districts. We provided 3 such presentations and trainings in fiscal year 2019.
- **Provide technical assistance to governmental entities**—We provide technical assistance to individual governmental entities, such as counties and school districts, that have questions regarding changes in Federal and State accounting requirements and maintaining proper internal control policies and procedures. Because these entities sometimes lack the resources and expertise, they rely on our assistance, which we provide through webinars, by telephone, email, and in-person. On average, we receive 25 to 30 technical assistance requests per week.
- **Participate in professional associations and standard-setting bodies**—Our employees are requested and have opportunity to participate in professional associations and accounting-standard-setting bodies. Through participation in these organizations, we contribute invaluable insight and expertise, gain best practice information, and help to ensure that professional auditing standards are appropriate, including those affecting the government environment. This participation also enables our Office to be better equipped to implement and comply with professional standards. Examples of our participation include the following:
 - **National State Auditors Association (NSAA)**—The NSAA is “dedicated to improving state government by providing opportunities for the free exchange of information and ideas and promoting accountability, transparency and the observance of professional audit standards.” Several individuals within our Office serve on various NSAA committees. For example, the Office’s financial audit director and technical manager serve on the NSAA’s Auditing Standards and Reporting Committee, which monitors, responds to, or proposes changes to generally accepted accounting principles and auditing standards to foster improvements in state government. Additionally, the Auditor General

and one of the Office's Deputy Auditors General serve on the NSAA's human resources committee, while the Office's other Deputy Auditor General and performance audit director serve on the NSAA's performance audit committee.

- **Western Intergovernmental Audit Forum**—One of the Deputy Auditors General currently serves as the Chair of the Western Intergovernmental Audit Forum, which meets to consider audit problems, identify solutions, and facilitate day-to-day interagency and intergovernmental cooperation between its Federal, state, and local government members and exchange of information on matters relating to audits.
- **Association of Certified Fraud Examiners (ACFE)**—We regularly have a financial investigations staff member who serves on the Arizona Chapter of the ACFE Board of Directors and provides training at this organization's monthly meetings. We currently have a staff member serving as a director, while the current Auditor General previously served as a board officer for a 2-year period and another staff member served on the board of directors and as a vice-president over a 6-year period. One of our financial investigations staff is also a member of the International Association of Financial Crimes Investigators and has used her membership contacts to obtain crucial and timely information on bank accounts.

4. The extent to which rules adopted by the Office are consistent with the legislative mandate.

In accordance with A.R.S. §41-1279.03(B), the Office, subject to approval of JLAC, may adopt rules necessary to administer the duties of the Office. Pursuant to this authority, in 1984, the Office adopted internal rules governing hearing procedures for determining whether a political subdivision exceeded its expenditure limitation. Additionally, A.R.S. §41-1279.21(B) provides the Office with authority to adopt administrative rules that provide for disapproving contracts and suspending or debaring any contractor negligently providing financial and compliance auditing services to a school district. Accordingly, in 1993, the Office adopted such rules. These rules have the limited impact of providing a mechanism to remove incompetent school district auditors, which benefits rather than burdens the public.

5. The extent to which the Office has encouraged input from the public before adopting its rules and the extent to which it has informed the public as to its actions and the expected impact on the public.

Although A.R.S. §41-1001(1) exempts the Office from the statutory provisions relating to the rule-making process because we are a legislative agency, we have followed procedures for public notice and comment.

6. The extent to which the Office has been able to investigate and resolve complaints that are within its jurisdiction.

Although our Office is not a regulatory agency and therefore does not receive and process complaints, we receive and investigate fraud allegations involving public monies (see Sunset Factor 2, pages 1 through 7, for more information).

7. The extent to which the Attorney General or any other applicable agency of state government has the authority to prosecute actions under the enabling legislation.

The Office is not a regulatory agency and does not have authority to prosecute actions. However, Laws 1989, Ch. 95, §1, authorized the Office to hire its own counsel, which it did in 1989. The in-house counsel has expertise in the operation of Arizona State agencies and other governmental entities as well as general legal matters. Additionally, A.R.S. §41-1279.22 authorizes the Attorney General to aid in investigations or matters in which legal services are necessary and to prosecute offenders of Arizona Revised Statutes, Ch. 7, Art.10.2, which governs our audits of counties, school districts, and community colleges. Further, the Office refers matters that would be covered by the State's risk management to the Attorney General.

8. The extent to which the Office has addressed deficiencies in its enabling statutes, which prevent it from fulfilling its statutory mandate.

We have not identified any deficiencies in our enabling statutes that prevent us from fulfilling our statutory mandates. However, we recently proposed and the Legislature passed Laws 2019, Ch. 209, which strengthened requirements for political subdivision compliance with the uniform expenditure reporting system (UERS) prescribed by our Office; and House Bill 2677, which proposed various changes to our responsibilities and the sunset factors that would enhance our ability to continue to effectively and efficiently meet our mission and provide the Legislature, public, and other stakeholders with useful and impactful information regarding State agencies, school districts, and other government entities we audit. Although the Legislature passed House Bill 2677, the Governor vetoed this legislation. Similar legislation was proposed in the 2017 and 2018 legislative sessions, but did not become law. Specifically:

- **Laws 2019, Ch. 209**—This legislation revised A.R.S. §41-1279.07 and authorizes:
 - Our Office to notify JLAC and the Attorney General if any political subdivision does not comply with the UERS, forms, and instructions.
 - The Attorney General to file a petition for special action in any court to compel compliance and apply for injunctive relief in any court to enjoin any political subdivision from violating expenditure limitation reporting requirements.
- **House Bill 2677**—This bill proposed various changes that would conform our statutes with Federal laws, other State agency statutes, and auditing standards, including:
 - Conducting annual rather than biennial financial and compliance audits of financial transactions and removing the requirement to submit an annual report highlighting Office activities to the Governor and JLAC.
 - Conducting an initial performance audit 5 years rather than 10 years after a county transportation excise tax is adopted.
 - Incorporating similar requirements regarding the frequency that government entities must report on their progress in implementing audit recommendations and similar penalties in response to a government entity official failing or refusing to provide access to documentation or information or knowingly obstructing or misleading the Auditor General in the performance of the Auditor General's duties.
 - Authorizing our Office to have access to the employees of State agencies, boards and commissions, or political subdivisions of the State needed to perform comprehensive and accurate audits.

The bill also proposed updating the sunset factors and the additional information State agencies are required to submit to legislative Committees of Reference related to their sunset review to address items of legislative interest and areas considered in other states' sunset provisions.

9. The extent to which changes are necessary in the laws of the Office to adequately comply with the factors in the sunset law.

We do not believe that any changes in the laws are necessary to adequately comply with the sunset factors. However, as discussed in Sunset Factor 8 above, legislation proposed and considered in the 2017, 2018, and 2019 legislative sessions would enhance our ability to continue to effectively and efficiently meet our mission but has not become law.

10. The extent to which the termination of the Office would significantly affect the public health, safety, or welfare.

Terminating the Office of the Auditor General would not significantly harm the public health, safety, or welfare. However, for 50 years, we have provided the Legislature, State agency officials, and other decision-makers with accurate, independent, and impartial information regarding the necessity, effectiveness, and efficiency of State agency and other governmental entity operations, their compliance with applicable laws and regulations, and recommendations for improvement. We have also ensured that State agencies, counties, school districts, universities, and other governmental entities provide accurate financial reporting and are accountable and transparent for the spending of taxpayer dollars. We have illustrated numerous examples of performing this critical work throughout our responses to the sunset factors. For example:

- Our ongoing work at the DCS has provided critical findings and recommendations on how the DCS can better ensure the safety and well-being of children and families involved with the DCS.
- From fiscal year 2010 through fiscal year 2019, in our position as “State watchdog,” we conducted numerous investigations that involved the loss of more than \$9.9 million to Arizona taxpayers and these investigations led to criminal indictments and civil judgments.
- When directed by the Legislature or requested by JLAC, we have conducted special audits of issues important to the Legislature that have provided accurate, objective, and timely information in areas such as the government property lease excise tax, Joint Technical Education Districts, and the Arizona School Facility Board’s Building Renewal Grant Fund and process.

Over these 50 years, we have developed and worked to maintain a reputation for high quality and accurate audits. This reputation, combined with the emphasis we place on maintaining our independence, provides the Legislature and other decision-makers with assurance that they can trust and take accurately informed action in response to the findings, conclusions, and recommendations we communicate in our reports.

Finally, if the Office were terminated, several federally and statutorily required services that we provide would need to be transferred to another agency. For example, for numerous State programs to remain eligible for Federal funding in accordance with the Federal Single Audit Act, these programs are required to be audited by a State-level entity to ensure compliance with Federal funding and program requirements. If our Office did not exist to perform this function and this responsibility was not assigned to another State-level entity, Arizona citizens would be deprived of services paid for by approximately \$17.5 billion in Federal monies annually, such as healthcare, financial assistance, and educational programs. Additionally, through our financial investigations, we provide financial and investigations expertise to investigate complex public corruption and other financial crimes—a function that is unique in Arizona government. Finally, statute prescribes several audit requirements, including performance audits of school districts, various county transportation excise taxes, universities, legislative programs within the judiciary, and ADE, as well as other statutory requirements that would either need to be eliminated or performed by another agency. These requirements include prescribing uniform accounting manuals for counties, school districts, and charter schools; and a uniform expenditure reporting system for counties, cities and towns, and community college districts that help those entities understand their financial accounting and reporting requirements in order to provide accurate and comparable financial information to various users. Statute further requires our Office to review and approve school district financial and compliance audits, monitor districts’ compliance with the *Uniform System of Financial Records for Arizona School Districts* (USFR), and review county, city and town, and community college district expenditure limitation reports for compliance with constitutional spending limitations.

11. The extent to which the level of regulation exercised by the Office compares to other states and is appropriate and whether less or more stringent levels of regulation would be appropriate.

Although the Office is not a regulatory agency, we have some limited functions that might be considered regulatory. For example, we approve all financial and compliance audit contracts between school districts and independent certified public accounting (CPA) firms and have the authority to disapprove contracts and

suspend or debar negligent school auditors. Notably, we did not approve the contract between Red Mesa Unified School District (District) and its CPA firm for the year ended June 30, 2010, and for the years ending June 30, 2011 through 2014, because we determined that the District failed to comply with the School District Procurement Rules and statute in procuring those audit services. Our disapproval of these contracts resulted in the Attorney General obtaining a Consent Judgment against the District wherein the District agreed to, amongst other conditions, additional oversight by our Office. Consent Judgments were also obtained against the District's former CPA firm and consultant.

Additionally, we review and approve completed school district financial and compliance audit reports and identify, notify, and monitor school districts that are not in compliance with the USFR. Based on our review of the 209 fiscal year 2018 school district financial audit and compliance reports we received, we determined that 16 districts were not in compliance with the USFR. For those districts that remain in noncompliance with the USFR, we notify the Arizona State Board of Education.

We also review transportation excise tax expenditures to ensure those expenditures are used for permissible purposes, as defined by A.R.S. §28-6392. If a jurisdiction has not used revenues as provided by statute, we notify the Arizona Department of Transportation of the noncompliance, and they may recommend to the Arizona State Treasurer that the offending jurisdiction's excise tax revenue be withheld. For example, in June 2019, as part of the Gila County Transportation Excise Tax audit, we reported that the Town of Miami inappropriately loaned \$140,817 of excise tax monies to cover cash deficits in other funds, and subsequently, we notified the Arizona Department of Transportation of the noncompliance. We will follow up on this finding in 2020.

The level of regulation the Office exercises is adequate to fulfill these statutory responsibilities.

12. The extent to which the Office has used private contractors in the performance of its duties as compared to other states and how more effective use of private contractors could be accomplished.

To help effectively fulfill our many mandates, the Office uses contractors to provide several audit and nonaudit services. Statute requires the Office to contract for some audits, and we also identify other opportunities to use contractors if we do not have the necessary resources to perform an audit or we have identified a specific skill or expertise that is needed to conduct an audit. For example, because of our limited resources, we contract with CPA firms to conduct an average of 6 financial audits of counties and community colleges annually, down from an average of 15 audits annually in 2008. We have also used contractors for the following:

- Some performance audits of county transportation excise taxes.
- Performance audits of the Maricopa County Regional Transportation Plan to review Maricopa County's regional transportation plan and projects scheduled for funding pursuant to A.R.S. §28-6313.
- An independent review of Arizona's child safety system and the Arizona Department of Child Safety, in accordance with Laws 2014, 2nd S.S., Ch. 1, §159.
- An annual economic and fiscal impact analysis of the City of Phoenix Convention Center, pursuant to A.R.S. §9-626.
- A performance and financial analysis of the Rio Nuevo Multipurpose Facilities District every 3 years, pursuant to A.R.S. §48-4231.01.
- Expertise on specific audits, such as information technology security and retirement system experts.

Finally, the Office contracts for some operational services, such as with information technology vendors to provide computer hardware configuration and software applications services and with various contractors to provide training to our staff.

Other states we contacted use private contractors for similar purposes. For example, the California State Auditor's Office reported using contractors to complete the Federal compliance portion of California's annual

Federal compliance audit conducted under the Federal Single Audit Act. In addition, the Colorado Office of the State Auditor reported using contractors for performance audits or studies that require specialized expertise.

We have not identified any additional areas where we should consider using private contractors.

13. The extent to which the Office 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.

In fulfilling our statutory mandate and associated responsibilities, we work with the government entities we audit to not create any unexpected negative consequences, increase the price of goods or affect the availability of services, limit the abilities of individuals and businesses to operate efficiently, or increase the cost of government. To the contrary, our audits focus on determining how effectively, efficiently, and economically State agencies and school districts conduct business; provide critical information to the Legislature, agency officials, and other stakeholders on their performance; and include recommendations to improve performance and reduce costs where possible. For example, we discuss proposed recommendations with the government entities we audit to help ensure that the recommendations we make are realistic, will help improve government operations, and will help these entities efficiently and effectively fulfil their various mandates. Our Office has also consistently and vigilantly worked to deter and detect fraud, waste, and abuse, and we have participated in some of the most significant dollar loss criminal investigations in Arizona involving corrupt public officials and employees, as discussed in Sunset Factor 2 (see pages 1 through 7). Finally, our financial audits examine the State's, universities', community college districts', and counties' financial reporting for inconsistencies and errors, and help ensure these governments are properly accounting for and reporting their finances.



ADDITIONAL STATUTORY QUESTIONS

In accordance with A.R.S. §41-2954(F), the Office also provides responses to the following 4 questions:

1. Identify the problem or the needs that the Office is intended to address.

The Office provides an independent and objective review of the operations and financial statements of the State and its agencies, counties, school districts, universities, community colleges, and other governmental entities. The Office's audit work provides accurate, independent, and impartial information that (1) helps the Legislature to hold governmental entities accountable by increasing legislative oversight of the funding it provides, assess the effectiveness and efficiency of programs it establishes, and review compliance with the laws it enacts; (2) allows government officials to make decisions and revise or implement critical programs; (3) provides the Federal government with assurance that Federal monies are spent in accordance with Federal requirements; and (4) informs the public about the use of taxpayer monies and the efficiency and effectiveness of government programs.

Additionally, the Office provides technical assistance to various governmental entities, including counties and school districts, to help these entities properly establish internal control policies and procedures and comply with Federal and State accounting requirements.

2. State, to the extent practicable, in quantitative and qualitative terms, the objectives of the Office and its anticipated accomplishments.

The Office's mission and objective is to independently provide the Legislature, government decision-makers, and the public with impartial information, impactful recommendations, and stakeholder education to improve Arizona government for its citizens. Under the direction of JLAC, the Office fulfills several statutory and Federal mandates. For example, the Office determines the number of performance audits that can be performed annually in accordance with *Government Auditing Standards* given resource considerations and audit scope. Additionally, the Office is required to annually perform or contract for the performance of financial and Federal compliance audits of State agencies, universities, community colleges, and counties. These audits are performed under U.S. generally accepted auditing standards, standards applicable to financial audits contained in *Government Auditing Standards*, and audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. We also approve the financial and compliance audit contracts for school districts, approve the completed audit reports, and determine school districts' compliance with the USFR. Table 1 (see page 16), illustrates the number and type of reports we have issued during fiscal years 2010 through 2019.

The completion of these audits and issuance of these reports help us to meet our mission and objectives. Specifically, these reports promote accountability and transparency regarding the use and spending of taxpayers' dollars, help ensure compliance with Federal and State laws, and contain thousands of recommendations designed to improve State and local government operations. Additionally, not only do we provide recommendations, but we also follow up with the audited entities to assess their efforts to implement the recommendations and, consistent with the intent of our recommendations, often find their implementation improves performance, ensures compliance with laws and regulations, and can yield cost savings. For example:

- Our school district performance audits have identified opportunities for improved operations, which have yielded savings for some school districts and the State. Specifically, since fiscal year 2010, we have identified at least 10 school districts that had high noninstructional costs because of overstaffing and

Table 1
Number of reports issued by type
Fiscal years 2010 through 2019

Category	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Performance audits and sunset reviews	18	26	23	21	24	21	30	22	18	19
Followups	64	28	40	58	53	53	73	60	85	53
Financial investigation and alerts	2	1	2	3	3	3	4	3	7	11
Financial and Federal compliance audits	27	35	42	35	48	47	53	50	47	49
Accountability reviews	45	54	37	50	45	48	44	57	54	60
Special audits/reviews	10	10	3	3	4	3	4	4	5	6
Total	166	154	147	170	177	175	208	196	216	198

made recommendations to reduce staffing levels. For example, our 2017 performance audit of Piñon Unified School District made recommendations related to administrative and transportation staffing, which helped eliminate unnecessary positions and reduce bus driver downtime and overtime. By implementing these recommendations, the District saved more than \$700,000 per year that it could use for instructional purposes. We also identified at least 11 districts that the State overfunded for their transportation programs and were required to refund the State a total of more than \$2.1 million. In our 2015 performance audit of Payson Unified School District, we identified and helped the District to recover more than \$34,000 from a food service vendor in contractually guaranteed refunds and recommended that the District rebid its food service contract, leading to an increase in guaranteed returns and food program cost savings of more than \$140,000 annually.

- State agencies, school districts, and other government entities increasingly rely on IT systems to meet their operating needs and provide the public with information and access to services. The security of these systems is critical for protecting the sensitive and confidential data they contain. Therefore, in coordination with our performance and financial audits, we review IT systems to help ensure these systems and the information housed in these systems is safe and secure. Through our audit work, we have identified vulnerabilities in various IT systems and weaknesses in overall IT security, and have provided recommendations to address these concerns. Based on our findings and recommendations, audited entities have improved their IT risk assessment processes, implemented processes to identify and address IT system vulnerabilities, reduced the risk of unauthorized access to their networks and critical systems, implemented or strengthened processes for ensuring that terminated employees' systems access is promptly removed, and developed and implemented contingency and/or disaster recovery plans to aid them in the event of a system or equipment failure or interruption. By taking these actions, State agencies, school districts, and other government entities are better positioned to identify and address vulnerabilities and safeguard sensitive and confidential information and systems.

The figure below shows the percentage of recommendations that State agencies, school districts, other government entities, and the Legislature implemented in fiscal years 2010 through 2019.

Recommendations implemented
Fiscal years 2010 through 2019

 Agencies/school districts **95.6%**  Legislature **74.5%**

Similarly, in fiscal year 2018, all school districts that received a noncompliance letter corrected identified deficiencies within 2 years, and in fiscal year 2019, 89 percent of school districts corrected identified deficiencies within 2 years of receiving a noncompliance letter. In addition, 55 percent of the recommendations from our annual financial and Federal internal control and compliance reports were implemented by the end of fiscal year 2019.

Finally, to ensure the continued relevance and reliability of our work, the Office anticipates accomplishing the following in fiscal years 2020 and 2021:

- **Receiving the highest mark for our 2019 external review**—We are scheduled to undergo a Quality Control Review by the National State Auditors Association in September 2019, and anticipate receiving a “clean opinion” stating that our Office has an appropriately designed quality control system, and that our compliance with that system ensures that we follow *Government Auditing Standards*.
- **Providing government agencies with clear, relevant, and impactful recommendations**—In order to improve Arizona government for its citizens, we anticipate that government entities will continue to implement or adopt a majority of the recommendations we make to improve their performance and help ensure their compliance with applicable laws and regulations. Specifically:
 - State agencies and school districts will continue to implement at least 90 percent of performance audit recommendations;
 - State agencies, universities, community college districts, and counties will implement or adopt 75 percent of the recommendations from our financial and Federal compliance internal control and compliance reports within 2 years; and
 - At least 60 percent of school districts will correct identified deficiencies to comply with the USFR.
- **Continuing to meet legislative demand for services and information**—To ensure the continued relevance, timeliness, and reliability of our work for the Legislature, we plan to achieve the following:
 - Increasing the number of financial investigations and proactive data analysis we conduct to identify potential fraud and abuse. Specifically, the Legislature appropriated additional funding to our Office in fiscal years 2018 and 2019 to conduct additional financial investigative work. The number of allegations of misuse of public monies and other illegal acts related to these monies that are reported to the Office grows each year, but we have not had sufficient resources to investigate all the allegations. The Office has expertise in this area, has built a strong foundation for conducting special investigative work that results in successful prosecutions, and is well situated to take on additional financial investigative work with these additional resources. With the additional funding, we have expanded our number of financial investigators and data analysts to conduct this critical work.
 - Increasing the number of State agency sunset reviews we perform. Specifically, the Legislature appropriated additional funding to our Office in the 2018 regular legislative session with the intent of increasing the number of State agency sunset reviews we perform. The Legislature’s trend of increasing the frequency of agency sunset reviews from every 10 years to every 8 years, combined with our other statutory mandates and approved legislative audits, had negatively impacted our ability to continue performing the number of sunset reviews we had typically performed. With the additional funding, we have increased the number of State agency sunset reviews we will be performing and will conduct sunset reviews of the majority of State agencies scheduled for review in fiscal years 2020 and 2021.
 - Fulfilling statutory requirements or special requests made through the Joint Legislative Audit Committee for audit work. For example, Laws 2018, Ch. 285, §30, directed us to conduct a special audit of the BRG Fund expenditures for the period of July 1, 2016 through June 30, 2018, and the BRG Fund project process. We issued this special audit report by the June 30, 2019, deadline. Additionally, Laws 2019, Ch. 263, §160, requires us to evaluate the effectiveness of Career Technical Education

Districts in preparing students for jobs in high-demand technical fields. This legislation also requires us to collaborate with the Arizona Commerce Authority and business, industry, and higher education leaders to identify the industry certifications earned by career technical education students that are most associated with multiyear career technical education programs that successfully prepare students for jobs in high-demand technical fields. Our report is due by December 1, 2020.

- Implementation of 60 percent of legislative recommendations that result from our performance audits.

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

The Office is the only government entity in Arizona with the accounting, auditing, and statutory expertise and the authority to conduct State-wide financial, compliance, and performance audits. As such, there are very few instances of potential overlap and duplication of functions or effort. We identified only 2 potential areas of overlap, and we work to prevent duplication in these areas. Some State agencies have internal audit functions, and the Department of Administration's General Accounting Office (GAO) also performs internal audits of State agencies. However, our audit activities focus on broader issues with higher potential impact, which is different than these agencies' internal audit activities. We also publicly report on the result of our audits. Further, if we are reviewing an area that has been reviewed by internal audit or the GAO, we determine whether we can use and rely on their work so as to avoid duplication.

Additionally, statute requires our Office to work with ADE to develop and issue the USFR, expenditure budget forms, and the annual financial report format for school districts, which helps avoid duplication of effort.

4. Assess the consequences of eliminating the Office or consolidating it with another agency.

Eliminating the Office of the Auditor General would deprive the Legislature of independent and impartial information regarding State agency and other governmental entity operations, their compliance with applicable laws and regulations, and recommendations for improvement. In addition, other decision-makers would also be negatively affected. Specifically, we fulfill various Federal mandates to review, account for, and report on the expenditure of Federal monies and compliance with Federal program requirements. We also fulfill several statutory mandates that require performance audits of various State agencies, counties, universities, courts, and school districts. If the Office were eliminated, State programs would lose approximately \$17.5 billion in Federal monies annually unless another independent, State-level agency were created to conduct annual financial and Federal compliance audits. Additionally, through our financial investigations, we provide financial and investigations expertise to investigate complex public corruption and other financial crimes—a function that is unique in Arizona government. Further, the efficiency and effectiveness of State agency and school district operations would not be reviewed or reviewed as thoroughly. Finally, the Legislature, the public, and the financial community would lack the assurance that State agencies, counties, school districts, universities, community colleges, and other governmental entities provide accurate financial reporting and are accountable for and transparent when spending taxpayers' dollars.

