JOINT LEGISLATIVE BUDGET COMMITTEE

Thursday, April 7, 2016

8:00 a.m.

Senate Appropriations Room 109
Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491
azleg.gov

** REVISED **

Joint Legislative Budget Committee
Thursday, April 7, 2016
9:00 A.M. (NOTE TIME CHANGE)
Senate Appropriations, Room 109

MEETING NOTICE

- Call to Order

- Approval of Minutes of February 25, 2016.

- DIRECTOR’S REPORT (if necessary).

- EXECUTIVE SESSION - Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.

1. ARIZONA DEPARTMENT OF ADMINISTRATION - Automation Projects Fund
   A. ADOA - Review of Automation Projects Fund Expenditure Reallocation.
   B. ADOA - Review of ASET Projects.

2. ARIZONA DEPARTMENT OF ADMINISTRATION - Review of Written Guidelines for Reviewing and Approving Lodging Rate Waivers.


The Chairman reserves the right to set the order of the agenda.

4/4/16
4/5/16

People with disabilities may request accommodations such as interpreters, alternative formats, or assistance with physical accessibility. Requests for accommodations must be made with 72 hours prior notice. If you require accommodations, please contact the JLBC Office at (602) 926-5491.
STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

February 25, 2016

The Chairman called the meeting to order at 8:10 a.m., Thursday, February 25, 2016, in Senate Appropriations Room 109. The following were present:

Members: Senator Shooter, Vice-Chairman
Senator Cajero Bedford
Senator Farley
Senator Griffin
Senator Hobbs
Senator Kavanagh
Senator Lesko
Senator Yarbrough

Representative Olson, Chairman
Representative Alston
Representative Bowers
Representative Leach
Representative Mitchell

Absent:
Representative Mach
Representative Montenegro
Representative Ugenti-Rita

EXECUTIVE SESSION

Representative Olson moved that the Committee go into Executive Session. The motion carried.

At 8:14 a.m. the Joint Legislative Budget Committee went into Executive Session.

Senator Kavanagh moved that the Committee reconvene into open session. The motion carried.

At 8:49 a.m. the Committee reconvened into open session.

(Continued)
Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.

**Senator Kavanagh moved** that the Committee approve the recommended settlements proposed by the Attorney General's office in the cases of:

- Coy v. State of Arizona
- Laffoon v. State of Arizona

The motion carried.

**APPROVAL OF MINUTES**

Hearing no objections from the members of the Committee to the minutes of December 15, 2015, Chairman Don Shooter stated that the minutes would stand approved.

**ARIZONA DEPARTMENT OF ADMINISTRATION/DEPARTMENT OF CHILD SAFETY (DCS) - Review of CHILDS Automation Project (Transition Fund).**

Mr. Ben Beutler, JLBC Staff, stated that the Committee is required to review an expenditure plan prior to any monies being expended from the Arizona Department of Administration's (ADOA) $19.5 million appropriation for DCS transition expenses. The JLBC Staff presented options to the Committee.

Ms. Linda Jewell, Chief Information Officer, DCS, responded to member questions.

**Senator Yarbrough moved** that the Committee give a favorable review of the $4.4 million expenditure plan from the transition appropriation for Children’s Information Library and Data Source (CHILDS) technology infrastructure to migrate DCS data to a private vendor with the following provisions:

A. Contingent upon receiving approval by the Information Technology Authorization Committee (ITAC), when the ITAC review of the project is complete, DCS is to submit to the JLBC the results of the ITAC review, including any conditions placed on the project. The JLBC Chairman will determine whether those conditions are significant enough to require placing the CHILDS technology infrastructure project on a future agenda for further review.

B. DCS shall provide reports by the last day of each quarter to the JLBC from the contracted independent third-party consultant. The quarterly reports shall be submitted throughout the CHILDS replacement project and continue to evaluate and assess the project’s feasibility, estimated expenditures, technology approach and scope.

The motion carried.

**DEPARTMENT OF ECONOMIC SECURITY (DES) - Review of Division of Developmental Disabilities Operating and Case Management Appropriation Transfers.**

Mr. Tom Ritland, JLBC Staff, stated that pursuant to a footnote in the FY 2016 General Appropriation Act

(Continued)
(Laws 2015, Chapter 8) the Joint Legislative Budget Committee is required to review transfers of funds in or out of Case Management - Medicaid, and Division of Developmental Disabilities (DDD) operating lump sum line items submitted by the Department of Economic Security. The JLBC Staff presented options to the Committee.

*Senator Yarbrough moved that the Committee give a favorable review of a portion of the requested transfers, shown in Table 1 below.*

The Committee reviewed transfers sufficient to align appropriations with FY 2015 expenditures, to cover FY 2016 premium tax increases in the DDD Operating Budget line, and to fund FY 2016 case manager pay adjustments. Because the proposed pay adjustments would increase FY 2017 costs beyond the current budget, ongoing funding for this adjustment will have to be confirmed by the entire Legislature as part of the FY 2017 budget process.

<table>
<thead>
<tr>
<th>Table 1 DDD Medicaid Appropriation Transfers</th>
<th>Requested</th>
<th>JLBC Reviewed</th>
</tr>
</thead>
<tbody>
<tr>
<td>DDD Operating Budget</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Base Modification to Reflect FY 2015 Spending</td>
<td>5,500,000</td>
<td>5,500,000</td>
</tr>
<tr>
<td>- Premium Tax Increases</td>
<td>1,800,000</td>
<td>1,800,000</td>
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<tr>
<td>- Contingency</td>
<td>500,000</td>
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<tr>
<td>- Unspecified</td>
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<td>Subtotal</td>
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<tr>
<td>Medicaid Case Management</td>
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<tr>
<td>- Align Appropriation Adjustment with FY 2015 Spending</td>
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<td>2,100,000</td>
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<tr>
<td>- Case Manager Pay Adjustments</td>
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<tr>
<td>Subtotal</td>
<td>5,500,000</td>
<td>4,200,000</td>
</tr>
<tr>
<td>Total</td>
<td>$16,000,000</td>
<td>$11,500,000</td>
</tr>
</tbody>
</table>

Without objection, the meeting adjourned at 9:17 a.m.

Respectfully submitted:

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Kristy Paddock, Secretary

Richard Stavneak, Director

Senator Don Shooter, Chairman

NOTE: A full audio recording of this meeting is available at the JLBC Staff Office, 1716 W. Adams. A full video recording of this meeting is available at [http://www.azleg.gov/jlbc/meeting.htm](http://www.azleg.gov/jlbc/meeting.htm)
DATE: March 31, 2016

TO: Senator Don Shooter, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director PS

FROM: Rebecca Perrera, Fiscal Analyst EP

SUBJECT: Arizona Department of Administration - Review of Automation Projects Fund Expenditure Reallocation

Request

Pursuant to A.R.S. § 41-714 the Arizona Department of Administration (ADOA) Arizona Strategic Enterprise Technology (ASET) Office requests that the Committee review a reallocation of its FY 2015 Automation Projects Fund (APF) appropriation. The FY 2015 APF appropriation included $2,900,000 for the replacement of the mainframe at the State Data Center (SDC). ADOA is proposing to spend $433,000 of its remaining unspent funds from this appropriation to extend the warranty for its current data storage subsystem devices and complete an assessment for a hosted mainframe solution.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review.
2. An unfavorable review.

Under either option, the Committee may consider the following provision:

A. ADOA shall submit a report to the JLBC Staff on the results of the hosted mainframe assessment by November 1, 2016.

(Continued)
Analysis

Background
ADOA’s ASET office operates and maintains the State Data Center (SDC), which currently provides services to more than 140 customers. The SDC provides mainframe computing to state agencies and other entities and processes billions of dollars of transactions per year.

At its September 2014 meeting, the Committee favorably reviewed $2.9 million for the replacement of the mainframe at the SDC. The new mainframe, which was installed in December 2014, increases processing capacity by 50% and provides more flexibility in hosting modernized web-based applications.

At its December 2015 meeting, the Committee favorably reviewed ADOA’s plan to reallocate $439,000 of unspent funds to replace the mainframe’s data storage subsystem using a 4-year lease agreement. At the time, ADOA reported that as of March 2016, the current device vendor would no longer provide on-site support, maintenance, or parts.

A data storage subsystem is used to store all mainframe client data. The SDC currently uses 2 data storage subsystem devices, which were installed in 2009. One subsystem is located in the SDC and one is located in the Department of Economic Security (DES) data center, which creates a real-time and uninterrupted backup copy.

Current Proposal
ADOA is no longer planning to replace data storage subsystem at the SDC. ADOA is currently proposing an expenditure of $433,000 to extend the warranty for its current data storage subsystem devices and complete an assessment for a hosted mainframe solution, or moving the mainframe to the “cloud”.

The device vendor has agreed to extend the maintenance and support warranty through December 2016. The extended warranty costs $83,000. In addition, ADOA proposes to spend $350,000 to assess the state’s mainframe hardware and software and determine the Request for Proposal (RFP) requirements for a hosted mainframe contract. Under a hosted mainframe solution, ADOA would run the mainframe applications offsite through a vendor service instead of on a state-owned or leased mainframe. The assessment would also review the state’s current mainframe lease to determine if the state could transfer to a hosted vendor mid-lease or otherwise end its lease obligations.

Because the extended warranty does not last for the life of the mainframe lease (December 2019), the hosted mainframe assessment would also need to determine the options for data storage as the state transitions to a hosted mainframe. For example, ADOA could implement a hosted back-up solution while continuing to maintain its existing onsite mainframe lease. Therefore, the Committee may consider a provision requiring ADOA to report to the JLBC Staff on the results of the hosted mainframe assessment.

ADOA’s IT strategic plan includes decreasing state ownership of IT capital including large-scale computing equipment and data centers. The Executive’s FY 2017 Budget includes $5.7 million from the APF to implement network infrastructure and security core projects at the CenturyLink IO facility with the eventual goal of relocating all SDC services and closing down the SDC. The Department of Economic Security (DES) is in the process of relocating its data center to the private data center facility.

RS/RP: kp
March 7, 2016

The Honorable Don Shooter, Chairman
Joint Legislative Budget Committee
Arizona State Senate
1700 West Washington Street
Phoenix, Arizona 85007

The Honorable Justin Olson, Vice-Chairman
Joint Legislative Budget Committee
Arizona House of Representatives
1700 West Washington Street
Phoenix, Arizona 85007

Dear Senator Shooter and Representative Olson:

In accordance with Arizona Revised Statutes § 41-714, the Arizona Department of Administration (ADOA) is submitting this request for review of fiscal year 2015 and fiscal year 2016 Automation Projects Fund (APF) projects. Monies to support the expenditure plans have already been appropriated to the APF.

ADOA and the receiving agencies understand the fiscal year 2015 and fiscal year 2016 APF appropriations will lapse on June 30, 2016. We anticipate conditions may be placed on these projects to address funding gaps if the 2017 State Budget does not extend fiscal year 2015 and fiscal year 2016 APF appropriations, as requested by ADOA.

The attached documents contain a detailed explanation of the proposed projects. We will be happy to meet with your staff to provide further explanation as appropriate.

Sincerely,

Craig C. Brown
Director

Enclosures

cc: Richard Stavneak, Director, JLBC
    Lorenzo Romero, Director, OSPB
Rebecca Perrera, JLBC Staff
Chris Olvey, OSPB Staff
Morgan Reed, State CIO
Paul Shannon, Assistant Director Budget and Resource Planning ADOA
Joint Legislative Budget Committee (JLBC)
Favorable Review Request
Arizona Department of Administration, Arizona Strategic Enterprise Technology (ADOA-ASET)

The ADOA requests favorable review of an expenditure of $433,000 from the Fiscal Year 2015 Automation Projects Fund (APF) in accordance with Laws 2014, 2nd Regular Session, Chapter 18, Section 123 for the purposes described below.

Initiative Name and Description
Improving and Maintaining the State Data Center

Project Name
Direct Access Storage Device (DASD) Extended Maintenance and Hosted Mainframe Environmental Assessment

Request Amount
DASD Extended Maintenance = $83,000
Hosted Mainframe Environmental Assessment $350,000
Total: $433,000

Description
Procure extended hardware maintenance which is required on the current state owned DASD storage units (2) to continue mainframe operations. Complete a Hosted Mainframe Environmental Assessment to include validation of all hardware, software and contract terms in preparation for the procurement of a mainframe managed service offering.

Goals
- To reduce risks of Mainframe Operation
- To explore and secure a hosted mainframe managed services contract

Objectives
- Moving a critical system out of an aging building
- Moving IT costs from capital expenditures (CAPEX) to an Operational expenditures (OPEX)
- Being able to increase capacity and stay up with demand without CAPEX

Rationale
- Reduce risk of operations
- Improve efficiency of operations
- Move critical systems out of an aging building
Enterprise Statewide Directory Services

- **Issue:**
  - Statewide, approx. 124 disparate entities
  - Silo’d management of individual Directory Service solutions
  - Duplication of common services = cost inefficiencies

- **Solution:**
  - Implement common Statewide Internal/External Directory Service
  - Organize efforts and create efficiencies
  - Single platform
  - Unified Executive Branch procurement and service-delivery methodology
Enterprise Statewide Directory Services

- Phase I:
  - $925K Available APF Funding
    - Approx. $911K to establish infrastructure and processes to incorporate ADOA, 32 ADOA supported agencies, ADOT, and DEMA within the Enterprise Directory Service

- Phase II:
  - If FY17 funding is approved (approx. $3.2M)
    - Migrate approx. 89 Executive Branch Agencies, Boards and Commissions to the Enterprise Directory Service

ADOA-ASET
DATE: March 31, 2016

TO: Senator Don Shooter, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director RS

FROM: Rebecca Perrera, Fiscal Analyst RP

SUBJECT: Arizona Department of Administration - Review of ASET Projects (Automation Projects Fund)

Request

Pursuant to A.R.S. § 41-714, the Arizona Department of Administration (ADOA) has requested that the Committee review $925,000 in proposed FY 2016 expenditures from the Automation Projects Fund (APF) for information technology (IT) projects for the Arizona Strategic Enterprise Technology (ASET) Office in ADOA. In June 2015, the Committee favorably reviewed $7,875,000 of the ADOA’s $9,475,000 FY 2016 APF appropriation.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review
2. An unfavorable review.

Analysis

Background
The APF consists of monies appropriated by the Legislature and administered by ADOA. Monies in the fund are to be used to implement, upgrade, or maintain automation IT projects for any state agency. Pursuant to A.R.S. § 41-714, before monies are expended from the fund, ADOA must submit an expenditure plan to the JLBC for review.

(Continued)
All IT projects over $25,000 are reviewed by ASET through the Project Investment Justification (PIJ) process. If an IT project’s development cost exceeds $1.0 million, statute requires additional approval by the Information Technology Authorization Committee (ITAC). ITAC consists of members from both the public and private sectors and is staffed by ADOA.

The JLBC has favorably reviewed $9.0 million in FY 2015 and $7.9 million in FY 2016 for ASET IT projects. A total of $1.6 million has not yet been reviewed, including $675,000 for the Business One Stop project and $925,000 for the Single Sign-on project. As of the end of January, a significant share of those funds remain unspent — $4.3 million and $7.9 million of the respective FY 2015 and FY 2016 appropriations (including the $1.6 million not yet reviewed for FY 2016) (see Table 1). Budget footnotes generally make funding available for 2 years.

<table>
<thead>
<tr>
<th>ASET Project</th>
<th>FY 2015 Funds</th>
<th>FY 2015 Remaining</th>
<th>FY 2016 Funds</th>
<th>FY 2016 Appropriation</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Data Center</td>
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<td>2,625,000</td>
<td>$2,625,000</td>
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<td>Security, Privacy, and Risk</td>
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<td>1,655,792</td>
<td>3,125,000</td>
<td>2,200,000</td>
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<tr>
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<td>500,000</td>
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<tr>
<td>Project Management</td>
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<td>2,150,000</td>
<td>1,441,130</td>
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<td>Digital Government/Business One Stop</td>
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<td>195,865</td>
<td>1,075,000</td>
<td>400,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>9,001,700</strong></td>
<td><strong>4,298,087</strong></td>
<td><strong>9,475,000</strong></td>
<td><strong>7,875,000</strong></td>
</tr>
</tbody>
</table>

1/ Information as of January 31, 2016 as reported in ADOA’s quarterly APF report to the JLBC.

2/ Includes $1.6 million not yet reviewed by the Committee.

Current Request
ADOA is currently proposing an expenditure of $925,000 from ADOA’s FY 2016 Security, Privacy, and Risk APF Appropriation for an Enterprise Directory Services project. ADOA plans to implement Enterprise Active Directory software, which will allow a single platform to authenticate user credentials for multiple applications. This service is often referred to as “single sign-on.” The software would allow state employees to use the same credentials (i.e. user IDs and passwords) to access statewide applications including the Arizona Financial Information System (AFIS) and Human Resource Information Solution (HRIS).

ADOA is currently proposing Phase 1 of the project, which would be implemented at ADOA, 32 state agencies that contract with ADOA for IT services, the Arizona Department of Transportation (ADOT) and the Department of Emergency and Military Affairs (DEMA). Although ADOA is requesting $925,000 from APF, the project is only expected to cost $910,100. The development cost includes $80,000 for vendor services to integrate and configure the software and $830,100 for the first year of licensing costs. ADOA proposes paying the annual licensing cost of $830,100 from the Web Portal Fund. The Web Portal Fund is expected to have a balance of approximately $4.5 million at the end of FY 2016.

Phase 2 would include migrating the remaining state agencies (approximately 89 agencies, boards, and commissions) to the Enterprise Directory. ADOA reports that the expected cost is $3.3 million. However, the ongoing operating costs are unknown because other agencies may already have these services internally. In this case, the increased licensing costs may be reduced as these agencies discontinue their separate services. Funding for Phase 2 has not yet been appropriated by the Legislature.

(Continued)
ADOA reports that single sign-on reduces IT security risk to the state. Currently, state employees have multiple logins to access different applications. Each application has different standards for establishing, changing, and resetting passwords after failed login attempts.

In addition, for each application, several departments must individually suspend access when an employee leaves state service. The single sign-on software will allow ADOA to standardize and enforce login requirements across agencies and applications. In addition, the single sign-on will allow ADOA to control access to applications from one location. ADOA can quickly suspend access to multiple statewide applications.

RS/RP:kp
March 7, 2016

The Honorable Don Shooter, Chairman
Joint Legislative Budget Committee
Arizona State Senate
1700 West Washington Street
Phoenix, Arizona 85007

The Honorable Justin Olson, Vice-Chairman
Joint Legislative Budget Committee
Arizona House of Representatives
1700 West Washington Street
Phoenix, Arizona 85007

Dear Senator Shooter and Representative Olson:

In accordance with Arizona Revised Statutes § 41-714, the Arizona Department of Administration (ADOA) is submitting this request for review of fiscal year 2015 and fiscal year 2016 Automation Projects Fund (APF) projects. Monies to support the expenditure plans have already been appropriated to the APF.

ADOA and the receiving agencies understand the fiscal year 2015 and fiscal year 2016 APF appropriations will lapse on June 30, 2016. We anticipate conditions may be placed on these projects to address funding gaps if the 2017 State Budget does not extend fiscal year 2015 and fiscal year 2016 APF appropriations, as requested by ADOA.

The attached documents contain a detailed explanation of the proposed projects. We will be happy to meet with your staff to provide further explanation as appropriate.

Sincerely,

Craig C. Brown
Director

Enclosures

cc: Richard Stavneak, Director, JLBC
    Lorenzo Romero, Director, OSPB
Rebecca Perrera, JLBC Staff
Chris Olvey, OSPB Staff
Morgan Reed, State CIO
Paul Shannon, Assistant Director Budget and Resource Planning ADOA
Enterprise Directory Services (Single Sign-on)

Agency Requesting The Project:
Administration Department

Business Unit Requesting The Project:
ASET-SPR

Sponsor Of the Project:
Darrell Davis

Sponsor Title:
State Chief Privacy Officer

Sponsor Phone Number: 602-542-5409

Sponsor Email Address:
Darrell.davis@azdoa.gov

Has a Project Request been completed for this PU? Y

What is the operational issue or business need that the Agency is trying to solve?
Most State agencies use a separate directory infrastructure to authenticate their employees and users. This results in unnecessary redundancy and duplicated cost, lack of a centralized provisioning and de-provisioning of personnel, and inconsistent standards and security controls. Additionally, disparate directory systems increase security risks to the State IT systems.

How will solving this issue or addressing this need benefit the State or the Agency?
The implementation of an Enterprise Directory Services solution will significantly decrease cost by eliminating the redundancy and duplication of systems, services, and human resources required to support the current 100+ disparate directory services system within the State. It also allows for seamless provisioning and de-provisioning of resources from a single interface. It further allows for consistent standards and security controls to be applied to Statewide systems and services. Additionally, a unified Directory Services will improve IT Security.

Describe the proposed solution to this business need:
The proposed Enterprise Directory Service solution will be Microsoft Active Directory, Azure Active Directory Premium, and Azure Identity Manager, utilizing single forest / single domain with Agency resource forests, as required. This unified approach provides the opportunity to significantly decrease the total cost of operation to State.

In the future, this framework will become the core system facilitating other Enterprise/Statewide services and will allow readily available services that will provide a convenient method to integrate the IT directories of other State Agencies and Boards to the Statewide Directory.

A unified Directory Services will allow a central point to implement and manage comprehensive security and auditing process and procedures, standards and controls for Statewide IT.
DATE: March 31, 2016

TO: Senator Don Shooter, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Tom Ritland, Fiscal Analyst


Request

Pursuant to A.R.S. § 41-714, the Arizona Department of Administration (ADOA) has requested that the Committee review $487,800 in proposed FY 2016 expenditures from the Automation Projects Fund (APF) for a Department of Economic Security (DES) Network Access Control project.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review
2. An unfavorable review.

Analysis

Background
The APF consists of monies appropriated by the Legislature and administered by ADOA. Monies in the fund are to be used to implement, upgrade, or maintain automation Information Technology (IT) projects for any state agency. Pursuant to A.R.S. § 41-714, before monies are expended from the fund, ADOA must submit an expenditure plan to the JLBC for review.

All IT projects over $25,000 are reviewed by the Arizona Strategic Enterprise Technology (ASET) office through the Project Investment Justification (PIJ) process.

(Continued)
Current Request
ADOA is currently proposing an expenditure plan totaling $609,700 for IT security enhancements at DES. Of that total, $487,800 would come from the APF and $121,900 would come from Federal Funds.

The DES IT system processes large amounts of confidential information that must meet federal security standards. Currently, unauthorized computers and wireless access points may be able to access DES’ network. With this APF project, DES is planning to bring their IT system into compliance with National Institute of Standards and Technology (NIST) security control standards.

The department proposes to implement Network Access Control (NAC), using software to handle the initial request for network access. The software determines if the attempted access is authorized.

The total $609,700 cost of the project would consist of:

- Professional and Outside Services $210,000
- Software $381,100
- Licensing and Maintenance Fees $18,600

Of that total, 80%, or $487,800 would be funded from the APF and 20%, or $121,900 would be funded with Federal Funds. DES expects to complete the project by June 30, 2016.

The project received ASET approval through the PIJ process on March 16, 2016.

Further Review
The FY 2016 General Appropriation Act appropriated $936,400 from the APF for DES IT security projects. ADOA is currently requesting a review of $487,800 leaving $448,600 remaining to be reviewed by the Committee later, following the necessary PIJ approvals.

RS/TR: kp
March 7, 2016

The Honorable Don Shooter, Chairman
Joint Legislative Budget Committee
Arizona State Senate
1700 West Washington Street
Phoenix, Arizona 85007

The Honorable Justin Olson, Vice-Chairman
Joint Legislative Budget Committee
Arizona House of Representatives
1700 West Washington Street
Phoenix, Arizona 85007

Dear Senator Shooter and Representative Olson:

In accordance with Arizona Revised Statutes § 41-714, the Arizona Department of Administration (ADOA) is submitting this request for review of fiscal year 2015 and fiscal year 2016 Automation Projects Fund (APF) projects. Monies to support the expenditure plans have already been appropriated to the APF.

ADOA and the receiving agencies understand the fiscal year 2015 and fiscal year 2016 APF appropriations will lapse on June 30, 2016. We anticipate conditions may be placed on these projects to address funding gaps if the 2017 State Budget does not extend fiscal year 2015 and fiscal year 2016 APF appropriations, as requested by ADOA.

The attached documents contain a detailed explanation of the proposed projects. We will be happy to meet with your staff to provide further explanation as appropriate.

Sincerely,

Craig C. Brown
Director

Enclosures

cc: Richard Stavneak, Director, JLBC
    Lorenzo Romero, Director, OSPB
The Honorable Don Shooter, Chairman
The Honorable Justin Olson, Vice-Chairman
March 7, 2016
Page 2

Rebecca Perrera, JLBC Staff
Chris Olvey, OSPB Staff
Morgan Reed, State CIO
Paul Shannon, Assistant Director Budget and Resource Planning ADOA
Project Overview

Problem Description
The Department of Economic Security (DES) stores, transmits, and process large volumes of confidential data, internally, externally, and with the US Government. Currently, DES has no way of preventing non-compliant devices from accessing the network. While non-authenticated workstations or users are prevented from accessing sensitive data, there is currently no solution in place to prevent unauthorized computers or wireless access points from connecting to the network. For the large number of mobile devices deployed throughout DES, there is currently no way to apply the necessary security policies for network and data protections, representing a significant security vulnerability.

Solution
DES proposes to implement Network Access Control (NAC), which is a comprehensive solution that uses a set of protocols at the earliest point in the connection process. The NAC consists of multiple virtual appliances (software) residing on the network, which manage the initial request for access. The appliances, along with an inspection agent, determines if the attempted access is unknown, noncompliant, or compliant. Based upon the result, the accessing endpoint will be directed to the correct network which has the proper permission and accesses. For example if an unknown device connects, the NAC will switch to the guest network, limiting the access to non-DES resources or public information. During the evaluation of which NAC solution DES would go with, an assessment was completed to ensure compatibility with the existing internal network, the AZNET II network, and the current firewalls in use.

Major Deliverables and Outcomes

The high level major milestones and deliverables are as follows:

<table>
<thead>
<tr>
<th>Major Milestones</th>
<th>Start Date</th>
<th>Finish Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hardware Procurement</td>
<td>2/6/2016</td>
<td>2/19/2016</td>
</tr>
<tr>
<td>Hardware and Software Installation</td>
<td>2/23/2016</td>
<td>2/26/2016</td>
</tr>
</tbody>
</table>
**Benefits**

Establishing NAC will reduce the level of effort required to configure various devices and accounts. Profiles can be created to ensure that network users can continue to work while being compliant. NAC allows future security enhancements to implement control access to VMWare profiling, multiple domains, server segmentation, and other architectures.

Risk of malicious attacks and unauthorized access to data is reduced as each device is inspected each time it attempts to connect to the network. If a device connects to the network that is not compliant, NAC will automatically update the device with the latest security patches required, while still allowing the user to continue to work.

**Project Management**

DES will manage the project as well as coordinate the installation and configuration of the NAC. A Vendor on state contract will provide an evaluation of DES endpoints, and the security software. Additionally, the vendor will provide installation, configuration and deployment, testing, and training of the solution.

**Enterprise Architecture**

Compliant

**Summary of Proposed Costs**

The initial purchase includes support for the full five year lifecycle of the project, which is why no operational costs are listed.

<table>
<thead>
<tr>
<th>Cost Description</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18</th>
<th>FY19</th>
<th>FY20</th>
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<tbody>
<tr>
<td>Development Costs</td>
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<td>0.0</td>
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<tr>
<td>Total Project Costs</td>
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<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>609.7</td>
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</tbody>
</table>
Project Title:
DES Network Access Control

<table>
<thead>
<tr>
<th>Agency Name:</th>
<th>Economic Security Department</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date:</td>
<td>March 14, 2016</td>
</tr>
<tr>
<td>Agency Contact Name:</td>
<td>Sierra Rose</td>
</tr>
<tr>
<td>Agency Contact Phone:</td>
<td>(602) 774-8865</td>
</tr>
<tr>
<td>Agency Contact Email:</td>
<td><a href="mailto:srose@azdes.gov">srose@azdes.gov</a></td>
</tr>
</tbody>
</table>
I. Project Investment Justification (PIJ) Type*

☐ Yes  ☒ No  Is this document being provided for a Pre-PIJ / Assessment phase?

If Yes,

<table>
<thead>
<tr>
<th>Identify any cost to be incurred during the Assessment phase.</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Based on research done to date, provide a high-level estimate or range of development costs anticipated for the full PIJ.</td>
<td>$</td>
</tr>
</tbody>
</table>

Explain:

☐ Yes  ☒ No  Will a Request for Proposal (RFP) be issued as part of the Pre-PIJ or PIJ?

II. Business Case

A. Business Problem*

The automated information systems of the Department of Economic Security (DES) store, transmit, and process large volumes of confidential information. The agency has executed several data sharing agreements with the US Government and is bound by additional laws and regulations to secure that information. DES is implementing effective security related controls to protect data. Many of those controls are also mandated by several US Government agency security standards. DES seeks to implement a solution which provides compliance with NIST security controls for Access Control (AC3), Information Flow Enforcement (AC4), Separation of Duties (AC5), Remote Access (AC17), Wireless Access (AC18), Access Control for Mobile Devices (AC19), Access Control Decisions (AC24), Configuration Management (CM9), Software Usage Restrictions (CM10), User Installed Software (CM11), several Identification and Authorization controls (IA2-IA11), and Controlled Maintenance (MA2).

Currently DES has no way of preventing devices that lack required security software or are otherwise not compliant with the network policy from accessing the network. Although DES has measures in place to prevent non-authenticated workstations or users from accessing sensitive data, there is currently no technology in place to prevent unauthorized computers or wireless access points from connecting to the network.

DES has deployed a large number of mobile devices. Unlike workstations and laptops, these mobile devices do not have standard operating systems or applications installed. These devices may be laptops, tablets, smartphones, or mobile hotspots. While they are primarily configured only to access non-sensitive information, DES currently has no way to apply specific policies that affect these endpoints. This represents a significant security vulnerability.

B. Proposed Business Solution*

DES proposes to implement Network Access Control (NAC) or Endpoint Visualization, Access, and Security (EVACS) in its environment. While other available solutions could
mitigate the security vulnerabilities discussed above, none is as comprehensive as NAC. This product is specifically designed to address the “comply-to-connect” principle. This solution is a significant leap for DES in compliance with security controls. Its implementation provides far greater protection of sensitive information such as Federal Tax Information, Private Health Information, and Personally Identifiable Information. DES hold a significant amount of tax, health, credit card, and identifying information about millions of Arizona’s citizens. This solution will significantly improve the agency’s ability to keep unauthorized individuals out of the network. It will also ensure that authorized users do not gain access from devices that are not fully compliant with the agency’s security standards.

Network Access Control is a network access solution that uses a set of protocols at the earliest point in the connection process (even before assignment of an IP address) to allow access according to predefined policies. NAC can be configured to enforce endpoint security health (up-to-date patching, virus scan, encryption, password change, etc.) before allowing access to any network resources. It can also inspect for other data (computer location, ownership, operating system, user name) which can also be used to manage access.

NAC, or Endpoint Visualization, Access, and Security consists of a number of virtual appliances residing on the network that manage the initial request for access to the network. The appliance, along with an inspection agent, determines the endpoint posture (unknown, noncompliant, compliant). The management appliance then signals a network switch port to place the endpoint on a particular Virtual Local Area Network (VLAN) based upon the discovered posture. The NAC appliance communicates with both DES and AZNET II managed network switches to accomplish the port configuration. There are several possible models but the most common implementation has three possible VLANs to which an endpoint may be directed. Compliant machines are placed on the production VLAN. Non-compliant endpoints are placed on a remediation VLAN where patch servers and anti-virus agents reside. Unknown endpoints are placed on a guest VLAN which has only access to non-DES resources or public information. This posture determination and VLAN placement occurs prior to the endpoint having access to any segment of the network.

Network Access Control allows the agency to set and enforce access profiles to secure the network. It implements the following features and brings the Agency into compliance with nearly all access controls enumerated in the National Institute for Standards and Technology publication 800-53 “Security and Privacy Controls for Federal Information Systems and Organizations.”

- Mitigates non-zero-day attacks.
- Enforces policy.
- Manages both tightly controlled or liberal bring-your-own-device programs by identifying devices, determining ownership, creating a profile, and isolating access to appropriate virtual LANs and resources.
- Manages guest wired or wireless access to network segments that only allow basic Internet access.
• Manages state owned devices and restricts them to network segments and resources consistent with predetermined profiles. Both remote and on-network devices are managed. Devices are inspected prior to connection to determine if they meet minimum standards prior to being allowed access to production resources. Non-compliant devices can be granted access to remediation virtual LANs where they can heal themselves (patches, virus scanning, no encryption etc.).

Since each device has to authorize prior to accessing the network, devices such as rogue workstations, rogue wireless access points, personally owned peripherals, etc. are denied access to the network and protocols higher than OSI Level 2 never pass the first encountered switch port.

The installation of the hardware, configuration, and training of the DES Division of Technology Services (DTS) staff on the new environment will be performed by contract personnel (professional services).

C. **Quantified Benefits***

<table>
<thead>
<tr>
<th></th>
<th>Service enhancement</th>
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</thead>
<tbody>
<tr>
<td>X</td>
<td>Increased revenue</td>
</tr>
<tr>
<td></td>
<td>Cost reduction</td>
</tr>
<tr>
<td>X</td>
<td>Problem avoidance</td>
</tr>
<tr>
<td>X</td>
<td>Risk avoidance</td>
</tr>
</tbody>
</table>

Explain:

**Service enhancement** - Reduces the level of effort required to configure BYOD accounts. Personally owned devices are restricted to a minimum number of resources such as Internet and CITRIX. Network Access Control is versatile. Profiles can be created to ensure that network users can continue to perform work while becoming compliant. Remediation services can occur in a CITRIX (or similar) environment, where users can continue to work in a secure environment while their machine is being upgraded.

Ensures that services and benefits are directed to people who are actually eligible to receive them.

**Problem avoidance** - A fully functioning Network Access Control allows DES to implement future security enhancements by allowing NAC profiles to control access to VMWare profiling, multiple AD Domains, Server Segmentation, and other security architectures.
Risk avoidance – Reduces the level of effort necessary to discover which machines do not meet the minimum security standards. Each device is inspected each time a device is used to log on to determine if it has current patches, an up to date virus scan, encryption turned on, etc. (profile defined). Once directed to a remediation VLAN, updates can occur automatically, concluding with instructions to have the user, reattempt the log on.

III. Technology Approach

A. Proposed Technology Solution*

DES Implementation Plan
DTS will first determine the impact to AZNET when DES implements NAC. It would investigate the DES network environment, MPLS sites, CITRIX environment, call centers, and the Xerox environment and provide a cost to implement NAC in the current environment.

Purchase and install appliances.
1. Configure Authorization Policy for Client Provisioning and Posture – these policies set the types of access or services available to the endpoint based on identity, access method (wire, wireless, cellular), and compliance (anti-virus, IPS, DPL, webfilter, etc.)
2. Test profiles by running NAC in monitor mode. In monitor mode, NAC reports what would have happened during a log-on event but does not actually restrict the end user. Administrators can examine the logs and determine if the policies are having the desired effect. They can also run test machines against the program to determine if the system is acting as configured.
3. Adjust policies.
4. Final test of policies in Monitor Mode using actual users and test machines.
5. Incrementally turn on either low-impact mode or closed (high-security) mode.

B. Existing Technology Environment

System/Storage Performance:
  Cisco UCS
  37 UCS B200-M4 Blade Servers
  NetApp Filer High Availability 8060HA SAN w 113 TB raw storage
  NetApp Filer High Availability 8040HA SAN w 348 TB raw storage
  NetApp Clustered Data ONTap:
   Cluster 1: 972TB Useable
   Cluster 2: 529TB Useable
   Cluster 3: 204TB Useable

Backup/Recovery:
  Microsoft System Center Data Protection Manager
  NetApp Filer High Availability 8020HA SAN w 288 TB raw storage
  Additional 288 TB raw storage for the 8040HA SAN
Infrastructure Management:
   Microsoft System Center Operations Manager

VM Multi-Tenancy Provisioning:
   VMWare vCenter with approximately 1,000 virtual machines

Network:
   Data Center:
      Redundant pair of Cisco 7010 core routers
      Redundant Cisco Nexus 9000 Switches
      Cisco ASA firewalls

   Non-Data Center:
      Distributed network of workstations, laptops, servers, network devices,
      printers, consisting of more than 8,500 endpoints operating in a
      predominately Microsoft Windows domain.

C. **Selection Process**

The DES will procure the required products in compliance with current state contracts and purchasing policies. Hardware products will be procured that are compatible with both the current DES infrastructure and ADOA-ASET established standards.

DES evaluated a number of strategies to ensure that only authorized and compliant endpoints connect to the network. Some strategies require “white listing” authorized devices. These strategies provide excellent security for very small networks but are not practical for large networks and are known to adversely affect business units.

Various network access control or endpoint visualization products are available in several configurations. To minimize risk, only those solutions that were compatible with the DES network, the AZNET II network, and the Cisco ASA firewall were considered.

DES sought a solution that was compatible with the following components of the DES network:
   - Network access devices
   - Identity sources (Radius and Active Directory)
   - Virtual environments
   - Client machines
   - Virtual Private Networks

After considering these factors, DES has selected a solution consisting of the Cisco Identity Services Engine, the Network Admission Control Agent for ISE, and the Cisco AnyConnect Posture Module.
DATE: March 31, 2016

TO: Senator Don Shooter, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Josh Hope, Fiscal Analyst

SUBJECT: ADOA/DEQ - Review of Department of Environmental Quality Phase 3 Web Portal Expenditure Plan (Automation Projects Fund)

Request

Pursuant to A.R.S. § 41-714, the Arizona Department of Administration (ADOA) has requested that the Joint Legislative Budget Committee (JLBC) review $5,000,000 in proposed FY 2016 expenditures from the Automation Projects Fund for Phase 3 of the development of the Department of Environmental Quality (DEQ)'s web portal.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review.

2. An unfavorable review.

The Information Technology Authorization Committee (ITAC) approved the $5,000,000 myDEQ Phase 3 project at its February 25 meeting. There were no conditions to the approval. Under either option, the JLBC Staff recommends the following provision:

A. The results of the quarterly third-party reviews are to be provided to the JLBC Staff.
Analysis

Background
DEQ processes 28,000 transactions annually, using paper to process permits, reports, and receive fees from 16,000 facilities. Approximately 4,000 invoices and payments are processed by DEQ every year. The e-licensing portal allows customers to conduct permitting, billing, payment, and review data submissions online. To date, several enhancements have already been implemented. Currently, customers can create their own customer accounts, view an electronic copy of their facility’s permits and report water quality compliance data online. The Quick Pay feature on myDEQ can also now be used by customers to make credit card payments.

Between FY 2014 and FY 2016, a total of $16.8 million has been appropriated to ADOA and DEQ to allow customers to conduct permitting, billing, payment, and data submissions online.

As required by A.R.S. § 41-714, ADOA and DEQ provided the Committee with a third-party report when they sought review of FY 2015 funding at the June 2014 meeting. In the initial third-party report, the vendor concurred with DEQ’s approach and “can certainly see a credible path to success.” The contractor, however, raised some concerns.

ADOA/DEQ submitted another independent third-party review report in November 2015. The report stated that “the view of the credible path to [project] success is much clearer.” The vendor gave an overall favorable evaluation of DEQ’s progress in incorporating recommendations from the previous third-party report and provided additional recommendations.

Current Request
ADOA is requesting a favorable review of $5.0 million from the Automation Projects Fund in FY 2016 for the implementation of 6 business processes for myDEQ Phase 3. This amount includes $5.0 million transferred from the Emissions Inspection Fund in FY 2016 for this phase of the project. In addition, DEQ will expend $835,800 from the Underground Storage Tank Revolving Fund. Phase 3 will not start until the beginning of FY 2017 when Phase 2 concludes; Phase 3 is scheduled to be completed by June 30, 2017.

Phase 3 would streamline and automate 6 business processes that would:

1. Allow myDEQ customers to apply for Vehicle Emissions Inspection Certificates of Inspection;
2. Allow multi-sector general permittees and other stormwater permittees to submit discharge monitoring data electronically;
3. Give myDEQ customers access to all current and historical data submitted through the online portal;
4. Send emails to myDEQ customers on enforcement responses, compliance reports, and permit renewal reminders;
5. Give myDEQ customers notifications of hazardous waste generation; and
6. Allow myDEQ customers to apply for drywell permits, amendments, and closures.

RS/JH: kp
March 7, 2016

The Honorable Don Shooter, Chairman
Joint Legislative Budget Committee
Arizona State Senate
1700 West Washington Street
Phoenix, Arizona 85007

The Honorable Justin Olson, Vice-Chairman
Joint Legislative Budget Committee
Arizona House of Representatives
1700 West Washington Street
Phoenix, Arizona 85007

Dear Senator Shooter and Representative Olson:

In accordance with Arizona Revised Statutes § 41-714, the Arizona Department of Administration (ADOA) is submitting this request for review of fiscal year 2015 and fiscal year 2016 Automation Projects Fund (APF) projects. Monies to support the expenditure plans have already been appropriated to the APF.

ADOA and the receiving agencies understand the fiscal year 2015 and fiscal year 2016 APF appropriations will lapse on June 30, 2016. We anticipate conditions may be placed on these projects to address funding gaps if the 2017 State Budget does not extend fiscal year 2015 and fiscal year 2016 APF appropriations, as requested by ADOA.

The attached documents contain a detailed explanation of the proposed projects. We will be happy to meet with your staff to provide further explanation as appropriate.

Sincerely,

Craig C. Brown
Director

Enclosures

cc: Richard Stavneak, Director, JLBC
    Lorenzo Romero, Director, OSPB
The Honorable Don Shooter, Chairman
The Honorable Justin Olson, Vice-Chairman
March 7, 2016
Page 2

Rebecca Perrera, JLBC Staff
Chris Olvey, OSPB Staff
Morgan Reed, State CIO
Paul Shannon, Assistant Director Budget and Resource Planning ADOA
Joint Legislative Budget Committee (JLBC)
Favorable Review Request
Arizona Department of Administration, Arizona Strategic Enterprise Technology (ADOA-ASET)

The ADOA requests favorable review of an expenditure of $433,000 from the Fiscal Year 2015 Automation Projects Fund (APF) in accordance with Laws 2014, 2nd Regular Session, Chapter 18, Section 123 for the purposes described below.

Initiative Name and Description
Improving and Maintaining the State Data Center

Project Name
Direct Access Storage Device (DASD) Extended Maintenance and Hosted Mainframe Environmental Assessment

Request Amount
DASD Extended Maintenance = $83,000
Hosted Mainframe Environmental Assessment $350,000
Total: $433,000

Description
Procure extended hardware maintenance which is required on the current state owned DASD storage units (2) to continue mainframe operations. Complete a Hosted Mainframe Environmental Assessment to include validation of all hardware, software and contract terms in preparation for the procurement of a mainframe managed service offering.

Goals
- To reduce risks of Mainframe Operation
- To explore and secure a hosted mainframe managed services contract

Objectives
- Moving a critical system out of an aging building
- Moving IT costs from capital expenditures (CAPEX) to an Operational expenditures (OPEX)
- Being able to increase capacity and stay up with demand without CAPEX

Rationale
- Reduce risk of operations
- Improve efficiency of operations
- Move critical systems out of an aging building
Moving Forward
myDEQ Phase 3

ITAC Presentation
February 25, 2016
“Paper transactions and payments between businesses and ADEQ are inefficient, wasteful and burdensome...”
– Glenn Hamer, Arizona Chamber of Commerce
**OUR MISSION:**
To protect and enhance public health and the environment of Arizona.

**OUR VISION:**
To be the number one state in the nation in:
- Balanced, leading-edge environmental protection,
- Technical and operational excellence, and
- Radical simplicity for customers and staff

Fig. 1 – The strategic direction figure that we have referenced throughout our transformational journey is the genesis of our new vision. This vision will serve as a compass for our everyday work and directions, our true north. It will be the language that we use to describe our future and it will be the fuel by which we create it.
myDEQ enables customers to apply for permits, report compliance data and make payments online.
myDEQ: Journey

**PHASE 1 - BUSINESS PROCESSES (COMPLETED)**
- Payments – QuickPay
- Customer - Create Account Express
- Customer - Create Account Standard
- Customer - Validate Account
- Customer - Receive Cromer Certification
- Customer - Create User Roles
- Customer - Manage Mailing Preferences
- Customer – Login / Logout
- Customer – Change / Reset Password
- Landing Page – Site Navigation
- Landing Page – View My Stuff
- SMRF - Upload SMRF
- SMRF - Receive Validation Reports

**PHASE 2 - BUSINESS PROCESSES (COMPLETED)**
- Customer - Manage Account
- Landing Page – View SMRF Alerts
- RCRA - Get New EPA ID
- RCRA - Edit EPA ID Registration Information
- RCRA - De-activate EPA ID
- RCRA - View Detail EPA ID
- RCRA - Reactivate EPA ID
- eDMR - Upload (Guided)
- My Notices - Email Alerts - EPA
- My Notices - Email Alerts - SMRF
- My Notices - Email Alerts - DMR

**PHASE 2 - BUSINESS PROCESSES RELEASE 3 (IN PROGRESS)**
- C&S - Get ATO and FOG
- C&S - Terminate ATO
- C&S - Submit Compliance Certification
- C&S - Automate Emissions Calculations
- Hot Mix Asphalt - Get ATO and FOG
- Hot Mix Asphalt - Terminate ATO
- Hot Mix Asphalt - Submit Compliance Certification
- Hot Mix Asphalt - Automate Emissions Calculations
- Concrete Batch Plant - Get ATO and FOG
- Concrete Batch Plant - Terminate ATO
- Concrete Batch Plant - Submit Compliance Certification
- Concrete Batch Plant - Automate Emissions Calculations
Execution Approach

Lean Process User Stories & Acceptance Criteria

UI/UX Mock-ups → Tech Design → Dev Sprints → Int / Ext UAT → Beta Testing → Release to Production

Review working code every two weeks

Real customers (limited) using real data in production environment

TEAM

<table>
<thead>
<tr>
<th>ADEQ</th>
<th>ASET</th>
<th>Contractors</th>
<th>3rd Party Review</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product Owners, Network Engineers, Support Team</td>
<td>Oversight WSO2 Support</td>
<td>Knowledge Services WSO2 Company</td>
<td>Life Cycle Delivery</td>
</tr>
</tbody>
</table>

Design Guideline

- Process first, Technology second
- Integrated voice of customer
- Deeper functionality

Visual Management

- Daily update using Kanban board
- Metrics driven monitoring on huddle boards

Sustained Improvement

- Visual Process Performance
- Visual Process Adherence
Phase 3 - Summary

30+ priority business processes

Total project cost is $5.835 million

Projected completion date is June 30th, 2017
## Phase 3 - Benefits

<table>
<thead>
<tr>
<th>TRANSACTIONS</th>
<th>DESCRIPTION</th>
<th>EST. ANNUAL COUNT</th>
<th>ELAPSED TIME (DAYS)</th>
<th>TOUCH TIME (MINUTES)</th>
<th>SAVINGS*</th>
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<tbody>
<tr>
<td>VEI - Certificate of Inspection</td>
<td>Certificate of Inspection for Vehicle Fleet Maintenance</td>
<td>2501+</td>
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<td>0</td>
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<td>MSGP &amp; Other Stormwater DMR/Basic permit and facility data (Phase 1)</td>
<td>Submission of discharge monitoring data from Multi-Sector &amp; Other Stormwater General Permittees. (Federal electronic rule implementation)</td>
<td>501 to 1000</td>
<td>21</td>
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<td>myDEQ Docs</td>
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<td>30</td>
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<td>Facility Annual Report</td>
<td>Notification of Hazardous Waste Generation</td>
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<td>180</td>
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<td>Drywells registrations/permit amendment/closure</td>
<td>Drywells registrations, Amendments &amp; Closures</td>
<td>1001 to 2500</td>
<td>7</td>
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<td><strong>TOTAL</strong></td>
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<td></td>
<td></td>
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<td></td>
</tr>
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</table>

Savings*: this column shows that the increased efficiency will result in fewer FTE used for the same output. In just these 6 transactions, ADEQ will free up more than 9 FTEs to perform other value-added work. Calculation assumes 1,344 hours (~75% burden) equals one FTE.
Phase 3 – Prioritization approach

VOICE OF CUSTOMER

- Customer Impact
- Difficulty
- Lessons Learned
- Transaction Volume
Phase 3 – Impact vs. Difficulty Matrix
LOW due to:

- Customer involvement early and often
- Working software every 2 weeks
- Bi-weekly planning cycle and daily status checks
- ASET involvement beginning to end
- Continuously applying lessons learned, both from previous phases and ongoing iterations.
- Third party review – lead reviewer is a former CIO with multi-state experience in large, Agile projects
DATE: March 31, 2016

TO: Senator Don Shooter, Chairman
    Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Rebecca Perrera, Fiscal Analyst

SUBJECT: Arizona Department of Administration - Review of Written Guidelines for Reviewing and Approving Lodging Rate Waivers.

Request

Pursuant to A.R.S. § 38-624C, at its September 2015 meeting, the Committee approved the Arizona Department of Administration’s (ADOA) lodging reimbursement rates. These reimbursements compensate state employees traveling on official state business. As part of its review, the Committee included a provision requiring ADOA to submit its written guidelines for reviewing and approving lodging rate waivers to the Committee for review.

Recommendation

The Committee has at least the following 3 options:

1. A favorable review.
2. An unfavorable review.
3. Take no action

The JLBC Staff believes that the submitted guidelines are adequate to help ensure waivers are approved consistently and sufficient efforts are made to provide travel alternatives and reduce travel costs.

Analysis

Lodging Rates Background
The U.S. General Services Administration annually publishes a reimbursement schedule for room rentals

(Continued)
based on lodging industry economic data at the beginning of the federal fiscal year (FFY) (October). A.R.S. § 38-624C requires ADOA to establish the state’s lodging reimbursement rates taking into consideration the federal government rates.

Currently the state’s maximum lodging reimbursement rates are aligned with the FFY 2016 federal lodging rate. Although the federal rate is updated annually, prior to June 2015, the state rate had not been updated since 2006.

The rate schedule establishes a standard rate, which is currently $89. The rate schedule also specifies additional rates for many cities, with seasonal distinctions in some cases. For example, the current federal rate in the District of Columbia (DC) in March is $226 while the rate in July is $174.

The state rate does not apply to conference meetings. State agencies are allowed to pay the conference rate regardless of the specific city rate but are encouraged to ensure the conference rate is the lowest available rate or adequate housing is located within walking distance of the event.

**Lodging Waivers**

The General Accounting Office (GAO) in ADOA can waive the state rate for non-conference meetings. As part of its last review of rates, in September 2015, the Committee requested that ADOA submit its written guidelines for reviewing and approving lodging rate waivers by November 30, 2015. ADOA submitted the report on March 16, 2016.

Prior to adopting the FFY 2016 federal rates, GAO often waived the rate up to the federal maximum. Approving these waivers is not currently necessary because the state rate is equal to the federal rate. However, since the federal rates are changed annually, ADOA may continue granting waivers up to the federal rate if state rates are not also adjusted.

In addition, GAO may approve reimbursements above the federal rate. Between June 2015 and September 2015, the GAO has received 39 requests for lodging rate waivers, of which 32 were approved. Of the 32 approved waivers, 25 were approved for the requested amount and 7 were approved for an amount lower than the request but above the state rate. The remaining 7 requests were denied.

ADOA has developed formal guidelines to review lodging rate waivers. Pursuant to GAO’s travel policy in the state’s Accounting Manual, waivers are approved by the State Comptroller, the Deputy State Comptroller, or in limited cases, another designee. The guidelines require GAO to consider the following factors when reviewing and approving waivers:

1. Why is an exception needed?
2. Does the lodging offset other costs such as transportation or meals?
3. What other lodging options has the agency considered?
4. Has the agency considered other possible alternatives to conduct these business needs?
5. Can GAO provide any other appropriate alternatives?

The department reports that GAO staff will review rates posted on travel and hotel websites. If lower rates are available within a reasonable proximity, ADOA will require the agency to justify the selected hotel and travel plans.

RS/RP: kp
March 14, 2016

The Honorable Don Shooter, Chairman
Joint Legislative Budget Committee
Arizona State Senate
1700 West Washington Street
Phoenix, Arizona 85007

The Honorable Justin Olson, Vice-Chairman
Joint Legislative Budget Committee
Arizona House of Representatives
1700 West Washington Street
Phoenix, Arizona 85007

Dear Senator Shooter and Representative Olson:

At the October 2015 JLBC meeting, the Committee approved ADOA’s lodging rates with a provision that ADOA submit for review its written guidelines for reviewing and approving lodging rate waivers. We are providing those guidelines to you now for your review.

We will be happy to meet with you or your staff to provide further explanation as appropriate.

Sincerely,

Craig C. Brown
Director

Enclosures

cc: Richard Stavneak, Director, JLBC
    Lorenzo Romero, Director, OSPB
    Rebecca Perrera, JLBC Staff
    Chris Olvey, OSPB Staff
    Clark Partridge, State CIO
    Paul Shannon, Assistant Director Budget and Resource Planning ADOA
Lodging Overview

Travel is a necessary part of the business activities of the State.

Agencies may determine that some travel will involve overnight stays to conduct business efficiently and effectively.

State agencies are expected make appropriate due diligence efforts to obtain lodging within the State’s established lodging rates. While it is understood that each trip has a certain degree of uniqueness and potential issues, the expectation is that travel be conducted consistent with the State travel policy, including lodging rates.

State agencies are expected to plan in advance to the extent practical to minimize costs.

There are times that lodging rates are not available within the established State rates due to high demand and limited occupancy.

Agencies need to carefully consider the terms of the lodging reservation, including cancellation restrictions.

Agencies and travelers are expected to consider the total cost of the travel alternatives.

Lodging Exception Process

If an exception to the established lodging rate is requested, the following factors are considered.

1. Why is an exception needed?
2. Does the lodging offset other costs such as transportation or meals?
3. What other lodging options has the agency considered?
4. Has the agency considered other possible alternatives to conduct these business needs?
5. Can GAO provide any other appropriate alternatives?
DATE:        April 4, 2016

TO:          Senator Don Shooter, Chairman
             Members, Joint Legislative Budget Committee

THRU:        Richard Stavneak, Director

FROM:        Ben Beutler, Senior Fiscal Analyst

SUBJECT:     Department of Child Safety - Review of FY 2016 Third Quarter Benchmarks

Laws 2014, 2nd Special Session, Chapter 2 requires the Department of Child Safety (DCS) to submit a report for Committee review of quarterly benchmarks for assessing progress made in increasing the department’s number of FTE Positions and in reducing the number of backlog cases.

Recommendation

The Committee has at least the following 3 options:

1. A favorable review.
2. An unfavorable review.
3. Accept the report with no comment.

Analysis

FY 2016 Third Quarter Benchmark - Filled FTE Positions
In accordance with session law, DCS submitted the benchmark report on time at the end of the third calendar quarter. Table 1 outlines DCS’ progress in hiring caseworkers by quarter. DCS had 1,282 filled direct line staff in March 2016, or (124) FTE Positions below its benchmark of 1,406. DCS’ highest hiring level occurred in April 2015, with 1,357 direct line staff. Direct line staff includes case-carrying caseworkers, caseworkers in training and hotline staff.

(Continued)
Direct line staff has increased since the Committee last heard this item at its December meeting, growing from 1,249 staff in December 2015 to 1,282 staff in March 2016. While overall hiring is up, the number of case-carrying caseworkers continues to trend downward. The number of case-carrying caseworkers has declined from 955 in December 2015 to 923 in March 2016. The loss of case-carrying caseworkers has been offset by a recent influx of new staff who are currently in training; the number in training has increased from 220 to 285. DCS projects that it will be unable to fill all 1,406 of its appropriated direct line positions by the end of FY 2016.

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Case-Carrying Caseworkers</td>
<td>1,190</td>
<td>1,025</td>
<td>972</td>
<td>955</td>
<td>923</td>
</tr>
<tr>
<td>Caseworkers in Training</td>
<td>140</td>
<td>164</td>
<td>212</td>
<td>220</td>
<td>285</td>
</tr>
<tr>
<td>Hotline Staff</td>
<td>76</td>
<td>74</td>
<td>71</td>
<td>74</td>
<td>74</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,406</strong></td>
<td><strong>1,263</strong></td>
<td><strong>1,255</strong></td>
<td><strong>1,249</strong></td>
<td><strong>1,282</strong></td>
</tr>
</tbody>
</table>

FY 2016 Third Quarter Benchmark - Reducing the Backlog

Table 2 outlines DCS’ progress in reducing the backlog by quarter.

In June 2014, DCS set benchmarks for reducing the backlog. At the time, there were 13,024 backlog cases. The backlog is defined as non-active cases for which documentation has not been entered into the child welfare automated system for at least 60 days and for which services have not been authorized for at least 60 days.

The number of backlog cases has significantly declined since the Committee last heard this item at its December meeting, dropping from 14,470 cases in December 2015 to 10,751 cases in March 2016. DCS has reduced the number of relapsed June 2, 2014 cases from 1,633 to 1,026.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Backlog Cases</td>
<td>1,000</td>
<td>14,946</td>
<td>14,558</td>
<td>14,470</td>
<td>10,751</td>
</tr>
<tr>
<td>Relapsed June 2, 2014 Backlog Cases</td>
<td>0</td>
<td>3,139</td>
<td>2,253</td>
<td>1,633</td>
<td>1,026</td>
</tr>
<tr>
<td>Post-June 2, 2014 Backlog Cases</td>
<td>1,000</td>
<td>11,807</td>
<td>12,305</td>
<td>12,837</td>
<td>9,725</td>
</tr>
</tbody>
</table>

Expenditures on Personal Services

DCS spent $37.6 million on salaries for 2,730 FTE Positions and overtime in the third quarter of FY 2016, or roughly $8.0 million more than in the first and second quarters of FY 2016. An increase of over 100 non-case specialist staff since the first quarter is the primary reason for the expenditure growth.

(Continued)
Expenditures to Reduce the Backlog

DCS was appropriated $23.1 million from the General Fund and $5.9 million from Federal Funds for a total of $29.0 million in FY 2015 for the elimination of the June 2 backlog. Consistent with the Executive’s May 2014 Special Session proposal and the Legislature’s 3-year spending plan, the FY 2016 budget for backlog elimination was reduced to $12.4 million from the General Fund and $3.9 million from Federal Funds, totaling $16.3 million. In the third quarter of FY 2016, DCS spent $1.7 million on backlog reduction for support services and placements, compared to $3.4 million in the first quarter and $3.3 million in the second quarter. The expenditure figure does not include the cost of caseworker overtime to investigate backlog cases.
March 31, 2016

The Honorable Justin Olson
Chairman, House Appropriations Committee
Arizona House of Representatives
1700 West Washington
Phoenix, Arizona 85007

Re: Department of Child Safety Quarterly Benchmark Progress Report

Dear Representative Olson:

Pursuant to Laws 2014, 2\textsuperscript{nd} Special Session, Chapter 2, Section 6, the Department submits its report including quarterly benchmarks for the third quarter of FY 2016 for assessing the Department's progress increasing the number of filled FTE positions and in reducing the number of backlog cases, as well as updates to the quarterly expenditure plans for FY 2016 monies appropriated for personal services and for reducing the backlog.

If you have any questions, please contact our office at (602) 255-2500.

Sincerely,

[Signature]

Gregory McKay
Director

Enclosure

cc: Richard Stavneak, Director, Joint Legislative Budget Committee
    Lorenzo Romero, Director, Governor's Office and Strategic Planning and Budgeting
    Ben Beutler, Joint Legislative Budget Committee
    Laura Johnson, Governor's Office and Strategic Planning and Budgeting
Laws 2014, Second Special Session, Chapter 2, requires the Department of Child Safety (DCS) to submit a report for review by the Joint Legislative Budget Committee (JLBC) containing the progress made in increasing the Department's number of FTE positions and in reducing the number of backlog cases. The backlog cases referenced in Laws 2014, Second Special Session, Chapter 2, are cases that have had no case note documentation entered in the Children's Information Library and Data Source (CHILDS) for the past 60 days. These cases are also referred to as non-active cases, which is the term used throughout the remainder of this report.

The filled FTE, case count, and expenditures provided in this report are actuals for first, second quarter 2016, third quarter 2016 preliminaries and projections for the remainder of fiscal year 2016 (FY 2016).

**Filled FTE Positions**
As of June 30, 2014, the Department had a total of 2,392 filled FTE positions, including 982 case-carrying staff, 225 staff in training, 76 FTE in Intake (Hotline), and 1,109 other staff. The total number of FTEs through the first quarter, second quarter and preliminary of FY 2016 is outlined below.

<table>
<thead>
<tr>
<th>Table 1. Progress on Filled FTE Positions in Fiscal Year 2016 Qtr 3</th>
<th>Quarter 1 Actual</th>
<th>Quarter 2 Actual</th>
<th>Quarter 3 Preliminary</th>
<th>Quarter 4 Projection</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Authorized FTE</strong></td>
<td>3,057.1</td>
<td>3,057.1</td>
<td>3,057.1</td>
<td>3,057.1</td>
</tr>
<tr>
<td><strong>Authorized Attorney General FTE Positions</strong></td>
<td>234.2</td>
<td>234.2</td>
<td>234.2</td>
<td>234.2</td>
</tr>
<tr>
<td><strong>Total Authorized DCS FTE Positions</strong></td>
<td>2,822.9</td>
<td>2,822.9</td>
<td>2,822.9</td>
<td>2,822.9</td>
</tr>
<tr>
<td><strong>Authorized Caseworkers</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Filled Caseworkers (Active)</td>
<td>972.0</td>
<td>955.0</td>
<td>923.0</td>
<td>940.0</td>
</tr>
<tr>
<td>Filled Caseworkers (Training)</td>
<td>212.0</td>
<td>220.0</td>
<td>285.0</td>
<td>283.0</td>
</tr>
<tr>
<td>Filled Intake (Hotline)</td>
<td>71.0</td>
<td>74.0</td>
<td>74.0</td>
<td>75.0</td>
</tr>
<tr>
<td><strong>Subtotal Filled</strong></td>
<td>1,255.0</td>
<td>1,249.0</td>
<td>1,282.0</td>
<td>1,298.0</td>
</tr>
<tr>
<td><strong>Authorized Non-Caseworker Personnel</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Filled Supervisors (Unit, APM)</td>
<td>254.0</td>
<td>257.0</td>
<td>254.0</td>
<td>254.0</td>
</tr>
<tr>
<td>Filled Case Aides</td>
<td>279.0</td>
<td>280.0</td>
<td>283.0</td>
<td>283.0</td>
</tr>
<tr>
<td>Filled Other Non-Caseworkers</td>
<td>804.0</td>
<td>858.0</td>
<td>911.0</td>
<td>911.0</td>
</tr>
<tr>
<td><strong>Subtotal Filled</strong></td>
<td>1,337.0</td>
<td>1,395.0</td>
<td>1,448.0</td>
<td>1,448.0</td>
</tr>
<tr>
<td><strong>Total Filled FTE</strong></td>
<td>2,592.0</td>
<td>2,644.0</td>
<td>2,730.0</td>
<td>2,746.0</td>
</tr>
</tbody>
</table>

1/ Filled FTE Position counts are as of March 16, 2016 and actuals will be updated in the next quarterly report.
Progress Reducing the Cases Inactive as of June 2, 2014

Laws 2014, Second Special Session, Chapter 2 requires DCS to report the disposition (outcome) of the 13,024 cases that were non-active as the close of business on June 2, 2014, including:

- Number of cases currently closed,
- Number of cases currently being investigated,
- Number of cases currently in an out-of-home placement,
- Number of cases currently receiving in-home preventive support services.

The Department established the following quarterly benchmarks for assessing progress in reducing the number of non-active cases:

- Number of cases that were non-active as of June 2, 2014 that have been activated
- Number of activated cases in the investigation phase
- Number of activated cases receiving in-home services
- Number of activated cases in out-of-home placements and receiving out-of-home support services
- Number of activated cases closed

<table>
<thead>
<tr>
<th>Table 2. Reducing the June 2, 2014 Backlog for Fiscal Year 2016 Qtr 3</th>
<th>Quarter 1 Actual</th>
<th>Quarter 2 Actual</th>
<th>Quarter 3 Actual</th>
<th>Quarter 4 Projection</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investigation Status</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Open Investigation</td>
<td>2,886</td>
<td>2,028</td>
<td>1,436</td>
<td>1,087</td>
</tr>
<tr>
<td>Closed Investigation</td>
<td>9,981</td>
<td>10,844</td>
<td>11,448</td>
<td>11,800</td>
</tr>
<tr>
<td>No investigation documentation in CHILDS</td>
<td>157</td>
<td>152</td>
<td>140</td>
<td>137</td>
</tr>
<tr>
<td><strong>Case Status</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receiving In-Home Preventive Services</td>
<td>51</td>
<td>41</td>
<td>98</td>
<td>42</td>
</tr>
<tr>
<td>Receiving Out-of-Home Support Services and/or Placement</td>
<td>453</td>
<td>403</td>
<td>456</td>
<td>351</td>
</tr>
<tr>
<td>Cases with no service or placement payments in CHILDS</td>
<td>2,858</td>
<td>1,693</td>
<td>914</td>
<td>554</td>
</tr>
<tr>
<td>Cases Closed</td>
<td>9,662</td>
<td>10,887</td>
<td>11,556</td>
<td>12,077</td>
</tr>
<tr>
<td>Current number of non active cases</td>
<td>14,558</td>
<td>14,470</td>
<td>10,751</td>
<td>8,500</td>
</tr>
<tr>
<td>Original 13,024 backlog cases reverted to non active status</td>
<td>2,253</td>
<td>1,633</td>
<td>1,026</td>
<td>850</td>
</tr>
</tbody>
</table>

1/ Previous quarter actuals are based on service date expenditures as of the point in time the data is extracted. Changes will occur if additional invoices are received and payments are issued, and as other billing issues are resolved.

2/ Investigation and case status counts are as of March 28, 2016.
Process to Address the Current Non-Active Cases

As of March 28, 2016, the total number of non-active cases (cases with no case note entered in the past 60 days) was 10,751. The number of non-active cases has decreased from a peak of 15,504 for the quarter that ended December 31, 2014. This is a net reduction of 4,753 non-active cases and a 30.6% reduction in the non-active case total since that peak.

The progress made in quarter 3 of FY 2016 is the direct result of continued work in the strategic areas described in the quarter 2 report: selected assistance work teams, regional action plans, leveraging partnerships and Model Field Offices. Additionally, the Department continues utilizing weekly performance huddle calls as means of maintaining progress and establishing performance accountability.

The efforts of addressing non-active cases continues in the area of completing investigations, based on the knowledge that the majority of non-active cases are investigation cases rather than in-home service or out-of-home placement cases.

Update on reduction strategies:

- **Selected Assistance Work Teams** - The Department continues to utilize a team of approximately 60 DCS employees who receive overtime or stipend pay to work eight hours per week, in addition to their normal work hours. These resources are assigned to specific field offices to review cases, identify actions required to complete the investigation, complete field response activities, and complete the final quality assurance review when a case has completed all required investigative process steps. Resource assignments are reviewed on a monthly basis to ensure continued engagement, productivity, and quality of work. As individual offices eliminate backlog of open investigations, resources are moved to other offices to provide support.

- **Regional Plans** – DCS regional Program Managers have continued refining action plans to address the backlog of inactive cases. These action plans include continuing “offline” time for case managers to complete actions on open cases while not being assigned new cases, and identifying additional resources at the regional level to support investigations and clinical reviews. Regional leadership established accountability for workload completion through data reporting at the unit, section, and regional levels. Data reporting is monitored weekly and monthly to ensure that accountability is maintained and any barriers are identified and addressed timely.

- **Expanding Administrative and Case Review Capacity by Leveraging Partnerships** – In the last quarterly report, the Department described that many cases remain in the investigations phase of the process. As a means of expanding capacity to complete investigations the Department, with grant support from Casey Family Programs, partnered with a qualified local service provider in Maricopa County to support field offices with response activities. In these targeted offices, these qualified resources engage with DCS workers to identify specific actions required to complete an
investigation. These responders, who are knowledgeable in the Department’s policies, procedures and safety assessment model, then engage with families to complete the investigation activities. Through this partnership, the Department has increased the number of completed investigations each month. These efforts will continue until the grant funding is exhausted, which is currently estimated to be in November 2016. Based on the current rate of progress, the Department estimates that much of the backlog will be eliminated by that time.

- **Model Field Offices** – Standardization efforts continue in the three model offices in the state. Through these efforts, the Model Offices are now adhering to a standard investigation to ongoing case transfer process. Investigations cases are transferring to ongoing case managers quickly after a child’s removal, so that investigators are no longer case managing dependency cases and are free to focus on investigations. This process is now being implemented in offices in geographic proximity to the three Model Office sites, and will continue to roll out across the state through calendar year 2016.

*Summary of outcomes and Q3 FY2016 projections*

Quarter 2 performance realized a 25.7% improvement, and nearly a 3,700 case reduction, in the total number of inactive cases. These efforts have been possible through the significant efforts of the investigations specialists, support resources from around the Department, and actions plans that are continually refined to be most productive. The Department continues to hold a commitment to safely and sustainably reducing this backlog by completing investigations rather than adding case notes to activate incomplete investigations. This is evident not only in the reduction of the overall inactive cases, but the reduction of cases that relapsed into inactive status.

The Department will continue efforts in the four strategic areas described herein, while continuing to seek additional ideas and strategies to compliment these efforts. Through this focused approach, the Department is projecting quarter 3 FY2016 to end with approximately 8,500 inactive cases.

*Expenditures for Personal Services in FY 2016*

The table below shows the preliminary third quarter personal services expenditures, employee related expenditures and FTE for FY 2016.
Table 3. Projected Expenditures for Personal Services Monies Appropriated in Fiscal Year 2016

<table>
<thead>
<tr>
<th></th>
<th>Quarter 1 Actual</th>
<th>Quarter 2 Actual</th>
<th>Quarter 3 Preliminary</th>
<th>Quarter 4 Projection</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Case Specialists</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P/S</td>
<td>14,381,883</td>
<td>14,194,564</td>
<td>17,392,952</td>
<td>16,056,354</td>
</tr>
<tr>
<td>ERE</td>
<td>6,094,512</td>
<td>6,844,593</td>
<td>6,788,416</td>
<td>6,684,723</td>
</tr>
<tr>
<td>FTE</td>
<td>1,255</td>
<td>1,249</td>
<td>1,282</td>
<td>1,298</td>
</tr>
<tr>
<td><strong>Field Supervisors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P/S</td>
<td>2,910,756</td>
<td>2,872,844</td>
<td>3,643,966</td>
<td>3,122,246</td>
</tr>
<tr>
<td>ERE</td>
<td>1,233,471</td>
<td>1,385,280</td>
<td>1,425,931</td>
<td>1,276,998</td>
</tr>
<tr>
<td>FTE</td>
<td>254</td>
<td>257</td>
<td>254</td>
<td>254</td>
</tr>
<tr>
<td><strong>Case Aides</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P/S</td>
<td>3,197,247</td>
<td>3,155,604</td>
<td>3,526,398</td>
<td>1,983,685</td>
</tr>
<tr>
<td>ERE</td>
<td>1,354,876</td>
<td>1,521,627</td>
<td>1,383,662</td>
<td>811,327</td>
</tr>
<tr>
<td>FTE</td>
<td>279</td>
<td>280</td>
<td>283</td>
<td>283</td>
</tr>
<tr>
<td><strong>Filled Other Non-Case Specialists</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P/S</td>
<td>9,356,961</td>
<td>9,425,919</td>
<td>13,028,889</td>
<td>11,559,125</td>
</tr>
<tr>
<td>ERE</td>
<td>3,823,214</td>
<td>4,377,236</td>
<td>5,009,320</td>
<td>4,971,673</td>
</tr>
<tr>
<td>FTE</td>
<td>804</td>
<td>858</td>
<td>911</td>
<td>911</td>
</tr>
<tr>
<td><strong>Total FTE</strong></td>
<td>2,592</td>
<td>2,644</td>
<td>2,730</td>
<td>2,746</td>
</tr>
<tr>
<td><strong>Total P/S</strong></td>
<td>29,846,847</td>
<td>29,648,931</td>
<td>37,592,206</td>
<td>32,721,408</td>
</tr>
<tr>
<td><strong>Total ERE</strong></td>
<td>12,506,073</td>
<td>14,128,735</td>
<td>14,607,329</td>
<td>13,744,721</td>
</tr>
<tr>
<td><strong>TOTAL PS/ERE</strong></td>
<td>42,352,920</td>
<td>43,777,666</td>
<td>52,199,535</td>
<td>46,466,129</td>
</tr>
</tbody>
</table>

* Quarterly Backlog Report Personal Services and ERE financial projections are taken from across SLJs from General Operating, Overtime, Records
  - All appropriations other than the General Operating appropriation are intended solely for PS/ERE use only

Expenditures for Reducing the Backlog

The FY 2016 budget includes $12.4 million from the General Fund to reduce the backlog of non-active cases. This appropriation includes funding for services and placement costs for non-active cases already in placements and receiving services, or for children who receive services after their case is reactivated and investigated of the 13,024 inactive cases as of June 2, 2014.

Table 4 shows the preliminary third quarter expenditures for FY 2016 related to the cases that were non-active as of June 2, 2014, and projected costs for the remaining quarter.
The FY 2016 first quarter actual expenditures include closed cases with outstanding payments for services already rendered and for current cases that remain open because in-home or out-of-home services are being provided to the family. These expenditures do not include those cases that were closed after June 2, 2014 and then reopened at a later date due to another Hotline report as previously published in the report.

The Department anticipates that the total expenditures for Out-of-Home Placements for cases that were inactive on June 2, 2014 will be $6,692,302 and the shortfall of ($2,148,402) shown in this outline will be supported by Out-of-Home Placement SLIs.
DATE: March 31, 2016

TO: Senator Don Shooter, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Matt Beienburg, Fiscal Analyst

SUBJECT: Northern Arizona University - Review of Expenditure and Performance Report of Nonprofit Biotechnology Research Appropriation

Request

The FY 2015 General Appropriation Act (Laws 2014, Chapter 18, Section 132) requires Northern Arizona University (NAU) to provide an expenditure and performance report resulting from an appropriation of $3,000,000 to NAU yearly from FY 2015 through FY 2019 to grant to a nonprofit biomedical research entity. The university shall transmit the report to the Joint Legislative Budget Committee (JLBC) for its review on or before February 1 of each year.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review of NAU’s biomedical research report.

2. An unfavorable review of NAU’s biomedical research report.

Analysis

The FY 2015 budget requires that NAU contract with a nonprofit biomedical research entity for a $3 million annual grant over a 5-year period. The grantee is required to report to NAU annually. The university is then required to transmit the report to the JLBC by February 1. The following information is required to be provided by the grant recipient:

(Continued)
1. The type and amount of expenditures from all state sources of monies.

2. A description of each grant received as well as the positions and locations of positions solely or partly funded by the state.

3. Performance measures, including outcomes related to use of state monies, progress made toward the achievement of each outcome, reportable inventions or discoveries made and publications related to research funded by state monies.

The grantee is the Translational Genomics Research Institute, also known as TGen. TGen is a nonprofit organization which studies the genetic components of diseases to develop diagnostics, prognostics and therapies for cancer, neurological disorders, diabetes and other complex medical conditions.

All Sources of State Monies
In addition to the $3 million NAU appropriation, TGen also receives $2 million from the Department of Health Services (DHS) from the Tobacco Tax and Health Care Fund - Health Research Account.

The state funding provides unrestricted financial support for TGen’s operations. TGen reports that the state monies are used to supplement research grants, whether by covering indirect costs not funded by awards amounts, or by allowing TGen to “match” project costs in accordance with grant program criteria. TGen has indicated that the equipment and support services funded with state dollars in 2015 increased the organization’s capabilities and helped secure grant awards related to brain injury, tumor suppression and Alzheimer’s disease therapy among others.

The expenditures of the TGen monies from NAU in the first half of FY 2016 are summarized in Table 1:

<table>
<thead>
<tr>
<th>Utilization</th>
<th>Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research Capital</td>
<td>$776,000</td>
</tr>
<tr>
<td>Research Supplies</td>
<td>280,000</td>
</tr>
<tr>
<td>Research Equipment Service Maintenance</td>
<td>184,000</td>
</tr>
<tr>
<td>Research Outside Services</td>
<td>60,000</td>
</tr>
<tr>
<td>Proposal Development</td>
<td>50,000</td>
</tr>
<tr>
<td>Project Management</td>
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<tr>
<td>Technical Infrastructure</td>
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<tr>
<td><strong>NAU Grant Total</strong></td>
<td><strong>$1,500,000</strong></td>
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1/ Includes tissue processing equipment, DNA sequencers, and other laboratory instruments.
2/ Includes consumable items such as DNA kits, biological samples, beakers, etc.
3/ Includes costs of contracted services associated with manuscript expenses, externships, DNA sequencing, and research tool development.

(Continued)
Grants and Full-Time Positions
In 2015, TGEn applied for 101 grants totaling $85 million. Of that amount, TGEn was awarded 22 grants totaling $7.8 million. *(Please see the NAU report attached to this memo for the list of grant awards.)* As described above, TGEn reports that these projects and others are supported in part by the underlying technology funded by state appropriations.

TGEn reports that all of its staff are Arizona residents and that in 2015, 21 new FTE Positions were created with total salaries and benefits of $1.7 million.

Overall, TGEn reported a total of 362 employees and $66.5 million in revenues as of 2013 in its most recent publicly disclosed filings.

Performance Measures
TGEn’s 2015 report highlights the following progress and outcomes of its research initiatives:

- The American Association for Cancer Research (AACR) announced in May 2015 that a TGEn paper describing potential drug targets based on the genomic sequencing of breast cancer patients was the most cited study in 2013 of any published that year by AACR’s journal, *Molecular Cancer Therapeutics*.

- In November 2015, Stand Up To Cancer (SU2C) selected TGEn researchers to lead a “Pancreatic Cancer Dream Team” in an effort to double the survival rate of patients with pancreatic cancer.

- The “SU2C-MRA Melanoma Dream Team,” co-led by TGEn faculty, enrolled its first patients in a clinical trial to treat advanced melanoma skin cancer, with several hundred more patients with the most deadly sub-type of this skin cancer expected to enroll over the next 2 years.

- TGEn developed a clinical trial for patients suffering from small cell carcinoma of the ovary, hyperglycemic type (SCCOHT), an aggressive type of ovarian cancer.

- TGEn researchers contributed to a study published in November 2015 showing that liquid biopsies (referred to as “advanced blood tests”) can detect cancer mutations from multiple different tumor sites within a patient.

- TGEn began the third season of a concussion/brain injury study to discover biomarkers that might indicate when an athlete is too injured to play.

TGEn also lists 14 U.S. patents issued to it in 2015, in addition to 46 others pending further review or issuance, resulting from projects funded by external sponsors and supported by the technologies provided for by state funding. The attached pages from the TGEn report provide a list of these patents, as well as the organization’s 2015 scientific publications.

RS/MB:Im
January 25, 2016

Director Richard Stavneak  
Joint Legislative Budget Committee  
1716 W. Adams  
Phoenix, AZ 85007

Director Stavneak:

In accordance with Laws 2014, Chapter 18, Section 132, enclosed please find the annual expenditure and performance report provided to Northern Arizona University (NAU) by the Translational Genomics Research Institute (TGen). The report details the grant activity and performance measures as related to state funding for fiscal year 2015.

As demonstrated in the attached report, the $3 million state investment in TGen has leveraged external funding that supports essential research activities. These grants include dollars to support research on breast cancer, pancreatic cancer, Alzheimer’s disease, Amyotrophic Lateral Sclerosis (ALS).

NAU appreciates its partnership with TGen and looks forward to the continued individual success of the organization as well as the continued success of our partnership. Our relationship exemplifies the importance of the biosciences to NAU and Arizona’s economy. We are gratified that the state recognizes our ongoing relationship and sees the benefits that derive from scientific discoveries.

Do not hesitate to contact me if you have any questions regarding the attached report or NAU’s partnership with TGen and the state as they relate to these grant monies.

Sincerely,

William Grabe, PhD  
Vice President for Research

cc: Matt Beienberg, Fiscal Analyst, JLBC  
Christy Farley, Vice President for Government Affairs and Business Partnerships, NAU
Meet the new
Stand Up
to Cancer
Dream Team

Summary of 2015 Activities
Summary of 2015 Activities

During 2015, TGen met the goal of HB2703, Fifty-first Legislature, Second Regular Session, Chapter 18, Section 132, as adopted by the Arizona Legislature pursuant to the FY2014-2015 budget and signed by the Governor on April 11, 2014 to support a non-profit medical research institute in Arizona that specializes in biotechnology and that collaborates with universities, hospitals, biotechnology and other health science research centers.

The following report highlights TGen outcomes and progress over the past year that have been supported, in part, by the $3M per year in general funds appropriation as distributed by Northern Arizona University, as well as the $2M per year in tobacco tax funding received from the Arizona Department of Health Services.

Expenditures from all state sources of monies

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<th>First Half FY16</th>
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Other State Funding

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NOTE: All employees reside in the state of Arizona.
No employees identified within this agreement are supported by any other State funding or the TGen Foundation.
Grant Support

In addition to philanthropic donations and research contracts, grant funding is an important funding source for research. In 2015, TGen investigators submitted 101 grants totaling $85M [See Appendix A for complete listing]. During this period, TGen was awarded 22 grants, totaling $7.8M. The projects outlined below, in addition to many others, are supported in part under the $3M per year in general funds appropriation as distributed by Northern Arizona University, as well as the $2M per year in tobacco tax funding received from the Arizona Department of Health Services.

a. Five-year grant from the National Institutes of Health totaling $1,665,818 to Dr. Matt Huentelman to study neural system dynamics and gene expression supporting successful cognitive aging.

b. Five-year grant from NIH totaling $778,502 to Dr. Matt Huentelman to study epigenetic, neuroimaging and behavioral effects of hypertension in the aging brain.

c. Two-year grant from the National Institutes of Health totaling $735,851 to Dr. Patrick Pirrotte to study preservation of Dried Plasma Spots for downstream proteomic applications.

d. Four-year grant from NIH totaling $471,542 to Dr. Matt Huentelman to study a cell activity tagging toolbox, also know as CATT, to better understand development and application of neuronal cell activity.

e. One-year grant from the Centers for Disease Control and Prevention totaling $339,997 to Dr. Paul Keim to study DNA sequencing and bioinformatics analysis of pathogens with imp.

f. One-year grant from the Arizona Biomedical Research Commission totaling $225,000 to Dr. Jesse Hunter to study identification and functional characterization of novel neuromuscular disease causing variants in Arizona infants and children.

g. Two-year grant from the Avon Foundation totaling $200,006 to Dr. Bodour Salhia to study the development of novel targeted therapeutic approaches for breast cancer metastasis to the brain.

h. Two-year grant from Science Foundation Arizona totaling $200,000 to Dr. Jeffrey Trent on behalf of Dr. Muhammad Murtaza to study the future of translational research.

i. Two-year grant from the National Institutes of Health totaling $176,403 to Dr. David Craig to study somatic mutations in the brain during Alzheimer’s disease.

j. Two-year grant from the Department of Defense totaling $73,654 to Dr. Kendall Van-Keuren Jensen to study exosome-mediated transmission of neurodegeneration in Amyotrophic Lateral Sclerosis (ALS).
k. Two-year grant from the National Foundation for Cancer Research totaling $300,000 to Drs. Daniel Von Hoff and Haiyong Han to study a novel approach to targeting cancer cells through modulating global gene transcription using super-enhancer (SE) inhibitors.

l. One-year grant from the Arizona Alzheimer’s Research Consortium totaling $205,000 to Dr. Matt Huentelman for four projects involving “exceptional” phenotypes, the DYRK1A gene, validation of RNA targets in serum and CSF and characterization of mitochondrial pseudogenes in Alzheimer’s disease.

m. Three-year grant from the National Institutes of Health (NIH) totaling $2,062,360 to Dr. Kendall Van Keuren-Jensen and Dr. Matt Huentelman for a study of biomarkers that could predict patient outcomes, following injuries that result in bleeding in the brain.

n. Five-year grant from NIH totaling $1,033,331 to Dr. Nhan Tran to study the novel role of TROY-EGFR gene complex in glioblastoma brain tumor invasion and resistance.

o. Two-year grant from the NIH totaling $487,540 to Dr. Matt Huentelman for a study identifying pathogenic mechanisms important in multiple system atrophy (MSA), for which there currently are no disease preventing or modifying treatments.

p. Two-year grant from NIH/National Cancer Institute totaling $445,005 to Dr. Haiyong Han for a study targeting the PhD2 gene in pancreatic cancer.

q. One-year grant from the Centers for Disease Control totaling $347,043 to Dr. Paul Keim for DNA sequencing and bioinformatics analysis of pathogens, including emergency response as needed for disease outbreak.
Outcomes and Progress

In 2015, TGen advanced a series of innovative research initiatives that yielded numerous scientific discoveries [a good number with potential clinical application], established national and international collaborations, and led new and exciting clinical trials with promising results. These research initiatives benefit the State of Arizona by bringing new clinical trials, treatments and therapies to Arizona residents; creating new knowledge-based jobs in the state; supporting ongoing and new research collaborations with state-wide institutions and companies; and generating significant economic impact via direct and indirect spending within the state. Notable are:

- The American Association for Cancer Research (AACR) announced that a TGen scientific paper describing potential drug targets following the unprecedented genomic sequencing of 14 metastatic triple-negative breast cancer patients was the most cited study in 2013 of any published that year by AACR’s Journal Molecular Cancer Therapeutics.

- In early November, Stand Up To Cancer (SU2C) selected Dr. Daniel Von Hoff and his team to lead another Pancreatic Cancer Dream Team; Dr. Von Hoff’s second such team [his first accrued more pancreatic cancer patients than any Dream Team to date], This selection validates the success that Dr. Von Hoff and his colleagues have made, and signifies SU2C’s belief that his team offers the most promising new approaches to treat pancreatic cancer. The overarching aim for the research grant is to develop therapies that greatly improve a person’s survival over and above what Dr. Von Hoff and his team have already achieved.

- Building clinically on work led by Dr. Jeffrey Trent, TGen developed a clinical trial for patients from around the world who suffer from small cell carcinoma of the ovary, hyperglycemic type – also known as SCCOHT – a particularly aggressive type of cancer that mostly strikes young women and girls.

- Also in a landmark trial, the SU2C-MRA Melanoma Dream Team – co-led by Dr. Trent and Yale’s Dr. Pat LoRusso – enrolled its first patients, with several hundred more patients with the most deadly sub-type of this skin cancer expected to enroll over the next two years.

- Work supported by the Ben & Catherine Ivy Foundation led to three projects focused on glioblastoma. The first, a significant and innovative trial with colleagues at Barrow Neurological Institute will test new drugs in a Phase Zero clinical trial to determine if they can penetrate the blood-brain barrier and be effective against the tumor. Another described our study published in the Oxford University Press journal Neuro-Oncology, reviewing the state-of-the-art treatments for glioblastoma, and a related clinical trial at UC San Francisco. And the third, work with the Allen Brain Institute in Seattle, Washington, to update the Ivy Glioblastoma Atlas Project.
• Technology advancements in recent years now allow TGen and other scientists to look deeper into the human genome than ever before, which has furthered the research of several faculty members into so-called liquid biopsies — more or less an advanced blood test — for detecting the smallest of cancer cells (or the content of those cancer cells) swimming in a person's blood, looking for a spot to take root and become a full-blown tumor.

• In addition, we started a third season of a concussion/brain injury study to discover biomarkers that might indicate when an athlete is too hurt to play. And our clinic focused on children with rare or undiagnosed disorders continues to provide hope and answers to parents who endure diagnostic odysseys that at times spans multiple years.

In terms of clinical research and clinical trials, TGen has a direct clinical research site through a strategic alliance with the Virginia G. Piper Cancer Center (VGPC) Clinical Trials Program at Scottsdale Healthcare. Since 2005, these clinical trials have provided options that did not exist before to Phoenix-area patients as well as patients from all over the country. The program conducts clinical trials across a number of cancer types. Further development of cancer specific divisions in pancreatic cancer, breast cancer, leukemia, prostate cancer, lung cancer, and melanoma are under development.

Dr. Daniel Von Hoff, TGen's physician-in-chief also serves as the programs chief scientific officer. The program focuses on clinical trials with targeted agents and genomics-based individualized therapy and with an initial focus on cancer, allows the unique opportunity for TGen to transition its laboratory-based research to patient care centered on individualized therapy. The program brings new clinical research into the community, to those patients who would otherwise have to travel someplace else for access to new therapies or prevention agents.
### Patents and Licenses

During 2015, TGen filed numerous patent applications on TGen-generated research. The list below reflects patent applications resulting from projects funded by external sponsors, but supported by underlying technology provided for by State of Arizona funding via the $3M per year in general funds appropriation as distributed by Northern Arizona University, as well as the $2M per year in tobacco tax funding received from the Arizona Department of Health Services.

#### 2015 Issued Patents

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<td>03/23/15</td>
<td>140022-219 SCCO</td>
<td>Compositions, Methods and Kits for Characterizing and Screening for Small Cell Ovarian Carcinoma</td>
<td>PCT</td>
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<td>03/25/15</td>
<td>140210-220</td>
<td>Systems and Methods for Preclinical Models of Metastases</td>
<td>Utility</td>
<td>United States</td>
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<td>14/668,260</td>
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<tr>
<td>03/27/15</td>
<td>140521-224</td>
<td>Biomarkers and Methods of Diagnosing and Prognosing Mild Traumatic Brain Injuries</td>
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<td>United States</td>
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<td>62/719,328</td>
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<td>04/15/15</td>
<td>140403-222</td>
<td>Methods of Treating Cancer</td>
<td>Provisional</td>
<td>United States</td>
<td>Filed</td>
<td>62/345,040</td>
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<td>04/15/15</td>
<td>140526-234</td>
<td>Methods Used to Treat Cancer</td>
<td>Provisional</td>
<td>United States</td>
<td>Filed</td>
<td>62/146,516</td>
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<td>04/15/15</td>
<td>140417-238</td>
<td>Detecting Metastatic Cancer with Epigenomic Biomarkers Using Non-Invasive Methodologies</td>
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<td>Quality Assessment Of Circulating Cell-Free DNA Using Multiplexed Deplyed Digital Pcr</td>
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<td>United States</td>
<td>Filed</td>
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<td>Compositions and Methods for Augmenting the Nasal Microbiome</td>
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<td>140219-221</td>
<td>Methods of Assessing a Risk of Developing Necrotizing Meningoencephalitis</td>
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<td>05/22/15</td>
<td>150522-241</td>
<td>Systems and Methods for Ammonia Sequencing Analysis</td>
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<td>Filed</td>
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<td>05/25/15</td>
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<td>Methods for the Diagnostic and Treatment of Neurological Conditions</td>
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<td>United States</td>
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<td>06/12/15</td>
<td>150509-243</td>
<td>Targeted Therapies for Cancer</td>
<td>Provisional</td>
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<td>Filed</td>
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<td>150416-237</td>
<td>Systems and Methods for Obtaining Biological Molecules from a Sample</td>
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<td>United States</td>
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<td>07/09/15</td>
<td>150609-242</td>
<td>Systems and Methods for Treating Cancer</td>
<td>Provisional</td>
<td>United States</td>
<td>Filed</td>
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<td>07/09/15</td>
<td>150519-240</td>
<td>Methods Used to Treat Glioblastomas</td>
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<td>Methods and Kits to Identify Klebsiella Strains</td>
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<td>United States</td>
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<td>07/23/15</td>
<td>091113-127 PTTGI</td>
<td>Methods And Kits Used in Classifying Adrenocortical Carcinoma</td>
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<td>120102-187</td>
<td>Mobile Phase Degassing For Nano Flow Liquid Chromatography</td>
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<td>Filed</td>
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<td>08/06/15</td>
<td>140611-227</td>
<td>Methods and Kits to Identify and Genotype Cryptococcus Species</td>
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<td>United States</td>
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<td>Mobile Phase Degassing For Nano Flow Liquid Chromatography</td>
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<td>14/766,976</td>
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<td>140522-225</td>
<td>Data Processing System to Illustrate Operational Status of a Monitored System</td>
<td>Utility</td>
<td>United States</td>
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<td>09/03/15</td>
<td>150746-246</td>
<td>&quot;Small Molecule Inhibitors of Dyk1/2 and Uses Thereof&quot;</td>
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<td>United States</td>
<td>Filed - Prosecution by Other Party</td>
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<td>Biomarkers and Methods of Diagnosing and Prognosing Mild Traumatic Brain Injuries</td>
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<td>130130-189 antIFGFR4</td>
<td>Hybridoma Clones and Monoclonal Antibodies to Fibroblast Growth Factor 4</td>
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<td>United States</td>
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<td>Title</td>
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<td>Detecting Metastatic Cancer with Epigenomic Biomarkers Using Non-Invasive Methodologies</td>
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<td>Methods for the Diagnosis of Amyotrophic Lateral Sclerosis</td>
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<td>United States</td>
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<td>Hybridoma Clones and Monoclonal Antibodies to CD8</td>
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<td>Hybridoma Clones and Monoclonal Antibodies to Tetra Spanin 8</td>
<td>Nationalized PCT</td>
<td>United States</td>
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<td>Methods for Detecting and Treating Fungal Infections</td>
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<td>150925-248</td>
<td>Alterations in the Cell Cycle Checkpoint Pathway in Breast Cancer</td>
<td>Provisional</td>
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<td>130414-200</td>
<td>Methods for the Treatment of Cancer</td>
<td>Provisional</td>
<td>United States</td>
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<td>11/2/15</td>
<td>090113-092</td>
<td>Identification and Treatment of Cancer Subsets</td>
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<td>11/4/15</td>
<td>150702-224</td>
<td>Next-Gen Antimicrobial Resistance Detection (N-GARD) from Patient Specimens</td>
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<td>11094-369</td>
<td>Hybridoma Clones, Monoclonal Antibodies, and Methods of Use</td>
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<td>11/12/15</td>
<td>140513-223</td>
<td>Genetic Signature of Vulnerability to Inhibitors of Base Excision Repair (BER) in Cancer</td>
<td>Nationalized PCT</td>
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<td>Prosecution by Other Party</td>
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<td>130411-202</td>
<td>A Genetic Test to Predict Patient Response to Bone Morphogenic Protein in Arthritis</td>
<td>Nationalized PCT</td>
<td>United States</td>
<td>Filed</td>
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<td>11/19/15</td>
<td>110501-156</td>
<td>Autophagy Inhibitors</td>
<td>Provisional</td>
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<td>140825-228</td>
<td>Compositions and Methods for the Treatment of Fungal Infections</td>
<td>Utility</td>
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<td>11/25/15</td>
<td>150608-242</td>
<td>Systemic Methods for Treating Cancer</td>
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<td>Prosecution by Other Party</td>
<td>20/2766</td>
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<td>12/21/15</td>
<td>140513-223</td>
<td>Genetic Signature of Vulnerability to Inhibitors of Base Excision Repair (BER) in Cancer</td>
<td>Nationalized PCT</td>
<td>United States</td>
<td>Filed</td>
<td>20/2766</td>
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</table>

* Pending further review or issuance
Peer-Reviewed Laboratory Research Publications and Presentations

In 2015, TGen researchers published their research results extensively in numerous scholarly peer-reviewed academic journals and through presentations at leading national and international conferences. The following highlighted list reflects publications and presentations resulting from projects funded by external sponsors, but supported by underlying technology provided for by State of Arizona funding via the $3M per year in general funds appropriation as distributed by Northern Arizona University, as well as the $2M per year in tobacco tax funding received from the Arizona Department of Health Services.

Since day one, the focus of our translational research has constantly remained the patient; those individuals with cancer, Alzheimer’s and other neurological disorders, and a host of rare diseases that all too often go mis- or undiagnosed. While many institutes and healthcare networks have taken up the charge of late, we at TGen have pushed the boundaries of this space for the past half-decade, though we prefer the term “precision” rather than “personalized” medicine.

Much of what we learn is published in leading scientific and medical journals, which increases the knowledge base of all those in the biomedical research and medical space.

In 2015, TGen researchers published their research results extensively in numerous scholarly peer-reviewed academic journals and through presentations at leading national and international conferences. These include publication in leading scientific journals such as *Science Advances, Proceeding of the National Academy of Sciences, USA, Cell, Nature Communications, Molecular Cancer Therapeutics, Nero Oncology, PLos One, Genome Research, Journal of the American Medical Association*, *Neurology*, and a host of other disease-associated publications.

Our annual Scientific Retreat in October brought together nearly 240 registrants including TGen faculty, staff and students, 45 collaborators, and nine sponsoring vendors. TGen scientists presented over 60 scientific posters, eight unique breakout panels and four competitively selected “hot topics” presentations. The purpose of the event was to summarize the Institute’s scientific year and create an environment in which new professional relationships and collaborations, both internal and external, could develop.
2015 Select Highlights [See Appendix B for complete listing]

In 2015, TGen advanced a series of innovative research initiatives that yielded numerous scientific discoveries [a good number with potential clinical application], established national and international collaborations, and led new and exciting clinical trials with promising results. Notable are:


Presentations

Circulating Biomarkers World Congress 2015
March 23, 2015

Van-Keuren Jensen, Kendall
Session Title: Exosomes and Microvesicles in Various Disease Classes – Cancer, CNS, Cardiovascular Disease

RNA Signatures Associated with Brain Injury and Disease
One of our goals has been to examine the extracellular RNA contents in cell-free biofluids to identify markers of brain injury and disease. We have examined multiple biofluid types from patients with head trauma and neurodegenerative disease. We discuss the utility of each biofluid in reliably reflecting injury and we will discuss common and specific RNAs that are altered by injury and disease.

Winter Conference on Neural Plasticity 2015
February 7-14, 2015

Huentalman, Matthew

Genomic and Proteomic Advances to Expose Memory and Disease Mechanisms
The Winter Conference on Neural Plasticity is concerned with all aspects of neural plasticity: from development to aging, from learning and memory to pathology, from molecular to behavior.

2015 American Association for Cancer Research (AACR) Conference
April 18 - 22, 2015

TGen, Various, see following

The AACR Annual Meeting 2015 was held April 18-22, 2015, in Philadelphia, Pennsylvania. It highlighted the latest, most exciting discoveries in every area of cancer research and provided a unique opportunity for investigators from all over the world to meet, interact, and share their insights. This year’s meeting theme - "Bringing Cancer Discoveries to Patients" - underscored the vital and inextricable link between discovery and treatment, and it reinforced the fact that research underpins all the progress we are making in the field toward cancer cures. For everyone - presenters, early-career and established researchers, clinicians, and advocates - the Annual Meeting is a must-attend event and TGen had a significant presence at this year’s meeting as noted in the listing on the following pages.
<table>
<thead>
<tr>
<th>DATE &amp; TIME</th>
<th>SESSION TYPE</th>
<th>LOCATION</th>
<th>SESSION TITLE</th>
<th>PRESENTATION TITLE/ROLE</th>
<th>AUTHOR</th>
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<tbody>
<tr>
<td>SAT, APRIL 19</td>
<td>Poster Session</td>
<td>Section 22</td>
<td>Phase II, III, and Special Population Clinical Trials</td>
<td>Identification of clinically actionable genomic alterations in tumor and prediction of pancreatic cancer patients</td>
<td>Mark S. Sausen, Rachel L. Hearing, Matthew M. Stage, Michael Gabrilove, John M. Low, Andrew P. Venook, Alan S. Brait</td>
</tr>
<tr>
<td>10:00 AM - 10:30 AM</td>
<td>Poster Session</td>
<td>Section 26</td>
<td>Tumor- and Microenvironment-Associated Genotyping</td>
<td>Identification of clinically actionable genomic alterations in the tumor and prediction of pancreatic cancer patients</td>
<td>Mark S. Sausen, Rachel L. Hearing, Matthew M. Stage, Michael Gabrilove, John M. Low, Andrew P. Venook, Alan S. Brait</td>
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<tr>
<td>10:00 AM - 10:30 AM</td>
<td>Poster Session</td>
<td>Section 29</td>
<td>Signaling Axis Affecting Metabolism and Invasion</td>
<td>Evaluation of high-risk BRCA1/2 and BRCA2 germline mutations in a cohort of unselected invasive ductal carcinoma patients</td>
<td>Tung T. Nguyen, Mark J. Petrek, John M. Low, Andrew P. Venook, Alan S. Brait, Rachel L. Hearing, Matthew M. Stage, Michael Gabrilove, John M. Low, Andrew P. Venook, Alan S. Brait</td>
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<tr>
<td>10:45 AM - 11:15 AM</td>
<td>Poster Session</td>
<td>Section 30</td>
<td>In Vivo and In Vitro Models and New Targets</td>
<td>High-resolution sequencing of sex and age treatment of does in large B cell lymphoma reveals the mutation spectrum of the relapsed/refractory patient population</td>
<td>Mark S. Sausen, Rachel L. Hearing, Matthew M. Stage, Michael Gabrilove, John M. Low, Andrew P. Venook, Alan S. Brait</td>
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<tr>
<td>11:30 AM - 12:00 PM</td>
<td>Poster Session</td>
<td>Section 35</td>
<td>Clinical Trials Progress</td>
<td>Phase I dose escalation and pharmacokinetic study of the humanized monoclonal antibody BMS-986016 in patients with solid tumors</td>
<td>Mark S. Sausen, Rachel L. Hearing, Matthew M. Stage, Michael Gabrilove, John M. Low, Andrew P. Venook, Alan S. Brait</td>
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<tr>
<td>12:15 PM - 12:45 PM</td>
<td>Poster Session</td>
<td>Section 17</td>
<td>Human-Causing Molecules of Cancer I</td>
<td>Identification of potential cancer drug targets</td>
<td>Mark S. Sausen, Rachel L. Hearing, Matthew M. Stage, Michael Gabrilove, John M. Low, Andrew P. Venook, Alan S. Brait</td>
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<tr>
<td>1:00 PM - 1:30 PM</td>
<td>Poster Session</td>
<td>Section 4</td>
<td>Preclinical and Clinical Studies</td>
<td>Identification of potential cancer drug targets</td>
<td>Mark S. Sausen, Rachel L. Hearing, Matthew M. Stage, Michael Gabrilove, John M. Low, Andrew P. Venook, Alan S. Brait</td>
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<tr>
<td>1:45 PM - 2:15 PM</td>
<td>Poster Session</td>
<td>Section 7</td>
<td>Regency Battleship III of the Literature IV</td>
<td>Regency Battleship III of the Literature IV</td>
<td>Mark S. Sausen, Rachel L. Hearing, Matthew M. Stage, Michael Gabrilove, John M. Low, Andrew P. Venook, Alan S. Brait</td>
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<tr>
<td>2:30 PM - 3:00 PM</td>
<td>Poster Session</td>
<td>Section 21</td>
<td>Circulating-Free DNA 1</td>
<td>Quality assessment of circulating cell-free DNA using a multiplexed droplet digital PCR</td>
<td>Mark S. Sausen, Rachel L. Hearing, Matthew M. Stage, Michael Gabrilove, John M. Low, Andrew P. Venook, Alan S. Brait</td>
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<tr>
<td>3:15 PM - 4:20 PM</td>
<td>Poster Session</td>
<td>Section 21</td>
<td>Circulating-Free DNA 2</td>
<td>Circulating-free DNA (cfDNA) analysis of PAX5 and ATRX mutations in patients enrolled onto the Phase II trial of the PAX5 inhibitor (GDC-0084) in solid malignancies</td>
<td>Mark S. Sausen, Rachel L. Hearing, Matthew M. Stage, Michael Gabrilove, John M. Low, Andrew P. Venook, Alan S. Brait</td>
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<tr>
<td>4:30 PM - 5:30 PM</td>
<td>Poster Session</td>
<td>Section 18</td>
<td>Rectal Metastases of Melody and Invasion</td>
<td>Investigating the role of FGF in E2F5-driven colorectal cancer progression</td>
<td>Mark S. Sausen, Rachel L. Hearing, Matthew M. Stage, Michael Gabrilove, John M. Low, Andrew P. Venook, Alan S. Brait</td>
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<tr>
<td>5:45 PM - 6:45 PM</td>
<td>Poster Session</td>
<td>Section 21</td>
<td>SU5416: A Novel and Potentially Effective Therapy for Colorectal Cancer</td>
<td>Stand-Up To Cancer (SU2C) is working with funding partners to support these promising colorectal cancer and molecular tumor analysis in personalized treatment and understanding comprehensive tumor resilience. These innovative approaches to colorectal cancer, which is available to all attendees, will demonstrate and describe how cancer is a complex disease that requires personalized medicine approaches to the clinic. A brief Q &amp; A will follow the presentation of the SU2C team and their report</td>
<td>Mark S. Sausen, Rachel L. Hearing, Matthew M. Stage, Michael Gabrilove, John M. Low, Andrew P. Venook, Alan S. Brait</td>
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</table>
# TGen Participation/Presentation List for the 2015 AACR Conference

## TGen Participation at the AACR Annual Meeting 2015

<table>
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<tr>
<th>Date &amp; Time</th>
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<th>Location</th>
<th>Session Title</th>
<th>Presentation Title/Role</th>
<th>Author</th>
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<tr>
<td>13:00 PM - 10:00 PM</td>
<td>Poster Session</td>
<td>Section 9</td>
<td>Radiation Biology: Targeting DNA Repair and Signal Transduction, Sensitivity, Resistance, and Therapy</td>
<td>Pharmacological implication of MNATX1 kinase in the treatment of multidrug resistance</td>
<td>Rosemary Kogge, Debi Hatzakis, Caitlin Pavek, Nihan Tuna, Kazuyoshi Takeda, Varshney, Yesuf All-Abed, Srini Simon, Liang W. Sallou, R. Helbok, A. Sekar, S. Sharma-Lysane, C. Fasani, D. C. Wirtz, J. B. Dow, H. E. Haccard, T. Tanou F.</td>
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<tr>
<td>11:00 AM - 12:00 PM</td>
<td>Poster Session</td>
<td>Section 39</td>
<td>Phenotypic characterization of germline mutations in patients with multiple myeloma</td>
<td>Identification of mutations in histone deacetylase (HDAC) genes in non-Hodgkin lymphoma</td>
<td>Yves M. Beck, T. P. Ogunnaike, M. H. Yesuf, F. All-Abed, S. Sharma-Lysane, C. Fasani, D. C. Wirtz, J. B. Dow, H. E. Haccard, T. Tanou F.</td>
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<td>12:00 PM - 1:00 PM</td>
<td>Poster Session</td>
<td>Section 4</td>
<td>Comprehensive Pan-Cancer characterization of colorectal adenocarcinoma</td>
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<td>1:00 PM - 2:00 PM</td>
<td>Poster Session</td>
<td>Section 6</td>
<td>Genomics of cancer</td>
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<td>Section 16</td>
<td>Environmental and Invasive</td>
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<td>3:00 PM - 4:00 PM</td>
<td>Minisymposium</td>
<td>Tenaciously Building ICPR 2015</td>
<td>Precision Medicine in the Clinic</td>
<td>Identification of novel drugs for glioblastoma using comprehensive biology toxicogenomics</td>
<td>Christoph Legende, Gerald G. Goodlin, Kyle M. Johnson, Ran Aron Mendes, Bodour Sallou.</td>
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<td>Poster Session</td>
<td>Section 15</td>
<td>Drug Delivery</td>
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<td>Poster Session</td>
<td>Section 23</td>
<td>Genetics of the Clinic 2</td>
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<td>10:00 AM - 11:00 AM</td>
<td>Poster Session</td>
<td>Section 29</td>
<td>Functional cytotoxicity and chemotherapy resistance</td>
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<td>4:00 PM - 5:00 PM</td>
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<td>Section 71</td>
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2015 American Society for Microbiology
May 30 – June 2, 2015, New Orleans, LA

641a. Early Host Innate Immune Response in a Murine Model of Pulmonary Coccioidioidomycosis


Individualizing Medicine Conference 2015
September, 2015, Rochester, MN

Huentelman, Matthew

Living on the Edge: The Search for an Understanding of Dementia in Phenotypic Outliers

2015 Society for Neuroscience (SfN)
October 17-21, Chicago, IL


M. K. Chawla, D. T. Gray, M. J. Huentelman, C. A. Bernes; 179.02/AA45 - Is Arc mRNA expression regulated by the threshold for dendritic Ca++ plateau potentials generated from integration of entorhinal cortical inputs to granule cells?


A. Henderson-Smith; J. Corneveaux; L. Cuyugan; M. Huentelman; W. Liang; T. Beach; T. Dunckley. PgmNr 1058: Next-generation profiling to identify the molecular etiology of Parkinson’s dementia.

M. De Both; A. Siniard; R. Richholt; K. Ramsey; M. J. Huentelman. PgmNr 1150: Novel ABC1C variant associated with frontotemporal dementia.

A. Siniard; I. Schrauwen; J. Corneveaux; K. Ramsey; M. J. Huentelman. PgmNr 1152: Exome sequencing identifies novel genes associated with Multiple System Atrophy.

R. Richholt; A. Yeri; R. Mccoy; M. Anastasi; S. Althoff; A. Allen; A. Siniard; M. DeBoth; I. Malenica; T. Beecroft; E. Carlson; L. Ghaffari; S. Allen; M. Shahbader; K. Ryden; R. Bruhs; A. Janss; D. Voolteich; T. Ide; D. Arment; D. Leonard; J. Chu; A. Buck; T. Mcleod; J. Cardenas; R. Greenwald; T. Lee; J. Trent; K. Van Keuren-Jensen; M. Huentelman. PgmNr 1219: Extracellular RNA sequencing to identify RNA biomarkers of head impact in college athletes.

A. M. Claesen; K. M. Ramsey; N. Belnap; S. Szelinger; A. L. Siniard; I. Schrauwen; J. J. Corneveaux; B. E. Hjelm; A. L. Courtwright; R. F. Richholt; M. De Both; S. Rangasamy; M. J. Huentelman; D. W. Craig; V. Narayan. PgmNr 1976: An integrated approach to genetic diagnosis: Genomic research and clinical care at the TGen Center for Rare Childhood Disorders.

A. Wolfe; A. Siniard; I. Schrauwen; M. De Both; R. Richholt; M. Huentelman. PgmNr 2026: Dried blood spot RNA sequencing (DBS-RNA-Seq): A novel approach for the identification of circulating biomarkers.

J. You; N. Sobreira; D. Grange; D. Gable; J. Jurgens; N. Belnap; A. Shinlad; M. Huentelman; I. Schrauwen; R. Richholt; S. Vallee; M. Palko; D. Velle; M. Armanios; J. Hoover-Fong. PgmNr 2839: A Newly Recognized Intellectual Disability Disorder Caused by Variants in TELO2, a gene encoding a component of the TTT complex.

I. Schrauwen; S. Szelinger; A. L. Siniard; J. J. Corneveaux; A. M. Claesen; R. F. Richholt; M. De Both; B. Hjelm; S. Rangasamy; N. Kulmm; S. Bernes; J. Buchhalter; M. Russell; A. L. Courtright; K. Ramsey; D. W. Craig; V. Narayan; M. Huentelman. PgmNr 286: Exome sequencing suggests Alcari Syndrome is genetically heterogeneous and not exclusive to females.

J. M. Hunter; C. Balak; M. E. Ahearn; W. Liang; M. Russell; M. Huentelman; D. Craig; J. Carpten; S. M. Bernes; L. Baumbach-Reardon. PgmNr 2885: Identification of New Genes and Pathways for Rare Infantile Forms of Myopathies and Neuromuscular Disorders.


W. P. D. Hendrick; P. Ramos; H. Yin; A. N. Karnezis; Y. Wang; M. L. Russell; D. W. Craig; V. L. Zismann; A. Sekulic; B. E. Weissman; D. G. Huntsman; J. M. Trent. PgmNr 89: Germline and somatic inactivating SMARCA4 mutations in small cell carcinoma of the ovary, hypercalcemic type (SCCOHT): Diagnostic and therapeutic implications.

J. Getz; D. Teoh; S. Nasser; C. Legendre; W. Tembre; V. Yellapantula; M. E. Ahearn; C. Gomez; M. Jorda; S. M. Wong; M. Pegram; J. Carpten; L. Baumbach-Reardon. PgmNr 2653: Cavolin-1: A Potential Biomarker of Aggressive Triple-Negative Breast Cancer in African American Women.

J. Choi; M. Makowski; T. Zhang; M. Law; C. Sutherland; W. Kim; M. Kovacs; H. Parikh; L. Aoude; M. Gartside; J. Trent; L. Hurley; M. Vermeulen; S. Macgregor; N. Hayward; M. Xu; K. Brown. PgmNr 2637: An intronic indel variant confers melanoma risk through PARP1 expression regulation.

Analysis of circulating tumor DNA to monitor clonal evolution

The Winter Conference on Neural Plasticity is concerned with all aspects of neural plasticity: from development to aging, from learning and memory to pathology, from molecular to behavior.
Full-time positions filled (new and replacements) included:

In 2015, 21 new full-time equivalent positions were created with salaries and benefits totaling $1,205,184. Salaries for temporary positions (those positions created for a finite period of time) totaled $99,120, which includes temporary TGen staff and temporary service fees. Student salaries were just over $460,000, bringing the overall 2015 total to $1,665,184.

In terms of education level, eighty-six percent of full-time TGen staff holds a college degree and fifty percent holds an advanced degree.

2015 full-time positions filled (new and replacements) included:

- Associate Bioinformatician
- Assistant Professor
- Bioinformatician
- Clinical Research Coordinator
- Financial Analyst II
- Manager, Contracts
- Technician, Facilities
- Post-Doc Fellow
- Research Assistant Professor
- Research Associate
- Research Associate II
- Research Technician
- Sr. Grants Administrator
- Sr. Staff Scientist
- Sr. Vice President, Emerging Opportunities
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DATE: March 31, 2016

TO: Senator Don Shooter, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Eric Billings, Principal Fiscal Analyst

SUBJECT: Attorney General - Review of Allocation of Settlement Monies - Standard & Poor's Settlement

Request

Pursuant to A.R.S. § 44-1531.02, the Office of the Attorney General (AG) must submit for Committee review an expenditure plan of legal settlement monies deposited into the Consumer Remediation Subaccount of the Consumer Restitution and Remediation (CRR) Revolving Fund prior to spending those monies.

This request is for review of a $3,500,000 allocation from a legal settlement with the McGraw Hill Financial, Inc. and Standard & Poor's Financial Services, LLC (S&P). The AG proposes to spend $3,000,000 on homeless assistance programs and $500,000 to implement a consumer fraud education program.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review of the $3,500,000 allocation plan.

2. An unfavorable review of the allocation plan.

Under a favorable review, the Committee may also consider the following provisions that:

(Continued)
A. Committee review does not constitute an agreement to fund these projects once these one-time monies are depleted.

B. Prior to expending the monies designated for homeless assistance, the AG is to report to the Committee on how it plans to allocate the funding and how its homeless program interacts with the homeless assistance efforts of the Department of Economic Security (DES) and the Arizona Department of Housing (ADH).

Analysis

In February 2013, Arizona sued S&P for misrepresenting to investors its financial ratings of structured finance securities, such as subprime mortgage-backed bonds. The federal government, the District of Columbia, and 18 other states filed similar suits. Arizona received $21.5 million in February 2015 as part of the settlement. The FY 2016 budget transfers $16.0 million of the legal settlement to the General Fund by the end of FY 2016.

Of the remaining $5.5 million S&P paid to the AG, $2.0 million was deposited into the Consumer Protection-Consumer Fraud (CPCF) Revolving Fund. Statute permits funds in the CPCF Revolving Fund to be used for direct consumer fraud activities as well as general operating expenses of the AG’s office. Monies in the CPCF Revolving Fund do not require Committee review prior to expenditure.

Remediation Subaccount
The AG deposited the remaining $3.5 million from the S&P settlement into the Consumer Remediation Subaccount. This subaccount consists of monies collected as a result of settlements to rectify violations of consumer protection laws. The AG must submit an expenditure plan for Committee review before expending any monies from this subaccount.

Consumer Fraud Education
The AG proposes to use $500,000 to develop and implement a consumer fraud education program and possibly fund AG staff to support consumer fraud outreach efforts in local communities throughout Arizona. The AG will limit program administration costs to 10%.

Homeless Assistance
The AG would distribute the remaining $3.0 million to homeless assistance programs over a 24-month funding cycle. These monies would be distributed through a statewide competitive solicitation process to private nonprofits or public entities that provide services, including emergency shelter, transitional housing, permanent supportive housing, and support services. These one-time S&P settlement monies may be used to finance ongoing operations for homeless assistance programs. Given the one-time nature of the funds, the Committee may consider a provision that this review does not constitute an ongoing commitment to fund homeless assistance grants.

DES and ADH administer similar homeless funding programs. In FY 2016, DES and ADH estimate they will distribute approximately $5.9 million and $6.6 million in Total Funds, respectively, to support operations of emergency shelter services and homeless prevention programs. ADH will distribute another $54.5 million in rental assistance to low income households at risk for homelessness. As with the operating grants, DES has familiarity with distributing monies to a homeless shelter for a capital improvement project. In FY 2015, DES distributed a one-time capital grant of $500,000 to Phoenix Rescue Mission. Given DES and ADH’s experience in these areas, the Committee may consider a provision that requires the AG, prior to expending the S&P monies, to report to the Committee on how its homeless program will interact with the homeless assistance efforts of DES and ADH.

RS/EB: kp
March 21, 2016

Representative Justin Olson, Chairman
Joint Legislative Budget Committee
Arizona House of Representatives
1700 West Washington Street
Phoenix, AZ 85007

The Honorable Don Shooter, Co-Chairman
Joint Legislative Budget Committee
Arizona State Senate
1700 West Washington Street
Phoenix, AZ 85007


Dear Representative Olson and Senator Shooter:

Pursuant to A.R.S. § 44-1531.02(C), the Attorney General’s Office respectfully submits the enclosed expenditure plan for review. As a result of a February, 2015 settlement with the McGraw Hill Financial, Inc. and Standard & Poor’s Financial Services, LLC, the Attorney General secured approximately $21,500,000 for the State of Arizona. According to the court order, these funds may be used for attorneys’ fees and other costs of investigation or litigation, for restitution, remediation, or for other consumer protection purposes, or for other uses as permitted by governing state law, within the discretion of the Attorney General. The enclosed Standard and Poor’s Settlement Expenditure Plan allocates $3.5 million of those funds for remediation purposes in compliance with the court order and A.R.S. § 44-1531.02(C). For reference, copies of the court order and settlement agreement are attached.

If you have any questions, please feel free to contact me.

Sincerely,

[Signature]

Paul Watkins
Division Chief

Enclosures
Doc #4980152
Pursuant to A.R.S. §44-1531.02(C), this plan is submitted to the Joint Legislative Budget Committee for review. It outlines the expenditure of $3.5 million in remediation funds from the Standard and Poor’s settlement secured by the Arizona Office of the Attorney General.

The Standard and Poor’s Enforcement Action

In February 2015 a joint settlement agreement was reached between Arizona, 18 other states, the District of Columbia, and the U.S. Department of Justice with Standard and Poor’s Financial Services, LLC (S&P), resolving allegations that S&P misled investors leading up to the 2008 financial crisis. The State filed a consumer fraud lawsuit in February 2013 alleging that S&P repeatedly reassured investors that it had procedures in place to maintain the objectivity and independence of its rating opinions. The State alleged that S&P’s representations were false because its rating methodologies were directly influenced by a desire to please its paying clients, the issuers of the securities, and to generate additional ratings business. This settlement resolved Arizona’s lawsuit along with similar suits filed by other states and the U.S. Department of Justice.

Arizona received approximately $21.5 million in the S&P settlement. Under the court order approving the settlement, those funds may be used by the Arizona Attorney General for attorneys’ fees and other costs of investigation or litigation; for restitution, remediation, or for other consumer protection purposes; or for other uses as permitted by governing state law, within the Attorney General’s discretion. Copies of the court order and settlement agreement are attached.

As a result of legislative action through Senate Bill 1469 (First Regular Session 2015, Section 138), $16 million of the $21.5 million settlement will be redistributed to the state general fund. Approximately $5.5 million remains. The Attorney General will apply $2 million of the $5.5 million as reimbursement of attorneys’ fees and other investigation and litigation costs associated with the S&P case and for other consumer protection investigation and litigation efforts. Those funds will be deposited into the consumer protection-consumer fraud revolving fund pursuant to A.R.S. §44-1531.01.

This expenditure plan addresses $3.5 million in remediation funds which are allocated for consumer fraud education ($500,000) and homeless programs ($3 million) as explained further below.
Community Needs Assessment – Homeless Programs and Consumer Fraud Education

After conducting research and preliminary dialogue with potential stakeholders on housing issues of greatest importance to the community, the AGO learned that solutions to combat homelessness among families and individuals is a critical social issue that needs attention and funding opportunities.

Experts estimate that as many as 27,000 Arizonans experience homelessness on any given night. According to the AZ Department of Economic Security’s “Homelessness in Arizona Annual Report 2014,” in the current economic downturn, economic factors such as unemployment, evictions, foreclosures, and lack of affordable housing have significantly influenced the growth of first time homelessness in Arizona. The Arizona Republic recently reported that 1 in 4 renters use at least half their pay for rent, leaving many families perilously close to homelessness. The same factors create barriers for many who are currently homeless and are trying to work their way out of it.

Earlier this year, Maricopa County (home to 84% of Arizona’s homeless population) closed an emergency overflow shelter, leaving an adjacent parking lot as a “makeshift” camp for homeless individuals to receive services and have a place to sleep. According to recent news reports, the county has identified some resources to fund a new overflow shelter through mid-November, but will need to find additional monies to keep the shelter operating, beyond that date. Although emergency shelter beds are in short supply, overall, Arizona has begun to see a decrease in homelessness the past year. This is due to an increase in permanent supportive housing beds, increased funding for homeless veterans, and the introduction of rapid re-housing and homeless prevention programs in some parts of the state. But there is still much more work to be done to address homelessness in Arizona. In addition to the need for more emergency shelter beds, more transitional and permanent supportive housing facilities and the staff to run them is required. For example, UMOM, the largest homeless shelter for families in Arizona, has a wait list that averages more than 60 families each week. For many homeless families, shelter is the first step on the permanent housing continuum. And the homeless aging adult population continues to grow, which is a concern both nationally and in Arizona. In 1990 the peak age of homelessness was between 32 and 34 years old. By 2010, the peak age had moved to between 52 and 54 years of age. There is, and will continue to be, a need for additional respite facilities and medical recovery beds to serve this population.

In addition to the need for programs to assist the homeless, the Attorney General has identified an ongoing need for consumer fraud education. The statute that established the remediation subaccount explicitly recognizes consumer fraud education as a permissible use of remediation funds. See A.R.S. §44-1531.02(C). Accordingly, $500,000 of the S&P funds will be used for consumer fraud education programs that include multimedia advertising and community outreach to educate at risk populations about fraudulent consumer schemes and their prevention.
Expenditure Plan for the $3.5 million in remediation funds

The $3 million in remediation funds designated for homeless programs will be distributed through a statewide competitive solicitation process to fund program models that aid Arizonans who are most in need. The services will be delivered by private nonprofits or county or municipal government agencies, over a twenty-four (24) month funding cycle. Program delivery models include emergency shelter, transitional housing, permanent supportive housing, and support services (see definitions below). The programs will assist individuals and families who are at risk of homelessness as well as those who are currently homeless. Proposals for capital improvements will also be considered, within budget parameters. Interest income accrued from the S&P settlement funds will be allocated to the contract or grant awarded programs.

To implement the $500,000 consumer fraud education program, the AGO will work with state contractors to formulate an appropriate message and develop a media plan to publicize it. We will seek to advertise in the same type of media as scammers do. Some of these funds may be used to fund AGO staff to support outreach efforts in local communities throughout Arizona. Program administration costs will be limited to 10%.

An AGO settlement program coordinator is in place to oversee the funding process and effective implementation of the funds and programs, to ensure compliance with the court order.

Definition of Program Models

Permanent supportive housing offers affordable housing that is not more than 30% of a household’s income; no time limits for the length of stay; a lease and all rights of tenancy to the resident; and supportive services to help the resident achieve the maximum self-sufficiency and recovery. It has been shown to be a highly successful and cost-effective solution to homelessness throughout Arizona and across the country.

Transitional Housing provides housing and appropriate support services to homeless individuals and families for up to 24 months to facilitate movement to independent living.

Emergency Shelters offer temporary housing for up to 120 days and case management to assess and stabilize immediate crisis needs.

Support Services can include basic necessities such as nutrition, clothing, hygiene supplies, as well as essential support such as case management, life skills training, job training, employment services, short term rent and utility assistance, transportation and referral to medical services.

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