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STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

March 31, 2010

The Honorable Judy Burges, Chair
Joint Legislative Audit Committee

The Honorable Thayer Verschoor, Vice Chair
Joint Legislative Audit Committee

Dear Representative Burges and Senator Verschoor:

Our Office has recently completed an 24-month followup of the Arizona Commission for Postsecondary Education (Commission) regarding the implementation status of the 16 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in October 2007 (Auditor General Report No. 07-09). As the attached grid indicates:

- 12 have been implemented;
- 2 are in the process of being implemented; and
- 2 are no longer applicable.

Unless otherwise directed by the Joint Legislative Audit Committee, this concludes our follow-up work on the Commission's efforts to implement recommendations resulting from the October 2007 performance audit report.

Sincerely,

Melanie M. Chesney, Director
Performance Audit Division

MMC:sjs
Attachment

cc: Dr. April L. Osborne, Executive Director
Arizona Commission for Postsecondary Education

COMMISSION FOR POSTSECONDARY EDUCATION

Auditor General Report No. 07-09

24-Month Follow-Up Report

Recommendation	Status/Additional Explanation
Finding 1: Arizona’s 529 program offers most features of a high-quality program	
1.1 The Oversight Committee should continue to monitor the performance of all of the mutual fund options to ensure that they meet or exceed their benchmarks, and the Commission should take appropriate action as necessary based on the Oversight Committee’s recommendations.	Implemented at 6 Months
1.2 The Commission should determine what customer service and customer satisfaction information it needs, and require that providers or commission staff collect this information and provide it to the Oversight Committee.	Implemented at 6 Months
1.3 The Oversight Committee should determine the best way to use customer service and customer satisfaction information in evaluating the providers.	Implemented at 6 Months
1.4 Based on the Oversight Committee’s determination, the Commission should add customer service benchmarks to its provider contracts to ensure that the standard of customer service evaluation is clear to the 529 program providers.	No Longer Applicable According to the Executive Director, the Oversight Committee determined that customer service benchmarks should not be added to provider contracts; therefore this recommendation is no longer applicable. Instead, the Commission considers customer service as part of its annual provider review and believes that it can offer a high-quality program to its customers without contractual benchmarks.
Finding 2: Provider monitoring has improved, but should be further enhanced	
2.1 To enable the Oversight Committee to provide more complete and effective oversight of the Arizona 529 program providers, the Committee should:	
a. Standardize its review methodology, including documenting its consideration of the eight factors required by A.R.S. §15-1874(C); and	Implemented at 6 Months
b. Add provider partnership to the areas it formally reviews, and establish criteria by which to assess partnership.	Implemented at 6 Months

Recommendation

Status/Additional Explanation

2.2 The Oversight Committee should also:

- a. Explore the feasibility of establishing qualitative or quantitative standards for assessing providers according to the statutory criteria; and
- b. Incorporate those standards, as appropriate, into its methodology for reviewing providers.

Implemented at 18 Months

The Committee discussed establishing standards for assessing providers according to the statutory criteria, but determined that the financial environment and the differences among providers made it impossible to establish fixed standards for comparing between years or between the providers.

No Longer Applicable

This recommendation depended on the Oversight Committee's setting standards. Because the Committee has decided not to establish standards, the recommendation is no longer applicable.

2.3 When its 529 provider contracts can be renegotiated, the Commission should strengthen the language in the contracts to require:

- a. If the Commission does not adopt a policy disallowing the sale of mutual fund shares carrying sales charges that must be paid when account shares are sold, in the event of a provider's termination or nonrenewal, the provider must transfer the accounts to a new provider in a way that does not impose additional costs on the accountholders;
- b. All providers to submit audited financial statements to the Oversight Committee;
- c. Providers to undergo a review of their information technology security, take appropriate action if the reviews identify any weaknesses, and report the outcome to the Oversight Committee; and
- d. Providers to take appropriate action if the reviews show IT security weaknesses, and report these results to the Oversight Committee.

Implemented at 18 Months

This recommendation has been implemented in a different way. The Commission has not adopted a policy disallowing sales charges that must be paid when account shares are sold. However, according to the Commission, it no longer accepts proposals that include investment options with sales charges that must be paid when account shares are sold. As of June 2009, its contracts with all three providers are for products that do not have such sales charges.

Implemented at 24 Months

Implemented at 24 Months

Implemented at 24 Months

Recommendation**Status/Additional Explanation**

2.4 When renegotiating its 529 provider contracts, the Commission should consider adding a requirement that providers that have undergone an internal control review submit the results to the Oversight Committee.	Implemented at 24 Months According to the Commission's Executive Director, all three of its providers refused to release their internal control review results to the Commission, citing confidentiality concerns. However, according to the Commission, its providers undergo internal control reviews, and any findings of a material nature would be reflected in the audited financial statements the providers submit to the Commission.
2.5 The Commission should ensure that it includes an asset-based fee provision in its contracts with Fidelity and College Savings Bank when the contracts can be renegotiated.	Implemented at 18 Months
2.6 The Commission should ensure that: a. Rules governing asset-based fees are adopted to allow the Commission to use these monies; and b. These rules allow the monies to be used only for expenses related to the 529 program.	Implementation in Process A.A.C. R7-3-502 governing asset-based fees and the Commission's use of these monies to pay for expenses related to administering the program was in the final stages of the rule-making process as of January 2009 when the Governor's Office suspended all rulemaking. The process was still suspended as of March 2010. Implementation in Process See explanation for 2.6a.