Arizona Commission for Postsecondary Education

Commission should further strengthen Arizona Family College Savings Program (529 program) oversight and better protect its confidential and sensitive electronic data

Performance Audit

December 2017
Report 17-113

A Report to the Arizona Legislature

Debra K. Davenport
Auditor General

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December 21, 2017

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Dr. April L. Osborn, Executive Director
Arizona Commission for Postsecondary Education

Transmitted herewith is a report of the Auditor General, *A Performance Audit and Sunset Review of the Arizona Commission for Postsecondary Education*. This report is in response to a September 14, 2016, resolution of the Joint Legislative Audit Committee. The performance audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq. I am also transmitting within this report a copy of the Report Highlights for this audit to provide a quick summary for your convenience.

As outlined in its response, the Arizona Commission for Postsecondary Education agrees with all of the findings and plans to implement, or implement in a different manner, all of the recommendations.

My staff and I will be pleased to discuss or clarify items in the report.

Sincerely,

Debbie Davenport
Auditor General

cc: Arizona Commission for Postsecondary Education members
Arizona Family College Savings Program Oversight Committee members

Attachment

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REPORT HIGHLIGHTS
Performance Audit
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Arizona Commission for Postsecondary Education

CONCLUSION: The Arizona Commission for Postsecondary Education (Commission) administers the Arizona Family College Savings Program (529 program), which is a tax-advantaged college savings program that allows individuals to save for future educational expenses. The Commission has a Family College Savings Program Oversight Committee (Oversight Committee), which monitors and assesses the performance of Arizona's 529 program providers (providers). The Commission also administers financial aid programs, provides information about Arizona's higher education opportunities, and leads a state-wide collaboration to increase Arizona high school students' participation in higher education. We found that the Commission and Oversight Committee should further strengthen 529 program oversight, including enhancing the annual review of 529 providers and ensuring compliance with contractual and statutory requirements. The Commission also obtains and stores confidential and sensitive data for financial aid applicants and 529 program participants. We found that the Commission should take steps to better protect confidential and sensitive electronic data by limiting unnecessary staff access to this data, strengthening its agreements with external entities that store its data and provide information technology (IT) services, and requiring IT security reports demonstrating that the data is secure.

Commission and Oversight Committee should further strengthen 529 program oversight

Arizona's 529 program offers a variety of options for investing and saving for college—A 529 program is a tax-advantaged college savings program that allows individuals to save for future educational expenses for themselves or for another beneficiary. When individuals invest in a 529 account, their investment can grow tax-free, and monies can be withdrawn tax-free if used for postsecondary educational expenses, such as tuition and books. The Commission has contracted with three providers to manage Arizona's 529 program investments, and these providers offer participants multiple ways to invest and save for future higher education costs. According to the Commission, as of June 2017, Arizona's 529 program included more than 78,000 accounts with nearly $1.2 billion in assets.

Oversight Committee monitors providers' performance but can enhance its review of providers— The Oversight Committee performs an ongoing review of Arizona's three 529 providers, including formally rating the providers on their performance during an annual performance review. In evaluating the 529 providers' performance, the Oversight Committee considers various factors, such as investment performance, customer service, and ratings published by independent companies that assess 529 providers nation-wide. However, the Oversight Committee's annual performance review could be enhanced by establishing standards or performance expectations ensuring oversight committee members receive all information needed to fully evaluate providers, and including provisions in all provider contracts that require provider participation in the annual performance review.

Commission should ensure compliance with contractual and statutory requirements—The Commission is responsible for monitoring provider contract requirements, such as ensuring accurate provider fee amounts are paid to the Commission. In addition, statute requires the Commission to review 529 beneficiary account balances quarterly to ensure contributions do not exceed the maximum account balance the Commission established. Although the Commission has not consistently ensured compliance with these requirements, during the audit, the Commission developed and implemented some procedures for monitoring these requirements and should continue with its efforts to do so.

Recommendations

The Oversight Committee should review its rating categories and determine where additional descriptions of expected performance or measurable standards would be appropriate.

The Commission should:

- Develop and implement policies and procedures for regularly assessing, evaluating, and modifying the types of information the Oversight Committee receives as part of the annual performance review;

- Ensure provider contracts require providers to participate in the annual performance review; and
- Continue to implement its procedures for verifying that providers have paid the Commission the fee amounts specified by contract, and for reviewing account balances of 529 beneficiaries.

Commission should take steps to better protect confidential and sensitive electronic data

Commission responsible for confidential and sensitive electronic data—In performing its various functions, the Commission obtains and works with confidential and sensitive electronic data. For example, commission staff check applicants' eligibility for one of its financial aid programs by verifying that applicants have filed a Free Application for Federal Student Aid (FAFSA), which contains individuals' names, addresses, social security numbers, and annual income. The Commission also stores confidential and sensitive electronic data about individuals who participate in the 529 program, including names, birthdates, 529 account numbers, and tax ID numbers. Because of the nature of the Commission's confidential and sensitive electronic data, it is a potential target for misuse or malicious attacks.

The Commission has agreements with two external entities to provide IT services to the Commission. First, the Arizona Board of Regents (ABOR) provides the Commission with a "shared drive" on which commission staff can share access to 529 program and financial aid data, and an internet-accessible network server where 529 program account data can be updated by the providers and accessed by commission staff. Second, an IT consulting company (AzGrants portal contractor) provides the AzGrants portal, a website that serves various functions such as allowing recipients of commission financial aid programs to access their award information.

Commission should better protect its confidential and sensitive electronic data—Although ABOR, the AzGrants portal contractor, and the Commission have established some safeguards to protect the Commission's confidential and sensitive electronic data, additional efforts are needed. The Commission's data is protected from external attacks or other unauthorized external access using various security measures, such as a firewall that limits network traffic to approved users, and active malware/antivirus software that helps remove and prevent malicious programs. However, the Commission has not limited staff access to only the confidential and sensitive electronic data needed for their job duties. In April 2017, the Commission initiated efforts to appropriately limit staff access, such as by removing unnecessary documents from its shared drive, and should continue with these efforts. These steps should also involve developing and implementing procedures for protecting its electronic data based on the level of risk associated with the data and then determining needed staff access to this data based on its level of risk.

In addition, the Commission should develop a formal contract with ABOR that includes data security requirements, such as terminating access to the shared drive for former employees in a timely manner and establishing time frames for changing passwords that allow access to ABOR's network server. Finally, the Commission has not required its AzGrants portal contractor to provide documentation demonstrating that it has complied with the IT security requirements specified in its contract, such as evidence of database maintenance, nor does it require that the contractor obtain an independent audit that assesses the contractor's data security measures. As of May 2017, the Commission had developed an informal agreement with the AzGrants portal contractor to obtain an annual independent audit and plans to formalize this requirement in its contract. Additionally, in November 2017, the Commission began requesting that the AzGrants portal contractor periodically submit evidence of complying with the contract's IT security requirements and should continue with its plan to formalize this requirement in its contract.

Recommendations

The Commission should:

- Limit staff access to only the confidential and sensitive electronic data needed for their job duties by continuing with its efforts to remove unnecessary documents, developing and implementing procedures for protecting its electronic data based on the level of risk associated with the data, and then determining staff access to this data;
- Develop a formal contract with ABOR that includes requirements for terminating the network server access of former employees in a timely manner and adequately protecting passwords; and
- Continue with its plans to modify its AzGrants portal contract to require the contractor to provide IT security audit reports to the Commission annually and to periodically submit evidence of complying with the contract's IT security requirements.

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Scope and objectives

The Office of the Auditor General has conducted a performance audit and sunset review of the Arizona Commission for Postsecondary Education (Commission) pursuant to a September 14, 2016, resolution of the Joint Legislative Audit Committee. This audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes (A.R.S.) §41-2951 et seq. This audit addresses the Commission's oversight of the Arizona Family College Savings Program (529 program), a tax-advantaged college savings program, and its safeguarding of confidential and sensitive information. It also includes responses to the statutory sunset factors.

Mission and responsibilities

Executive order established the Commission in 1974 to help provide all Arizona citizens with access to postsecondary education in the State. Arizona law requires that the Commission administer grant and loan programs for individuals who attend or will attend postsecondary education institutions and provide a forum to public and private institutions for discussing issues related to postsecondary education in Arizona.[1] To fulfill its mission (see textbox), the Commission oversees the 529 program, operates a grant and student loan program, provides information about Arizona's higher education opportunities to the public, and leads a state-wide collaboration to increase Arizona high school students' participation in higher education. Specifically, the Commission is responsible for the following:

Mission

To expand access and increase success in post-secondary education for Arizonans.

Source: *Arizona Commission for Postsecondary Education Strategic Plan 2014-2020*.

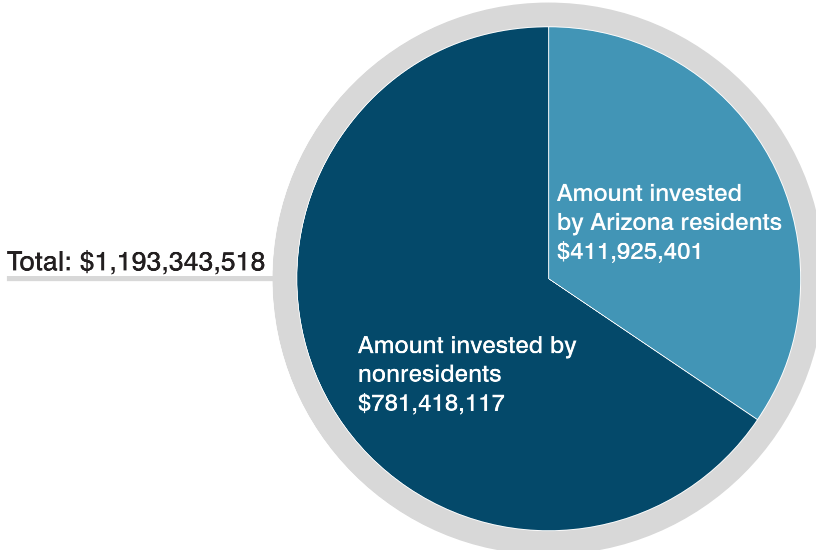
- **529 program—**Laws 1997, Ch.171 established a college savings program, or "529 program," in Arizona to encourage students and families to save for future educational expenses. A 529 program is a tax-advantaged college savings program that allows individuals to save for future educational expenses for themselves or for another beneficiary. Specifically, 529 program contributions are eligible for an annual Arizona state income tax deduction—up to $4,000 for a married couple filing jointly, or $2,000 for a single person—and are intended to be used for the beneficiary's qualified higher educational expenses, such as tuition and books.[2] In addition, the earnings on 529 contributions are not subject to federal and state income taxes. Further, withdrawals for qualified expenses are not subject to taxes when used for qualified higher education expenses. 529 programs are available in 49 states and the District of Columbia, and most states, including Arizona, allow nonresidents to participate in their 529 program.[3] In fact, the majority of investments in Arizona's 529 program are held by non-Arizona residents (see Figure 1, page 2). In addition, Arizona residents can invest in any 529

[1] A.R.S. §§15-1851(A) and(B)(1). Statute also requires the Commission to administer some federal financial aid programs for education, but none of these programs have been federally funded since 2014.

[2] There is no income limit to qualify for the state income tax deduction. 529 investors do not receive a federal income tax deduction for 529 program contributions. If the designated beneficiary does not use the monies for qualified educational expenses, the account holder may roll over the monies to another beneficiary to be used for qualified educational expenses. However, if the account holder or designated beneficiary withdraws the monies for nonqualified purposes, they are required to pay income tax and a 10 percent penalty on the earnings, with some exceptions.

[3] According to the College Savings Plan Network, a national clearinghouse for information among state-administered college saving programs, only Wyoming no longer offers its own 529 program.

Figure 1
Amount invested in Arizona's 529 program by Arizona residents and nonresidents
As of June 30, 2017
(Unaudited)



Source: Auditor General staff review of the Commission's Arizona Family College Savings Program Quarterly Report, as of June 30, 2017.

program in the nation and receive an Arizona state income tax deduction.[4] As of June 30, 2017, Arizona's 529 program had nearly $1.2 billion in assets under management. Arizona's 529 program provides participants with multiple ways to invest and save for future higher education costs. Specifically, Arizona's 529 program allows contributions of up to a total of $453,000 for each designated beneficiary.[5] In addition, the Commission, which is statutorily authorized to serve as the trustee for Arizona's 529 program, has contracted with three 529 program providers (providers) that each offer various investment options.[6] Specifically:

- **Waddell & Reed, Inc.—**Waddell & Reed, Inc. offers various investment products, including age-based portfolios, fixed allocation portfolios, and individual mutual fund portfolios (see textbox on page 3 for investment portfolio descriptions). Waddell & Reed, Inc. has investment advisors who work with 529 program participants to identify investment options.[7] As of June 30, 2017, Waddell & Reed, Inc. was Arizona's largest 529 provider with more than 40,700 participant accounts and nearly $603 million in program assets under management (see Table 1, page 3).

- **Fidelity Investments—**Fidelity Investment's 529 program offers a range of investment options, including age-based portfolios, fixed allocation portfolios, and individual mutual fund portfolios (see textbox on page 3). It is also structured so that participants make their own investment decisions without using an investment advisor. As of June 30, 2017, this provider had nearly 34,300 participant accounts and more than $522.6 million in program assets under management (see Table 1).

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4 According to Morningstar, Inc., Arizona is one of six states that offers tax benefits to residents who invest in any 529 program in the nation. In addition, Morningstar, Inc. reported that 27 states and the District of Columbia offer a tax benefit only if residents invest in the state-administered 529 program, and the remaining 18 states do not offer a state tax benefit.

5 A.R.S. §15-1875(L) requires the Commission to adopt rules to prevent contributions in excess of those needed to pay for higher education expenses. In addition, Arizona Administrative Code (AAC) R7-3-505(A) and (B) contain guidance on account balance limitations and disallow contributions that would exceed the guidance outlined in the rules.

6 A trustee is an entity responsible for administering property and/or affairs on behalf of and for the benefit of another.

7 Participants who choose to invest in Arizona's 529 program through Waddell & Reed, Inc. typically pay a sales charge or distribution fee for investment advice.

Investment portfolios

A portfolio is a range of investments held by a person or organization that can include a mix of investments such as stocks in various companies, bonds, and cash. Portfolio types used by Arizona's 529 providers include:

- **Age-based portfolio—**Group of investments managed according to the beneficiary's age using an age-based strategy so that the investment allocations shift toward more conservative investments as the beneficiary gets closer to the anticipated year of college attendance. This reduces the risk of any potential temporary losses in the account just before the beneficiary is planning to use the money for higher education.
- **Static or fixed allocation portfolio—**Group of investments allocated according to the customer's risk tolerance. For example, a selected percentage of the investments can be high risk, balanced, or low risk, and does not change as the beneficiary gets closer to college age.
- **Individual mutual fund portfolio—**Individual portfolios that allow the account owner to choose from an array of investment options that vary in investment style, risk, and returns.

Source: Auditor General staff analysis of information from the United States Securities and Exchange Commission's Investor.gov website, Fidelity Investments website, Fidelity Investments Arizona College Savings Plan Fact Kit published January 3, 2017, and the *Arizona Commission for Postsecondary Education Investment Policy Statement*.

- **College Savings Bank—**College Savings Bank offers two investment options, a Certificate of Deposit (CD) saving option, which is a time-based deposit that holds a fixed amount of money for a fixed amount of time, and a basic savings account. College Savings Bank offers fixed rate CDs with 1-, 2-, and 3-year maturities and a savings account with a variable rate of return. Both College Savings Bank CDs and savings accounts are insured up to $250,000 per deposit by the Federal Deposit Insurance Corporation (FDIC), a federal agency that insures deposits. As of June 30, 2017, this provider had 3,600 participant accounts and nearly $68 million in program assets under management (see Table 1).

Table 1
Number of 529 program participant accounts and amounts invested with each provider
As of June 30, 2017
(Unaudited)

Provider	Number of program participant accounts	Amounts invested
Waddell & Reed, Inc	40,742	$ 602,856,185
Fidelity Investments	34,296	522,651,763
College Savings Bank	3,600	67,835,570
Total	**78,638**	**$1,193,343,518**

Source: Auditor General staff review of the Commission's Arizona Family College Savings Program Quarterly Report, as of June 30, 2017.

The Commission uses a multi-tiered approach to monitor these providers and oversee the 529 program (see Finding 1, pages 9 through 15, for more information about 529 program oversight). For example, commission staff are responsible for monitoring the providers' compliance with contract provisions, such as requirements to submit quarterly reports on the number of participant accounts and amounts invested. In addition, Arizona statute has established the Family College Savings Program Oversight Committee (Oversight Committee) to provide assistance to the Commission in overseeing the providers. The Oversight Committee recommends financial institutions to act as the providers for the 529 program; holds regular public meetings for various purposes, such as discussing investment performance and marketing for each of the providers, rating the providers' performance annually, and providing recommendations to the Commission, including whether to renew provider contracts; and reviews information from two companies that research and rate 529 programs nationally—Morningstar, Inc. and Savingforcollege.com. Morningstar, Inc. rates 529 programs annually based on various factors, such as the talent and tenure of the providers' staff, state oversight practices, investment performance, and cost of the investment options. Savingforcollege.com rates 529 programs quarterly by comparing investment performance and features of programs, such as investment features and restrictions on contributions. Finally, the Commission has contracted with an investment consultant to evaluate and monitor providers' funds and respective portfolios and to submit reports about the providers and their investments to the Oversight Committee and Commission.

- **Financial aid programs—**The Commission provides financial aid to students by awarding grants to institutions that then determine which students will receive assistance, as well as through a loan program for students studying to become teachers. Specifically, the Commission administers the following two financial aid programs:

    - **Arizona Leveraging Educational Assistance Partnership (AzLEAP)—**Beginning in fiscal year 2012, the Commission has used the Arizona Leveraging Educational Assistance Partnership (AzLEAP) to provide grants to public and private institutions to be distributed as financial aid to students.[8] AzLEAP award monies consist of State General Fund monies combined with matching money from participating institutions. To receive AzLEAP grant monies, institutions must apply to the Commission and demonstrate that they meet eligibility requirements.[9] After the Commission reviews applications for eligibility, it determines the portion of AzLEAP monies each institution will receive based on the number of Arizona resident students at each institution. Prior to distributing award monies to approved institutions, the Commission requires them to pay the Commission the full amount of matching monies. As required by statute, the Commission retains no more than 12 percent of the matching monies for AzLEAP administrative costs.[10] The Commission then distributes the award monies to institutions, which then determine which students will receive AzLEAP grants.

      To qualify for an AzLEAP grant, students must have been a resident of Arizona for the previous 12 months and have a significant financial need based on the recipients' Free Application for Federal Student Aid (FAFSA), an application used by the U.S. Department of Education to determine a student's need and eligibility for federal financial aid, and may similarly be used by states and institutions to make financial aid determinations.[11] The Commission requires the institutions to report the names of the students who received monies annually, thereby allowing the Commission to check whether award recipients who institutions selected met award eligibility requirements, such as completing a FAFSA. In fiscal year 2016, the AzLEAP program awarded over $2.3 million in State General Fund and institutional match monies to more than 40 participating institutions. The Commission reported that in fiscal year 2016, 2,971 students received an AzLEAP grant, of which more than $1.2 million was awarded to students attending community college, nearly $700,000 was awarded to students attending public universities, and nearly $400,000 was awarded to students attending private institutions.

    - **Arizona Teacher Student Loan Program (Program)—**In May 2017, the Legislature established this Program to support teacher recruitment in Arizona's public schools. This loan program is a need-based loan, with possible loan forgiveness for students attending Arizona institutions who agree to teach math, science, or special education in Arizona or to teach in an Arizona public school that is low-income, located in a rural county, or on an Indian reservation. The program is first-come-first-served for new

[8] AzLEAP is a modified version of a former federal program called Leveraging Educational Assistance Partnership (LEAP), which the Commission reported has operated in Arizona since 1972. LEAP combined federal money, state money, and a required institutional match that was provided to participating institutions to be distributed to students as a financial aid grant. However, federal grant funding for LEAP was eliminated in fiscal year 2012. Arizona operates AzLEAP without federal funding.

[9] Institutions must demonstrate compliance with various eligibility requirements, such as legal authorization from the State of Arizona to provide postsecondary education, accreditation from a nationally recognized accrediting agency, and certification from the U.S. Department of Education to participate in federal student aid programs.

[10] AAC R7-3-303(A)(4) allows the Commission to use matching monies for necessary administrative costs. Laws 2017, Ch. 305, §77, requires that administrative costs be limited to 12 percent of the institutional match monies. The Commission reported that it has historically used 10 percent of the match money for administrative costs.

[11] The Commission has signed an agreement with the U.S. Department of Education that authorizes the exchange and use of FAFSA data.

applicants, but commission staff reported giving priority to continuing program participants who must reapply for the Program annually. To be eligible, applicants must be Arizona residents, attend a qualifying postsecondary institution in Arizona, and demonstrate financial need. In addition, recipients must begin teaching within 1 year of completing a teaching degree or an alternative teacher certification program. In addition, recipients must teach 1 year for each year they received the loan, plus 1 additional year. For example, a loan recipient who received a loan for 2 years must agree to teach in Arizona for a total of 3 years in one of the required fields or locations. The Legislature appropriated $426,000 in State General Fund monies to the Program for fiscal year 2018. The Program replaced a similar program called the Math, Science, and Special Education Teacher Loan (MSSE) program, which was established in 2007.[12]

As part of administering these financial aid programs, the Commission tracks loans or grants provided to students and seeks repayment when recipients have not met the terms of the loan or grant agreements. In addition, the Commission tracks recipient compliance and loan repayments for two discontinued loan programs: the Postsecondary Education Grant (PEG) and the Private Postsecondary Education Student Financial Assistance Program (PFAP).[13] PEG was a forgivable loan designed to encourage students to attend private postsecondary baccalaureate degree granting institutions in Arizona and was suspended in fiscal year 2011. PEG recipients were required to obtain a bachelor's degree within 5 years after their first PEG disbursement to avoid repaying the loan. The PFAP was a forgivable loan program designed to promote baccalaureate degree completion among community college graduates and was suspended in 2011. PFAP recipients who failed to obtain a baccalaureate degree within 3 years of the first fund disbursement had to repay the loan. According to the Commission, since the inception of PFAP in 1996, PEG in 2006, and MSSE in 2007, the Commission has awarded a total of nearly $17 million in loans and grants to 6,396 students as of April 2017. Of these, 1,159 students did not meet the terms of their loan and were required to repay their loans, which totaled nearly $2.6 million. As of April 2017, the Commission was still seeking nearly $600,000 in repayment from 268 loan recipients. In addition, the Commission has referred 786 loans, totaling more than $1.6 million, to the Arizona Attorney General's Office for collections from recipients who have not responded to the Commission's requests for repayment.

- **Providing assistance and information about Arizona's higher education opportunities—**The Commission also provides information about postsecondary education to the public on its website and supports educational research. For example, the Commission publishes the *Arizona College & Career Guide* annually, which lists all Arizona public and private institutions, including vocational and career schools. A hard copy of the publication is sent to entities such as Title I high schools—high schools with a high number or percentage of children from low-income families—and vocational rehabilitation offices. An online version is also available on the Commission's website. In addition, the Commission maintains a website portal, the AzGrants portal, which the Commission reports it uses for multiple purposes, such as allowing financial aid recipients and registered educational institutions to access financial aid information, storing the financial aid application information of Arizona residents, and monitoring its loan repayments. The Commission also hosts the Arizona Minority Education Policy Analysis Center (AMEPAC), which performs policy research. AMEPAC also publishes a report approximately every 2 to 3 years detailing the educational challenges unique to Arizona and highlights ways to help ensure academic success for Arizona minority students. AMEPAC consists of representatives from various entities, including educational research and policy groups such as the Morrison Institute for Public Policy at Arizona State University.

  The Commission also coordinates College and Career Goal Arizona, a state-wide initiative to promote participation from high schools and postsecondary institutions in developing a culture of postsecondary education. College and Career Goal Arizona consists of three initiatives: the Arizona College Application

[12] As of fiscal year 2016, the Commission reported that 275 students had participated in the MSSE program since this program's inception, and 26 students received a total of more than $160,000 in loans in fiscal year 2016. According to the Commission, the Program will operate nearly the same as the MSSE that it replaced, but has additional statutory requirements such as 40 percent of program monies shall be allocated to recipients who commit to teaching in a low-income, rural, or Indian reservation school.

[13] In May 2017, A.R.S.§15-1855 was amended, discontinuing PEG and establishing the Private Postsecondary Education Grant. Statute specifies grant requirements such as enrollment in a science, technology, engineering, or math field and establishes a termination date of July 1, 2027. As of May 2017, no funding had been provided for this program.

Campaign, which helps high school students apply for postsecondary education; College Goal FAF$A, which helps high school students apply for federal financial aid for postsecondary education; and the FAFSA Finish Line, which helps students complete unfinished applications for federal financial aid. Participating high schools may designate a day where all senior high school students visit an area on campus, such as the library or computer lab, and with the help of volunteers, are expected to complete at least one application to a post-secondary institution and/or complete a FAFSA form. Because the Commission has access to FAFSA data, including whether a FAFSA application has been completed, the Commission can assist school counselors at participating high schools by disclosing through its AzGrants portal which students have only partially completed a FAFSA so that counselors can work with the student to complete his/her FAFSA. As part of these initiatives, the Commission provides assistance to Arizona high schools by creating materials to train staff and coordinators at participating high schools on subjects such as how to plan the events and effectively work with volunteers.

Organization and staffing

The Commission is required by A.R.S. §15-1851 to consist of 16 Commissioners, 14 of whom the Governor appoints and 2 who are specified in statute. Specifically, statute establishes the president of the Arizona Board of Regents and the Executive Director of the State Board for Private Postsecondary Education as members of the Commission. In addition, the Governor appoints representatives from various educational areas to the Commission. Examples of these representatives include two members who hold senior executive or managerial positions at one of Arizona's three universities, two members who hold senior executive or managerial positions in private postsecondary institutions of higher education licensed and located in Arizona that offer vocational education programs, a senior executive from a private postsecondary baccalaureate degree-granting school, and a senior executive in a community college district with a population less than 500,000. As of November 2017, there were three vacancies on the Commission. Specifically, the Commission did not have a member who holds a senior executive or managerial position in a community college district in a county with a population less than 500,000, a member who holds a senior executive or managerial position in an accredited private postsecondary institution in Arizona that offers vocational education programs, or a member who holds a senior executive or managerial position in an accredited private postsecondary institution in Arizona offering a bachelor's degree or higher.[14]

A.R.S. §15-1872 establishes the Oversight Committee, which consists of 10 members, 2 who are specified in statute, and 8 whom the Governor appoints. The Oversight Committee comprises the following:

- State Treasurer or treasurer's designee;
- Chairperson of the State Board for Private Postsecondary Education or the chairperson's designee;
- Three members of the general public, each of whom possess knowledge, skill, and experience in accounting, risk management, or investment management as an actuary, appointed by the Governor;
- Certified financial planner appointed by the Governor;
- Certified public accountant appointed by the Governor;
- Attorney with a state bar of Arizona certification in estates and trusts appointed by the Governor;
- Individual with investment, asset management, and financial-related expertise appointed by the Governor; and
- Individual employed by an Arizona community college or university with investment, asset management, and financial-related expertise appointed by the Governor.

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[14] As of November 2017, the Governor had appointed a senior executive from a community college district in a county with a population of fewer than 500,000 to the Commission, but the Legislature had not yet confirmed the appointment.

As of September 2017, there were two vacancies on the Oversight Committee—a person with investment and asset management expertise and a member of the general public.

In addition, as of September 2017, the Commission reported that it had ten full-time equivalent staff positions, four of which were vacant, as well as two temporary contract staff to assist in promoting and supporting College and Career Goal Arizona.

Budget

As shown in Table 2 (see page 8), the Commission receives revenue from various sources, including State General Fund appropriations, intergovernmental revenues, and fees. For fiscal years 2015 through 2017, total revenues ranged between approximately $3.4 and nearly $3.5 million. For fiscal years 2015 through 2017, commission expenditures and transfers totaled between approximately $3.2 and $3.9 million, of which nearly $2.5 million annually was distributed for financial aid to students and institutions. The majority of the non-aid expenditures were for payroll and related benefits. In addition, during fiscal year 2015, the Commission was required by Laws 2014, Ch. 17, §20, to transfer $546,800 to the Arizona Department of Education to fund a 2-year pilot program for kindergarten through 6th-grade technology-based language development and literacy intervention.

Most of the Commission's revenues and expenditures for fiscal years 2015 through 2017 relate to the AzLEAP program. Specifically, the Commission received approximately $1.2 million annually in State General Fund monies for AzLEAP in fiscal years 2015 through 2017. In addition, it also received approximately $1.2 million each year from institutions as matching monies for the program. During fiscal years 2015 through 2017, approximately $122,000 was spent annually from institution matching monies for AzLEAP operating and administrative expenditures, with the majority of these expenditures being for payroll and related benefits. The Commission used the remaining AzLEAP monies to provide grants to these institutions. During fiscal years 2015 through 2017, the Commission received approximately $2.3 million annually for these grants.

The Commission also received between approximately $600,000 and $700,000 each year during fiscal years 2015 through 2017 from 529 providers who remit fees to the Commission.[15] Statute requires that the Commission use these fees for the 529 program's operating and administrative expenditures. During fiscal years 2015 through 2017, these expenditures ranged between $450,000 and nearly $643,000. Most of the expenditures were for payroll and related benefits and professional and outside services.

Finally, for fiscal years 2015 through 2017, the Commission received $176,000 each year in State General Fund appropriations for the MSSE program. These monies are primarily used to provide financial aid to students.

[15] The provider contracts require the providers to pay the Commission a percentage of the total program assets invested and pay fees based on the number of new accounts opened each month.

Table 2
Schedule of revenues and expenditures
Fiscal years 2015 through 2017
(Unaudited)

	2015 (Actual)	2016 (Actual)	2017 (Estimate)
Revenues			
State General Fund appropriations			
AzLEAP[1]	$1,220,800	$1,220,800	$1,220,800
MSSE	176,000	176,000	176,000
AzLEAP institution match[1]	1,220,800	1,220,800	1,220,800
Fees[2]	602,555	645,675	708,099
Donations	132,207	91,300	103,693
Other[3]	97,500	119,919	284,830
Remittances to the State General Fund[4]			(322,816)
Total revenues	**3,449,862**	**3,474,494**	**3,391,406**
Expenditures and transfers			
Payroll and related benefits	485,748	473,880	483,675
Professional and outside services	239,097	110,411	338,115
Travel	4,747	7,767	4,414
Awards to institutions and students	2,491,119	2,483,425	2,493,401
Other operating	110,164	150,893	125,840
Furniture, equipment, and software	4,840	3,272	2,635
Transfers to other agencies[5]	546,800		1,200
Total expenditures and transfers	**3,882,515**	**3,229,648**	**3,449,280**
Net change in fund balance	(432,653)	244,846	(57,874)
Fund balance, beginning of year	1,279,645	846,992	1,091,838
Fund balance, end of year	**$ 846,992**	**$1,091,838**	**$1,033,964**

1 The AzLEAP program received State General Fund appropriations and required matching monies from participating public and private institutions that enable eligible students attending these institutions to receive AzLEAP monies. The Commission retained 10 percent of the institution matching monies for AzLEAP administrative costs and distributed the remaining monies along with the state-appropriated monies to institutions for awards to students. Most of the Commission's expenditures listed as awards to institutions and students were for these AzLEAP distributions. See page 4 for additional information on AzLEAP.

2 Amounts are fees paid by financial institutions that are contracted to serve as providers of the 529 Program. Specifically, financial institutions pay the Commission new account fees and fees based on negotiated rates applied to the value of the 529 Program assets they manage. The Commission uses the fees to pay for its 529 Program operating and administrative expenditures.

3 According to the Commission, amounts primarily include institutions' returns of unused award monies or repayments of loan monies when the participants did not meet certain requirements for loan forgiveness. For example, if the Commission awarded loans and/or grants to students enrolled at a private baccalaureate degree granting institution, but those students did not obtain a baccalaureate degree, the students would be required to repay the Commission. The fiscal year 2015 amount also includes approximately $42,000 received from the Governor's Office that, according to the Commission, was a federal reimbursement of administrative costs for a grant program.

4 Amount is monies remitted to the State General Fund for the Postsecondary Education Grant Program Fund (Fund). Statute terminated the Fund on July 1, 2016.The Commission remitted the remaining fund balance in the Fund in addition to all fiscal year 2017 repayments of loan monies collected from participants who did not meet this program's requirements.

5 The fiscal year 2015 amount was transferred to the Arizona Department of Education to fund a 2-year pilot program for kindergarten through 6th grade technology-based language development and literacy intervention in accordance with Laws 2014, Ch. 17, §20. In addition, the fiscal year 2017 amount was transferred to the Arizona Department of Administration for automation projects.

Source: Auditor General staff analysis of the Arizona Financial Information System *Accounting Event Transaction File* for fiscal years 2015 through 2017; and the State of Arizona *Annual Financial Report* for fiscal years 2015 and 2016.

Commission and Oversight Committee should further strengthen 529 program oversight

The Arizona Commission for Postsecondary Education (Commission) should further strengthen its oversight of Arizona's Family College Savings Program (529 program). The Commission serves as the 529 program trustee, or entity responsible for administering the 529 program and its assets, and offers a variety of investment choices for families and individuals to save for future educational expenses through three contracted 529 program providers (providers). The Family College Savings Program Oversight Committee (Oversight Committee) monitors and assesses the providers' performance, evaluates and rates providers annually at a performance review meeting (annual performance review), and makes recommendations to the Commission regarding the 529 program, such as whether to renew provider contracts. However, the Oversight Committee should add a few important elements to enhance the annual performance review, including performance standards or descriptions of performance expectations to assist in rating the providers, and work with commission staff to ensure that all the necessary information is made available to adequately inform the annual performance review. In addition, the Commission should modify its contracts with 529 providers to require the providers' continued participation in the annual performance review. Further, although the Commission provides some administrative oversight of the 529 program by monitoring compliance with provider contracts and statutory requirements, it has not adequately ensured that providers have paid the required fee amounts, nor has it consistently complied with a statutory requirement to review account balances of 529 beneficiaries on a quarterly basis. Therefore, the Commission should continue to finalize and implement procedures for reviewing the accuracy of provider fees paid and beneficiaries' 529 account balances.

Arizona's 529 program offers a variety of options for investing and saving for college

Arizona's 529 program allows individuals and families to save for future educational expenses. When individuals invest in a 529 account, their investment can grow tax-free and monies can be withdrawn tax-free if used for postsecondary educational expenses, such as tuition and books. The Commission serves as the trustee of the 529 program, and has contracted with three providers—Waddell & Reed, Inc., Fidelity Investments, and College Savings Bank—to manage the investments of Arizona's 529 program.[16] The options for investing with each of the providers are unique. Specifically, Waddell & Reed, Inc. provides investment advisors to work with participants to identify and select various portfolios as investment options. Investment options may include fixed allocation portfolios, which are groups of investments with high, balanced, or low-risk investments allocated according to the customer's risk tolerance, and age-based portfolios, which are groups of investments managed according to the beneficiary's age so that the investment allocations shift toward more conservative investments as the beneficiary gets closer to the anticipated year of college attendance (see page 3 in the Introduction for investment portfolio descriptions). In contrast, Fidelity Investments' 529 program is structured so that participants can make their own investment decisions without using an investment advisor in selecting a range of investment options, including fixed allocation portfolios and age-based portfolios. College Savings Bank offers a certificate of deposit (CD) savings option, which is a time-based deposit that holds a fixed amount of money for a fixed amount of time, and a savings account option (see Introduction, pages 2 through 3, for further explanation of the three

[16] A trustee is an entity responsible for administering property and/or affairs on behalf of and for the benefit of another.

providers' programs). Each of the providers perform various responsibilities as part of their contract with the Commission, such as managing investments, marketing the 529 program, and reporting program information to the Commission. According to the Commission, as of June 2017, Arizona's 529 program included more than 78,000 accounts with nearly $1.2 billion in assets.

Oversight Committee monitors 529 providers' performance, but can enhance its review of providers

The Oversight Committee evaluates and monitors the performance of the 529 program providers, but can improve its oversight in a few areas. The Oversight Committee reviews provider performance at committee meetings throughout the year and formally rates providers during an annual performance review meeting. As part of these reviews, the Oversight Committee considers various factors, such as investment performance, customer service, and ratings published by independent companies that assess 529 providers nation-wide, and works with providers to address any concerns. However, the Oversight Committee's annual performance review is missing some important elements and could be enhanced by including: (1) established standards for evaluating provider performance, (2) some additional provider performance information, and (3) contractual requirements for providers' continued participation in the annual performance review.

Oversight Committee performs ongoing review of 529 providers—The Oversight Committee has implemented a continuous approach to oversee Arizona's three 529 program providers. The Oversight Committee met five times each year in calendar years 2015 and 2016 to provide an ongoing assessment and review of each provider's performance in multiple areas, such as the provider's management of investments, fee amounts charged to account holders, customer service, and marketing of their investment offerings. In addition, the Oversight Committee holds an annual performance review to formally rate the providers on their performance. To help the Oversight Committee assess the providers at the annual performance review, the providers are asked to develop a written report (performance review report) that provides details on investment performance, product offerings, marketing efforts, and customer satisfaction. The providers also deliver a presentation on these topics at the annual performance review held at a public oversight committee meeting, during which the Oversight Committee can direct questions to the providers. At the conclusion of the annual performance review, the Oversight Committee can make recommendations to the Commission, which is the trustee and has the authority to determine whether provider contracts should be renewed and the contract length.

As part of its review and assessment of providers, the Oversight Committee also considers the ratings from two independent rating companies—Morningstar, Inc. and Savingforcollege.com—that rate 529 programs nation-wide on a variety of factors. For example, Morningstar, Inc. considers factors such as talent and tenure of the providers' staff, state oversight practices, and investment performance, and assigns providers one of five ratings: gold, silver, bronze, neutral, or negative. Savingforcollege.com considers factors such as the features of the provider's program and investment performance, and rates providers on a scale of 0 through 5, with 5 being the best. Savingforcollege.com provides quarterly ratings and, as of August 2017, gave Fidelity Investments a rating of 4, Waddell & Reed, Inc. a rating of 3.5, and College Savings Bank a rating of 3.5; whereas for 2017, Morningstar, Inc. gave Fidelity Investments a bronze rating and Waddell & Reed, Inc. a negative rating.[17] However, Morningstar, Inc.'s ratings for Waddell & Reed, Inc. have been mixed in previous years (see Table 3, page 11). Specifically, between 2012 and 2016, Morningstar, Inc. lowered its rating for Waddell & Reed, Inc. from neutral in 2012 and 2013, to negative—the lowest rating—in 2014. Morningstar, Inc. indicated that it lowered the rating for Waddell & Reed, Inc. because of concerns about high turnover in upper management. The negative ratings for Waddell & Reed, Inc. continued in 2015 and 2016 because of ongoing concerns regarding management turnover and concerns that the size of the analyst team supporting one of Waddell & Reed, Inc.'s funds was smaller than teams for other providers. In addition, Morningstar's Inc.'s 2015 rating publication indicated that, unlike many 529

[17] Morningstar, Inc. does not rate College Savings Bank.

Table 3
Arizona's 529 program provider ratings from Morningstar, Inc.[1]
October 2012 through October 2017

Provider	Morningstar, Inc.'s ratings 2012	2013	2014	2015	2016	2017
Fidelity Investments	Neutral	Bronze	Neutral	Neutral	Bronze	Bronze
Waddell & Reed, Inc.	Neutral	Neutral	Negative	Negative	Negative	Negative

Gold	Silver	Bronze	Neutral	Negative

[1] Savingforcollege.com reported that it does not keep records of its historical ratings; therefore, auditors were not able to provide information about historical Savingforcollege.com ratings as part of this table.

Source: Auditor General staff summary of Morningstar, Inc. ratings from October 2012 through October 2017 obtained from the Morningstar, Inc. website.

programs in other states, Arizona's 529 program did not use an investment consultant to assist in monitoring its providers.[18]

In response to the negative ratings beginning in 2014, the Oversight Committee required Waddell & Reed, Inc. to develop plans to address the noted concerns and to report on the progress of its efforts at the Oversight Committee's meetings. For example, to address lingering concerns about management turnover, Waddell & Reed, Inc. reported that it added experienced tenured investment professionals to its portfolio management teams beginning in 2014. In addition to taking steps to address Morningstar, Inc.'s concerns, Waddell & Reed, Inc. reduced fees on more than half of its underlying investment options in July 2015 to make its investment options more attractive. In August 2017, the Commission renewed Waddell & Reed, Inc.'s contract for 4 years based on the Oversight Committee's recommendation, which is 1-2 years shorter than the other two providers' contract terms.[19] The Oversight Committee recommended the 4-year renewal period to allow adequate time for Waddell & Reed, Inc. to continue implementing its plans for improvement, but it also indicated that the shorter 4-year renewal would allow the Oversight Committee to begin the process of selecting a new provider if Waddell & Reed, Inc. did not adequately address the identified concerns.

To further address Morningstar, Inc.'s concerns, the Oversight Committee also recommended that the Commission contract with an investment consultant for its 529 program, which it did in August 2016. The investment consultant's contract requires it to provide various services, such as delivering written assessments of the providers' investment performance and best practice recommendations identified from other states' 529 programs. For example, in January 2017, the investment consultant submitted a detailed evaluation of all three providers to the Oversight Committee, which contained an analysis of portfolio performance, including a recommendation that one provider make a change to a portfolio by replacing one of the offered funds.[20] In addition, the investment consultant has attended Commission and Oversight Committee meetings to answer questions and developed a policy statement in October 2016 that includes guidance for the Oversight Committee to help it more effectively monitor and evaluate the providers' investment portfolios.

Oversight Committee's annual performance review can be enhanced in three areas—The Oversight Committee's ongoing review process helps it to assess provider performance and identify areas for

[18] Acheson, L. (2015). *Morningstar names best 529 college-savings plans for 2015*. Retrieved from http://www.morningstar.com/advisor/t/110271963/morningstar-names-best-529-college-savings-plans-for-2015.htm.

[19] Arizona Revised Statutes (A.R.S.) §15-1874(G) requires that the term of the contract be at least 3 years and not more than 7 years. As of August 2017, the Commission's provider contracts are for the following lengths of time: College Savings Bank has a 5-year contract that expires October 2021, with an option for a one-time 2-year renewal; Waddell & Reed, Inc. has a 4-year contract that expires September 2021 with a one-time 3-year renewal option; and Fidelity Investments has a 6-year contract that expires September 2020 and that may be continued for a 1-year period.

[20] In August 2017, the Commission approved the provider's proposal to remove the fund and move holdings within that fund to another fund.

improvement; however, it should enhance its annual performance review process in a few ways. As explained previously, the review process continues throughout the year and includes an annual performance review. During the annual performance review, the oversight committee members each rate the providers on five categories, such as product offerings, marketing, and customer service (see textbox for a complete list of the categories). However, the Oversight Committee's annual performance review does not include some important elements for assessing the providers, such as establishing performance standards or expectations for rating categories and subcategories, ensuring all necessary performance information is available for review, and including contractual provisions that require all providers to participate in the annual performance review.

Annual performance review rating categories and subcategories:

Product offerings—Investment menu, underlying investment portfolios, flexibility and performance of investments offered, fees and expenses charged to account holders, and ratings from national rating companies and the providers' responses to the ratings.

Marketing—Strategies used and investment in promoting the 529 program both in Arizona and nationally, strength of sales in accounts tied to marketing.

Customer service—Acceptable customer service measurements, acts on customer feedback.

Compliance—Financial and internal controls report, 529 program legal and compliance issues, statutory and management agreement factors, information technology security, recordkeeping and reporting requirements.

Provider responsibility and support—Financial stability and integrity, acceptable minimum initial deposits and contribution amounts, variety of contribution options, congruence of future goals and actions with those of the State, and fees and support provided to the administration of the Arizona 529 program.

Source: Auditor General staff summary of Commission's 2016 annual provider performance review rating instrument.

Therefore, the annual performance review should be enhanced in the following ways:

- **Establish performance standards or expectations for rating categories and subcategories, where appropriate—**When evaluating the providers' performance as part of the annual performance review, the oversight committee members use a rating instrument that lists five rating categories along with their associated subcategories (see textbox). In addition, the Oversight Committee uses a scale that ranges between 1 and 5, with a 1 representing "poor" and a 5 representing "excellent," to rate the providers in each of the five categories. However, neither the categories nor subcategories include specific performance standards or expectations to determine what constitutes poor versus excellent performance within each category or subcategory. For example, within the "customer service" category, the Oversight Committee assesses whether a provider "acts on customer feedback." However, there are no descriptions or explanations of expected performance that could help the Oversight Committee assess whether a provider adequately responded to customer feedback. Best practices for government contracting indicate that agencies should establish performance standards or benchmarks against which the contractor's performance can be compared in order to assess the quality of performance.[21] Additionally, the Oregon 529 Savings Network evaluates customer service for one of its providers by measuring whether "98 percent of service concerns and complaints are responded to within 7 business days of receipt." In addition to helping the Oversight Committee consistently assess providers' performance, incorporating performance standards or expectations helps the providers understand what level of performance they are expected to achieve. Although some of the Oversight Committee's rating categories and subcategories may not lend themselves to a quantifiable standard or performance expectation, other categories or subcategories could benefit from additional descriptions of expected performance or, in some cases, measurable standards to help the Oversight Committee more consistently and effectively rate the providers. Therefore, the Oversight Committee should review its rating categories and subcategories and

[21] Sochon, G. (2015). *Back to basics: Evaluating contract performance*. Arlington, VA: ASI Government.

determine where additional descriptions of expected performance or measurable standards would be appropriate, and then modify its rating instrument and/or rating guidance accordingly.

- **Ensure all needed information is available to fully evaluate providers—**The Oversight Committee has not requested some information from the providers that would help to fully evaluate the providers in all rating categories in the annual performance review. Specifically, in the rating category of "Provider Responsibility and Support," the Oversight Committee evaluates several factors, such as provider financial stability, minimum initial deposit amounts, minimum contribution amounts, and the variety of contribution mechanisms, such as payroll deduction. However, the Oversight Committee has not requested that the providers report on information for three of these items—minimum initial deposit amounts, minimum contribution amounts, and the variety of contribution mechanisms. In addition, some oversight committee members have indicated that some performance review report information for the "Product Offerings" category, which includes investment performance compared to investment benchmarks, is presented using benchmarks that may not be the most relevant. For example, one committee member reported that he cannot determine if one provider's investment performance is improving or deteriorating because the benchmarks presented by the provider for comparison are not always appropriate. As a result, the Oversight Committee has not received complete information to fully evaluate the providers for these rating categories. Although commission staff have solicited feedback from the Oversight Committee in the past to ensure it is receiving all the information it needs to effectively assess the providers, the Commission has not formalized this practice as part of the annual performance review, such as by developing policies and procedures. Therefore, to ensure that the Oversight Committee has adequate information to facilitate its review of the providers, the Commission should develop and implement policies and procedures for regularly assessing, evaluating, and modifying the types of information that the Oversight Committee receives as part of the annual performance review. As part of this process, commission staff should continue to solicit feedback from the Oversight Committee to determine what information would be most useful for its review.

- **Ensure all provider contracts require participation in annual performance review—**Best practices in government contracting indicate that contracting agencies should clearly detail the responsibilities and deliverables of each party within the contract.[22] However, the Commission's contracts do not consistently include two requirements that would help ensure that providers continue to participate in the annual performance review meeting. First, although Waddell & Reed, Inc. has a contractual requirement to participate in the annual performance review, College Savings Bank and Fidelity Investments do not. Second, Fidelity Investments lacks a contractual requirement that it submit a performance review report that details performance in the five rating categories used by the oversight committee members during the annual performance review meeting.[23] Although all three providers have consistently participated in the annual performance review meeting and have submitted annual performance review reports, the Commission may not be able to ensure continued provider participation in the performance review process absent those contract provisions. To help ensure that providers continue to participate in the annual performance review meeting, the Commission should ensure that all provider contracts include provisions that require the providers to participate in an annual performance review and to provide commission staff with performance review reports that contain specified information.

Commission should ensure compliance with contractual and statutory requirements

In addition to strengthening the Oversight Committee's oversight efforts, the Commission should continue to improve some of its 529 program administrative oversight responsibilities. The Commission maintains a database storing 529 account holder data that it uses for reporting on the 529 program and is responsible for

[22] National State Auditors Association. (2003). *Contracting for services: A National State Auditors Association best practice document*. Lexington, KY. The National State Auditors Association is an organization that provides information and best practices to auditors at the local, state, and federal government levels.

[23] The contract with College Savings Bank requires that the provider submit the report annually to the Commission by February 28.

monitoring compliance with provider contracts, such as ensuring accurate provider fee amounts are paid to the Commission. In addition, statute requires the Commission to review the account balances of 529 beneficiaries on a quarterly basis to ensure that contributions do not exceed the maximum account balance established by the Commission.[24] However, the Commission has not consistently ensured compliance with these requirements, but should do so. Specifically:

- **Commission should monitor contractually required provider fees—**Commission staff have not adequately ensured that the providers pay the required fees to the Commission. As required by the providers' contracts, each provider must pay fees to the Commission, including a $10 fee for each new 529 account established, and a fee based on the percentage of the total assets invested, which varies by provider. For example, one provider is required to pay the Commission a yearly fee based on a percentage of the total assets invested. In fiscal year 2016, the Commission received a combined total of more than $645,000 in fees from all three providers. The Commission reported using the fee revenue for operating and administrative expenditures, including salaries, professional services, and travel related to the program, such as attendance at 529 industry-related conferences. However, commission staff have not consistently verified the fee amounts paid to the Commission to ensure they were accurately calculated and paid. For example, from October 2011 through January 2017, commission staff had not reviewed the fee paid by one of the three providers, which is derived from a percentage of the total assets invested with the provider. Consequently, the Commission did not identify that one of its providers had not paid the Commission the correct fee amounts during that time frame, resulting in a shortage of more than $1,600 in fees. According to this provider, the payment error was caused by a miscalculation. This provider corrected the calculation error in February 2017 and repaid the Commission by April 2017.

  Similarly, the Commission has not adequately verified the accuracy of fees paid for new accounts. According to commission staff, they had relied on provider-reported summaries of new accounts to review providers' calculation of new account fees paid, but had not verified that the provider-reported information was accurate, such as by checking the Commission's 529 database. However, the Commission has begun to take steps to address this issue. Specifically, beginning in February 2017, the Commission created a process to query its 529 data to identify new accounts and verify the accuracy of fees paid. In addition, the Commission has developed written procedures for this process and reported that it has started to implement these procedures. Therefore, to help ensure it receives the correct fee amounts from providers, the Commission should continue implementing its procedures for verifying that providers have paid the Commission the fee amounts specified in their contracts.

- **Commission should review 529 account balance limits as required by statute—**Arizona law requires the Commission to review the total balance of 529 beneficiary accounts on a quarterly basis to ensure that the contributions do not exceed the maximum account balance established by the Commission—$453,000 as of October 2017; however, the Commission has not consistently ensured compliance with this requirement.[25] Commission staff reported that they had not reviewed the 529 program account balances between October 2014 and February 2017 because of confusion about which staff person was responsible for performing this task. To address this oversight, in February 2017, commission staff began checking the total account balances by querying its 529 data and, in April 2017, the Commission developed written procedures for reviewing account balances on a quarterly basis and following up with the provider when accounts exceed the limit. However, as of August 2017, the Commission had not specified in its procedures which staff position(s) is responsible for performing this task. Therefore, the Commission should continue to implement its procedures for reviewing the account balances of 529 beneficiaries on a quarterly basis and further modify its written procedures to designate staff responsible for this task.

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[24] A.R.S. §15-1875(L) requires the Commission to adopt rules to prevent contributions in excess of those needed to pay for higher education expenses. In addition, Arizona Administrative Code (AAC) R7-3-505(A) and (B) contain guidance on account balance limitations and disallow contributions that would exceed the guidance outlined in the rules.

[25] A.R.S. §15-1875(L). The maximum contribution amount is established by the Commission using a formula described in AAC R7-3-505(A) that considers various factors, such as the average of 1 year's undergraduate tuition, fees, and room and board at ten independent 4-year institutions as published by the College Board's Independent College 500 Index.

Recommendations

1.1. The Oversight Committee should review its rating categories and subcategories and determine where additional descriptions of expected performance or measurable standards would be appropriate, and then modify its rating instrument and/or rating guidance accordingly.

1.2. The Commission should develop and implement policies and procedures for regularly assessing, evaluating, and modifying the types of information that the Oversight Committee receives as part of the annual performance review. As part of this process, commission staff should continue to solicit feedback from the Oversight Committee to determine what information would be most useful for its review.

1.3. The Commission should ensure that all provider contracts include provisions that require the providers to participate in an annual performance review and to provide commission staff with performance review reports that contain specified information.

1.4. The Commission should continue implementing its procedures for verifying that providers have paid the Commission the fee amounts specified in their contracts.

1.5. The Commission should continue to implement its procedures for reviewing the account balances of 529 beneficiaries on a quarterly basis and further modify its written procedures to designate staff responsible for this task.

Commission should take steps to better protect confidential and sensitive electronic data

The Arizona Commission for Postsecondary Education (Commission) should take steps to better protect its confidential and sensitive electronic data. The Commission stores various confidential and sensitive electronic data, including the social security numbers and birthdates of financial aid applicants, as well as account numbers and tax identification (ID) numbers of Arizona Family College Savings Program (529 program) account holders. The Commission has agreements with two external entities to store its electronic data because it does not have its own Information Technology (IT) systems. These external entities have implemented some measures to protect the Commission's data, such as software security programs that block unauthorized access to IT systems, and the Commission has taken steps to protect its data, such as adopting an IT security policy; however, the Commission has not taken additional needed steps to adequately protect its electronic data. Specifically, the Commission has not limited commission staff access to only the confidential and sensitive electronic data necessary for their job duties or required IT security safeguards in its contracts, such as requiring periodic changes to passwords for users who access 529 program data. Therefore, to better protect its confidential and sensitive electronic data, the Commission should take steps to limit unnecessary staff access to confidential and sensitive electronic data and strengthen its IT contracts by including additional security requirements, such as requirements for securing passwords, establishing a contingency plan, and requiring annual IT security reports demonstrating that the Commission's electronic data is adequately safeguarded.

Commission responsible for confidential and sensitive electronic data

In performing its various functions, the Commission obtains and works with confidential and sensitive electronic data, such as social security numbers of individuals who apply for federal financial aid to attend Arizona postsecondary institutions and/or tax ID numbers of individuals who participate in the Commission's 529 program.[26] Because of the nature of the Commission's confidential and sensitive electronic data, it is a potential target for misuse or malicious attacks. The Commission is responsible for protecting the data of financial aid applicants and 529 account holders as follows:

- **Financial aid applicant and recipient data—**The Commission obtains confidential and sensitive electronic data to operate its financial aid programs. For example, commission staff use financial aid applicant data to determine applicants' eligibility for the Arizona Teacher Student Loan Program, a need-based, first-come-first-served, forgivable loan for students who commit to teach math, science, or special education, or to teach in an Arizona public school that is rural, low-income, or located on an Indian reservation (see Introduction, pages 4 through 5, for more information on this program). As part of determining applicant eligibility for this program, commission staff must verify that applicants have filed a Free Application for Federal Student Aid (FAFSA). FAFSA applications include various personal information, such as names, addresses, social security numbers, and annual income. Commission staff reported that they obtain up to 800,000 FAFSA records annually, which they use to check for state financial aid eligibility and to operate other commission programs,

[26] A 529 program is a tax-advantaged college savings program that allows individuals to save for future educational expenses for themselves or for another beneficiary.

such as the FAF$A Finish Line initiative. Through this program, the Commission works with representatives from participating high schools to identify which of their students have incomplete FAFSA applications so that the high school representatives can assist students in completing the application.[27]

- **529 account holder data—**The Commission is also responsible for data about individuals who participate in the 529 program, a program that allows individuals to save for college by investing in a tax-advantaged college savings program (see Introduction, page 1, and Finding 1, pages 9 through 15, for more information on the 529 program). The Commission has contracted with three 529 program providers (providers) to administer the 529 program's investment options. Participants' 529 program account data includes names, birthdates, tax ID numbers, 529 account numbers, and the investment account balances. According to commission staff, the Commission uses this data for various purposes, including to assess account holder compliance with Arizona Revised Statutes (A.R.S.) §15-1875 (L)(3), which requires the Commission to ensure that the combined balance of all Arizona 529 program accounts for a beneficiary does not exceed the amount the Commission specifies (see Finding 1, page 14, for more information on this requirement).

The Commission has agreements with two external entities to provide IT services because it does not have its own network server, which is a centralized computer system used for storing electronic data. First, the Commission has an agreement with the Arizona Board of Regents (ABOR) to provide various IT services to the Commission.[28] Specifically, ABOR provides the Commission with a "shared drive" on which commission staff can share access to 529 program and financial aid program data.[29] ABOR also hosts an internet-accessible network server where 529 program account data can be updated by the providers and accessed by authorized commission staff. This access allows providers to update account information, such as when new accounts are opened, contribution amounts are changed, and/or interest on existing accounts has accrued. Second, the Commission contracts with an IT consulting company (AzGrants portal contractor) to provide a website, the AzGrants portal, that allows recipients of commission financial aid programs to access their financial aid award information. According to the Commission, the AzGrants portal also provides a single site for applying for commission-administered grants, scholarships, and loans, and allows for the secure transmission and storage of confidential and sensitive electronic data for the FAF$A Finish Line initiative with participating high school representatives who review FAFSA application progress reports. In addition, the Commission reported that the AzGrants portal is used for several additional purposes, such as verifying college enrollment information for financial aid award recipients, tracking award payments and loan repayments for some of the financial aid programs it operates, and storing FAFSA data for all Arizona residents who file a FAFSA.

Commission should better protect its confidential and sensitive electronic data

Although ABOR, the AzGrants portal contractor, and the Commission have established some safeguards to protect the Commission's data, additional efforts are needed to adequately protect the confidential and sensitive electronic data for which the Commission is responsible. Specifically, the Commission should develop a data classification process that identifies which electronic data contains confidential information and appropriately limits commission staff access to only the confidential and sensitive electronic data they need for their job duties. In addition, the Commission needs to better protect its confidential and sensitive electronic data by developing a formal contract with ABOR that includes data security requirements, such as terminating access for former employees in a timely manner and establishing time frames for changing ABOR network server passwords.

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[27] The FAFSA Finish Line initiative is a grant-funded, state-wide initiative that assists high school students and their families in filing FAFSAs (see Introduction, page 6, for more information on this initiative).

[28] ABOR is the governing body of Arizona's three public universities: Arizona State University (ASU), Northern Arizona University, and the University of Arizona, and has general powers and duties to supervise the universities, set tuition rates and admission requirements, and approve universities' annual operating budgets.

[29] ABOR has a service-level agreement with ASU to provide ABOR's IT network and services. Although ABOR provides IT support to the Commission and stores some commission data on network servers at ABOR, some of the Commission's data, specifically the data on the shared drive, is stored on a network server located at ASU as an extension of the relationship between ABOR and ASU.

Finally, the Commission should strengthen its contract with the AzGrants portal contractor by including a requirement that the contractor provide assurance of periodic reviews of its IT security controls.

Commission should designate confidential and sensitive electronic data and limit commission staff access to this data—IT standards and best practices from the Arizona Department of Administration–Arizona Strategic Enterprise Technology division (ASET) and the National Institute of Standards and Technology (NIST) indicate that organizations should develop a data classification process that 1) identifies whether data is sensitive, 2) stipulates how it should be protected based on the data's level of risk, and 3) limits access to the data to only those people who need access to perform their duties (see textbox).[30,31,32] As mentioned previously, the Commission stores most of its confidential and sensitive electronic data, including 529 program and FAFSA data, on a shared drive provided by ABOR. For example, as of February 2017, the Commission stored historical FAFSA data going as far back as 2008 and reported that it retains this data in the event that it would need the data to administer additional programs in the future and because historical FAFSA data is not accessible to it otherwise. This data is protected from external attacks or other unauthorized external access using various security measures, such as a firewall that limits network traffic to approved users, and active malware/antivirus software that helps remove and prevent malicious programs. The Commission has also taken other steps to protect its data, including developing an IT policy that requires its staff to protect its confidential and sensitive electronic data and requiring commission staff to sign a technology use agreement confirming that they will adhere to this policy. Further, according to the Commission, it provides new commission employees with a copy of the Family Education Rights and Privacy Act, a federal law that protects the privacy of student education records.

Data classification process criteria

A documented organization-wide data classification process should be established that:

- Protects data based on requirements such as confidentiality;
- Is reviewed and updated regularly;
- Consists of an inventory of data classification details that includes classification, identity of the data owner, and a brief description of the data classified.

Source: Auditor General staff analysis of IT standards and best practices: International Organization for Standardization. (2013). *Code of practice for information security controls*, ISO/IEC 27002. Geneva, Switzerland; and National Institute of Standards and Technology. (2013). *Security and privacy controls for federal information systems and organizations*. Gaithersburg, MD.

However, the Commission has not taken other steps to secure internal access to the confidential and sensitive electronic data it maintains by requesting or requiring that this access be restricted to only the commission staff who need it for their job duties. For example, one commission staff person who has access to the 529 program data on the shared drive stated that he/she does not need access to this data for his/her job duties, which include responsibilities related to records retention and agency communications. In addition, two temporary contract staff who helped the Commission develop curriculum and provide administrative support for the College and Career Goal Arizona initiative for the 2016-2017 academic year were able to access FAFSA and 529 data on the shared drive that was not needed for their job duties.[33] In fact, all commission staff have access to all confidential and sensitive electronic data on the shared drive.

The Commission has initiated efforts to limit staff access to only the confidential and sensitive electronic data needed for their job duties and should continue with these efforts. For example, in April 2017, the Commission

[30] ASET is a division of the Arizona Department of Administration and is responsible for implementing the state-wide IT-security policies that are intended to help state agencies implement recommended IT security best practices and to protect the State's IT infrastructure and the data contained in it.

[31] National Institute of Standards and Technology. (2013). *Security and privacy controls for federal information systems and organizations*. Gaithersburg, MD.

[32] Swanson, M. & Guttman, B. (1996). *Generally accepted principles and practices for securing information technology systems*. Gaithersburg, MD: National Institute of Standards and Technology.

[33] The College and Career Goal Arizona initiative is administered by the Commission to assist participating high schools in guiding high school seniors in the college application process and in filling out federal financial aid forms. As of July 2017, the two temporary contract staff were no longer employed by the Commission and their access to the shared drive had been removed.

drafted plans for an organization project to secure the confidential and sensitive electronic data on its shared drive by assessing the structure and content of the shared drive, identifying any duplicate content, and removing any unnecessary documents. However, the Commission reported it had not identified a date by which it anticipated completing this project. Therefore, to help ensure that confidential and sensitive electronic data is protected, the Commission should limit staff access to only the confidential and sensitive electronic data needed for their job duties by completing its shared drive organization project, including assessing the structure and content of the shared drive, identifying any duplicate content, and removing any unnecessary documents. The Commission should also develop and implement procedures for protecting its electronic data based on the level of risk associated with the data, including classifying the data as confidential or public. In addition, it should develop a data classification inventory that is updated regularly. Once the Commission has classified the data on the shared drive, it should review staff duties to determine the access staff need to confidential and sensitive electronic data, including access to electronic data from prior years that is not needed for current work. Finally, the Commission should work with ABOR, who provides the shared drive, to limit staff access to confidential and sensitive electronic data based on the results of this review.

Commission should enhance data protection by developing a formal contract that includes IT security measures—Auditors identified some weaknesses in the Commission's IT security practices that could be mitigated by developing a formal contract with ABOR that specifies appropriate data protection requirements. These requirements should include establishing a time frame for terminating IT access for former employees, a process for changing and protecting the passwords that allow access to 529 data on ABOR's network servers, and a contingency plan to prevent loss of data. Although the Commission and ABOR reported that they were not aware of any breaches in data security, by not specifying and implementing these security requirements, the Commission's confidential and sensitive electronic data may be at risk. Specifically, the Commission should address the following IT security weaknesses:

- **ABOR agreement not formalized—**IT standards and best practices indicate that a formal Service Level Agreement (SLA) should be developed between entities who are providing and receiving IT services to formally establish security control requirements.[34] However, as of October 2017, the Commission had not developed a formal contract or SLA with ABOR establishing security control requirements for the Commission's data. The Commission's relationship with ABOR regarding the provision of IT services has been governed by a written memorandum between ABOR and the Commission that noted only the price of IT services and the Internet access it provides. According to the Commission, it has never entered a formal contract or SLA with ABOR because the Commission was housed within ABOR until 1991 and, since that time, has continued receiving IT services from ABOR through this informal agreement. However, without a more formal agreement, the Commission cannot ensure that ABOR provides the level of service required to secure commission data.

- **Former staff access to IT systems and data not terminated in a timely manner—**ASET requires that access to state IT systems be discontinued within 24 hours of the termination of a staff member's employment. However, the Commission has not consistently terminated access to the shared drive for all former staff in a timely manner, which could have resulted in access to commission data by unauthorized persons. Specifically, in March 2017, auditors identified one person who had not worked at the Commission for over 1 year, but whose access to the shared drive had not been terminated. In addition, in February 2017, auditors identified another former staff person who could have accessed 529 program information on ABOR's network server through the Internet for at least 2 weeks after this person no longer worked at the Commission. Although the Commission developed a written procedure in May 2017 describing its process for terminating former employee access and reported that it typically requests that ABOR remove access on the same day an employee is terminated, the procedure does not establish a time frame for when this request should be made. As of April 2017, ABOR had removed both former staff persons' access.

- **Staff passwords not adequately secured—**ASET requirements and IT standards and best practices state that passwords should be protected by taking various security measures, such as changing passwords on

[34] Boyens, J., Paulsen, C., Moorthy, R., & Bartol, N. (2015). *Supply chain management practices for federal information systems*. Gaithersburg, MD: National Institute of Standards and Technology.

a regular basis, not sharing passwords, and recovering lost or forgotten passwords using an authorized IT administrator to reset passwords.[35] However, the Commission has not consistently employed these measures to protect passwords. For example, 529 program data stored on ABOR's network server is password protected and can only be accessed by 19 individuals—either ABOR IT administrators or commission and 529 provider staff who work with the 529 program. However, as of February 2017, 15 of the 19 user passwords had not been changed since July 2016, and were set to never expire. In addition, these 19 user passwords were listed in an unprotected location on ABOR's network server that could be viewed by any user who logged into the network server.

Further, although commission staff are required to regularly change the passwords that allow them to access their computers and the shared drive, the Commission maintains a list of these passwords. This password list is saved electronically, and commission staff reported that the document had been password protected so that only three commission staff can access this information. According to the Commission, it has maintained the list of passwords in case staff lose or forget their passwords, and to ensure that when a staff member is out of the office, other staff can use that staff person's password to access various work or projects on that staff person's computer.

- **Contingency plan to protect data from loss has not been established—**ASET requires that state agencies develop contingency plans to help protect their data. A contingency plan directs how an agency would restore data and operations when that data unexpectedly becomes unavailable, such as during power outages, system disruption, fire, or terrorist actions.[36] As part of a contingency plan, IT standards and best practices state that agencies should make a backup copy of the data and periodically review the backup to ensure that it is working properly.[37] In addition, agencies should test the contingency plan annually, making changes as needed to correct any issues uncovered during testing, implementing, or executing the plan. However, the Commission has not required ABOR to protect the 529 data stored on its network servers by establishing a contingency plan. According to ABOR's IT staff, although backup copies of the 529 data are developed daily, these backup copies are stored at ABOR rather than off-site. In addition, ABOR IT staff reported that the backup copies had not been tested in over a year to ensure they still worked correctly.

To help ensure that its sensitive and confidential electronic data is adequately secured and protected, the Commission should develop a formal contract or SLA with ABOR, in accordance with IT best practices for vendor management, that specifies the level of IT services that ABOR will provide the Commission. Specifically, the Commission should include requirements in its contract or SLA with ABOR that ensure network server access is terminated for former employees in a timely manner, and that passwords providing access to the 529 data stored on ABOR's network servers are adequately protected by more frequently resetting passwords and storing them only in unobservable locations. The contract or SLA should also include an approved process for working with ABOR's IT staff for password retrieval if commission staff lose or forget passwords that allow access to the shared drive. In addition, the Commission's contract should require that a contingency plan be developed and implemented for the electronic data stored at ABOR that includes requirements for saving backup copies off-site and testing backup copies more frequently. Further, for those contract provisions that require action from commission staff, the Commission should develop and implement time frames for when it will notify ABOR's IT administrator to terminate former employee access and a procedure for requesting that passwords be reset. Finally, the Commission should discontinue its practice of saving a list of commission staff passwords that is accessible to multiple staff.

Periodic IT security reviews of contractors have not been required—IT best practices for vendor management indicate that a third-party verification of providers' controls and capabilities be included in vendor

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[35] Swanson & Guttman,1996; National Institute of Standards and Technology, 2013.

[36] Swanson, M., Wohl, A., Pope, L., Grance, T., Hash, J., & Thomas, R. (2002). *Contingency planning guide for information technology systems*. Gaithersburg, MD: National Institute of Standards and Technology.

[37] National Institute of Standards and Technology, 2013.

contracts.[38] However, the Commission's contract with its AzGrants portal contractor does not include such a provision. As previously discussed, the Commission has contracted with an IT consulting company to host and maintain the AzGrants portal, a website that allows individuals and school representatives to access limited FAFSA and financial aid information. The Commission's contract for the AzGrants portal requires various safeguards to be implemented, such as access cards that restrict physical access to the location where data is stored, backup power systems, and a weekly backup of the database stored at a secure, off-site server. However, the Commission's contract does not include a requirement that the vendor provide assurance that its IT security is adequate through an independent audit of the AzGrants portal contractor's IT security or a Service Organization Controls (SOC) report. An independent audit or a SOC report may include an assessment of data security measures, indicate whether system and data protection is adequate, and identify areas for improvement. Although the AzGrants portal contractor submitted a fiscal year 2016 SOC report at the Commission's request, without a contract requirement, the Commission may not be able to ensure that it receives these reports regularly.[39]

In addition, the Commission has not required its AzGrants portal contractor to provide assurance that it has complied with the IT security requirements specified in the contract. For example, the Commission has not required the AzGrants portal contractor to provide assurance that all IT security protections specified in the contract have been implemented, such as weekly reports showing that the backup copies of the data are complete or evidence that maintenance of the database has taken place.

To better safeguard the data that the Commission stores with the AzGrants portal contractor, the Commission should continue taking steps to better manage the AzGrants portal contract. As of May 2017, the Commission had developed an informal agreement with the AzGrants portal contractor to begin obtaining a SOC report annually, and according to the Commission, it plans to formalize this requirement in its contract. Therefore, the Commission should continue with its plans to modify the AzGrants portal contract to require the contractor to submit a SOC or other IT security audit report annually to provide the Commission with assurance that its confidential and sensitive electronic data is safe. In addition, in November 2017, the Commission developed a procedure for reviewing IT security audit information and should implement this procedure, including following up on any concerns identified. Finally, in November 2017, the Commission began requesting that the AzGrants portal contractor periodically submit evidence that it is complying with the IT security requirements specified in the contract, such as providing documentation of backing up the data weekly, and should continue with its plans to formalize this requirement in its contract.

Recommendations

2.1. The Commission should limit staff access to only the confidential and sensitive electronic data needed for their job duties by:

   a. Completing its shared drive organization project, including assessing the structure and content of the shared drive, identifying any duplicate content, and removing any unnecessary documents;

   b. Developing and implementing procedures for protecting its electronic data based on the level of risk associated with the data, including classifying the data as confidential or public, and developing a data classification inventory that is updated regularly;

   c. Reviewing staff duties to determine the access staff need to confidential and sensitive electronic data, including access to electronic data from prior years that is not needed for current work; and

   d. Limiting staff access to confidential and sensitive electronic data based on the results of this review and working with ABOR to implement this access.

[38] Boyens et al., 2015.

[39] The 2016 SOC report provided by the third-party contractor did not identify any significant, unaddressed issues with data security.

2.2. The Commission should develop a formal contract or SLA with ABOR, in accordance with IT best practices and standards for vendor management, that specifies the level of IT services ABOR will provide the Commission. This contract or SLA should include requirements for:

   a. Terminating the network server access of former employees in a timely manner;

   b. Adequately protecting passwords that provide access to the 529 data stored on ABOR's network servers by more frequently resetting passwords and storing them only in unobservable locations;

   c. Establishing a process for working with ABOR's IT staff for password retrieval if commission staff lose or forget passwords that allow access to the shared drive; and

   d. Developing and implementing a contingency plan for the electronic data stored at ABOR that includes requirements for saving backup copies off-site and testing backup copies more frequently.

2.3. The Commission should develop and implement time frames for when it will notify ABOR's IT administrator to terminate former employee access and a procedure for requesting that passwords be reset.

2.4. The Commission should discontinue its practice of saving a list of commission staff passwords that is accessible to multiple staff.

2.5. The Commission should continue with its plans to:

   a. Modify its AzGrants portal contract to require the contractor to submit a SOC or other IT security audit report annually to provide the Commission with assurance that its confidential and sensitive electronic data is safe;

   b. Implement a procedure for reviewing the IT security audit information including following up on any IT security concerns identified; and

   c. Amend its contract to require the AzGrants portal contractor to periodically submit evidence that it is complying with the IT security requirements specified in the contract, such as providing documentation of backing up the data weekly.

In accordance with Arizona Revised Statutes (A.R.S.) §41-2954, the Legislature should consider the following 12 factors in determining whether to continue or terminate the Arizona Commission for Postsecondary Education (Commission).

The analysis of the Sunset Factors includes eight recommendations not discussed earlier in this report. Specifically, the Commission should make improvements to its cash-handling practices, develop and implement policies and procedures for managing loan repayments, and implement its new procedures for monitoring one of its financial aid programs (see Sunset Factor 2, pages 26 through 29). In addition, the Commission should update and/or eliminate rules for providing oversight for one of its financial aid programs and its rules that require some administrative fees for the Arizona Family College Savings Program (529 program) (see Sunset Factor 2, pages 28 through 29 and Sunset Factor 4, pages 29 through 30). The Commission should also continue its efforts to implement a minor correction that improves its adherence to open meeting law (see Sunset Factor 5, page 30). Finally, the Commission should seek to modify a statute that may not be applicable to the Commission's functions (see Sunset Factor 9, page 31).

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

   Established in 1974 by executive order, the Commission's mission is to expand access to and increase success in postsecondary education for Arizonans. State law requires the Commission to administer state programs for postsecondary education, provide a forum for discussion between public and private postsecondary educational institutions (institutions), provide information about postsecondary educational opportunities to the public, and oversee any federal financial aid programs for postsecondary education in Arizona.[40] In fulfilling these responsibilities, the Commission operates the 529 program, which allows individuals to save for future educational expenses for themselves or for another beneficiary through tax-advantaged contributions and investments. In addition, the Commission operates financial aid programs, such as the Arizona Leveraging Education Assistance Partnership (AzLEAP) program, which provides grants to public and private institutions to be distributed as financial aid to students who demonstrate financial need and are Arizona residents. The Commission also coordinates College and Career Goal Arizona, a state-wide initiative, in collaboration with high schools and postsecondary institutions to help high school students apply for postsecondary educational opportunities and financial aid (see Introduction, pages 5 through 6, for more information). Further, the Commission hosts the Arizona Minority Education Policy Analysis Center (AMEPAC), which performs policy research for educational challenges unique to Arizona such as minority access to and achievement in postsecondary education. Finally, the Commission publishes a guide of postsecondary educational opportunities in the State called the *Arizona College and Career Guide*, which lists the postsecondary institutions in Arizona, major areas of study offered at the institutions, and the types of financial aid available from the State and the federal government.

   Auditors did not identify any states that met the Commission's objective and purpose through private enterprises. Specifically, auditors contacted and reviewed websites for four states that provide and oversee 529 programs and financial aid programs—California, Georgia, Kentucky, and Utah—and found that none used private enterprises to operate a 529 program and/or financial aid programs.[41]

[40] The Commission reported that since 2014, no federal funding has been provided to operate federal financial aid programs.

[41] Auditors selected two western states and two states with a similar structure to Arizona in that a single agency operates both the 529 program and other financial aid programs.

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

The Commission has generally met its statutory objective and purpose by administering grant and loan programs for individuals who attend or will attend postsecondary education institutions, providing a forum to public and private postsecondary institutions for discussing issues related to postsecondary education in Arizona, and administering Arizona's 529 program. In addition, it coordinates the College and Career Goal Arizona initiative in collaboration with high schools to help high school students apply for postsecondary education opportunities and financial aid (see Introduction, pages 5 through 6, for more information). According to the Commission, participation in this state-wide collaboration has increased from 8 high schools with 1,474 completed postsecondary institution applications in the 2013-2014 academic year to 54 high schools with 7,027 completed postsecondary institution applications in the 2016-2017 academic year. However, as discussed in the report, the Commission should take steps to better oversee its 529 program (see Finding 1, pages 9 through 15). In addition, the Commission should better secure the confidential and sensitive electronic data that it uses to perform its responsibilities (see Finding 2, pages 17 through 23).

Additionally, the Commission should address the following areas to better meet its statutory objective and purpose:

- **Strengthen cash-handling procedures—**The Commission should strengthen its cash-handling practices to better comply with the *State of Arizona Accounting Manual* (SAAM) cash-handling requirements that have been established to protect monies from loss or theft. The Commission receives a substantial amount of its monies in the mail, excluding State General Fund appropriations. For example, from July 1 through November 30, 2016, the Commission's records indicate that it received more than $1.4 million through the mail. Monies received through the mail include AzLEAP match monies from various postsecondary institutions, fees paid by one of its 529 program providers (providers), and loan repayments from loan recipients.[42] Because cash receipts are susceptible to loss or theft, it is critical that the Commission adequately control and safeguard these monies. However, the Commission has not always complied with the SAAM's cash-handling requirements and guidance. Specifically:

    - **Segregation of duties—**The Commission has not consistently complied with three SAAM requirements for segregating duties. First, the SAAM requires two individuals to open the mail, especially if one of them has other cash-handling duties. However, in December 2016, auditors observed that one commission staff person opened the mail, logged cash receipts into an electronic mail log, and prepared and made the cash deposit without another staff person present. This individual also had other cash-handling and recordkeeping duties. According to the Commission, typically two staff perform these duties, but only one staff person performed these tasks in this instance because of limited staff availability. Second, contrary to SAAM requirements for segregating cash-handling and recordkeeping duties, one staff member who had access to the accounting records was also responsible for preparing and making deposits and performing monthly bank reconciliations. Third, SAAM requires that the ability to modify any cash receipt records or documents should be strictly limited and that modifications require appropriate review and approval. However, the electronic mail log used for logging cash receipts is accessible to all commission staff and susceptible to electronic manipulation.

    - **Delays in deposits—**The SAAM states that deposits should be made on the day cash receipts are collected or, when deposit on the day of collection is impractical, at the end of the business day after cash receipts total $1,000 or more. However, auditors found that some of the Commission's October 2016 deposits were not timely. Specifically, the Commission made a total of five deposits in October 2016, with individual deposit totals ranging from $5,115 to $10,312. However, based on a review of the Commission's electronic mail log, the Commission made these deposits from 1 to 7 days

[42] The Commission has contracted with three vendors to provide investment and savings options for 529 program participants. Contracts with these vendors require that they remit various fees to the Commission. According to the Commission, two of these providers electronically remit monthly fee payments to the Commission, while the third provider sends monthly fee payments to the Commission by check.

later than required. For example, the Commission received monies totaling more than $5,700 on October 4, 2016; however, the Commission did not deposit the monies until 1 week later. According to commission staff, they typically make cash deposits once per week. Delays in depositing cash may increase the risk of lost or stolen payments.

- **Access to cash—**The SAAM recommends the number of personnel with access or keys to the safe where cash is maintained be strictly limited to reduce the risk of loss or theft. Commission staff reported that three of the six commission staff have a key to the locking cabinet that is used as a safe. This includes the two staff who handle cash daily and a third employee who does not handle cash. Limiting access to cash helps minimize the risk of loss or theft.

Although the Commission has taken some steps to address these deficiencies, it should take additional steps to address all cash-handling requirements. For example, to correct the deficiency of only one staff person opening mail and logging cash receipts, the Commission began requiring two individuals to open the mail and sign the electronic mail log in January 2017. In addition, in December 2016, the Commission drafted cash-handling procedures that address deficiencies in segregation of duties and delays in deposits. However, the Commission should further revise and implement these procedures to improve control of and better safeguard cash receipts. For example, although the Commission's draft cash-handling procedures include requirements for making deposits weekly, or as needed in accordance with SAAM, they lack requirements for securing and limiting access to the electronic mail log. In addition, the draft procedures do not specify who should perform monthly reconciliations, do not separate this responsibility from the person responsible for preparing and making the cash deposit, and do not require limited access to the safe.

Therefore, to improve its cash-handling practices, the Commission should revise and then implement its newly revised cash-handling procedures. Specifically, these procedures should require appropriate segregation of duties, including guidance that the mail should always be opened with two staff present, that mail should not be opened by the same person who will prepare and make the deposit, and that the electronic mail log should be restricted to only those staff who enter cash receipts into this log. Further, these procedures should require that cash deposits be made on the day of collection or, when deposit on the day of collection is impractical, at the end of the business day after monies total $1,000 or more. The Commission should also revise and implement the procedures to include guidance for limiting access to the safe to only those staff who need access for their job duties. Finally, once the revised procedures are developed and implemented, the Commission should train staff on cash-handling procedures as needed.

- **Develop procedures for student loan repayment process—**The Commission should continue to develop written policies and procedures that reflect its current process for managing and collecting student grant and loan repayments. Students have received financial aid through one of three financial aid programs administered by the Commission: the Math, Science, and Special Education Teacher Loan (MSSE) program, the Postsecondary Education Grant (PEG), and the Private Postsecondary Education Student Financial Assistance Program (PFAP) (see Introduction, page 5, for more information on these forgivable loan programs). Student grants or loans provided through these three programs are forgivable if the recipients comply with the terms of the grants or loans, but if not, they must be repaid. For example, if a PEG recipient fails to graduate within 5 years from their first PEG disbursement or has not enrolled in postsecondary institution for a period greater than 12 months, the recipient must repay the Commission any PEG monies they received. Although the Commission no longer issues new grants or loans for these three programs because PEG and PFAP were suspended in fiscal year 2011 and the MSSE program was eliminated and replaced with the Arizona Teacher Student Loan Program in May 2017, it must continue to collect monies owed for any outstanding grants or loans. As of April 2017, the Commission reported that it was collecting repayments from 268 recipients, with a total of nearly $600,000 in outstanding debt from these three financial aid programs.

To help ensure that loan recipients comply with the terms of the loan and repay loans as necessary, the Commission has established a process for tracking awards and loan repayments. Specifically, the Commission's process includes tracking the academic progress of loan recipients by requesting documentation of graduation, enrollment status, and in the case of the MSSE program, that the recipient is teaching. For students who do not comply with the terms of the loan, commission staff send requests for repayment of the loan every 30 days. When the Commission receives payments, commission staff record the payment in a spreadsheet, deposit the money, and then send out a new statement to the student for the next monthly payment. Commission staff also reported that the Commission works with students on a case-by-case basis to create individualized repayment plans. In addition, according to the Commission, if students do not respond to the Commission's requests for repayment for 6 months, the Commission will refer the student and loan to the Arizona Attorney General's Office for collections. Although the Commission developed and documented procedures for its loan repayment process in a procedure manual in July 2017, some helpful procedures are not included. For example, procedures have not been developed for determining when an award recipient has not met his/her loan requirements and would therefore need to begin the loan repayment process, or for determining the appropriate time frame for repayment and interest calculations, if interest has accrued. Therefore, the Commission should continue to develop and implement written policies and procedures that fully address all aspects of processing loan repayments.

- **Implement enhanced AzLEAP monitoring procedures and update oversight rules—**The Commission has developed enhanced procedures for monitoring the AzLEAP program and it should implement these procedures. The Commission monitors AzLEAP monies by comparing the total amount it distributes to institutions to the amount the institutions report giving to students. In June 2017, the Commission enhanced its procedures for monitoring AzLEAP monies to help ensure that eligible students appropriately receive AzLEAP awards. The Commission's new procedures include additional steps for auditing participating institutions, such as by randomly sampling students from each institution and verifying the award amount, the student's residency, enrollment, and financial need. However, as of July 2017, the Commission had not yet implemented these procedures. Therefore, the Commission should implement its new AzLEAP procedures for auditing participating postsecondary institutions' student records to help ensure that eligible students received the reported disbursement of AzLEAP program awards.

  In addition, the Commission should take steps to update its rules for overseeing the AzLEAP program. The rules governing AzLEAP have not been amended since 1999, when the program was receiving federal funding and guidance as the Leveraging Educational Assistance Program (LEAP). LEAP combined federal money, state money, and a required institutional match for distribution to participating institutions that then awarded the monies to eligible students. According to a commission official, to comply with federal LEAP program provisions, the Commission established oversight requirements in rule, which required commission staff to perform site visits at participating institutions and to conduct detailed reviews of the institutions' program records to help ensure award monies were distributed.

  Although the Arizona Legislature continued the AzLEAP program, funded with state monies and an institutional match, the Commission reported that it discontinued conducting site visits and detailed reviews in 2012 when federal funding for the LEAP program was eliminated. As a result, since 2012, the Commission's reconciliation process for AzLEAP monies did not conform to the requirements outlined in Arizona Administrative Code (AAC) R7-3-308, which states that the Commission will review the institutional records of each participating institution yearly and visit the institutions at least once every 2 years. However, some of these requirements, such as conducting on-site visits to examine records, may no longer be necessary because the Commission could more efficiently perform oversight by examining records electronically. According to the Commission, it has not sought to change these rules because of a Governor's Executive Order that instituted a rule-making moratorium (see Sunset Factor 4, pages 29 through 30, for more information).[43] Because changes to AzLEAP rules that reduce regulatory burden or eliminate rules that are no longer necessary may qualify as an exception to the rule-making moratorium, the Commission should work with its Assistant Attorney General to determine whether and when it can make rule changes necessary to update its rules for AzLEAP oversight, including seeking to eliminate any rules that are no longer necessary.

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

The Commission serves the entire State by administering a 529 program, student financial aid programs, and providing information about postsecondary education throughout Arizona. For example, the Commission administers the State's 529 program, which is available to all Arizona residents, and provides information regarding the program on its website. Each of the providers advertise and promote their 529 plans through a variety of methods, such as Internet and radio advertisements. In addition, the Commission is responsible for awarding AzLEAP monies to participating private and public postsecondary institutions across the State. The Commission also distributes and publishes on its website the *Arizona College and Career Guide*, which provides information about education opportunities and financial aid in the State. Finally, A.R.S. §15-1851 requires that the Commission consider the needs of the unserved and underserved in the State. According to the Commission, it accomplishes this through its College and Career Goal Arizona initiative, a state-wide collaboration which seeks to help high school seniors apply for a postsecondary education and for financial aid, and which specifically focuses on low-income, under-served, and first-generation students entering postsecondary education. Specifically, College and Career Goal Arizona includes initiatives that encourage participating high schools to designate a day where all high school seniors have an opportunity to complete an application for postsecondary education or a Free Application for Federal Student Aid (FAFSA), an application used by the U.S. Department of Education to determine a student's need and eligibility for federal financial aid, and may similarly be used by states and institutions to make financial aid determinations. According to the Commission, 54 high schools in 10 counties participated in College and Career Goal Arizona in the 2016-2017 academic year.

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

General Counsel for the Office of the Auditor General has analyzed the Commission's rule-making statutes and determined that the Commission has generally adopted rules required by statute. However, as recommended in Sunset Factor 2, pages 28 through 29 , the Commission's rules for monitoring the AzLEAP program through site visits at institutions may no longer be needed and the Commission should take steps to revise or eliminate any unnecessary rules associated with this program.

The Commission has also identified two rules regarding the 529 program that could be eliminated because the Commission has modified its practices. Specifically, AAC R7-3-502(B) requires each provider to pay the Commission a one-time, $3 administrative fee for each new individual 529 account. However, the Commission's contracts do not require this administrative fee and instead require the providers to pay other fees. For example, Fidelity Investment's contract includes a requirement that Fidelity pay the Commission a percentage of the assets under management and does not include a requirement to pay an administrative fee. In addition, AAC R7-3-502(C) requires that the providers pay an annual $200 marketing fee to the Commission. However, according to the Commission, the providers have agreed to each spend $10,000 in marketing in lieu of paying the $200 marketing fee to the Commission.[44] The Commission reported it has not pursued changes for these two rules because of the rule-making moratorium. However, rule changes that reduce regulatory burden or eliminate rules that are no longer necessary qualify as an exception to the rule-making moratorium. Therefore, the Commission should work with its Assistant Attorney General to determine

[43] Executive Order 2017-02 was signed by Governor Doug Ducey on January 11, 2017, and expires on December 31, 2017. This moratorium restricts rule-making without the prior written approval of the Governor's Office and provides justification for exceptions to the rule-making moratorium, such as reducing regulatory burden, eliminating rules that are no longer necessary, complying with a state or federal statutory requirement, or preventing a significant threat to the public health or safety.

[44] The College Savings Bank and Waddell & Reed, Inc.'s contracts include a requirement that at least $10,000 will be used for marketing within Arizona. According to the Commission, Fidelity Investments has agreed informally to spend $10,000 for the purpose of marketing.

whether and when it can make rule changes necessary to update its rules for the 529 program, including eliminating any rules that are no longer necessary.

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

   Auditors could not determine whether the Commission had encouraged input from the public before adopting rules because it has not adopted new rules for more than 10 years. In addition, General Counsel for the Auditor General determined that although the Commission is exempt from A.R.S. §41-1021 et seq, which requires agencies to follow specific requirements when making rules, A.R.S. §15-1852(C) requires the Commission to adopt rules in a substantially similar manner. To comply with this statutory requirement, the Commission has adopted AAC R-7-3-101 through R-7-3-108, which establish rule-making requirements for the Commission, such as posting a notice of rulemaking with the Secretary of State and maintaining an official rule-making record for each rule proposed.

   Auditors also assessed the Commission's compliance with various provisions of the State's open meeting law for six of its public meetings held between November 2016 and April 2017. Specifically, auditors tested three commission meetings and three meetings of the Family College Savings Program Oversight Committee (Oversight Committee), which helps to oversee Arizona's 529 program. Auditors found that the Commission has complied with most open meeting law requirements reviewed by auditors. Specifically, as required by A.R.S. §38-431.02, the Commission has conspicuously posted a statement on its website stating where all public notices of its meetings will be posted. In addition, for all six meetings auditors tested, the Commission posted meeting notices and agendas that include all of the required elements on its website at least 24 hours in advance of the meetings. In addition, auditors tested five of these meetings to assess whether notices and agendas were posted in physical locations, and found that they were noticed and posted at least 24 hours in advance at the location indicated on its website for the meetings tested.[45] Finally, as required by open meeting law, the Commission and Oversight Committee discussed only items listed on their agendas in all six meetings auditors observed.

   However, the Commission did not always make meeting minutes available to the public within 3 working days after meetings, as required by A.R.S. §38-431.01(D). Auditors tested meeting minute availability for four of the six public meetings and found that although the Commission made audio recordings of its meeting minutes for all the meetings tested, for two of the meetings—the November 3, 2016, oversight committee meeting and the November 8, 2016, commission meeting—the Commission did not make meeting minutes available to the public within 3 working days of the meeting. For these two meetings, commission staff reported that the staff person responsible for providing meeting minutes had been out of the office and that other commission staff did not have a procedure for how to provide minutes to the public in that staff person's absence. In February 2017, the Commission began to post its audio minutes on its website to help ensure that meeting minutes would be available to the public within 3 working days of the meeting. In July 2017, the Commission developed written procedures for how to post meeting agendas, save audio recordings of its meetings, and upload agendas to its website. In addition, in November 2017, the Commission updated these procedures to specify how meeting minutes will be uploaded to the website within 3 working days if the staff person responsible for preparing and uploading the minutes is unavailable. Therefore, to help ensure the Commission consistently provides timely meeting minutes to the public, the Commission should continue to implement its newly revised procedures to ensure that meeting minutes are provided to the public within 3 working days as required by open meeting law.

[45] Auditors evaluated only five of the six meetings to determine if the Commission posted the notices and agendas in the physical locations indicated on its website.

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

   This factor does not apply because the Commission is not a regulatory agency and does not have explicit statutory authority or requirements to investigate and resolve complaints. However, according to a commission official, the Commission may receive complaints from students seeking financial aid or complaints about a private institution that has closed. A commission official reported that these complaints are frequently outside the Commission's jurisdiction; however, commission staff reported that they will seek to assist the caller by answering questions or directing the caller to another agency.

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

   The Attorney General is the Commission's attorney according to A.R.S. §41-192(A)(1). Pursuant to this statute, the Attorney General is required to act as the legal advisor to the Commission. According to the Commission, the Attorney General's Office provides advice on the State's open meeting law and reviews the 529 program contracts for appropriate content. In addition, A.R.S §§41-191.04 and 41-191(E) allow the Commission to use the Arizona Attorney General's Office for the collection of defaulted student loans (see Sunset Factor 2, pages 27 through 28). As of April 2017, the Commission had referred 786 loans to the Attorney General's Office for collection.

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

   Commission staff reported that the Commission sought statutory changes in 2017 to continue the MSSE program and modify the PEG program. Specifically:

   - Laws 2017, Ch. 244, amended A.R.S. §§15-1781 through 15-1785 to modify the MSSE program, which was scheduled to expire in July 2017, and renamed it the Arizona Teacher Student Loan Program. As required by Laws 2017, Ch. 244, this program went into effect in May 2017, terminates on July 1, 2025, and requires loan recipients to agree to teach math, science, or special education in an Arizona public school, or in a public school that is low-income, located in a rural county, or located on an Indian reservation in order to have their loan forgiven; and

   - Laws 2017, Ch 243, amended A.R.S. §15-1855 to eliminate the PEG program, which had been discontinued on July 1, 2016, and establish the Private Postsecondary Education Program. This program terminates on July 1, 2027, and requires grant recipients to enroll in a science, technology, engineering, or math field at a private postsecondary institution. No funding was appropriated for this program for fiscal year 2018.

9. **The extent to which changes are necessary in the laws of the Commission to adequately comply with the factors listed in this sunset law.**

   Some authorities granted in one of the Commission's statutes may not be applicable to the Commission's functions. Specifically, A.R.S. §15-1852(B)(6) was added by Laws 1994, Ch. 298, §2, and states that the Commission may "conduct investigations, hold hearings and determine methods of enforcement of this article." According to the Commission, such investigations, hearings, and related enforcement have never occurred because A.R.S. §15-1852(B)(6) was adopted in anticipation of a federal law that would have required every state to regulate all sectors of postsecondary education. However, this federal law was never enacted. As a result, the Commission should consult with its Assistant Attorney General to determine the applicability of this statute and to make recommendations to the Legislature to eliminate the statute if it is not applicable to the Commission's functions.

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

Terminating the Commission would not significantly harm the health, safety, or welfare of Arizona citizens. However, if the Commission were terminated, some of its responsibilities would need to be transferred to other entities, including the 529 program, the Arizona Teacher Student Loan Program, and the AzLEAP program. For example, California's 529 program is administered by the ScholarShare Investment Board, a board which reports to the California State Treasurer's Office. In addition, as mentioned in the Introduction (see page 1 and pages 4 through 5), the Commission is statutorily responsible for administering federal financial aid programs in Arizona, although no such programs have been funded since 2014. If future federal financial aid programs were implemented in Arizona, this responsibility would also have to be assigned to another entity if the Commission were terminated. Terminating the Commission would also impact the College and Career Goal Arizona programs that the Commission coordinates. The Commission also reported that it receives all FAFSAs filed by Arizona residents and, as the Arizona entity that receives all FAFSAs and administers federal and state financial aid programs, it represents Arizona in the National Association of State Student Grant and Aid Programs (NASSGAP). NASSGAP is an organization that promotes standards in administering student grant and aid programs and whose membership consists of a single agency in each state or territory. Finally, according to the Commission, terminating the Commission would eliminate the only state entity that has the responsibility to provide a forum for public and private postsecondary educational sectors to meet and discuss postsecondary issues facing Arizona, such as access to postsecondary education for underserved populations.

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

This factor does not apply because the Commission is not a regulatory agency.

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

The Commission uses several private contractors to help in its various responsibilities. The Commission reported that in fiscal year 2017, it had contracted with the following seven contractors: three 529 program providers, an investment consulting firm to help oversee the 529 program, marketing services for Arizona's 529 program, conference and event planning, and information technology (IT) services. In fiscal year 2017, the Commission spent nearly $300,000 on these services. Specifically:

- **529 program providers—**The Commission has contracts with three providers: College Savings Bank, Fidelity Investments, and Waddell & Reed, Inc., which offer individuals various options to invest and save for future higher education costs through Arizona's 529 program. These providers each offer account holders a different option for investing or saving (see Introduction, pages 2 through 3).[46]

- **Investment consultant—**The Commission has contracted with an investment consulting firm, at a cost of nearly $92,000 in fiscal year 2017 for the first year of services and $85,000 for each year thereafter, to provide investment consulting expertise for the 529 program and to help monitor provider fund performance.[47]

- **Marketing services—**The Commission uses marketing services made available through the State's multi-agency contract for marketing services.[48] The Commission spent $150,000 for this contractor in

[46] Although the three providers do not receive payments from the Commission for their services, Fidelity Investments and Waddell & Reed, Inc. are allowed by contract to receive monies in various ways, such as withholding a percentage of the assets invested, or charging fees, such as account maintenance fees, directly to account holders.

[47] The first year of services were from August 1, 2016 through August 1, 2017.

[48] According to the Arizona State Procurement Office, state-wide contracts are multiple agency, cooperative contracts that can be used by state agencies and available for use by those who participate in the state purchasing cooperative.

fiscal year 2017, which, according to the Commission, was for various marketing services, such as digital, radio, and print advertisements for Arizona's 529 program.

- **Conference and event planning—**The Commission uses a state-wide contract for conference and event planning services, including for the Developing Human Capital Conference, which is held every 2 years and provides information sessions to postsecondary leadership about various topics, such as research that applies to postsecondary education and policy recommendations to promote educational performance. The Commission spent $5,000 on these services in fiscal year 2017.

- **IT services—**The Commission has agreements with two entities to provide its IT services. First, the Commission uses a state-wide contractor to host and maintain a website, the AzGrants portal. The AzGrants portal is used as part of the FAF$A Finish Line, an initiative that allows high school representatives to access commission information to help identify students at their schools who have not yet completed FAFSA forms. Second, the Commission has an informal agreement with the Arizona Board of Regents to provide IT support and network servers on which it stores its data. The Commission spent nearly $53,000 on these service in fiscal year 2017.

To compare the Commission's use of contractors to other states, auditors contacted state agencies responsible for 529 programs and/or financial aid programs in California, Georgia, Kentucky, and Utah. Similar to Arizona, California's ScholarShare Investment Board, the Georgia Office of the State Treasurer, and the Kentucky Higher Education Assistance Authority all contract with financial investment companies to provide investment and savings options within their 529 programs. In contrast, the Utah Educational Savings Plan administers and manages Utah's 529 program and does not contract with a financial investment company. In addition, California, Kentucky, and Utah reported that they contract for 529 investment consultant services, and both California and Utah reported that they have contracted for marketing services for their 529 programs. Further, the Georgia Student Finance Commission reported that it contracts for IT services for a website that allows prospective students to apply to college, to provide collection services for student loans that are in default, and for temporary staff. None of the other four states reported that they contracted for event planning.

The audit did not identify any additional areas where the Commission should consider using private contractors.

Recommendations

1. The Commission should revise and then implement its newly revised cash-handling procedures to:

    a. Require appropriate segregation of duties, including guidance that mail should always be opened with two staff present, that mail should not be opened by the same person who will prepare and make the deposit, and that the electronic mail log should be restricted to only those staff who enter cash receipts into this log;

    b. Require that cash deposits be made on the day of collection or, when deposit on the day of collection is impractical, at the end of the business day after monies total $1,000 or more; and

    c. Include guidance for limiting access to the safe to only those staff who need access for their job duties (see Sunset Factor 2, pages 26 through 27).

2. The Commission should train staff on cash-handling procedures as needed (see Sunset Factor 2, pages 26 through 27).

3. The Commission should continue to develop and implement written policies and procedures that fully address all aspects of processing loan repayments (see Sunset Factor 2, pages 27 through 28).

4. The Commission should implement its new AzLEAP procedures for auditing participating postsecondary institutions' student records to help ensure that eligible students received the reported disbursement of AzLEAP program awards (see Sunset Factor 2, pages 28 through 29).

5. The Commission should work with its Assistant Attorney General to determine whether and when it can make rule changes necessary to update its rules for AzLEAP oversight, including seeking to eliminate any rules that are no longer necessary (see Sunset Factor 2, pages 28 through 29).

6. The Commission should work with its Assistant Attorney General to determine whether and when it can make rule changes necessary to update its rules for the 529 program, including eliminating rules that are no longer necessary (see Sunset Factor 4, pages 29 through 30).

7. The Commission should continue to implement its newly revised procedures to ensure that meeting minutes are provided to the public within 3 working days as required by open meeting law (see Sunset Factor 5, page 30).

8. The Commission should consult with its Assistant Attorney General to determine the applicability of A.R.S. §15-1852(B)(6), and to make recommendations to the Legislature to eliminate the statute if it is not applicable to the Commission's functions (see Sunset Factor 9, page 31).

Methodology

Auditors used various methods to study the issues in this performance audit and sunset review of the Arizona Commission for Postsecondary Education (Commission). These methods included reviewing the Commission's statutes, rules, strategic plan, annual reports, policies and procedures, and information on the Commission's website; interviewing the commission chairperson, members of the Family College Savings Program Oversight Committee (Oversight Committee), and commission staff; and attending multiple commission meetings and oversight committee meetings and/or reviewing commission agendas and meeting minutes from these meetings.

In addition, auditors used the following specific methods to meet the audit objectives:

- To evaluate the Commission's oversight of the Arizona Family College Savings Program (529 program), auditors reviewed the Commission's contracts with College Savings Bank, Fidelity Investments, and Waddell & Reed, Inc.; observed the Oversight Committee's March 30, 2017, annual performance review of providers and listened to meeting minutes for annual performance review meetings for 2014 through 2016; reviewed the Commission's annual performance review rating instrument and performance review report guidance document; reviewed reports submitted by providers for the annual provider reviews conducted in calendar years 2015, 2016, and 2017; and reviewed the oversight committee members' ratings for the calendar year 2014, 2015, and 2016 annual performance reviews. Auditors also reviewed provider rating information from Morningstar, Inc. for October 2012 through October 2017 and for Savingforcollege.com for calendar year 2017, and interviewed representatives from both companies. In addition, auditors interviewed the Commission's investment consultant and reviewed the investment consultant's evaluations of the providers; and reviewed the Commission's 529 annual report for fiscal year 2016 and its 529 investment policy statement. Auditors also reviewed best practices for government contracting and assessing the quality of contractor performance.[49,50] Finally, auditors interviewed representatives and obtained contract information from the Oregon 529 College Savings Network because, similar to Arizona, it performs a periodic review of its 529 providers.

- To assess the Commission's protection of confidential and sensitive electronic data, auditors reviewed the Commission's contracts and agreements for information technology (IT) services; interviewed Arizona Board of Regents (ABOR)'s IT staff; reviewed ABOR's documentation of commission staff access controls and IT security practices; reviewed the AzGrants portal contractor's Service Organization Controls (SOC) report for fiscal year 2016; and reviewed the Commission's data-sharing agreement with the U.S. Department of Education. Auditors also analyzed the Commission's IT security-related policies and practices and compared them to state-wide requirements from the Arizona Department of Administration, Arizona Strategic Enterprise Technology Office, and to IT standards and best practices.[51] To determine the extent of confidential and

[49] National State Auditors Association. (2003). *Contracting for services: A National State Auditors Association best practices document*. Lexington, KY. The National State Auditors Association is an organization that provides information and best practices to auditors at the local, state, and federal government levels.

[50] Sochon, G. (2015). *Back to basics: Evaluating contract performance*. Arlington, VA: ASI Government.

[51] Boyens, J., Paulsen, C., Moorthy, R., & Bartol, N. (2015). *Supply chain management practices for federal information systems*. Gaithersburg, MD: National Institute of Standards and Technology; National Institute of Standards and Technology. (2013). *Security and privacy controls for federal information systems and organizations*. Gaithersburg, MD; Swanson, M., Wohl, A., Pope, L., Grance, T., Hash, J., & Thomas, R. (2002). *Contingency planning guide for information technology systems*. Gaithersburg, MD: National Institute of Standards and Technology; Swanson, M. & Guttman, B. (1996). *Generally accepted principles and practices for securing information technology systems*. Gaithersburg, MD: National Institute of Standards and Technology; and International Organization for Standardization. (2013). *Code of practice for information security controls*, ISO/IEC 27002. Geneva, Switzerland.

sensitive electronic data for which the Commission is responsible, auditors reviewed the contents of the Commission's shared drive and observed commission staffs' level of access to electronic data.

- To obtain information for the Introduction, auditors compiled and analyzed unaudited information from the Arizona Financial Information System (AFIS) *Accounting Event Transaction File* for fiscal years 2015 through 2017 and the State of Arizona *Annual Financial Report* for fiscal years 2015 and 2016; reviewed the Commission's Quarterly Management Report for June 30, 2017; the Arizona Leveraging Educational Assistance Partnership (AzLEAP) Office Manual; and tracking spreadsheets for the Math, Science, and Special Education Teacher Loan (MSSE) program, the Postsecondary Education Grant (PEG), and the Private Postsecondary Education Student Financial Assistance Program (PFAP); and the Commission's *College and Career Guide*. In addition, to gather information about investment portfolios, auditors reviewed the websites of the United States Securities and Exchange Commission and Fidelity Investments, and the January 2017 Fidelity Investments Arizona College Savings Plan Fact Kit.

- To obtain information used in the Sunset Factors, auditors interviewed staff and/or reviewed websites for agencies that regulate 529 programs and/or financial aid programs in four states—California, Georgia, Kentucky, and Utah.[52] Auditors also compared the Commission's cash-handling practices to the *State of Arizona Accounting Manual* (SAAM) and tested the timeliness of the Commission's deposits recorded in the Commission's electronic mail log during the month of October 2016. To assess compliance with various provisions of the State's open meeting law for public commission and oversight committee meetings held between November 2016 and April 2017, auditors reviewed agendas and meeting minutes for six public meetings, assessed whether commission staff posted public notices and agendas for five of these meetings, and placed four anonymous phone calls to commission staff requesting copies of audio minutes. Finally, to assess the Commission's use of private contractors, auditors reviewed commission contracts for services with various companies in fiscal year 2017 and compiled and analyzed unaudited expenditure data listed in AFIS for fiscal years 2015 through 2017.

- Auditors' work on internal controls included assessing the Commission's practices for ensuring compliance with statute and rule, 529 provider contracts, State IT security policy, and SAAM, and comparison to best practices from the National Institute of Standards and Technology; observing commission staff perform accounts receivable activities and testing electronic mail log deposits; performing limited testing of IT system access and controls; and reviewing a third-party SOC report of IT controls of the AzGrants portal contractor. Auditors reported their conclusions on these internal controls and, where applicable, commission efforts to improve its controls in Findings 1 and 2 and Sunset Factor 2 of the report.

Auditors conducted this performance audit and sunset review of the Commission in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Auditor General and staff express their appreciation to the Commission, the Oversight Committee, the Executive Director, and commission staff for their cooperation and assistance throughout the audit.

[52] Auditors selected two western states and two states with a similar structure to Arizona in that a single agency operates both the 529 program and other financial aid programs.

AGENCY RESPONSE

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December 15, 2017

Ms. Debra K. Davenport, Auditor General
Office of the Auditor General
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Ms. Davenport,

The Arizona Commission for Postsecondary Education (ACPE) appreciates the opportunity to provide a response to the Audit Report provided by your office that was received on December 8, 2017. Enclosed is the Commission's response to the Audit Report.

The Commission and staff members are committed to continuous quality improvement, transparency, and accountability. We recognize this audit process plays an important role in achieving these goals and also offers a helpful outside view of the agency and our work.

We look forward to completing the final steps of the performance audit.

Sincerely,

Dr. April L. Osborn
Executive Director

CC: Marc Owen, Performance Audit Manager

Enclosures: ACPE Response to the Audit Report

Finding 1: Commission and Oversight Committee should further strengthen 529 program oversight

Recommendation 1.1: The Oversight Committee should review its rating categories and subcategories and determine where additional descriptions of expected performance or measurable standards would be appropriate, and then modify its rating instrument and/or rating guidance accordingly.

Agency Response The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: None required.

Recommendation 1.2: The Commission should develop and implement policies and procedures for regularly assessing, evaluating, and modifying the types of information that the Oversight Committee receives as part of the annual performance review. As part of this process, commission staff should continue to solicit feedback from the Oversight Committee to determine what information would be most useful for its review.

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Arizona Family College Savings Program Director will continue to solicit feedback from the Oversight Committee members regarding the information they need for performance review as well as throughout the year, and will document the process.

Recommendation 1.3: The Commission should ensure that all provider contracts include provisions that require the providers to participate in an annual performance review and to provide commission staff with performance review reports that contain specified information.

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: All three program managers have consistently and fully participated in the Annual Provider Review Process. Moreover, the year's calendar of both Oversight Committee Meetings and regularly scheduled liaison phone calls with each of the program managers will continue to focus on preparation for the Annual Provider Review Process. However, Commission staff understand that having participation stipulated in each of the program manager's contract will strengthen the Commission's position. The staff will implement this recommendation when contracts are renewed or when an amendment is proffered.

Recommendation 1.4: The Commission should continue implementing its procedures for verifying that providers have paid the Commission the fee amounts specified in their contracts.

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The shortage of the fees for a total of less than $1,600 between 2011 through 2017, as reported in the Preliminary Report Draft, and was the result of a rounding error. In reaction to this situation, the staff has strengthened and thoroughly documented the procedures for monitoring and verifying both asset-based and new account fees due from each of the three providers. This documentation was sent to the Auditors on November 10, 2017.

Recommendation 1.5: The Commission should continue to implement its procedures for reviewing the account balances of 529 beneficiaries on a quarterly basis and further modify its written procedures to designate staff responsible for this task.

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: These reports are being prepared and reviewed quarterly. Documentation of these procedures, including designation of the staff positions responsible is on file at the Commission. A copy of these procedures was sent to the Auditors on November 20, 2017.

Finding 2: Commission should take steps to better protect confidential and sensitive electronic data

Recommendation 2.1: The Commission should limit staff access to only the confidential and sensitive electronic data needed for their job duties by:

Recommendation 2.1a: Completing its shared drive organization project, including assessing the structure and content of the shared drive, identifying any duplicate content, and removing any unnecessary documents;

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response Explanation: This project has begun and an outline of the project scope was submitted to the auditors on June 2, 2017.

Recommendation 2.1b: Developing and implementing procedures for protecting its electronic data based on the level of risk associated with the data, including classifying the data as confidential or public, and developing a data classification inventory that is updated regularly;

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Commission will start a data classification process that identifies and protects sensitive data based on the data's level of risk. Initially, the data will be classified as public or confidential, thereafter data access will be limited to those people who need access to perform their duties. This data classification inventory will be updated regularly.

Recommendation 2.1c: Reviewing staff duties to determine the access staff need to confidential and sensitive electronic data, including access to electronic data from prior years that is not needed for current work; and

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Staff duties will be reviewed during the data classification process and the S-drive Organization Project

Recommendation 2.1d: Limiting staff access to confidential and sensitive electronic data based on the results of this review and working with ABOR to implement this access.

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Commission will limit access based upon the review that is a part of S-drive Organization Project and data classification processes. Additionally the commission will work with ABOR to ensure employees only have access to confidential and sensitive electronic data that is necessary for their work.

Recommendation 2.2: The Commission should develop a formal contract or SLA with ABOR, in accordance with IT best practices and standards for vendor management, that specifies the level of IT services ABOR will provide the Commission. This contract or SLA should include requirements for:

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Executive Director has requested a meeting with ABOR's Director of Business and Financial Services to review the terms of the Agreement which outlines the services provided and the financial obligations for both sides. The goal of this meeting is to provide contract clarity for both parties.

Recommendation 2.2a: Terminating the network server access of former employees in a timely manner;

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Commission has been following a set of agreed to procedures with ABOR; however, these were not written down. They have been recorded and were delivered to the Auditors on December 4^{th}.

Recommendation 2.2b: Adequately protecting passwords that provide access to the 529 data stored on ABOR's network servers by more frequently resetting passwords and storing them only in unobservable locations;

Agency Response: The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented.

Response explanation: Two of these recommendations present challenges for implementation as proposed. ASU maintains the ACPE's servers and thus, ASU not ABOR, controls the schedule of password resetting. Likewise, a similar challenge exists regarding password retrieval. Again, this is in the hands of ASU. To address this recommendation the Office and Communications Coordinator, along with the ABOR's IT manager will work with ASU to establish an agreeable schedule of password resetting and establish a password retrieval process that meets the intent of this recommendation. Until appropriate systems can be established with ASU, the ACPE business manager will maintain the password protected listing of ACPE staff passwords until such a time that ACPE staff can access the ASU password retrieval system successfully. In regards to storage of passwords in observable locations, the ACPE will put an item on a staff meeting agenda to review password protection policies and all staff will sign an acknowledgement page stating that they have read and understood the policies regarding password protection.

Recommendation 2.2c: Establishing a process for working with ABOR's IT staff for password retrieval if commission staff lose or forget passwords that allow access to the shared drive; and

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: See explanation for 2.2b

Recommendation 2.2d: Developing and implementing a contingency plan for the electronic data stored at ABOR that includes requirements for saving backup copies off site and testing backup copies more frequently.

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: During the Executive Director's discussion of terms for a new Service Level Agreement (SLA) with the ABOR Director of Business and Financial Services the requirements regarding frequency and testing of backups will be considered as an element within the new agreement.

Recommendation 2.3: The Commission should develop and implement time frames for when it will notify ABOR's IT administrator to terminate former employee access and a procedure for requesting that passwords be reset.

Agency Response: The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented.

Response explanation: The Commission has been following a set of agreed to procedures with ABOR; however, these were not written down. They have since been recorded and were delivered to the Auditors on December 4, 2017. See agency Response Explanation to 2.2b.

Recommendation 2.4: The Commission should discontinue its practice of saving a list of commission staff passwords that is accessible to multiple staff.

Agency Response: The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented.

Response explanation: A challenge exists regarding password retrieval. See 2.2.b Agency Response Explanation. Again, this is in the hands of ASU and until an agreement is arranged with ASU, the ACPE Business Manager will be the sole staff member to have these passwords. The Business Manager will maintain the password protected listing of ACPE staff passwords until such a time when ACPE staff can access the ASU password retrieval system successfully.

Recommendation 2.5: The Commission should continue with its plans to:

Recommendation 2.5a: Modify its AzGrants portal contract to require the contractor to submit a SOC or other IT security audit report annually to provide the Commission with assurance that its confidential and sensitive electronic data is safe;

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Gold Bridge Partners, Inc. has agreed to provide their SOC annually as a part of their Hosting Agreement and also to provide evidence of back-up quarterly. A copy of the agreement with the changes will be sent to the Auditors on December 15, 2017.

Recommendation 2.5b: Implement a procedure for reviewing the IT security audit information including following up on any IT security concerns identified; and

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: A policy titled “Procedures for Review and Follow-up on IT Security Concerns” has been written and was sent to the Auditors on November 20, 2017.

Recommendation 2.5c: Amend its contract to require the AzGrants portal contractor to periodically submit evidence that it is complying with the IT security requirements specified in the contract, such as providing documentation of backing up the data weekly.

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Gold Bridge Partners, Inc. has amended their “Hosting Work Order Agreement” with language agreeing to complete weekly back-ups of database and master database, complete nightly differential backups of data base, provision of their SOC or Service Organization Control report annually as a part of their Hosting Agreement, and to provide quarterly evidence of weekly back-up. A copy of the agreement changes was sent to the Auditors on December 15, 2017.

Sunset Factor 2: The extent to which the Commission has met its statutory objective and purpose and the efficiency with which it has operated.

Recommendation 1: The Commission should revise and then implement its newly revised cash-handling procedures to:

Recommendation 1a: Require appropriate segregation of duties, including guidance that mail should always be opened with two staff present, that mail should not be opened by the same person who will prepare and make the deposit, and that the electronic mail log should be restricted to only those staff who enter cash receipts into this log;

Agency Response: The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented.

Response explanation: When the segregation of duties and the need for a second person for cash handling procedures were identified by the Audit staff members, the ACPE staff quickly and efficiently responded to remedy the issues and to document the procedures. All but one of these issues have been resolved and documentation has been submitted and revised appropriately upon advice from the Audit staff members. The final procedures were uploaded on May 5, 2017 and November 20, 2017. However, the ACPE Business Manager has contacted the GAO liaison who works with internal controls for suggestions regarding the issues of separation of duties to fulfill the electronic cash log separation requirement. Currently CSB approves the deposits. Upon advice of the GAO internal audit team, a copy of the electronic cash log will be attached to deposits submitted in AFIS as the deposit number should be tied to the electronic cash log.

Recommendation 1b: Require that cash deposits be made on the day of collection or, when deposit on the day of collection is impractical, at the end of the business day after monies total $1,000 or more; and

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Policies have been developed following these guidelines and were sent to the Auditors on May 5, 2017.

Recommendation 1c: Include guidance for limiting access to the safe to only those staff who need access for their job duties.

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: None required. These guidelines have been added to the ACPE Policies and Procedures and were sent to the Auditors on January 20, 2017.

Recommendation 2: The Commission should train staff on cash-handling procedures as needed.

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: None required. Training will be added to the on-boarding process for the named positions.

Recommendation 3: The Commission should continue to develop and implement written policies and procedures that fully address all aspects of processing loan repayments.

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Policy statements are the first step in student loan repayments. Policies, procedures, and Promissory Notes which guide the actions taken by staff were approved by the Commissioners on April 17, 2012, after being reviewed by the Assistant Attorney General. Policies and Promissory Notes were submitted to the Auditors on October 27, 2016 and May 14, 2017, respectively. To further document the process monthly procedures were identified and the final document titled "Repayment Procedures" was sent to the Auditors on August 3, 2017. The Commission staff will add to these procedures an annual review of the documentation and implementation of these loan repayment programs for the purpose of evaluation and program improvement.

Recommendation 4: The Commission should implement its new AzLEAP procedures for auditing participating postsecondary institutions' student records to help ensure that eligible students received the reported disbursement of AzLEAP program awards.

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The procedures to implement the new audit procedures have been developed. The new procedures will be introduced to the postsecondary institutions in the spring, allowing for the first audit year to be 2016-17.

Recommendation 5: The Commission should work with its Assistant Attorney General to determine whether and when it can make rule changes necessary to update its rules for AzLEAP oversight, including seeking to eliminate any rules that are no longer necessary.

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: None required.

Sunset Factor 4: The extent to which rules adopted by the Commission are consistent with the legislative mandate.

Recommendation 6: The Commission should work with its Assistant Attorney General to determine whether and when it can make rule changes necessary to update its rules for the 529 program, including eliminating rules that are no longer necessary.

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: None required.

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

Recommendation 7: The Commission should continue to implement its newly revised procedures to ensure that meeting minutes are provided to the public within 3 working days as required by open meeting law.

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ACPE staff members have documented the process and procedures for all ACPE public meetings including making the public aware of agenda, location, and time of public meetings, preparing the recorded minutes for public access, and providing access to minutes. This document also names the staff position responsible for taking over these activities to ensure follow-through when a staff member is ill or unable to complete all steps. The original version of this document is titled “Public Meeting Procedures” and was sent to the auditors on November 20, 2017.

Sunset Factor 9: The extent to which changes are necessary in the laws of the Commission to adequately comply with the factors listed in this sunset law.

Recommendation 8: The Commission should consult with its Assistant Attorney General to determine the applicability of A.R.S. §15-1852(B)(6), and to make recommendations to the Legislature to eliminate the statute if it is not applicable to the Commission’s functions.

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: None required.

ARIZONA
Auditor General
Making a Positive Difference