

# Joint Legislative Audit Committee

December 17, 2020—11:00 a.m.

Senate Hearing Room 1



Lindsey Perry  
Auditor General



# ARIZONA STATE LEGISLATURE

## INTERIM MEETING NOTICE OPEN TO THE PUBLIC

### JOINT LEGISLATIVE AUDIT COMMITTEE

**Date:** Thursday, December 17, 2020

**Time:** 11:00 A.M.

**Place:** SHR 1 for members. This meeting will be held via teleconference software  
Members of the public may access a livestream of the meeting here:  
[https://azleg.granicus.com/MediaPlayer.php?publish\\_id=2](https://azleg.granicus.com/MediaPlayer.php?publish_id=2)

### AGENDA

1. Auditor General's Office update
2. Consideration and approval of 2022-2023 proposed performance audit and sunset review schedule
3. Consideration and approval of 2022-2023 COR assignments and additions to the 2020 and 2021 COR assignments
4. Fiscal years 2020 and 2021 financial and compliance audit schedule and consideration of approval to bill entities for audit work
5. Presentation of 2022-2023 school district performance audit schedule
6. Consideration of special audit of the Department of Economic Security's Unemployment Insurance System

### Members:

Senator Rick Gray, Vice Chair  
Senator Lupe Contreras  
Senator Andrea Dalessandro  
Senator Karen Fann, Ex-officio  
Senator David C. Farnsworth  
Senator David Livingston

Representative Anthony T. Kern, Chair  
Representative John Allen  
Representative Russell "Rusty" Bowers, Ex-officio  
Representative Timothy M. Dunn  
Representative Mitzi Epstein  
Representative Jennifer Pawlik

12/15/2020  
JB

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**LINDSEY A. PERRY**  
AUDITOR GENERAL

**ARIZONA**  
**AUDITOR GENERAL**

**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

**DATE:** December 17, 2020

**TO:** Representative Anthony Kern, Chair  
Senator Rick Gray, Vice Chair  
Members, Joint Legislative Audit Committee (JLAC)

**FROM:** Lindsey Perry, Auditor General

**SUBJECT:** Auditor General's Office (Office) update

## **Background**

As a legislative agency, we are appropriately positioned to fulfill our many mandates, the most important of which is to provide independent, impartial, accurate, and timely information to the Legislature. Our audits, reviews, and investigations of State agencies, universities, counties, community college districts, school districts, and other government entities help:

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

Through our work, we also provide timely and useful information to various government officials for decision-making purposes; help to ensure that federal monies, including the Coronavirus Relief Fund monies, continue to flow to critical State and local programs; and inform the public about how taxpayer monies are used. Our reports contain recommendations designed to improve State and local government operations. Not only do we provide recommendations, but we also follow up with the audited entities to assess their efforts to implement the recommendations and, consistent with the intent of our recommendations, often find their implementation improves performance, ensures compliance with laws and regulations, and yields cost savings.

For a summary of the Office's fiscal year 2020 results, see our attached annual report. We issue this report each year to highlight the audits, reviews, investigations, and followups we conducted throughout the fiscal year. The annual report also highlights other ways the Office provides value by lowering costs, uncovering fraud, helping government work better, and providing high-impact training.

Despite the COVID-19 pandemic, we continue to accomplish important work and have discovered new ways to do so. Because of our previous strategic planning efforts, we were well-positioned to swiftly shift our team to a remote work environment while maintaining productivity and team

collaboration and ensuring quality audit work. Further, since April, we have issued crucial COVID-19 guidance, accounting, and reporting resources through our website; provided training; and provided answers to questions to help State and local governments, school districts, and charter schools navigate the ever-changing landscape. We continue to serve on State and national COVID-19 workgroups, which helps us stay informed of the numerous issues affecting State and local governments and the audit industry.

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

I am honored to be your appointed Auditor General and to lead my team of nearly 200 professionals who believe in making a positive difference by promoting better government.

**Action required**

None. Presented for JLAC's information only.

## We Make a Positive Difference

We focus on helping Arizona governments, such as State agencies, universities, counties, community college districts, school districts, and other entities work better by reviewing the way they operate and making recommendations to improve so they are spending public monies efficiently and effectively. In fiscal year 2020, we issued 197 audits, reviews, investigations, and followups with 628 recommendations.

### Performance audits and sunset reviews

19 reports | 196 recommendations

As the name indicates, our performance audits assess how various entities, such as State agencies and school districts, are providing services to Arizona's citizens. We include recommendations to guide these entities so they can better serve the public. Sunset reviews help the Legislature decide whether to continue an agency or "sunset" (terminate) it.

### Followups

54 followups

We follow up with the entities we have audited at regular intervals to assess how many of our recommendations they have implemented and their status.

### Recommendations implemented

 Agencies/school districts **88%**  Legislative **100%**

### Financial investigations and alerts

8 reports | 16 recommendations

We investigate Arizona governments when we receive allegations that public monies are being misused. If we uncover criminal violations, we submit our findings to prosecutors for independent reviews, then issue this information to the public after the prosecutor files a criminal indictment or complaint. We also help deter and prevent criminal activity by issuing timely alerts; for example, ways to detect fraud.

### Financial and federal compliance audits

46 reports | 379 recommendations

These audits help ensure Arizona governments are properly accounting for and reporting their finances. Federal compliance audits examine how these governments account for federal money in Arizona and help ensure this money is being used in accordance with federal requirements.

### Accountability reviews

65 reports | 1 recommendation

These reviews, such as school district compliance reviews and county and community college district expenditure limitation reports, check to help ensure public monies are protected and accounted for and that government entities are following certain State laws and regulations, including those related to school district financial records and limits on county and community college district spending.

### Special audits/reviews

5 reports | 36 recommendations

We conduct these reviews when specific laws require them, or when the Joint Legislative Audit Committee requests them. In 2020, these reviews included an audit of the Arizona Department of Education—Empowerment Scholarship Accounts Program. We found that the Department provided some customers with poor-quality information through its phone service and took nearly 5 days to respond to voicemail/email inquiries. The Department also exceeded its 45-day Program application decision for 55 percent of applications it received between July 2017 and October 2019. We also found that although the Department has made progress in implementing the recommendations from our 2016 audit, several issues persist, including it releasing a parent's/guardian's and children's personal information when fulfilling some public records requests. We recommended that the Department ensure staff provide high-quality customer service by implementing customer service performance management policies, procedures, and metrics; notify parents/guardians of application decisions within the 45-day statutory time frame; and ensure it protects sensitive personal information.

## We Add Value by...



### Lowering Costs

We provided a State-wide analysis of school district spending, and in our school district performance audits we made recommendations to help districts reduce costs by reviewing high salaries, staffing levels, and excess school building space. For example, we identified that the Gadsden Unified School District (District) wasted more than \$65,000 in public monies on unnecessary travel in fiscal years 2015 through 2019 by sending staff and Board members to California for Governing Board meetings. When we asked District officials about their decision to hold this meeting out of State, they responded that the District held this meeting in California to limit interruptions from the public. We also reported that the District was overfunded by about \$218,000 in State monies in fiscal year 2019 because it incorrectly reported the number of bus miles driven and the number of students who rode the bus.



### Uncovering Fraud

Our financial investigations look into allegations such as theft, fraud, misuse of public monies, and conflict of interest. For example, our investigation of the Valley Academy for Career and Technical Education (VACTE) found that a former business manager had embezzled VACTE monies when she issued 5 unauthorized warrants totaling \$19,851 for her personal purposes and used a VACTE credit card to make personal purchases totaling \$10,746. This individual was indicted on 19 felony counts related to theft, misuse of public monies, fraudulent schemes, computer tampering, and forgery. We also investigated an allegation of financial misconduct at the Ray Unified School District (District). Our investigation revealed that the District's former business manager had embezzled \$38,333 from the District and \$900 from a nonprofit youth sports organization for her own personal purposes. She was indicted on 19 felony counts related to theft, misuse of public monies, fraudulent schemes, and computer tampering, and 2 misdemeanor theft counts.



### Helping Government Work Better

In addition to uncovering fraud and finding ways to save taxpayers' money, we focus on improving the way governments operate. Our performance audit of the Arizona Board of Regents (ABOR), which is the governing body of the State's 3 universities, found that ABOR is authorized to own and lease property for the benefit of the State and the universities' use, but its lack of written guidance for implementing its real estate policies and approving commercial subleases increases the risk of inappropriate use of public resources leased to private parties. Also, the operation of some ABOR property lacked oversight and accountability, resulting in the inappropriate use of proceeds and limited transparency. Finally, ABOR lacks a complete property listing and other property management information, limiting its ability to oversee and manage its property.

## We Provide High-Impact Training



Our staff, through free trainings, presentations, webinars, workshops, technical assistance, and other outreaches, provide Arizona governments with information to help them improve the value of their services to the State's citizens. We train employees of other State agencies, counties, school districts, community colleges, cities and towns, and other government entities.

#### Training statistics



23 trainings



2,209 attendees

#### Key training topics



IT security controls



Accounting standards



School district procurement



School district financial risk analysis



Fraud prevention and detection

## We Receive National Recognition



We received an award for our high-quality work from the National Legislative Program Evaluation Society (NLPES) for our audit of the Arizona Department of Revenue—Transaction Privilege Tax (TPT). NLPES presented us with this award for providing valuable information to the Legislature and the public about this tax and how implementing our recommendations would benefit the State.



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DEPUTY AUDITOR GENERAL

**DATE:** December 17, 2020

**TO:** Representative Anthony Kern, Chair  
Senator Rick Gray, Vice Chair  
Members, JLAC

**THROUGH:** Lindsey Perry, Auditor General

**FROM:** Dale Chapman, Director, Performance Audit Division

**SUBJECT:** Consideration and approval of 2022-2023 proposed performance audit and sunset review schedule

## Background

Laws 1978, Ch. 210, established the sunset review process, which requires most State agencies to receive a systematic review typically at least once every 8 years to determine whether they should be continued or terminated. A.R.S. §41-2953(B) directs the Auditor General to provide JLAC a list of agencies scheduled for termination in the next sunset schedule. The Office does not have sufficient resources to conduct all sunset reviews; therefore, JLAC determines which agencies the Office will review and which agencies will conduct self-reviews for the Committees of Reference (CORs).

Before providing JLAC a proposed audit schedule, the Office obtains background information on the agencies, as well as input from legislators and other interested parties, to identify and recommend which agencies the Office should review. The Office uses the input from legislators and other stakeholders, and also considers prior audits and reviews of these agencies, to prioritize the agencies the Office should review and recommends that the remaining agencies conduct self-reviews. However, JLAC ultimately determines whether the Office will conduct the sunset reviews or the agencies will conduct self-reviews.<sup>1</sup>

The proposed performance audit and sunset review schedule for 2022-2023 is attached. This schedule shows which agencies we propose the Office to conduct the sunset reviews and which agencies we propose conduct self-reviews for the CORs. The schedule also identifies 3 agencies or programs that statute mandates the Office to audit.

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<sup>1</sup> The essential difference between sunset reviews the Office conducts and agency self-reviews is the depth and scope of the work performed. When the Office performs an agency's sunset review, it conducts a performance audit of the agency to identify ways the agency can operate more efficiently and effectively and independently gathers information to address the statutory sunset factors.

**Action required**

Per statute, for the agencies scheduled for termination in the next sunset schedule, JLAC is required to determine whether the Office will perform the sunset reviews or the agencies will conduct self-reviews for the CORs.



## 2022-2023 proposed performance audit and sunset review schedule

### Statutorily mandated audits

#### Auditor General's Office conducts

1. Child Safety, Arizona Department of (audits for 2022-2023 still to be determined)
2. Parks Heritage Fund, Arizona State (A.R.S. §41-504)
3. Regional Transportation Authority Plan, Pima County Association of Governments (A.R.S. §41-1279.03)

### Sunset reviews (agencies terminate in 2023 and 2024)

#### Auditor General's Office conducts

4. Administration, Arizona Department of
5. Arizona Health Care Cost Containment System<sup>1</sup>
6. Charter Schools, Board for
7. Child Safety, Arizona Department of
8. Commerce Authority, Arizona
9. Deaf and Blind, Arizona State Schools for the
10. Dental Examiners, Arizona State Board of
11. Economic Opportunity, Office of
12. Emergency and Military Affairs, Department of; State Emergency Council
13. Forestry and Fire Management, Arizona Department of
14. Foster Care Review Board
15. Industrial Commission of Arizona
16. Liquor Licenses and Control, Department of
17. Massage Therapy, Arizona State Board of
18. Municipal Tax Code Commission
19. Naturopathic Physicians Medical Board
20. Optometry, Arizona State Board of
21. Parks Board, Arizona State
22. Physical Therapy, Board of
23. Pioneers' Home, Arizona; State Hospital for Miners with Disabilities
24. Private Postsecondary Education, Board for
25. Public Safety Personnel Retirement System Board of Trustees (includes Elected Officials' Retirement Plan and Corrections Officer Retirement Plan)
26. Transportation, Arizona Department of
27. Followups at 6 and 18 months

#### Agency conducts self-review

1. Accountancy, Arizona State Board of
2. Boiler Advisory Board
3. Cosmetology, Board of
4. Cotton Research and Protection Council, Arizona
5. Equalization, State Board of
6. Grain Research and Promotion Council, Arizona
7. Historical Society, Arizona
8. Historical Society of Arizona, Prescott
9. Homeland Security, Arizona Department of
10. Law Enforcement Merit System Council
11. Occupational Safety and Health Advisory Committee
12. Occupational Safety and Health Review Board
13. Outdoor Recreation Coordinating Commission, Arizona
14. Personnel Board, State
15. Power Authority, Arizona
16. Racing Commission, Arizona
17. Registrar of Contractors, Arizona
18. Resource Advisory Council, Arizona
19. Retirement System, Arizona State
20. Tax Appeals, Arizona Board of
21. Technical Registration, Board of
22. Tribal Relations, Governor's Office on

<sup>1</sup> The Joint Legislative Audit Committee directed the Auditor General's Office to conduct the sunset review of the Arizona Health Care Cost Containment System at its September 19, 2018, meeting.



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**DATE:** December 17, 2020

**TO:** Representative Anthony Kern, Chair  
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**THROUGH:** Lindsey Perry, Auditor General

**FROM:** Dale Chapman, Director, Performance Audit Division

**SUBJECT:** Consideration and approval of 2022-2023 COR assignments and additions to the 2020 and 2021 COR assignments

## Background

JLAC is statutorily required to assign agencies subject to a sunset review to CORs, regardless of whether the Office will conduct the sunset review or the agency will conduct a self-review for the CORs. JLAC is also responsible for assigning all other performance audits to CORs or other pertinent committees to ensure that each audit receives a public hearing by a legislative committee. Agencies are generally assigned to the CORs reflecting the standing committees that are most likely to be responsible for hearing any legislation affecting that particular agency and that have knowledge or expertise in that particular subject area.

Attached are the President's and Speaker's COR recommendations for the 2022 and 2023 sunset reviews and performance audits. Also attached are the President's and Speaker's COR recommendations for the *Arizona Department of Education—Empowerment Scholarship Accounts Program* special audit and the Arizona Department of Child Safety report on runaway or missing children, which are being added to the 2020 and 2021 COR assignment lists, respectively.

The CORs are responsible for holding at least 1 public hearing to discuss the audit and receive testimony from agency officials and the public. These hearings should be held after the audit report is issued and when the Legislature is not in session or before the third Friday in January.

**Attachment A** details the 2022 COR recommendations. **Attachment B** details the 2023 COR recommendations. **Attachment C** includes the addition of the *Arizona Department of Education—Empowerment Scholarship Accounts Program* special audit to the 2020 COR assignments. **Attachment D** includes the addition of the Arizona Department of Child Safety report on runaway or missing children to the 2021 COR assignments.

## Action required

JLAC may either approve the CORs as recommended by the President of the Senate and the Speaker of the House of Representatives or assign new CORs.

**Attachment A**  
**2022 performance audits and sunset reviews**  
**President and Speaker COR recommendations**

Statutory reference	Agency/program selected for review	COR recommendations
A.R.S. §41-3023.01	Arizona Health Care Cost Containment System	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-3023.02	Arizona State Board of Accountancy	House: Commerce Senate: Commerce
A.R.S. §41-3023.03	Arizona State Schools for the Deaf and Blind	House: Education Senate: Education
A.R.S. §41-3023.04	Arizona Grain Research and Promotion Council	House: Land and Agriculture Senate: Natural Resources and Energy
A.R.S. §41-3023.05	Naturopathic Physicians Medical Board	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-3023.06	Arizona State Parks Board	House: Land and Agriculture Senate: Natural Resources and Energy
A.R.S. §41-3023.07	Arizona State Board of Dental Examiners	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-3023.08	Arizona State Board of Optometry	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-3023.09	Municipal Tax Code Commission	House: Ways and Means Senate: Finance
A.R.S. §41-3023.10	Arizona State Board of Massage Therapy	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-3023.11	Law Enforcement Merit System Council	House: Public Safety Senate: Transportation and Public Safety
A.R.S. §41-3023.12	Arizona Board of Tax Appeals	House: Ways and Means Senate: Finance
A.R.S. §41-3023.13	Department of Emergency and Military Affairs; State Emergency Council	House: Military and Veterans Affairs Senate: Government
A.R.S. §41-3023.14	Department of Liquor Licenses and Control	House: Commerce Senate: Commerce
A.R.S. §41-3023.15	Office of Economic Opportunity	House: Commerce Senate: Commerce
A.R.S. §41-3023.16	Arizona Outdoor Recreation Coordinating Commission	House: Land and Agriculture Senate: Natural Resources and Energy
A.R.S. §41-1966	Arizona Department of Child Safety (Audit to be determined)	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-1279.03	Pima Association of Governments Regional Transportation Plan	House: Transportation Senate: Transportation and Public Safety
A.R.S. §41-504	Arizona State Parks Heritage Fund	House: Land and Agriculture Senate: Natural Resources and Energy
A.R.S. §41-1279.03	School Districts	House: Education Senate: Education

**Attachment B**  
**2023 performance audits and sunset reviews**  
**President and Speaker COR recommendations**

Statutory reference	Agency/program selected for review	COR recommendations
A.R.S. §41-3024.01	Arizona Resource Advisory Council	House: Natural Resources, Energy and Water Senate: Natural Resources and Energy
A.R.S. §41-3024.02	Board of Physical Therapy	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-3024.04	Arizona Registrar of Contractors	House: Commerce Senate: Commerce
A.R.S. §41-3024.05	Board of Cosmetology	House: Commerce Senate: Commerce
A.R.S. §41-3024.06	Arizona Department of Child Safety	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-3024.07	Arizona Cotton Research and Protection Council	House: Land and Agriculture Senate: Natural Resources and Energy
A.R.S. §41-3024.08	Arizona Historical Society	House: Government Senate: Natural Resources and Energy
A.R.S. §41-3024.09	Prescott Historical Society of Arizona	House: Government Senate: Natural Resources and Energy
A.R.S. §41-3024.10	State Personnel Board	House: Government Senate: Government
A.R.S. §41-3024.11	Board of Technical Registration	House: Commerce Senate: Commerce
A.R.S. §41-3024.12	Arizona Pioneers' Home; State Hospital for Miners with Disabilities	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-3024.13	State Board of Equalization	House: Ways and Means Senate: Finance
A.R.S. §41-3024.14	Arizona Department of Administration	House: Government Senate: Government
A.R.S. §41-3024.15	State Board for Charter Schools	House: Education Senate: Education
A.R.S. §41-3024.16	Arizona Power Authority	House: Natural Resources, Energy and Water Senate: Natural Resources and Energy
A.R.S. §41-3024.17	Occupational Safety and Health Advisory Committee	House: Commerce Senate: Commerce
A.R.S. §41-3024.18	Boiler Advisory Board	House: Commerce Senate: Commerce
A.R.S. §41-3024.19	Occupational Safety and Health Review Board	House: Commerce Senate: Commerce
A.R.S. §41-3024.20	Industrial Commission of Arizona	House: Commerce Senate: Commerce
A.R.S. §41-3024.21	Arizona Department of Forestry and Fire Management	House: Natural Resources, Energy and Water Senate: Natural Resources and Energy
A.R.S. §41-3024.22	Arizona Department of Homeland Security	House: Military and Veterans Affairs Senate: Government
A.R.S. §41-3024.23	Governor's Office on Tribal Relations	House: Government Senate: Government
A.R.S. §41-3024.24	State Board for Private Postsecondary Education	House: Education Senate: Higher Education and Workforce Development
A.R.S. §41-3024.25	Department of Transportation	House: Transportation Senate: Transportation and Public Safety
A.R.S. §41-3024.26	Arizona State Retirement System	House: Government Senate: Finance
A.R.S. §41-3024.27	Public Safety Personnel Retirement System Board of Trustees (includes Elected Officials' Retirement Plan and Corrections Officer Retirement Plan)	House: Government Senate: Finance
A.R.S. §41-3024.28	Arizona Racing Commission	House: Land and Agriculture Senate: Natural Resources and Energy
A.R.S. §41-3024.30	Foster Care Review Board	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-3024.31	Arizona Commerce Authority	House: Commerce Senate: Commerce
A.R.S. §41-1966	Arizona Department of Child Safety (Audit to be determined)	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-1279.03	School Districts	House: Education Senate: Education

**Attachment C**  
**2020 performance audits and sunset reviews**  
**President and Speaker COR recommendations**  
**and JLAC COR assignments**

COR recommendations		
Statutory reference	Agency/program selected for review	COR recommendations
A.R.S. §41-1279.03	Arizona Department of Education—Empowerment Scholarship Accounts Program	House: Education Senate: Education

COR assignments		
Statutory reference	Agency/program selected for review	COR assignments
A.R.S. §41-3021.01	Arizona Department of Agriculture	House: Land and Agriculture Senate: Water and Agriculture
A.R.S. §41-3021.02	Board of Medical Student Loans	House: Education Senate: Higher Education and Workforce Development
A.R.S. §41-3021.03	Agricultural Employment Relations Board	House: Land and Agriculture Senate: Water and Agriculture
A.R.S. §41-3021.07	Office of Sonora	House: State and International Affairs Senate: Commerce
A.R.S. §41-3021.08	Developmental Disabilities Advisory Council	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-3021.11	Arizona State Board of Examiners of Nursing Care Institution Administrators and Assisted Living Facility Managers	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-3021.12	Board of Fingerprinting	House: Judiciary Senate: Transportation and Public Safety
A.R.S. §41-3021.14	Arizona State Board of Podiatry Examiners	House: Health and Human Services Senate: Health and Human Services
A.R.S. §5-812	Arizona Sports and Tourism Authority	House: Commerce Senate: Commerce
A.R.S. §41-1966	Arizona Department of Child Safety (Caseloads: Laws 2018, Ch. 282, Sec. 1)	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-1279.03	School Districts	House: Education Senate: Education

**Attachment D**  
**2021 performance audits and sunset reviews**  
**President and Speaker COR recommendations**  
**and JLAC COR assignments**

COR recommendations		
Statutory reference	Agency/program selected for review	COR recommendations
A.R.S. § 41-1966	Arizona Department of Child Safety (Runaway/missing children: Laws 2020, Ch. 53, Sec. 3)	House: Health and Human Services Senate: Health and Human Services

COR assignments		
Statutory reference	Agency/program selected for review	COR assignments
A.R.S. §41-3022.01	Arizona Department of Veterans' Services; Arizona Veterans' Service Advisory Commission	House: Military and Veterans Affairs Senate: Transportation and Public Safety
A.R.S. §41-3022.02	Arizona Game and Fish Department; Arizona Game and Fish Commission; and Director of the Arizona Game and Fish Department	House: Natural Resources, Energy and Water Senate: Natural Resources and Energy
A.R.S. §41-3022.03	State of Arizona Board of Chiropractic Examiners	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-3022.04	Arizona State Board of Nursing	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-3022.05	Arizona Department of Real Estate	House: Commerce Senate: Commerce
A.R.S. §41-3022.06	Arizona State Board of Dispensing Opticians	House: Health and Human Services Senate: Health and Human Services
A.R.S. § 41-3022.07	Arizona Geological Survey	House: Regulatory Affairs Senate: Natural Resources and Energy
A.R.S. § 41-3022.08	Water Quality Appeals Board	House: Natural Resources, Energy and Water Senate: Water and Agriculture
A.R.S. §41-3022.09	Vehicle Emissions Inspection Program	House: Transportation Senate: Natural Resources and Energy
A.R.S. §41-3022.10	Arizona Commission on the Arts	House: Commerce Senate: Commerce
A.R.S. §41-3022.11	Arizona Department of Public Safety	House: Public Safety Senate: Transportation and Public Safety
A.R.S. §41-3022.12	Arizona Board of Regents	House: Education Senate: Higher Education and Workforce Development
A.R.S. §41-3022.13	Arizona Office of Tourism	House: Commerce Senate: Commerce
A.R.S. §41-3022.14	Military Affairs Commission	House: Military and Veterans Affairs Senate: Transportation and Public Safety
A.R.S. §41-3022.15	Arizona Department of Corrections	House: Judiciary Senate: Transportation and Public Safety
A.R.S. §41-3022.16	Arizona State Board of Pharmacy	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-3022.18	School Facilities Board	House: Education Senate: Education
A.R.S. §41-3022.19	Water Infrastructure Finance Authority of Arizona	House: Natural Resources, Energy and Water Senate: Water and Agriculture
A.R.S. §41-3022.20	Arizona Department of Environmental Quality	House: Natural Resources, Energy and Water Senate: Natural Resources and Energy
A.R.S. §41-3022.21	Arizona Department of Juvenile Corrections	House: Public Safety Senate: Judiciary
A.R.S. §41-3022.22	Arizona Board of Funeral Directors and Embalmers	House: Regulatory Affairs Senate: Commerce
A.R.S. §41-3022.23	Arizona State Board of Barbers	House: Commerce Senate: Commerce
A.R.S. §41-3022.24	Arizona Oil and Gas Conservation Commission	House: Natural Resources, Energy and Water Senate: Natural Resources and Energy
A.R.S. §41-3022.25	State of Arizona Acupuncture Board of Examiners	House: Health and Human Services Senate: Health and Human Services
A.R.S. § 41-1279.03	Pinal County Transportation Excise Tax	House: Ways and Means Senate: Transportation and Public Safety
A.R.S. § 28-6313	Maricopa Association of Governments, Regional Transportation Plan	House: Transportation Senate: Transportation and Public Safety
A.R.S. § 17-298.01	Arizona Game and Fish Commission Heritage Fund	House: Natural Resources, Energy and Water Senate: Natural Resources and Energy
A.R.S. § 41-1279.03	School Districts	House: Education Senate: Education



LINDSEY A. PERRY  
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MELANIE M. CHESNEY  
DEPUTY AUDITOR GENERAL

**DATE:** December 17, 2020

**TO:** Representative Anthony Kern, Chair  
Senator Rick Gray, Vice Chair  
Members, JLAC

**THROUGH:** Lindsey Perry, Auditor General

**FROM:** Donna Miller, Director, Financial Audit Division

**SUBJECT:** Fiscal years 2020 and 2021 financial and compliance audit schedule and consideration of approval to bill entities for audit work

## Background

Under A.R.S. §§41-1279.03 and 41-1279.21, the Office conducts annual financial and compliance audits of all state agencies, including the State universities; counties; and community college districts. These audits are conducted under the federally mandated single audit requirements established by the U.S. Office of Management and Budget. In addition, the Office conducts other financial audits and reviews at the Legislature's request and as mandated in statute.

**Attachment A** titled *Financial and Compliance Audit Schedule* provides a complete list of the Office's scheduled financial and compliance audits for fiscal years 2020 and 2021. This schedule has been included as a courtesy and does not require any action.

Under A.R.S. §41-1279.03(C), with JLAC approval, the Office may charge auditees a reasonable fee for performing specific audit work or providing other accounting services. For example, this would include audits of federal grants required by the federal government for which auditees can ultimately recover the audit costs from the federal grantor(s).

**Attachment B** titled *List of Entities to Bill for Audit Work* includes those auditees the Office plans to bill for specific audit work for fiscal years 2020 and 2021. See action required below.

## Action required

JLAC needs to consider and approve the Office to bill the entities in Attachment B for audit work or other accounting services we perform.



**Attachment A**  
**Financial and compliance audit schedule**  
**Fiscal years 2020 and 2021**

**Financial and compliance audits**

**State of Arizona**

1. State of Arizona as a whole
2. Department of Economic Security—Arizona Long-Term Care System
3. Office of the State Treasurer
4. Arizona State University
5. Northern Arizona University
6. University of Arizona

**Arizona counties**

1. Apache County
2. Cochise County
3. Coconino County
4. Gila County
5. Graham County
6. Greenlee County
7. La Paz County
8. Maricopa County
9. Mohave County
10. Navajo County
11. Pima County
12. Pinal County
13. Santa Cruz County
14. Yavapai County
15. Yuma County

**Arizona college districts**

1. Cochise County Community College District
2. Coconino County Community College District
3. Gila County Community College District
4. Graham County Community College District
5. Maricopa County Community College District
6. Mohave County Community College District
7. Navajo County Community College District
8. Pima County Community College District
9. Pinal County Community College District
10. Santa Cruz County Community College District
11. Yavapai County Community College District
12. Yuma/La Paz Counties Community College District

**Other statutorily required financial and accountability audits/special reviews<sup>1</sup>**

1. Annual Expenditure Limitation Reports for Counties and Annual Budgeted Expenditure Limitation Reports for College Districts
2. Arizona Attorney General Colorado River Revolving Fund Revenues and Expenses (only issued for years with fund activity)
3. Arizona Attorney General Use of Anti-racketeering Revolving Fund Monies (issued every 2 years)
4. Arizona Citizens Clean Elections Commission Revenues and Expenses (issued every 4 years)
5. Arizona County Community College Districts and Colleges of Qualifying Indian Tribes Full-Time Equivalent Student Enrollment Report
6. Arizona State Board Member Per Diem Compensation and Expense Reimbursements
7. Arizona State Procurement Office—Compliance Review
8. Arizona Statement of Federal Land Payments
9. Arizona University System Full-Time Equivalent Student Enrollment Report
10. Diné College Funding Compact
11. Navajo Technical University Funding Compact
12. Tohono O'odham College Funding Compact

<sup>1</sup> Reports issued annually unless otherwise noted.



**Attachment B**  
**List of entities to bill for audit work**  
**Fiscal years 2020 and 2021**

Pursuant to A.R.S. §41-1279.03(C), with JLAC’s approval, the Office may bill the following entities for audit work

<b>State of Arizona</b>	
State agencies and universities	
<b>Arizona counties</b>	
1.	Apache County
2.	Cochise County
3.	Coconino County
4.	Gila County
5.	Graham County
6.	Greenlee County
7.	La Paz County
8.	Maricopa County
9.	Mohave County
10.	Navajo County
11.	Pima County
12.	Pinal County
13.	Santa Cruz County
14.	Yavapai County
15.	Yuma County
<b>Arizona college districts</b>	
1.	Cochise County Community College District
2.	Coconino County Community College District
3.	Gila County Community College District
4.	Graham County Community College District
5.	Maricopa County Community College District
6.	Mohave County Community College District
7.	Navajo County Community College District
8.	Pima County Community College District
9.	Pinal County Community College District
10.	Santa Cruz County Community College District
11.	Yavapai County Community College District
12.	Yuma/La Paz Counties Community College District
<b>Arizona school districts</b>	
Assess whether a school district is no longer in noncompliance with the <i>Uniform System of Financial Records for Arizona School Districts</i>	



LINDSEY A. PERRY  
AUDITOR GENERAL

ARIZONA  
AUDITOR GENERAL

MELANIE M. CHESNEY  
DEPUTY AUDITOR GENERAL

**DATE:** December 17, 2020

**TO:** Representative Anthony Kern, Chair  
Senator Rick Gray, Vice Chair  
Members, JLAC

**THROUGH:** Lindsey Perry, Auditor General

**FROM:** Vicki Hanson, Director, Division of School Audits

**SUBJECT:** Presentation of 2022-2023 school district performance audit schedule

## Background

A.R.S. §41-1279.03 requires the Office to conduct performance audits of randomly selected school districts and to monitor school districts to determine the percentage of every dollar spent in the classroom. The statute requires the Auditor General to determine which districts to audit each year through random selection, subject to JLAC's review.

## School district performance audits

**Attachment A** lists the new school districts randomly selected for the 2022-2023 performance audit schedule. To comply with Laws 2016, Ch. 4, §4, this schedule also includes career technical education districts.

These school district performance audits assess the districts' spending on noninstructional areas, including administration, student transportation, food service, and plant operations, and make recommendations, as needed, to maximize resources available for instruction or other district priorities. Additionally, the audits assess districts' processes to comply with certain State requirements. To gain evidence to support information and conclusions in the reports, auditors interview district personnel; review district policies, procedures, and internal controls; examine district accounting records and other district documents; and compare district spending to similar districts'. The audits result in publicly released reports that include recommendations to the districts to address issues auditors identified.

## Other school district reports

In the 2019 legislative session, the Legislature passed Laws 2019, Ch. 263, §160(A)(2), requiring the Office to collaborate with the Arizona Commerce Authority and business, industry, and higher education leaders to identify the industry certifications earned by career and technical education (CTE) students that are most associated with multiyear CTE programs that successfully prepare

students for jobs in high-demand technical fields and to evaluate the effectiveness of career and technical education districts (CTEDs) in preparing students for these jobs. On November 30, we issued our report, in which we list the 37 State CTE programs and 88 associated industry certifications we identified as preparing students for jobs in high-demand technical fields. We also reported that CTEDs and their member districts spent \$67 million in fiscal year 2019 on CTE programs designed to prepare students for jobs in high-demand technical fields but do not have accurate and complete data to show whether they are effective in doing so. Therefore, we made recommendations to the CTEDs, their member districts, and the Arizona Department of Education to improve the quality and availability of CTE data. Additionally, we made a recommendation for the Legislature to consider revising statute to clarify and enhance reporting requirements for CTEDs and member districts to ensure key outcome measures, such as student job placement and industry certification data, are required to be collected and reported for all CTED students.

The Office is also required to monitor the percentage of every dollar spent in the classroom.<sup>1</sup> Our next annual *Arizona School District Spending* report will be issued in March 2021. This study analyzes State-wide spending and spending trends and includes information from the school district performance audits about district practices that impact spending in the classroom and other areas. There is a one-page summary for the State and summaries for each school district that detail the individual districts' spending compared to peer district averages and report on their average teacher salaries and other measures. Additionally, we plan to continue preparing an Excel data file that contains the numbers and other information presented in the graphics on the State and school district summary pages. This Excel file will be available for download on our website.

### **Action required**

None. Per statute, JLAC is to review the school districts randomly selected for performance audits but does not approve them. The audit schedule and the additional information on the CTED special study and *Arizona School District Spending* report are presented for JLAC's information.

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<sup>1</sup> A.R.S. §41-1279.03(9).

**Attachment A**  
**2022-2023 school district performance audit schedule**

**School district**

1.	Liberty Elementary
2.	Sierra Vista Unified
3.	Baboquivari Unified
4.	Benson Unified
5.	Globe Unified
6.	Sanders Unified
7.	Heber-Overgaard Unified
8.	Stanfield Elementary
9.	Blue Elementary
10.	Cedar Unified
11.	Concho Elementary
12.	Mohawk Valley Elementary
13.	Morristown Elementary
14.	Seligman Unified
15.	Valley Union High
16.	Cochise Technology District
17.	East Valley Institute of Technology
18.	Mountain Institute CTED
19.	Pima County JTED
20.	Western Maricopa Education Center



**LINDSEY A. PERRY**  
AUDITOR GENERAL

**ARIZONA**  
**AUDITOR GENERAL**

**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

**DATE:** December 17, 2020

**TO:** Representative Anthony Kern, Chair  
Senator Rick Gray, Vice Chair  
Members, JLAC

**FROM:** Lindsey Perry, Auditor General

**SUBJECT:** Consideration of special audit of the Department of Economic Security's  
Unemployment Insurance System

## Background

Under A.R.S. §41-1279.03(A)(4), JLAC may direct the Office to perform special research requests, special audits, and related assignments of any state agency. Individual legislators may not assign audits to the Office; however, JLAC may consider the legislator's request and direct the Office to conduct an audit. As of the date of this memo, JLAC has received 1 written legislative request for a special audit of the Department of Economic Security—Unemployment Insurance System (DES-UI). The request is attached.

The request specifically outlines 2 areas for the audit to focus on:

1. The cost and benefit of replacing the agency's archaic IT system that relates to Unemployment Insurance, and comparison of the current IT system design to other states.
2. An evaluation and recommendations for more effective processing of claims, and best practices as appropriate.
  - a. If this audit can be done before the end of 2021, it should include the PUA, Pandemic Unemployment Assistance program, and all UI program versions.

If JLAC determines that it wants the Office to conduct an audit of DES-UI during the 2020-2021 performance audit and sunset review schedule, the Office proposes that JLAC remove 2 sunset reviews from the Office and reassign them to the agencies for self-reviews for the CORs to free up the resources necessary to conduct the audit of DES-UI. The Office proposes reassigning the following 2 sunset reviews: School Facilities Board and Arizona State Board of Barbers. If JLAC determines that it wants the Office to conduct an audit of DES-UI during the 2022-2023 performance audit and sunset review schedule, the Office proposes that JLAC remove 1 sunset review from the Office and reassign it to the agency for a self-review for the CORs to free up the resources necessary to conduct the audit of DES-UI. The Office proposes reassigning the sunset review of the Naturopathic Physicians Medical Board.

**Action required**

JLAC needs to consider the request for a special audit of the Department of Economic Security—Unemployment Insurance System. If JLAC approves the special audit of DES-UI during the 2020-2021 performance audit and sunset review schedule, JLAC needs to consider and approve transferring the sunset reviews of the School Facilities Board and Arizona State Board of Barbers to the agencies for self-reviews for the CORs. If JLAC approves the special audit of DES-UI during the 2022-2023 performance audit and sunset review schedule, JLAC needs to consider and approve transferring the sunset review of the Naturopathic Physicians Medical Board to the agency for a self-review for the CORs.



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COMMITTEES:  
COMMERCE  
WAYS & MEANS- Ranking Member  
District 18

Subject: A special audit of the Department of Economic Security Unemployment Insurance Administration should be conducted as soon as possible.

Dear Representative Kern and Senator Gray,

The onset of Covid-19 has highlighted grave challenges and shortcomings in the management of our state's unemployment insurance program at a moment when the people of our state need it the most. During this pandemic that has impacted the lives of so many, we need the Department of Economic Security to be at its best.

My goal is that the Arizona Unemployment Insurance system should be set up to optimally process and deliver benefits to needy and well-deserving Arizonans who have lost a job through no fault of their own. With improved efficiency and effectiveness in processing, and with better statistical information about the program, we can expect four benefits from this audit in the long term:

1. Cost savings from reduced functional redundancies and staff time saved.
2. Improved performance as an economic stabilizer, to stop job losses and to create new jobs.
3. Improved customer service to claimants.
4. Improved customer service and results for employers.

After a review of the program, and after collecting countless heartbreaking and infuriating stories from our constituents, it has become clear that UI program performance has many problems. An audit of the unemployment insurance program is in order. Additionally, I believe that the ongoing hardships experienced by unemployment applicants has made the situation dire and that this audit should be conducted as soon as possible.

**Therefore, I am requesting that you add an agenda item to the upcoming JLAC meeting that calls for a special audit of the Department of Economic Security, Unemployment Insurance Program.** In particular, I ask JLAC to approve the Auditor General to conduct a special audit of unemployment insurance focusing on the following information:

1. **The cost and benefit of replacing the agency's archaic IT system that relates to Unemployment Insurance,** and comparison of the current IT system design to other states
2. **An evaluation and recommendations for more effective processing of claims,** and best practices as appropriate
  - a. If this audit can be done before then end of 2021, it should include the PUA, Pandemic Unemployment Assistance program, and all UI program versions.

To the extent that some of this information cannot be gathered because the raw data is not collected, this special audit should describe the data that needs to be collected and describe the feasibility of collecting it.

With this information, the UI program administrators can make improvements to its operations. Legislators might be able to use the results of the audit to develop reforms to the UI program in Arizona to optimize its usefulness as an economic stabilizer, especially during an economic downturn such as we are experiencing now. We must be careful to work from data, not generalizations or assumptions.

Respectfully,

A handwritten signature in black ink that reads "Mitzi Epstein". The signature is written in a cursive, flowing style.

Representative Mitzi Epstein      LD18



