

## SAMPLE CONTRACT

This Contract is entered into by and between the State of Arizona, Arizona Auditor General, hereinafter referred to as the Office, and \_\_\_\_\_, hereinafter referred to as the Firm.

WITNESSETH: In consideration of the mutual promises herein contained, the parties have agreed and do hereby enter into this Contract according to the provisions set out herein:

### A. Recitals:

1. In accordance with the authority granted under the laws of the State of Arizona, the Office wishes to procure the services of the Firm to perform a financial statement and single audit of \_\_\_\_\_, hereinafter referred to as the auditee, for the fiscal year ending June 30, 2024, in accordance with U.S. generally accepted auditing standards; *Government Auditing Standards*, issued by the U.S. Comptroller General; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements*, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), as applicable; and an examination of the auditee's [Annual Expenditure Limitation (for counties)/Annual Budgeted Expenditure Limitation (for colleges)] Report conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants.
2. The Firm desires and is qualified to perform such services and can provide written documentation on the results of its work.
3. The Firm and the Office desire to enter into and execute a written contract involving said services, and to agree upon the terms thereof.

NOW, THEREFORE, in consideration of the foregoing recitals and of the covenants and agreements by the parties made to be kept and performed, the parties agree as follows:

### B. Agreement:

#### 1. Term of agreement

This Agreement becomes effective on the date signed by the Auditor General and ends on the day the Firm's auditors present audit results and findings to the [board of supervisors (for counties)/governing board (for colleges)]. The Office assumes no liability for work performed or costs incurred prior to the beginning date or subsequent to the Contract completion date.

#### 2. Option for Contract extension

The Office reserves the option to extend the Contract for 1 year at a time for an additional 2 years. The Office may contract with the Firm to perform the audits for the fiscal years ending June 30, 2025 and 2026, at the fees shown under the payments and compensation section

of this Contract.

### 3. Services

The Firm, as an independent contractor and not as an agent of the Office, must provide the following services:

- a. After receiving formal "Notice to Proceed" from the Office, make all necessary off-site preparations for the Firm to execute the services with minimal support from the Office.
- b. Perform an audit of the auditee's financial statements for the fiscal year ending June 30, 2024, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the U.S. Comptroller General, and draft the auditor's report on the audit of the financial statements and the auditor's report on internal control over financial reporting and on compliance and other matters based on such audit.
- c. Perform an audit of the auditee's schedule of expenditures of federal awards and major federal programs for the fiscal year ending June 30, 2024, in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the U.S. Comptroller General, and the audit requirements of Uniform Guidance and draft the auditors' report on compliance for each major federal program, report on internal control over compliance, report on schedule of expenditures of federal awards, and schedule of findings and questioned costs.
- d. Perform an examination of the auditee's [Annual Expenditure Limitation (for counties)/Annual Budgeted Expenditure Limitation (for colleges)] Report for the fiscal year ending June 30, 2024, in accordance with the attestation standards established by the American Institute of Certified Public Accountants and draft the accountants' report on [Annual Expenditure Limitation (for counties)/Annual Budgeted Expenditure Limitation (for colleges)].
- e. As part of the financial statement audit, perform auditing procedures to understand, evaluate, and test controls for the auditee's information technology (IT) systems significant to financial reporting, including the auditee's achievement of each of the following objectives, which are further described in Attachment A:
  1. Risk assessment and managing data.
  2. Granting and managing access to significant systems and data.
  3. Change and configuration management.
  4. Securing the system and data.
  5. Continuing operations.

Upon the Firm's request, or at the Office's discretion, the Office will provide suggested auditing procedures for each objective and distribute it to the Firm.

- f. Prepare draft findings based on the results of the IT auditing procedures to be included in the auditor's report on internal control and compliance and other matters (see finding examples in Santa Cruz County's fiscal year 2022 Single Audit Report findings 2022-03 and 2022-04 at [www.azauditor.gov](http://www.azauditor.gov)), and provide the following to the Office:
  - 1. A summary of the auditee's control activities to achieve the IT control objectives, including a summary of the evaluation of the sufficiency of the control activity's design to achieve the control objective and the results of test work performed to determine the controls were effective throughout the audit period.
  - 2. A document identifying the IT issue details that support findings and recommendations in the auditor's report on internal control and compliance and other matters. This detailed document should also be provided to the auditee (marked as confidential) so that it has sufficient information to begin corrective action to resolve the issues.
  
- g. As part of the financial statement audit, perform the following auditing procedures over the auditee's purchasing card(s):
  - 1. Request from the auditee an electronic file of all purchasing card transactions and provide to the Office to be processed and provided to the Firm as an Excel file. The Office will provide additional details to the Firm when providing the Excel file.
  - 2. Select at least 20 sample items for test work from this provided file.
  - 3. Submit a written statement to the Office describing all deficiencies and errors resulting from the auditing procedures performed and for which you have included related findings or recommendations in the report on internal control and on compliance.
  
- h. During the audits, schedule and hold periodic meetings (at least 1 meeting every 4 weeks) with representatives from the auditee and other appropriate entities as determined by the Office to update them on the audit's progress, including any preliminary findings and recommendations or delays. The Office must also be invited to attend these meetings.
  
- i. During the audits, prepare and submit written progress reports every 4 weeks for the purposes of monitoring the status, progress, and direction of the Firm's work, including any preliminary findings and recommendations. The Office may require additional information and/or that the Firm meet to discuss the audit's status, progress, and direction.

#### 4. Report and deliverable requirements

- a. The Firm will issue the following reports, as applicable:
  - 1. Auditors' report on the audit of the financial statements—included in the Annual Comprehensive Financial Report or Annual Financial Report.

2. Auditors' report on the internal control over financial reporting and on compliance and other matters based on an audit of basic financial statements performed in accordance with *Government Auditing Standards*—included in the Single Audit Report, or separately issued.
  3. Auditors' report on compliance for each major federal program; report on internal control over compliance; report on schedule of expenditures of federal awards; and schedule of findings and questioned costs—included in the Single Audit Report.
  4. Accountants' report on the [Annual Expenditure Limitation (for counties) / Annual Budgeted Expenditure Limitation (for colleges)] Report—included in the [Annual Expenditure Limitation (for counties)/Annual Budgeted Expenditure Limitation (for colleges)] Report.
- b. The Firm will provide the following deliverables to the Office as part of the financial statement audit:
1. A summary of the auditee's control activities to achieve the IT control objectives, including a summary of the evaluation of the sufficiency of the control activity's design to achieve the control objective and the results of test work performed to determine the controls were effective throughout the audit period.
  2. A document identifying the IT issue details that support findings and recommendations in the auditor's report on internal control and compliance and other matters. This detailed IT issues document should also be provided to the auditee (marked as confidential) so that it has sufficient information to begin corrective action to resolve the issues.
  3. An electronic file of all purchasing card transactions that has been requested from the auditee and that will be processed by the Office.
  4. A written statement to the Office describing all deficiencies and errors resulting from the auditing procedures performed over the auditee's purchasing card(s) and for which you have included related findings or recommendations in the report on internal control and on compliance.
- c. The Firm's reports must be prepared at the completion of the audits and examination according to U.S. generally accepted auditing standards; *Government Auditing Standards*, issued by the U.S. Comptroller General; the audit requirements of Uniform Guidance; and the attestation standards established by the American Institute of Certified Public Accountants, as applicable.
- d. The Firm must submit the deliverables identified in section B(4)(b) prior to submitting drafts of reports identified in section B(4)(a). Specifically, the Firm should submit the deliverable mentioned in section B(4)(b)(3) before August 1, 2024, and the deliverables mentioned in sections B(4)(b)(1,2,4) at least 2 weeks prior to providing the drafts of reports identified in section B(4)(a).
- e. The Firm must submit drafts of its reports identified in section B(4)(a) and the auditee's financial statements included in the Annual Comprehensive Financial

Report or Annual Financial Report, schedule of expenditures of federal awards included in the Single Audit Report, and [Annual Expenditure Limitation (for counties)/Annual Budgeted Expenditure Limitation (for colleges)] Report to the Office for review on or before February 24, 2025.

- f. The Firm must submit the final Annual Comprehensive Financial Report or Annual Financial Report, Report on Internal Control and on Compliance, Single Audit Report, and [Annual Expenditure Limitation (for counties)/Annual Budgeted Expenditure Limitation (for colleges)] Report, as applicable to the Office no later than March 31, 2025. Earlier completion of each engagement is encouraged, and the Firm should notify the Office if it anticipates earlier completion of the engagements and work with the Office to develop an agreed-upon schedule for the deliverables and drafts of its reports.
- g. The final reports and deliverables must address and respond to any comments, suggestions, or recommendations to the draft reports and deliverables made by the Office.
- h. The Auditor General may extend the reports' due date on account of auditee delays. The Firm must submit any request for such an extension in writing to the Office. If the U.S. Office of Management and Budget (U.S. OMB) extends the Single Audit submission deadline past March 31, 2025, the due date for the completion of the Single Audit Report will automatically be extended to the official extension date established by the U.S. OMB. The extension of the audit's due date will not affect the due date of the financial statement as prescribed by Arizona Revised Statutes (A.R.S.) §11-661.
- i. The Firm must provide the Office with 2 bound copies of the Annual Comprehensive Financial Report or Annual Financial Report, Report on Internal Control and on Compliance, Single Audit Report, and [Annual Expenditure Limitation (for counties) / Annual Budgeted Expenditure Limitation (for colleges)] Report, as applicable. The auditee should print any additional copies it may need for its own distribution or arrange with the Firm to provide additional copies. The Office will not provide the auditee with bound copies of these reports.
- j. In addition, the Firm must provide the Office with an electronic copy of the above final reports through a ShareFile upload link that the Office will provide to the Firm and must provide the reports in PDF format, which must not be password protected. Further, the Firm must provide links and bookmarks set up for each page of the table of contents within the PDF files. The Office will place these PDF copies on its website. When each report is finalized, the Office will send an email notification of the report issuance to each of the auditee's board members, chief executive officer, and chief financial officer with a direct link to the PDF copy of the report on the Office's website.
- k. The Firm must provide the Office with a copy of the Federal Clearinghouse

confirmation receipt for the Single Audit Report.

5. Audit standards

The Firm attests that it meets the independence standards of and will conduct the audit in accordance with *Government Auditing Standards* promulgated by the U.S. Comptroller General [Government Accountability Office (GAO) Yellow Book]. The U.S. generally accepted auditing standards adopted by the American Institute of Certified Public Accountants (AICPA) have been incorporated into GAO's standards by reference. Further, the Firm attests that it meets the independence standards of and will conduct the examination in accordance with the attestation standards promulgated by the AICPA.

6. Exit conference

Following completion of the draft reports, the Firm must be available to participate in an exit conference with auditee officials. Office staff may participate in the exit conference if necessary. The exit conference must discuss the draft audit and examination reports with the auditee, identify any errors, and obtain comments on the reports' findings and recommendations, as applicable. The Firm must require the auditee to provide a preliminary corrective action plan to the draft audit report's findings, as applicable, including responsible officials' views, names of the Contract people responsible for corrective action, the corrective action planned, and anticipated completion date. The corrective action plan is required to be provided to the Firm and the Office at least 24 hours before the draft exit meeting.

7. [Board of Supervisors (for counties)/Governing Board (for colleges)] presentation

[A.R.S. §11-661(D) (for counties)/A.R.S. §15-1473(F) (for colleges)] mandates that within 90 days after completing an audit, the auditee's [board of supervisors (for counties)/governing board (for colleges)] must require auditors who performed the audit to present audit results and any findings to the board in a regular meeting without the use of a consent agenda. The Firm's auditors who performed the audit must present audit results and findings annually to the board within 90 days after the Annual Financial Report, Report on Internal Control and Compliance, and Single Audit Report are issued. In accordance with A.R.S. §41-1279.21, a representative from the Office may participate in the presentation.

8. Payments and compensation

Total compensation for the engagement, including travel costs and out-of-pocket expenses, must not exceed the amounts listed below unless the Office requires additional auditing procedures as outlined in B(10) below.

	Fiscal year ending June 30		
	2024	2025	2026
		(Option)	(Option)
Financial statements	\$	\$	\$
[Annual Expenditure Limitation (for counties)/Annual Budgeted Expenditure Limitation (for colleges)] Report	\$	\$	\$
Single Audit Report, if applicable	\$	\$	\$
TOTAL	\$	\$	\$

The Office will pay the Firm in installments based on periodic written progress reports and invoices for the work accomplished to date. The Office will withhold the final 20 percent of the total Contract amount until the Firm’s auditors present audit results and findings to the [board of supervisors (for counties)/governing board (for colleges)].

9. Changes in work

In the event significant changes in the scope, character, or complexity of the work occur, the parties may agree to change the Contract amount or duties, or both, based upon a written determination that the changes are advantageous to the State. The Auditor General must authorize Contract changes defining, increasing, and/or limiting the work and compensation in writing prior to the performance of the work.

10. Additional auditing procedures

The Firm may be required to perform certain additional auditing procedures in connection with the financial and single audits, and [Annual Expenditure Limitation (for counties) / Annual Budgeted Expenditure Limitation (for colleges)] Reports examination, including report reissuances. Within 10 days of receiving notice from the Office that additional auditing procedures are required, the Firm must provide the Office a written estimate of the hours and costs necessary to perform the additional auditing procedures. The Firm must not commence work on the additional auditing procedures until the Office provides written approval of the estimate. The Firm’s actual costs to complete this work must not exceed this estimate without obtaining the prior written approval of the Auditor General. The Firm must provide the Auditor General with detailed invoices for this work, including hours spent by level and costs, separated by area. Costs for any additional auditing procedures must be

paid at the hourly rate as follows:

	Fiscal year ending June 30		
	2024	2025	2026
		(Option)	(Option)
Partners	\$	\$	\$
Managers	\$	\$	\$
Supervisory staff	\$	\$	\$
Staff auditors	\$	\$	\$

The Firm must submit a written statement to the Office describing all deficiencies and errors noted as a result of the additional auditing procedures performed.

**C. Insurance requirements:**

The Firm and subcontractors must procure and maintain, until all of their obligations have been discharged, including any warranty periods under this Contract, insurance against claims for injury to persons or damage to property arising from, or in connection with, the performance of the work hereunder by the Firm, its agents, representatives, employees, or subcontractors.

The Insurance Requirements herein are minimum requirements for this Contract and in no way limit the indemnity covenants contained in this Contract. The State of Arizona in no way warrants that the minimum limits contained herein are sufficient to protect the Firm from liabilities that arise out of the performance of the work under this Contract by the Firm, its agents, representatives, employees, or subcontractors, and the Firm is free to purchase additional insurance.

1. Minimum scope and limits of insurance

The Firm must provide coverage with limits of liability not less than those stated below.

**1. Commercial General Liability (CGL)—Occurrence Form**

Policy must include bodily injury, property damage, and broad form contractual liability coverage.

General aggregate	\$2,000,000
Products—completed operations aggregate	\$1,000,000
Personal and advertising injury	\$1,000,000
Damage to rented premises	\$50,000
Each occurrence	\$1,000,000

The policy must be endorsed to include the following additional insured language:  
 “The State of Arizona and the Auditor General and employees of the Arizona Auditor



General must be named as additional insureds with respect to liability arising out of the activities performed by or on behalf of the Firm.”

Policy must contain a waiver of subrogation against the State of Arizona and the Auditor General and employees of the Arizona Auditor General for losses arising from work performed by or on behalf of the Firm.

## 2. Business Automobile Liability

Bodily injury and property damage for any owned, hired, and/or nonowned automobiles used in performing this Contract.

Combined single limit (CSL)                      \$1,000,000

- i. The policy must be endorsed to include the following additional insured language: “The State of Arizona and the Auditor General and employees of the Arizona Auditor General must be named as additional insureds with respect to liability arising out of the activities performed by or on behalf of the Firm, involving automobiles owned, leased, hired, or borrowed by the Firm.”
- ii. Policy must contain a waiver of subrogation endorsement against the State of Arizona and the Auditor General and employees of the Arizona Auditor General for losses arising from work performed by or on behalf of the Firm.

## 3. Workers' Compensation and Employers' Liability

- Workers' Compensation                      Statutory
- Employers' Liability

Each Accident                                      \$1,000,000  
Disease—Each Employee                      \$1,000,000  
Disease—Policy Limit                              \$1,000,000

- i. Policy must contain a waiver of subrogation against the State of Arizona and the Auditor General and employees of the Arizona Auditor General for losses arising from work performed by or on behalf of the Firm.
- ii. This requirement will not apply to: Separately, EACH Firm or subcontractor that is exempt under A.R.S. §23-901, et. seq., AND when such Firm or subcontractor executes the appropriate waiver form (sole proprietor or independent Firm).

#### 4. Professional Liability (Errors and Omissions Liability)

- Each Claim \$2,000,000
- Annual Aggregate \$2,000,000

- i. In the event that the Professional Liability insurance required by this Contract is written on a claims-made basis, Firm warrants that any retroactive date under the policy must precede the effective date of this Contract and either continuous coverage will be maintained or an extended discovery period will be exercised for a period of two (2) years beginning at the time work under this Contract is completed.
- ii. The policy must cover professional misconduct or negligent acts for those positions defined in the scope of work of this Contract.

#### 2. Additional insurance requirements

The policies must include, or be endorsed to include, as required by this written agreement, the following provisions:

The Firm's policies, as applicable, must stipulate that the insurance afforded the Firm must be primary and that any insurance carried by the Arizona Auditor General; its agents, officials, employees; or the State of Arizona is excess and not contributory insurance, as provided by A.R.S. §41-621 (E).

Insurance provided by the Firm must not limit the Firm's liability assumed under the indemnification provisions of this Contract.

#### 3. Notice of cancellation

Applicable to all insurance policies required within the Insurance Requirements of this Contract, Firm's insurance must not be permitted to expire, be suspended, be canceled, or be materially changed for any reason without thirty (30) days' prior written notice to the Arizona Auditor General. Within two (2) business days of receipt, Firm must provide notice to the Arizona Auditor General if they receive notice of a policy that has been or will be suspended, canceled, materially changed for any reason, has expired, or will be expiring. Such notice must be sent directly to the Auditor General and must be mailed, emailed, hand-delivered, or sent by facsimile transmission to Julie Cantrell, 2910 N. 44th St., Ste. 410, Phoenix, AZ 85018.

#### 4. Acceptability of insurers

The Firm's insurance must be placed with companies licensed in the State of Arizona or hold approved nonadmitted status on the Arizona Department of Insurance List of Qualified Unauthorized Insurers. Insurers must have an "A.M. Best" rating of not less than A-VII. The State of Arizona in no way warrants that the above-required minimum insurer rating is sufficient to protect the Firm from potential insurer insolvency.

#### 5. Verification of coverage

The Firm must furnish the Office with certificates of insurance (valid ACORD form or equivalent approved by the State of Arizona) evidencing that the Firm has the insurance as required by this Contract. An authorized representative of the insurer must sign the certificates.

All such certificates of insurance and policy endorsements must be received and approved by the Office before work commences.

The State's receipt of any certificates of insurance or policy endorsements that do not comply with this written agreement will not waive or otherwise affect the requirements of this agreement.

Each insurance policy required by this Contract must be in effect at, or prior to, commencement of work under this Contract. Failure to maintain the insurance policies as required by this Contract, or to provide evidence of renewal, is a material breach of contract.

All certificates required by this Contract must be sent directly to Julie Cantrell, 2910 N. 44th St., Ste. 410, Phoenix, AZ 85018. The project description must be noted on the certificate of insurance. The State of Arizona reserves the right to require complete copies of all insurance policies required by this Contract at any time. **DO NOT SEND CERTIFICATES OF INSURANCE TO THE STATE OF ARIZONA'S RISK MANAGEMENT DIVISION.**

#### 6. Subcontractors

The Firm's certificate(s) must include all subcontractors as insureds under its policies or the Firm must be responsible for ensuring and/or verifying that all subcontractors have valid and collectable insurance as evidenced by the certificates of insurance and endorsements for each subcontractor. All coverages for subcontractors must be subject to the minimum insurance requirements identified above. The Office reserves the right to require, at any time throughout the life of this Contract, proof from the Firm that its subcontractors have the required coverage.

#### 7. Approval and modifications

Any modification or variation from the insurance requirements in this Contract must be made by the Auditor General, whose decision is final. Such action will not require a formal Contract amendment but may be made by administrative action.

#### **D. Indemnification**

To the fullest extent permitted by law, the Firm must defend, indemnify, and hold harmless the State of Arizona and the Office (hereinafter referred to as "Indemnatee") from and against any and all claims, actions, liabilities, damages, losses, or expenses (including court costs, attorneys' fees, and costs of claim processing, investigation, and litigation) (hereinafter referred to as "Claims") for bodily injury or personal injury (including death), or loss or damage to tangible or intangible property caused, or alleged to be caused, in whole or in part, by the negligent or willful acts or omissions of the Firm or any of its owners, officers, directors, agents, employees, or subcontractors. This indemnity includes any claim or amount arising out of, or recovered under, the Workers' Compensation Law or arising out of the failure of such Firm to conform to any federal, State, or local law, statute, ordinance, rule, regulation, or court decree. It is the specific intention of the parties that the Indemnatee must, in all instances, except for Claims arising solely from the negligent or willful acts or omissions of the Indemnatee, be indemnified by the Firm from and against any and all claims. It is agreed that the Firm will be responsible for primary loss investigation, defense, and judgment costs where this indemnification is applicable. In consideration of the award of this Contract, the Firm agrees to waive all rights of subrogation against the State of Arizona, its officers, officials, agents, and employees for losses arising from the work performed by the Firm for the State of Arizona.

#### **E. Additional Contract terms:**

1. Every payment obligation of the Office under this agreement is conditioned upon the availability of funds appropriated or allocated for the payment of such obligation. If funds are not allocated and available for the continuance of the agreement, this agreement may be terminated by the Auditor General at the end of the period for which funds are available. No liability will accrue to the Office in the event this provision is exercised, and the Office will not be obligated or liable for any future payments or for any damages as a result of termination under this paragraph.
2. The Firm must advise and obtain approval from the Auditor General in writing prior to accepting additional engagements for professional services from the auditee. Such disclosure to the Auditor General must include a description of the services to be rendered and fees to be charged.
3. The Firm warrants that no part of the Contract amount provided herein will be paid directly or indirectly to any officer or employee of the State of Arizona as wages, compensation, or gifts in connection with any work contemplated or performed relative to this Contract.
4. It is expressly understood and agreed that this instrument contains the entire agreement between the parties and that, except as otherwise stated herein, there are no collateral conditions, agreements, or representations, all such having been incorporated and resolved into this agreement. Except as specified herein, no document or

communication passing between the parties hereto will be deemed a part of this agreement.

5. This Contract may be modified at any time only by written amendment executed by all parties hereto. No agent, employee, or other representative of either the Firm or the Office is empowered to alter any of the terms of this Contract unless it is done in writing and signed by the Auditor General, Lindsey Perry, and an authorized representative of the Firm.
6. The provisions of this Contract are severable to the extent that any provision or application held to be invalid must not affect any other provision or application of the Contract, which must remain in effect without the invalid provision or application.
7. The Firm will act in its individual capacity and not as an agent, employee, partner, joint venturer, or associate of the Office. An employee, subcontractor, or agent of the Firm must not be deemed or construed to be the employee or agent of the Office for any purpose.
8. The Firm must not assign this Contract or any part of it or enter into subcontracts for or delegate any of the work described herein without obtaining the prior written approval of the Auditor General.
9. Time is of the essence in this Contract. In case the Firm fails to perform the agreement at the time fixed for performance by the terms of this Contract, the Office may, at the Auditor General's election, terminate the Contract. Such termination will be in addition to, and not in lieu of, any other legal remedies provided by this Contract or by law.
10. This Contract and all work hereunder must be governed and interpreted by the laws, rules, regulations, and decrees of the State of Arizona.
11. The Office, by written notice, may terminate this Contract in whole or in part when, in the sole discretion of the Auditor General, it is deemed in the best interest of the State of Arizona. If this Contract is so terminated, the Firm will be compensated for work performed up to the time of the termination notification. In no event will payment for such costs exceed the total current Contract price.
12. Failure to perform any and all of the terms and conditions of this Contract, including the schedule of work, will be deemed a substantial breach thereof and give the Office cause to cancel this Contract, which cancellation is effective upon written notice to the Firm. In the event of cancellation of this Contract for failure to perform, the Firm is not entitled to damages and agrees not to sue the Office for damages therefor. Notwithstanding other legal remedies that may be available to the Office because of the Firm's failure to perform, the Firm agrees to indemnify the Office for its costs in procuring the services of a new firm.

13. Notwithstanding any provision of this Contract, this Contract may be terminated by the Office without penalty or further obligation pursuant to A.R.S. §38-511. Any termination will be in writing.
14. The parties agree to use arbitration, after exhausting applicable administrative review, to the extent required by A.R.S. §12-1518, except as may be required by other applicable statute to resolve disputes arising out of this agreement. In the event such a dispute is arbitrated, the parties hereby agree that the prevailing party is entitled to recover its attorneys' fees and costs. Attorneys' fees will be based on the prevailing hourly rate for attorneys in Phoenix, Arizona. The arbitrator will be selected by the parties, and the arbitrator's decision is final and not appealable to any court. Any litigation must be commenced and prosecuted in an appropriate court of competent jurisdiction within Maricopa County, State of Arizona.
15. The Firm agrees to maintain the confidentiality of the working papers during and after this project and to observe the confidentiality requirements of the Office pursuant to A.R.S. §41-1279.05 and any other applicable confidentiality requirements. The Firm is prohibited from discussing or releasing any findings to anyone other than the auditee or Office without written approval from the Auditor General prior to the findings being published in the applicable auditor reports. All reports and working papers are the property of the Office and are subject to the laws and policies governing the Office's reports and working papers.
16. The Firm must comply with all applicable federal and State statutes, executive orders, regulations, and other requirements relating to civil rights and nondiscrimination in employment.
17. The Firm must retain and must contractually require each subcontractor to retain all data, books, and other records ("records") relating to this agreement for a period of 5 years after completion of the agreement. All records must be subject to inspection and audit by the State at reasonable times, free of charge, at a location the Office specifies. Upon request, the Firm must produce the original of any or all such records. If the Firm or subcontractor does not desire to retain the documentation for such period, the Firm or subcontractor must give the documentation to the Office for safekeeping.

IN WITNESS WHEREOF, the parties have executed this Contract, consisting of \_\_\_ pages, to be effective as of the date of signing by the Auditor General.

STATE OF ARIZONA  
ARIZONA AUDITOR GENERAL

FIRM

\_\_\_\_\_  
Lindsey A. Perry, CPA, CFE  
Auditor General

\_\_\_\_\_

\_\_\_\_\_  
EIN

\_\_\_\_\_  
Date

\_\_\_\_\_  
Date

## ATTACHMENT A

IT control evaluation objectives:

### 1. Risk assessment and managing data

**Risk assessment control objective:** The auditee has an entity-wide IT risk assessment framework that considers the probability and likelihood of threats and measures the impact of risk according to qualitative and quantitative criteria. The framework is used periodically to assess risk for financial reporting objectives. The framework uses inputs from different areas including, but not limited to, management brainstorming, strategic planning, prior audits, and other assessments. Where risk factors are considered acceptable, the entity should document formal acceptance of residual risk with related offsets, such as adequate insurance coverage, contractually negotiated liabilities, and self-insurance. Where risk is not accepted, management should have an action plan to implement risk response.

**Data classification control objective:** The auditee has documented policies and procedures, approved by an appropriate level of management, that includes categories into which information should be classified, details as to how to protect data in each category (in transit and at rest), and State statutes and federal regulations that could apply and require disclosure to affected parties if sensitive information, covered by State statutes or federal regulations, is compromised. Relevant systems and data have been inventoried, the owners of the inventoried data identified, and data integrity ownership and responsibilities communicated to appropriate data/business owners who accept responsibility for the data. The entity and data owners handle sensitive data in accordance with the entity-defined data classification policies/procedures to protect sensitive information—logically and physically—against unauthorized access or modification.



## **2. Granting and managing access to significant systems and data**

**Granting and reviewing user access control objective:** User account access procedures exist and are followed relating to the timely action for requesting, establishing, issuing, suspending, and closing user accounts, including limiting the use of shared accounts to ensure user accountability and limiting the use of network administrator accounts. These procedures consider the appropriate separation of duties over the requesting and granting of access. In addition, a control process exists and is followed to periodically review and confirm appropriate user access (i.e., determine the account is still needed).

**Authentication process enforcement control objective:** Procedures exist and are followed to authenticate all users of the system (both internal and external) to support the existence of transactions. In addition, procedures exist and are followed to maintain the effectiveness of authentication and access mechanisms, such that authentication controls are enforced for all users and are sufficient to protect the integrity of the system(s) and data given the type of access (remote access, web-based access, privileged (administrator) access, employee-owned device access).

**Managing physical access control objective:** Access to facilities that house significant system(s) is restricted to authorized personnel and requires appropriate identification and authentication.

### 3. Change and configuration management

**Establish and follow a change management process and a change documentation and tracking system control objective:** Requests for program changes, system changes, and maintenance (including changes to system software—application, database, and operating system) are standardized, logged, evaluated, prioritized, and approved. The entity maintains a tracking and reporting system to document changes and the change detail such as testing procedures, results, security impact analysis completion, and approvals. The tracking and reporting system identifies the status of changes (e.g., approved, in-process, rejected, and closed).

**Changes do not jeopardize integrity and security of data and systems control objective:** IT management implements system changes that do not jeopardize the integrity and security of the data and programs being stored on the system.

**Separate responsibilities for the change management process control objective:** IT management has implemented a division of roles and responsibilities (separation of duties) that reasonably prevents a single person from subverting a critical process such as the change process and implementing changes other than the change that was approved, analyzed, and tested. If separation of duties is not possible, alternative procedures exist to help ensure unauthorized changes are not implemented.

**Maintain and manage configurations control objective:** The entity has established and maintains a configuration model that includes all services, assets, and infrastructure, how they are recorded, and the relationships among them. This configuration model includes a process that caters to the controlled-baseline configuration settings and allows for maintaining and controlling configuration items with appropriate changes to prevent unauthorized changes to systems and data that may impact financial reporting (e.g., a configuration database or repository). The entity has a process for regularly producing status and/or configuration reports to ensure changes to configuration items are authorized and thus reduce the risk that data integrity is corrupted by poor controls over configurations when making system changes or by the introduction of unauthorized system components.

#### 4. Securing the system and data

**Incident response control objective:** Management has defined and implemented a plan (i.e., system or process and related policies and procedures) to allow for the recording, analyzing, and resolving of data integrity and access control incidents. This process provides audit trail records to facilitate tracing the problem to the cause. The incident response process further tracks the status of an incident while providing the ability to escalate incidents to higher levels of management.

**Security awareness and training control objective:** The entity communicates acceptable uses of their information system(s) to users and provides training programs that include ethical conduct, system security practices, confidentiality standards, integrity standards, and security responsibilities to all staff to help ensure system users are aware of their role in protecting the information systems and data.

**Securing the system control objective:** The entity has information security system standards and/or a risk-treatment plan that provides reasonable assurance that financial reporting systems and subsystems are appropriately secured to prevent unauthorized use and/or manipulation. These standards are regularly updated to reflect changes in the IT environment as well as security requirements of specific information systems. In addition, the entity uses firewalls, intrusion detection, and vulnerability assessments to prevent unauthorized access via public networks.

**Logging and log monitoring—key users and activity records control objective:** Key user and system activity is logged and monitored for propriety in accordance with the entity defined plan so that financial reporting system security violations and activity considered unusual in nature may be identified and reported to management, as appropriate.

**Third-party management control objective:** Third-party agreements/contracts are established, and an individual is responsible for monitoring and reporting on the achievement of third-party service level performance criteria, including SSAE 18 SOC 1 report requirements, as applicable. The contract/agreement addresses controls to support security and processing integrity, and procedures exist that require a formal contract/agreement to be defined and agreed to before work is initiated.

## 5. Continuing operations

**Continuity of operations impact analysis control objective:** The entity has defined critical functions and IT systems and has evaluated necessary service levels and prioritization of IT service resumption in the event of IT system interruptions or disaster. The service-level matrices and prioritization of services is sufficient to support financial reporting system requirements and the complete and timely reporting of financial information.

**Contingency plan control objective:** The entity has established, documented, and maintained operational procedures and system event data sufficient to provide chronological information and logs to enable reconstruction of financial reporting systems. These procedures and processes are typically part of an entity business continuity or contingency plan. The plan should be sufficient to provide reasonable assurance as to the complete and timely recovery of financial reporting system(s) and data processing in the event of system failure or disruption.

**Contingency plan testing control objective:** The restoration of systems and information is periodically tested, and staff are aware of their roles in this process. (Also see below section on backing up of systems and data, as these objectives overlap. If so, duplicating this documentation is not necessary. Testing the contingency plan is typically a more comprehensive test that involves recovery of operating systems, application systems, application databases, and data at another operating location. Restoration of system backup data or “failover” testing to an alternate processing site may serve as part of a contingency plan test; however, it may not subject all components of the contingency plan to testing.)

**Systems and data backup control objective:** Policies and procedures exist for the distribution and retention of data and reporting output for financial reporting systems that includes retention periods and storage terms for critical systems, data, configurations, and security documentation. In addition, management has implemented a strategy for cyclical backup of data and programs and has periodically tested the restoration of systems and data. Also, backups are protected (logically and physically) in accordance with the entity data classification policy.