

# Arizona Department of Administration

Department has established processes or taken steps to meet various statutory responsibilities to provide centralized support services for State government operations but has not implemented some prior audit recommendations intended to ensure school facility safety or complied with some open meeting law and complaint-handling requirements

Sunset Review

September 2023  
Report 23-107

A Report to the Arizona Legislature

Lindsey A. Perry  
Auditor General





The Arizona Auditor General's mission is to provide independent and impartial information and specific recommendations to improve the operations of State and local government entities. To this end, the Office provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, State agencies, and the programs they administer.

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September 19, 2023

Members of the Arizona Legislature

The Honorable Katie Hobbs, Governor

Ms. Elizabeth Alvarado-Thorson, Director  
Arizona Department of Administration

Transmitted herewith is the Auditor General's report, *A Sunset Review of the Arizona Department of Administration*. This report is in response to a December 17, 2020, resolution of the Joint Legislative Audit Committee. The sunset review was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq. I am also transmitting within this report a copy of the Report Highlights to provide a quick summary for your convenience.

As outlined in its response, the Arizona Department of Administration agrees with all the findings and plans to implement all the recommendations. My Office will follow up with the Department in 6 months to assess its progress in implementing the recommendations. I express my appreciation to Director Alvarado-Thorson and Department staff for their cooperation and assistance throughout the audit.

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

Sincerely,

*Lindsey A. Perry*

Lindsey A. Perry, CPA, CFE  
Auditor General

## Arizona Department of Administration

Department has established processes or taken steps to meet various statutory responsibilities to provide centralized support services for State government operations but has not implemented some prior audit recommendations intended to ensure school facility safety or complied with some open meeting law and complaint-handling requirements

### Audit purpose

To determine whether the Department established processes for meeting its statutory responsibilities to support State government operations with risk management, IT, and financial services; management of State-owned property; and administration of the Special Employee Health Insurance Trust Fund (HITF); and complied with conflict-of-interest and open meeting law requirements; and to provide responses to the statutory sunset factors.

### Key findings

- Established in 1973 to provide centralized support services for State government operations, the Department has met or is taking steps to meet its responsibilities in some areas we reviewed, such as establishing processes to reduce losses related to property, liability, and workers compensation claims; monitor employee productivity; and reallocate space in State-owned and leased buildings.
- Beginning in 2020, the HITF balance fell below its cash reserve goal, which is intended to ensure the Department can pay for State employee health benefit costs in the event of cash flow fluctuations or catastrophic expenses; however, the Department has since taken steps to help increase HITF revenues and reduce expenditures.
- As of October 2022, the Department had not implemented 35 recommendations from our 2017, 2019, and 2021 audits of the Arizona School Facilities Board, whose responsibilities were transferred to the Department in September 2021. These recommendations addressed issues such as the School Facilities Board not inspecting school buildings, limiting its ability to ensure student and staff health and safety and efficient use of State monies.
- Department had not established a process to periodically review and adjust its fees for financial services provided to other State agencies through its Central Services Bureau (CSB) and thus was at risk of collecting more or less money than needed to pay for providing these services.
- Department did not comply with most executive session meeting requirements we reviewed, and held meetings without a required quorum for 2 public meetings we observed.
- Department did not comply with rules requiring it to provide a written response to complainants regarding State benefit grievances within 60 days for 7 of 10 benefit grievances we reviewed. These grievances can relate to important issues such as eligibility for employee medical coverage.

### Key recommendations

The Department should develop and implement:

- A written plan outlining key steps it will take to address outstanding recommendations from prior audits of the Arizona School Facilities Board.
- Policies and procedures for periodically reviewing and adjusting its CSB service fees.
- Open meeting law policies and procedures, including requirements related to executive sessions and quorums.
- Written procedures for providing written responses to benefit grievance complainants.



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The Arizona Auditor General has released the second of 2 audit reports of the Arizona Department of Administration (Department) as part of the Department's sunset review. The first performance audit determined whether the Department's Arizona Strategic Enterprise Technology Office (ASET) complied with its statutory responsibility to oversee State information technology (IT) projects. This sunset review determined whether the Department had established processes for meeting its statutory responsibilities to support State government operations with risk management, IT, and financial services; management of State-owned property; and administration of the Special Employee Health Insurance Trust Fund; and complied with conflict-of-interest and open meeting law requirements. This sunset review report also provides responses to the statutory sunset factors.

## History, mission, and responsibilities

The Department was established in 1973 to support the operation of State government by providing centralized administrative services to State agencies and State employees. Its statutory responsibilities include:

- **Administering the State Personnel System**—Arizona Revised Statutes (A.R.S.) §41-742 requires the Department to establish and administer the State Personnel System (SPS), including providing personnel services to State agencies, such as staffing and recruitment, classification and compensation, employee training, and performance management services; and an integrated human resources system—Human Resources Information Solution (HRIS)—to process personnel, payroll, and benefits transactions. For example, the Department processed an annual payroll of approximately \$2.6 billion in fiscal year 2023 for approximately 39,000 State employees.<sup>1</sup> According to the Department's annual workforce report, the SPS included 89 State agencies and approximately 32,000 active State employees as of June 30, 2022. See Sunset Factor 2, pages 15 and 16, for information on Department processes to monitor employee productivity, including remote workers.
- **Providing health, life, and other insurance coverage for eligible State employees, retirees, and their dependents**—A.R.S. §38-651 et seq. authorizes the Department to purchase a variety of insurance coverage for eligible individuals such as State employees, retirees, and their dependents. Insurance coverage that the Department is authorized to purchase includes health, life, and disability insurance coverage. The Department is also responsible for administering the Special Employee Health Insurance Trust Fund (HITF) to pay for State agency employees' and officers' health insurance premiums, claims costs, and related administrative expenses. The Department reported that in calendar year 2021, it offered a comprehensive insurance package to approximately 132,000 members and spent approximately \$869

### Department mission

To deliver effective and efficient enterprise support services to our agency customers, allowing them to focus more on their unique missions.

Source: Arizona Governor's Office of Strategic Planning and Budgeting's 2022-2024 Master List of State Government Programs.

<sup>1</sup> Although the SPS does not include the State's legislative and judicial branches, the Arizona Department of Public Safety, the State's universities, and other entities listed in A.R.S. §41-742, the Department is still responsible for providing many of its services to some of these entities, including accounting, payroll, benefits, IT, and risk management services.

million from the HITF for medical, dental, and pharmacy costs.<sup>2,3</sup> See Sunset Factor 2, pages 14 and 15, for information on the HITF.

- **Managing the State’s accounting system**—A.R.S. §35-131(A) requires the Department to develop a uniform accounting system for State agencies’ use to ensure compliance with all legal and constitutional requirements for receiving, spending, and accounting for public monies. Consistent with this requirement, the Department prepares and maintains the State of Arizona Accounting Manual (SAAM), which outlines State requirements for and guidance on accounting, internal control, and management matters. Additionally, consistent with A.R.S. §41-740.01, the Department operates the Arizona Financial Information System (AFIS), the State’s official accounting system and record for fiscal information that State agencies use to process and record accounting data and activity. See Sunset Factor 2, pages 18 through 20, for information related to the Department’s interagency services agreements with and fees charged to State agencies for providing financial services.
- **Coordinating, overseeing, and providing IT services**—A.R.S. §§18-102 and 18-104 assign the Department responsibility for the State’s government information technology functions, including developing, implementing, and maintaining a coordinated State-wide IT plan.<sup>4</sup> These responsibilities include adopting State-wide IT standards, serving as the State-wide coordinator of IT resources, and approving and overseeing State agencies’ IT projects.<sup>5</sup> In addition, the Department provides State agencies with a variety of IT services, such as software services and technical support. According to the Department, as of June 2023, it provided IT services to 91 State agencies. See Sunset Factor 2, page 19, for information on the Department’s interagency services agreements with and fees charged to State agencies for providing IT services.
- **Managing State-owned properties and buildings**—A.R.S. §41-793 assigns the Department responsibility for developing a capital improvement plan, including proposals for State spending on land acquisition, capital projects, and building renewal for 1 of the 3 State building systems established in statute.<sup>6</sup> The Department is also statutorily responsible for space allocation, general operations, and maintenance services for State office buildings and structures, and the acquisition, leasing, planning, inspection, and construction of State facilities.<sup>7</sup> According to the Department’s fiscal year 2024 capital improvement plan, the Department’s building system included buildings occupied by 21 State agencies and as of June 2022, was composed of 4,517 structures totaling nearly 24 million gross square feet with a replacement value of \$6.9 billion. See Sunset Factor 2, pages 16 through 18, for information on the Department’s management of State property.
- **Overseeing public school districts’ facilities**—Effective September 29, 2021, Laws 2021, Ch. 404, transferred the Arizona School Facilities Board’s statutory responsibilities to the Department, resulting in the Board’s termination. The law established a Division of School Facilities and a School Facilities Oversight Board within the Department and transferred most of the Arizona School Facilities Board’s

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<sup>2</sup> As of July 2023, the calendar year 2021 information was the most recent information available.

<sup>3</sup> The 132,000 members include eligible individuals such as State and university employees, retirees, and their dependents but does not include the 5,900 members served through Northern Arizona University’s Blue Cross Blue Shield fully insured programs.

<sup>4</sup> Prior to September 2022, statute established the Statewide Information Security and Privacy Office within the Department as the strategic planning, facilitation, and coordination office for State-wide information security. Effective September 24, 2022, Laws 2022, Ch. 50, transferred the Statewide Information Security and Privacy Office and most of its responsibilities to the Arizona Department of Homeland Security.

<sup>5</sup> See Arizona Auditor General report 23-104 *Arizona Department of Administration—Arizona Strategic Enterprise Technology Office (ASET) IT Project Oversight*.

<sup>6</sup> A.R.S. §41-790(2) defines a building system as a group of buildings that together constitute a single unit for purposes of planning, land acquisition, construction, or building renewal. A.R.S. §41-793 establishes 3 State building systems: the Department’s building system, the Arizona Board of Regents’ building system, and the Arizona Department of Transportation’s building system.

<sup>7</sup> A.R.S. §41-791 et seq.

statutory responsibilities to this division and some to the School Facilities Oversight Board.<sup>8</sup> The Division of School Facilities' statutory responsibilities include administering the New School Facilities Fund to help school districts build new school facilities and the Building Renewal Grant Fund to help school districts complete facility renovation and repair projects for existing school facilities.<sup>9</sup> Additionally, the Division of School Facilities is responsible for inspecting school buildings at least once every 5 years to ensure that school districts have complied with the minimum school facility adequacy guidelines (minimum adequacy guidelines).<sup>10,11</sup> Finally, the School Facilities Oversight Board's statutory responsibilities include approving school districts' enrollment projections for distributing New School Facilities Fund monies and reviewing the Division of School Facilities' policies and procedures for overseeing Building Renewal Grant Fund projects.<sup>12</sup> According to the Department, in fiscal year 2022, the Division of School Facilities and the School Facilities Oversight Board offered services for 217 Arizona school districts. See Sunset Factor 2, page 20, for more information on the Department's status on implementing prior audit recommendations related to the Arizona School Facilities Board.

- **Establishing and providing State-wide risk management services**—A.R.S. §41-621 requires the Department to obtain or provide insurance to protect against specified losses to the State, its agencies, and its employees.<sup>13</sup> The Department has developed processes related to these responsibilities, such as processes for investigating and resolving claims against the State and guidelines for determining whether the State is liable for and settling related claims.<sup>14,15</sup> A.R.S. §41-623 also requires the Department to implement a risk management and loss-control program to reduce risks, accidents and property liability, and workers' compensation losses. According to the Department's 2022 risk management annual report, it received 2,722 liability claims, 1,486 property claims, and 2,610 workers' compensation claims in fiscal year 2022. See Sunset Factor 2, pages 11 through 13, for additional information on the Department's risk management and loss-control program.
- **Serving as the State's central procurement authority**—A.R.S. §41-2501 et seq. assigns the Department responsibility for procuring or supervising the procurement of all materials, services, and

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<sup>8</sup> According to A.R.S. §§41-3025.07 and 41-2953, the School Facilities Oversight Board has its own termination date and is subject to a separate sunset review. JLAC assigned our Office to conduct its next sunset review, which is due by October 1, 2024.

<sup>9</sup> A.R.S. §§41-5731, 41-5741.

<sup>10</sup> A.R.S. §41-5702(A)(3) authorizes the Division of School Facilities to contract with a third party to inspect or certify school district self-inspections of school buildings at least once every 5 years. However, in June 2023, the Governor signed Executive Order 2023-14 directing the Division of School Facilities to conduct in-person inspections or contract with qualified outside personnel not employed by school districts being inspected to conduct in-person inspections of all public school buildings in the State once every 5 years. Among other requirements, Executive Order 2023-14 also requires the Division of School Facilities to include the number of school facilities inspected in the preceding calendar year within the annual report that A.R.S. §41-5702(A)(6) requires it to submit to the Speaker of the House of Representatives, President of the Senate, Superintendent of Public Instruction, Secretary of State, and Governor.

<sup>11</sup> A.R.S. §41-5711 requires school districts' buildings to comply with the minimum adequacy guidelines developed by the School Facilities Oversight Board. These guidelines include various health and safety standards for school districts' facilities, such as standards for indoor air quality and structural soundness of buildings. In June 2023, the Governor signed Executive Order 2023-15, creating the Governor's Minimum Adequacy Guidelines Modernization Committee (Modernization Committee) to study and make recommendations for updates to these guidelines. Executive Order 2023-15 requires that the Modernization Committee submit a report to the Governor with final recommendations on or before July 1, 2024, and upon submission of the report, it requires the Division of School Facilities to facilitate the School Facilities Oversight Board's review and potential adoption of the Modernization Committee's recommendations.

<sup>12</sup> A.R.S. §§41-5702, 41-5731.

<sup>13</sup> A.R.S. §41-621 outlines the types of losses that the Department is required to cover, such as losses related to liability for State employee acts or omissions of any nature while acting in authorized capacities.

<sup>14</sup> A claim is a demand for money, property, or a legal remedy to which a person asserts a right, and a settlement is an official agreement that resolves a dispute or conflict and results in the voluntary dismissal of any related litigation. According to Department guidelines, if through its investigation it determines that the State is liable for a claim, the Department works to resolve claims early through a settlement.

<sup>15</sup> According to A.R.S. §41-621, a settlement for a liability claim with a total payment that is at or under \$100,000 can be entered only if the Department Director approves it; a settlement for a liability claim with a total payment over \$100,000 and up to \$250,000 can be entered only if the Department Director and the Attorney General approve it; and a settlement for a liability claim with a total payment over \$250,000 can be entered only if the Department Director, the Attorney General, and the Joint Legislative Budget Committee (JLBC) approve it. This statute also authorizes JLBC to establish higher settlement limits.



construction by the State, including developing rules consistent with State procurement laws, delegating procurement authority to State agencies, and monitoring State agencies' compliance with State procurement laws.<sup>16</sup> In addition, the Department is responsible for establishing contracts for items, such as consultation services and IT equipment, for State-wide use and has established a State purchasing cooperative that all Arizona political subdivisions, nonprofit organizations, and other states and federal government agencies may join in order to use State-wide cooperative contracts.<sup>17</sup> The Department also manages the central electronic procurement system known as the Arizona Procurement Portal (APP) that State agencies and State purchasing cooperative members can use to procure goods and services. As of August 2023, the Department had more than 1,000 State-wide contracts available for use by State agencies and State purchasing cooperative members. See Sunset Factor 2, page 18, for information on purchasing cooperative procurements.

## Organization and staffing

As of June 2023, the Department reported having 537 filled full-time equivalent (FTE) positions and 82 vacancies assigned to its various divisions and offices.<sup>18,19</sup> The following divisions and offices perform the Department's various duties and responsibilities:

- **Director's Office (18 filled FTEs, 7 vacancies)**—The Director's Office oversees agency policy and compliance with statutory requirements and administers the Department's operations. The Director's Office also includes the Communications Office, Office of the General Counsel, and Office of Continuous Improvement. The Director's Office's expenditures totaled approximately \$4.4 million in fiscal year 2022.
- **ASET (84 filled FTEs, 10 vacancies)**—ASET is responsible for the State's government IT functions, including developing and executing the State-wide IT plan; establishing IT policies, standards, and procedures; and monitoring State agency IT projects. ASET also offers IT support and services to agencies such as telecommunications, desktop support, and infrastructure services. ASET's expenditures totaled approximately \$86.2 million in fiscal year 2022.
- **Benefits Services Division (33 filled FTEs, 1 vacancy)**—The Benefits Services Division is responsible for managing the State benefits program for eligible individuals such as State employees, retirees, and their dependents. The State benefits program includes optional insurance coverage for medical, mental health, dental, and vision care, including prescription drugs; life insurance; short- and long-term disability insurance; and deferred compensation retirement plans.<sup>20</sup> The Benefits Services Division's expenditures totaled approximately \$920.2 million in fiscal year 2022.
- **Division of Business and Finance (104 filled FTEs, 14 vacancies)**—The Division of Business and Finance is responsible for establishing State-wide accounting policies and procedures, managing AFIS, administering payroll for State agencies, and preparing financial reports for the State government. It also provides accounting, budget, and financial-reporting support to the Department and to State agencies

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<sup>16</sup> A.R.S. §41-2501 lists State agencies and purposes that are not subject to State procurement laws. For example, the Arizona Board of Regents is not subject to State procurement laws, but it is required to adopt rules prescribing procurement policies and procedures for itself and institutions under its jurisdiction.

<sup>17</sup> According to A.R.S. §41-2631, cooperative purchasing means procurement conducted by, or on behalf of, more than 1 public procurement unit.

<sup>18</sup> The total number of filled and vacant FTEs does not include staff assigned to the Government Transformation Office (GTO), as the Department reported that it does not manage GTO's performance or staff.

<sup>19</sup> A.R.S. §41-703(11) authorizes the Department Director to delegate the administrative functions, duties, and powers as the Director deems necessary to carry out the efficient operation of the Department.

<sup>20</sup> The State's deferred compensation retirement plans allow State employees to have a portion of their salary withheld and placed in an individual retirement account.

through its Central Services Bureau (CSB). The Division of Business and Finance's expenditures totaled approximately \$180 million in fiscal year 2022.<sup>21</sup>

- **General Services Division (100 filled FTEs, 25 vacancies)**—The General Services Division is responsible for providing maintenance services for State-owned and leased facilities in Phoenix and Tucson, reviewing State contracts for capital projects, and receiving and distributing legislatively appropriated monies related to capital projects.<sup>22</sup> In addition, it provides leasing and real estate technical assistance to State agencies and manages surplus State property and security of and access to State facilities. The General Services Division's expenditures totaled approximately \$61.2 million in fiscal year 2022.
- **Human Resources Division (81 filled FTEs, 7 vacancies)**—The Human Resources Division is responsible for managing the SPS and maintaining the infrastructure for personnel administration, including the SPS rules and policies, HRIS, the State's classification and compensation system, and a centralized job announcement board and employee-hiring system. In addition, it supports State agencies with employee recruitment, staffing, and development. The Human Resources Division's expenditures totaled approximately \$15.9 million in fiscal year 2022.
- **Risk Management Division (48 filled FTEs, 9 vacancies)**—The Risk Management Division is responsible for managing the State's property, liability, and workers' compensation programs, including providing insurance to cover losses, damage, negligence, and injuries; and processing related claims. In addition, it provides guidance to help State agencies prevent accidents and incidents that could result in property, liability, and workers' compensation claims. The Risk Management Division's expenditures totaled approximately \$85.8 million in fiscal year 2022.
- **Division of School Facilities (16 filled FTEs, 0 vacancies)**—The Division of School Facilities is responsible for inspecting school buildings and administering grant monies to help school districts complete school facility repair projects. Additional responsibilities include assessing school facilities and equipment deficiencies and maintaining a school facility inventory database. The Division of School Facilities' expenditures totaled approximately \$226.1 million in fiscal year 2022, which primarily included distributions to school districts.
- **State Procurement Office (53 filled FTEs, 9 vacancies)**—The State Procurement Office is the State's central procurement authority and is responsible for the authorization, oversight, and management of the State government's contracting activities, including adopting procurement rules, and procuring or supervising State agencies' procurement of materials, services, and construction. Additionally, it manages the APP, which State agencies use to procure goods and services. The State Procurement Office's expenditures totaled approximately \$7.2 million in fiscal year 2022.

In addition, multiple statutes establish public bodies within the Department, require the Department Director to establish public bodies, and/or require the Department to provide administrative support to public bodies (hereafter referred to as Department public bodies), such as providing or employing staff for the public bodies and posting public body meeting agendas and other documents on its website. As of July 2023, the Department had 17 public bodies, including 9 regional independent oversight committees (see textbox, pages 6 through 7).

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<sup>21</sup> The Division of Business and Finance's fiscal year 2022 expenditures included \$88.4 million for debt service payments, \$41.9 million for grants and pass-through distributions to other entities and a federal repayment, and \$15.7 million for retiree accumulated sick leave.

<sup>22</sup> A.R.S. §41-791(C) also requires the Department to maintain buildings and grounds owned or leased by the State in other areas of the State if the function is not otherwise assigned to another entity, except for the interior of the Arizona courts building.

## Department public bodies

- **Debt Oversight Commission**—A.R.S. §35-504 established the Debt Oversight Commission in the Department to determine the bond debt of all taxing jurisdictions and its relationship to the appropriate debt limitation. According to A.R.S. §35-504, the Debt Oversight Commission consists of the Department Director and 4 private citizens knowledgeable in finance—1 appointed by the Governor and 3 jointly appointed by the President of the Senate and the Speaker of the House of Representatives. The statute also requires the Department Director to serve as the Debt Oversight Commission chairperson and for the Department to provide secretarial and staff support services.
- **Independent Oversight Committees (IOCs)**—A.R.S. §41-3801 et seq. established IOCs in the Department to promote the rights of developmentally disabled persons; children, youth, and families; and mentally ill persons receiving services from State agencies by reviewing incident reports of abuse, neglect, or denial of client rights.<sup>1</sup> A.R.S. §41-3804 also requires the Department to approve operational guidelines adopted by the IOCs; appoint persons to fill IOC vacancies subject to IOC approval; and receive and post copies of IOC annual reports on its website, along with IOC meeting agendas. As of July 2023, there were 9 regional IOCs.
- **Governor’s Regulatory Review Council (GRRC)**—A.R.S. §41-1051 et seq. established GRRC to review and approve nonexempted State agencies’ rulemakings and evaluate their rules on a 5-year basis. According to A.R.S. §41-1051, GRRC consists of 6 Governor-appointed members and the Department Director or the Department’s Assistant Director, who is responsible for administering GRRC and is GRRC’s chairperson. As the chairperson, the Department Director or Assistant Director sets the time and place for GRRC meetings and employs and specifies the duties of GRRC administrative, secretarial, and clerical employees.<sup>2</sup>
- **Information Technology Authorization Committee (ITAC)**—A.R.S. §18-121 established ITAC to review established State-wide IT standards and the State-wide IT plan, adopt necessary rules to further its programs and objectives, and approve State agency IT projects with total costs exceeding \$1 million. According to A.R.S. §18-121, ITAC consists of 10 voting members and 6 advisory members, including members appointed by the Governor, Speaker of the House of Representatives, and President of the Senate. Statute requires the Department Director or the Department Director’s designee to serve as the ITAC chairperson and that the Department provide staff support to ITAC.<sup>3</sup>
- **Lease Cost Review Board**—A.R.S. §41-792 established the Lease Cost Review Board to estimate an average square foot dollar cost for leasing privately owned office space and recommend to the Department a rental rate to charge State agencies to use space in State-owned or leased buildings. According to A.R.S. §41-792, the Lease Cost Review Board consists of the Department Director or the Department Director’s designee and 4 members appointed by the Department Director.
- **Provider Indemnity Board**—A.R.S. §41-621 requires the Department to establish a board to advise it on matters relating to insurance for property damage caused by clients and liability coverage resulting from the direct or incidental care of clients participating in State agency custodial care programs.<sup>4</sup> The Department Director is responsible for appointing 3 of the board’s 7 members.
- **Set Aside Committee**—A.R.S. §41-2636 requires the Department Director to appoint a State Set Aside Committee to determine materials and services offered for sale by certified nonprofit agencies serving disabled individuals and Arizona correctional industries and that satisfy the requirements of State agencies.<sup>5</sup> This statute also states that the Set Aside Committee’s membership should include the assistant director for rehabilitation services in the Department of Economic Security or the assistant director’s designee and a private sector businessperson appointed by the Governor who contracts or employs persons with disabilities in the private sector.

- **School Facilities Oversight Board**—A.R.S. §§41-5701.02 and 41-5702 established the School Facilities Oversight Board within the Department’s Division of School Facilities to perform some duties previously performed by the Arizona School Facilities Board, including reviewing student population projections to determine school districts’ need for monies for new school construction. According to A.R.S. §41-5701.02, the School Facilities Oversight Board consists of 7 Governor-appointed members and 2 advisory members. A.R.S. §41-5702 designates the director of the Division of School Facilities as the director of the School Facilities Oversight Board with authority to employ its staff.<sup>6</sup>
- **Water Quality Appeals Board**—A.R.S. §§49-322 and 49-323 established the Water Quality Appeals Board in the Department to hear appeals of Arizona Department of Environmental Quality decisions and determinations regarding permits, migration of pollutants by facilities into aquifers, and potential for pesticides to pollute groundwater. According to A.R.S. §49-322, the Water Quality Appeals Board consists of 3 Governor-appointed members and is authorized to employ staff.<sup>7,8</sup>

<sup>1</sup> According to A.R.S. §41-3801 et seq., the IOCs are authorized to promote the rights of clients receiving services from various State agencies, including developmental disability services through the Arizona Department of Economic Security and behavioral health services through the Arizona Health Care Cost Containment System and Arizona Department of Health Services.

<sup>2</sup> According to A.R.S. §§41-3025.05 and 41-2953, GRRC has its own termination date and is subject to a separate sunset review. JLAC assigned our Office to conduct its next sunset review, which is due by October 1, 2024.

<sup>3</sup> A.R.S. §§18-104, 18-121.

<sup>4</sup> According to A.R.S. §41-671(B), the insurable custodial care programs include foster care, programs for persons with developmental disabilities, and independent living programs.

<sup>5</sup> According to A.R.S. §41-2636, State agencies are encouraged to set aside at least 1 percent of their new purchases or contracts for materials and services from these entities.

<sup>6</sup> According to A.R.S. §§41-3025.07 and 41-2953, the School Facilities Oversight Board has its own termination date and is subject to a separate sunset review. JLAC assigned our Office to conduct its next sunset review, which is due by October 1, 2024.

<sup>7</sup> Water Quality Appeals Board final decisions are subject to appeal to the Arizona Superior Court.

<sup>8</sup> According to A.R.S. §§41-3030.08 and 41-2953, the Water Quality Appeals Board has its own termination date and is subject to a separate sunset review, which is due by October 1, 2029.

Source: Auditor General review of A.R.S. Titles 18, 35, 41, and 49.

## Revenues and expenditures

As shown in Table 1, pages 8 through 10, the Department receives revenues from various sources, including charges assessed to State agencies for Department services, State appropriations, and State intergovernmental transfers such as transfers from other State agencies that contract with the Department to oversee construction projects on their behalf. The Department’s fiscal year 2022 revenues totaled more than \$1.7 billion and are estimated to total more than \$1.9 billion in fiscal year 2023. Meanwhile, the Department’s fiscal year 2022 expenditures and transfers totaled more than \$1.6 billion and are estimated to be at a similar level in fiscal year 2023. Most of the Department’s estimated fiscal year 2023 expenditures are related to State employee health insurance benefit claims and distributions to school districts. The Department’s estimated fiscal year 2023 ending fund balance is approximately \$927 million.

**Table 1**  
**Schedule of revenues, expenditures, and changes in fund balances**  
**Fiscal years 2021 through 2023**  
(Unaudited)  
(In millions)

	2021 (Actual)	2022 (Actual)	2023 (Estimate)
<b>Revenues and transfers in</b>			
Charges for services			
State-wide health benefit contributions <sup>1</sup>	\$902.5	\$856.2	\$1,021.8
Retiree accumulated sick leave contributions <sup>2</sup>	16.9	17.1	19.2
Other <sup>3</sup>	241.7	227.9	231.6
State appropriations <sup>4</sup>	1,066.8	506.3	495.5
Intergovernmental			
Federal pandemic monies <sup>5</sup>	4.7	88.3	22.2
Other federal monies	1.8	4.0	1.4
State monies <sup>6</sup>	29.1	59.5	166.9
Other revenues <sup>7</sup>	12.6	10.4	17.3
<b>Total revenues</b>	<b>2,276.1</b>	<b>1,769.7</b>	<b>1,975.9</b>
Remittances to the State General Fund <sup>8</sup>	(4.5)	(2.0)	(7.3)
<b>Total net revenues</b>	<b>2,271.6</b>	<b>1,767.7</b>	<b>1,968.6</b>
<b>Expenditures and transfers out</b>			
Department payroll and related benefits	52.1	52.2	59.8
State-wide retiree compensation <sup>2</sup>	15.1	15.7	16.2
Professional and outside services <sup>9</sup>	52.9	46.8	56.6
Travel	0.2	0.4	0.4
Distributions to counties, cities, and other organizations <sup>10,11,12</sup>	30.2	77.2	128.3
Distributions to school districts <sup>13</sup>	-	219.8	258.1
State-wide employee health benefits	908.5	904.6	907.8
Other operating <sup>14</sup>	218.2	176.9	155.8

**Table 1 continued**

	2021 (Actual)	2022 (Actual)	2023 (Estimate)
Capital and noncapital purchases	23.0	14.5	26.9
Debt service payments <sup>4</sup>	970.7	92.9	6.2
Transfers out <sup>15</sup>	27.9	24.3	45.8
<b>Total expenditures and transfers out</b>	<b>2,298.8</b>	<b>1,625.3</b>	<b>1,661.9</b>
Net change in fund balances	(27.2)	142.4	306.7
Fund balances, beginning of year	331.7	304.5	619.9
School Facilities Board fund balance, beginning of year <sup>16</sup>	-	173.0	-
<b>Total</b>	<b>304.5</b>	<b>619.9</b>	<b>926.6</b>
Restricted <sup>17</sup>	0.2	47.9	42.6
Unrestricted <sup>18</sup>	\$304.3	\$572.0	\$884.0

- <sup>1</sup> These contributions are monies that the Department receives from all State agencies toward the State's self-funded health insurance plan. State agencies and their employees contribute biweekly premiums through payroll, which the Department collects.
- <sup>2</sup> Retiree accumulated sick leave includes any approved period of paid absence granted to a State employee due to illness, injury, or disability. State employees are eligible to be paid for accumulated sick leave balances of at least 500 hours, with a maximum of 1,500 hours, upon retirement from State service.
- <sup>3</sup> Other charges for services consist primarily of monies received from all State agencies for the Department's workers' compensation and general liability insurance.
- <sup>4</sup> The State appropriations consist primarily of State General Fund appropriations and legislative appropriations for State-owned buildings and State-wide capital assets. The large decrease in State appropriations and debt service payments in fiscal year 2022 was related to the Department receiving a supplemental appropriation of \$977.1 million pursuant to Laws 2021, Ch. 408, §101, to pay off debt obligations in fiscal year 2021.
- <sup>5</sup> According to the Department, the federal pandemic monies it received in fiscal year 2021 were primarily from the Governor's Office for costs the Department incurred related to the rapid State-wide transition to remote/telework. In fiscal years 2022 and 2023, the Department received additional transfers from the Governor's Office from the Governor's Emergency Education Relief Fund, primarily for distribution of grants related to K-12 school transportation; Coronavirus Relief Fund for COVID-19 testing costs and medical claims incurred by the State's employee health insurance program; and State and Local Fiscal Recovery Fund for the Department to coordinate projects to repair, replace, or upgrade water and wastewater treatment infrastructure, primarily at State parks across Arizona.
- <sup>6</sup> State monies primarily consist of transfers from other State agencies that contract with the Department to oversee construction projects on their behalf. In addition, the Department administers the Automation Projects Fund that consists of monies appropriated by the Legislature to implement, upgrade, or maintain automation and IT projects for any State agency. According to the Department, the large increase in fiscal year 2023 was primarily due to 3 large Automation Projects Fund IT projects starting. Also, in fiscal year 2023, pursuant to Laws 2022, Ch. 313, §110, the Department received approximately \$53.4 million to distribute to counties for deputy sheriff and detention officer compensation.
- <sup>7</sup> Other revenues primarily consist of revenues generated through the sale of State surplus property.
- <sup>8</sup> The Department remitted various revenues to the State General Fund, including monies collected from the sale of property, fines, penalties, and settlements. The Department reported the fiscal year 2023 amount also includes a federal subsidy related to school construction debt service of approximately \$7.3 million it remitted to the State General Fund.
- <sup>9</sup> Professional and outside services include expenditures for medical and hospital services, and legal services.
- <sup>10</sup> Laws 2021, Ch. 408, §100, appropriated approximately \$17 million to the Department to distribute to counties with political subdivisions that paid refunds ordered in the *Transwestern Pipeline Co. v Arizona Department of Revenue* litigation. In addition, Laws 2021, Ch. 408, §116, appropriated \$10 million to the Department to distribute to certain counties to establish a coordinated reentry planning services program. Further, as discussed in footnote 5, the Department distributed federal pandemic grant monies to a nonprofit organization to improve access to reliable and safe

## Table 1 continued

transportation for K-12 students. In fiscal year 2023, according to the Department, it was required to distribute funds for various purposes, including for county sheriff deputy and detention officer compensation, tribal capital projects, school safety interoperability, school transportation modernization grants, astronomy centers, and veterans housing (see footnotes 11 and 12 for more information about some of these distributions).

<sup>11</sup> Laws 2022, Ch. 313, §110, required the Arizona Department of Emergency and Military Affairs to distribute \$53.4 million from the Border Security Fund to the Department for the Department to distribute to counties for sheriff deputy and detention officer compensation. Specifically, these laws required the Department to distribute these monies to counties for payments of either \$10,000 or \$5,000 to line-level county sheriffs' deputies and detention officers (deputies and officers) based on whether these deputies and officers were employed as of May 1, 2022, or hired between May 1, 2022 and May 1, 2023, respectively. These laws also required counties to distribute the \$10,000 payments in equal quarterly installments to deputies and officers over 2 years and the \$5,000 payments in equal quarterly installments over 1 year. Laws 2023, Ch. 121, §1, modified Laws 2022, Ch. 313, §110, including allowing the counties to make \$5,000 payments to deputies and officers hired any time after May 1, 2022, rather than between May 1, 2022 and May 1, 2023, and for the Department to make distributions related to the \$5,000 payments for deputies and officers in each county based on the total number of vacancies for these positions rather than the number of deputies and officers hired during the May 1, 2022 and May 1, 2023, time frame. Additionally, these laws also allowed counties to spend monies that are unencumbered and unexpended related to the \$10,000 payments for deputies and officers employed as of May 1, 2022, for the purpose of making \$5,000 payments to deputies and officers hired after May 1, 2022. Finally, these laws also required the \$10,000 payments to be distributed to deputies and officers before October 30, 2023, rather than over a 2-year period. According to Department accounting data, as of June 2023, it had distributed approximately \$29.7 million of the \$53.4 million it was required to distribute to counties. The Department reported that prior to the 2023 legislative changes, it was making distributions to counties quarterly but that, due to these changes, it planned on making the final distribution to counties in September 2023. The Department is required to report to JLBC and the Governor's Office of Strategic Planning and Budgeting on the total amount distributed to counties on or before September 2023 and September 2024.

<sup>12</sup> Laws 2022, Ch. 313, §5, appropriated the Department \$20 million from the General Fund for deposit into the School Safety Interoperability Fund and for the Department to distribute to 13 county sheriffs' offices and 2 city police departments in amounts ranging from \$500,000 to \$3,050,000. According to A.R.S. §41-1733, monies in the School Safety Interoperability Fund are required to be distributed to county sheriffs' offices or city or town police departments that establish a school safety program, including deploying a multimedia data communications system to a user base consisting of public safety agencies and public schools. According to Department accounting data, as of June 2023, it had distributed approximately \$17.4 million of the \$20 million it was required to distribute to 12 county sheriffs' offices and 1 city police department. According to Department records, Coconino County returned the \$1,250,000 distributed to it because its sheriff's office did not want to participate in a school safety program. Further, according to the Department, as of August 2023, it had not distributed \$1,350,000 to the City of Yuma Police Department because the City of Yuma asked the Department to hold these monies until it develops a school safety program.

<sup>13</sup> Laws 2021, Ch. 404, transferred the Arizona School Facilities Board's responsibilities to the Department, effective September 29, 2021, resulting in the termination of the Arizona School Facilities Board. As a result, in fiscal year 2021, the Department was not responsible for distributing monies to school districts and had no expenditures for this purpose. Additionally, although the transfer of responsibilities took place approximately 3 months after fiscal year 2022 began, the fiscal year 2022 amounts presented reflect all distributions the Arizona School Facilities Board and the Department made to school districts in fiscal year 2022.

<sup>14</sup> Other operating expenditures consisted of rent, IT-related costs, workers compensation benefits and settlements, liability insurance, and repairs and maintenance.

<sup>15</sup> Transfers out primarily consisted of monies in excess of \$500,000 transferred from the Department's Personnel Division Fund to the State General Fund pursuant to A.R.S. §41-750(C) and transfers to the State Automation Projects Fund as described in footnote 6.

<sup>16</sup> Effective September 29, 2021, Laws 2021, Ch. 404, transferred all monies appropriated to the Arizona School Facilities Board that remained unexpended and unencumbered to the Department.

<sup>17</sup> According to the Department, the restricted fund balances primarily consisted of federal pandemic monies that are subject to external requirements from the federal government.

<sup>18</sup> The Department's unrestricted ending fund balances primarily consisted of monies committed to distribute grants to school districts for building renewal projects; administer State-wide employee health benefits; cover any property, workers' compensation, and liability claims; and cover costs related to maintenance, utilities, construction, and administration of State-owned buildings.

Source: Auditor General staff analysis of the Arizona Financial Information System *Accounting Event Transaction File* and the State of Arizona *Annual Financial Report* for fiscal years 2021 and 2022, and Department-provided estimates for fiscal year 2023.



Pursuant to A.R.S. §41-2954(D), the legislative committees of reference shall consider but not be limited to the following factors in determining the need for continuation or termination of the Department.

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

The Department was established in 1973 to provide centralized support services for the operation of State government by succeeding the powers and duties of multiple State agencies.<sup>23</sup> The Department’s responsibilities include administering the State Personnel System; providing health, life, and other insurance coverage for eligible individuals such as State employees, retirees, and their dependents; managing the State’s accounting system; coordinating, overseeing, and providing State government IT services; managing State-owned properties and overseeing public school districts’ school facilities; establishing and providing risk management services; and serving as the State’s central procurement authority.

According to the National Association of State Chief Administrators, all 50 states have state administrative agencies that provide administrative support services to other state agencies. Additionally, we did not identify any states that met the Department’s objective and purpose through private enterprises.

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

The Department has developed processes and/or taken steps related to meeting several of its statutory objectives and purposes in areas we reviewed. Specifically, the Department:

- **Developed processes to reduce losses related to property, liability, and workers’ compensation claims**—According to AAC R2-10-205, State agencies are required to implement loss prevention programs, including State worker and property protection measures and procedures to protect the State from liability claims (see textbox for key risk management terms). Further, AAC R2-10-204 requires the

### Key risk management terms

**Claim**—A demand for money, property, or a legal remedy to which a person asserts a right.

**Loss prevention**—Any action or plan intended to reduce the frequency and severity of property, liability, or workers’ compensation losses.

**Liability**—Legal responsibility for something. According to the Department, as applied, liability can mean responsibility for State agency, employee, or officer acts or omissions of any nature while acting in authorized capacities.

**Property**—All State-owned buildings; the contents of any buildings owned, leased, or rented by the State; and all personal property that is either owned by the State or under the clear responsibility of the State.

**Workers’ compensation**—Compensation and/or medical benefits for injury, illness, or death sustained by State employees while acting in the course of and arising out of employment.

**Settlement**—An official agreement that resolves a dispute or conflict and results in the voluntary dismissal of any related litigation.

Source: Auditor General review of A.R.S. §§41-621, 23-901, 23-1021, and 23-1062; AAC R2-10-101; Garner, B.A. (Ed.). (2019). *Black’s Law Dictionary* (11th ed.). St. Paul, MN: Thomson Reuters; Cornell Law School Legal Information Institute (n.d.) *Wex*. Retrieved 8/10/2023 from <https://www.law.cornell.edu/wex>; and Department documentation.

<sup>23</sup> State agencies the Department succeeded included the Department of Library and Archives, the Department of Public Buildings Maintenance, the Department of Finance, the State Personnel Commission, the Surplus Property Agency, the Board of History and Archives, and the Historical Advisory Commission.



Department to evaluate and assess each State agency's loss prevention programs and facilities to identify program deficiencies or hazardous conditions that might lead to loss.

The Department has developed processes for and performs a variety of activities to evaluate agencies' loss prevention programs and facilities. Specifically, the Department annually selects State agencies with high rates of losses related to property, liability, and workers' compensation claims to score and evaluate their loss prevention programs, based on Department-established criteria and using a 1-to-100 percent scale (see textbox for examples of Department-established criteria). The Department reevaluates these scores quarterly to determine if State agencies' loss prevention programs have improved. For example, in the third quarter of fiscal year 2022, the Department assessed the Arizona Department of Corrections, Rehabilitation and Reentry's (ADCRR) loss prevention program as having a score of approximately 72 percent. The Department worked with ADCRR to improve its loss prevention program's overall score by more than 20 percent within the first quarter of fiscal year 2023 by identifying program deficiencies and areas for improvement and following up on them in a subsequent assessment. According to Department documentation, the Department assessed ADCRR's program and identified the potential for improvement in several areas, such as hazard identification and assessment; hazard prevention and control; and education and training. As of October 2022, the Department had reassessed ADCRR's loss prevention program as having an overall score of nearly 94 percent and found that ADCRR had achieved scores of 100 percent in some of these areas, including hazard identification and assessment and education and training.

### Examples of Department-established criteria elements for State agencies' loss prevention programs

**Leadership commitment**—Agency management takes an active role in the health and safety of employees.

**Hazard identification and assessment**—Agency has a process for conducting accident/incident investigations with trained employees.

**Hazard prevention and control**—Agency has developed a hazard control plan for tasks that have inherent risk, including a method to verify the effectiveness of a control after it has been implemented.

**Education and training**—Agency provides mandated regulatory training and maintains training records.

**Program evaluation and improvement**—Agency monitors the effectiveness of the health and safety program.

Source: Auditor General staff review of Department documents.

Additionally, the Department uses patterns or trends in claims or injury-related data to help it schedule assessments that identify hazardous conditions in State agency facilities. For example, in fiscal year 2018, the Department worked with the Arizona Pioneers' Home to implement a safe-patient-handling and mobility program to minimize direct patient lifting after it identified high injury incidence rates for nurses, nursing assistants, and caregivers related to patient handling at this facility.<sup>24</sup> Following implementation, the Department reported that in fiscal year 2019, the number of incidents related to patient handling for caregivers, nursing assistants, and nurses had been reduced to a single incident with a cost of \$1,300, compared to the previous average of \$13,300 per incident and an average of approximately 3 incidents per year between fiscal years 2013 and 2017.

The Department reported that its loss prevention activities help mitigate issues that may result in a loss to the State. Our review of the Department's risk management annual reports for fiscal years 2018 through 2022 found that State expenditures for property and workers' compensation losses decreased during this time frame.<sup>25</sup> Specifically:

<sup>24</sup> Established by A.R.S. §41-921, the Arizona Pioneers' Home is a home for elderly Arizona pioneers, located in Prescott, AZ.

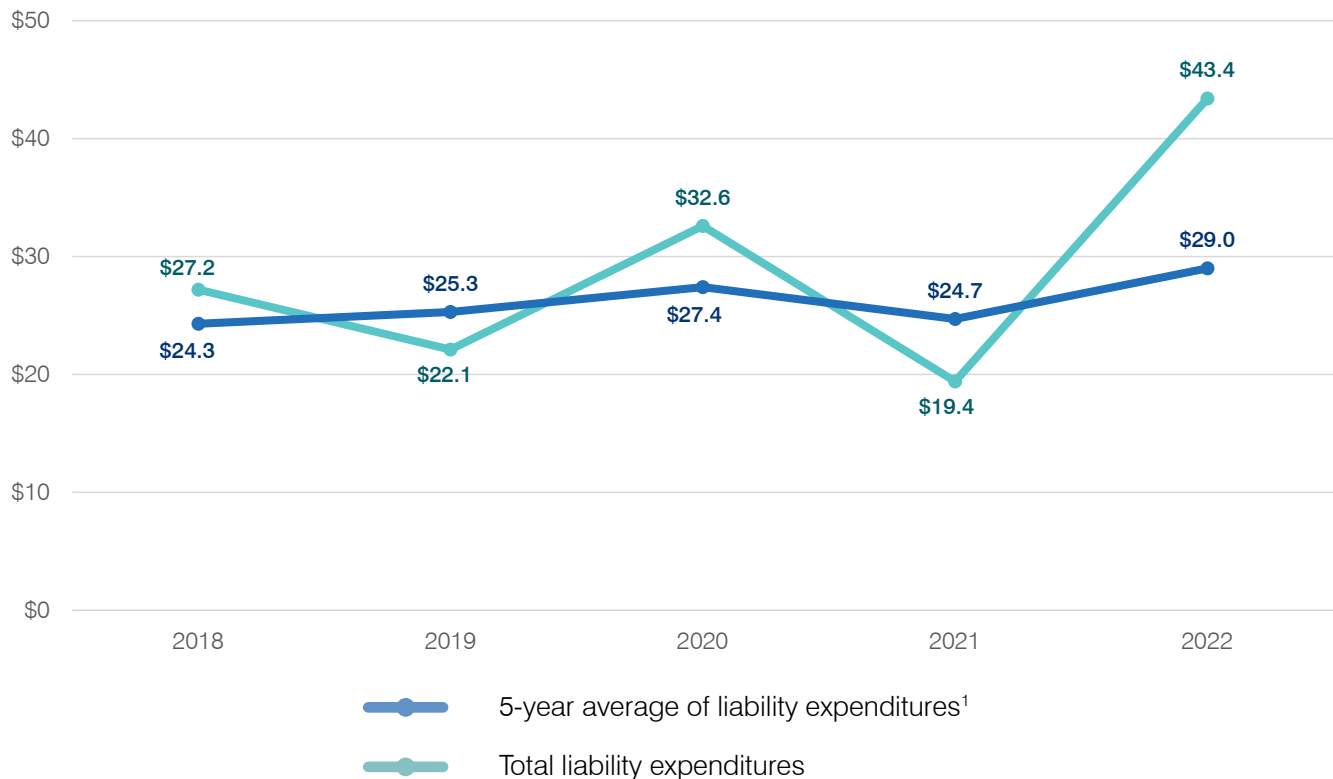
<sup>25</sup> A.R.S. §41-623 requires the Department to annually provide a summary report of property, liability, and workers' compensation losses incurred by State agencies to the Governor and Legislature.

- Property expenditures decreased from \$13.9 million in fiscal year 2018 to \$6.2 million in fiscal year 2022. Annual property claims reported to the Department ranged from 508 to 1,486 within this 5-year period.
- Workers' compensation expenditures decreased from \$22.5 million in fiscal year 2018 to \$18 million in fiscal year 2022. Annual workers' compensation claims reported to the Department ranged from 2,610 to 4,178 within this 5-year period.

Additionally, as seen in Figure 1, State expenditures for liability losses fluctuated between fiscal years 2018 and 2022. According to the Department, in fiscal years 2020 and 2021, many lawsuits were delayed due to courts being closed during the COVID-19 pandemic and did not become active or settled until fiscal year 2022, which contributed to the decrease in total liability expenditures in fiscal year 2021 and the increase in total liability expenditures in fiscal year 2022. Additionally, according to the Department's fiscal year 2022 risk management annual report, in fiscal year 2022, it had significant increases in settlement costs related to 2 Arizona Department of Transportation liability claims totaling \$4.6 million and 3 Arizona Department of Child Safety liability claims totaling \$9.1 million. Further, the 5-year averages for liability expenditures, which the Department annually calculates based on the preceding 5 years, ranged from \$24.3 million to \$29.0 million between fiscal years 2018 and 2022. Annual liability claims reported to the Department ranged from 2,120 to 2,963 within this 5-year period.

**Figure 1**  
**State expenditures for liability claims averaged approximately \$29 million from fiscal years 2018 through 2022**

(Unaudited)  
(In millions)



<sup>1</sup> For each fiscal year, the Department calculates a 5-year average for total liability expenditures by averaging total expenditures over the preceding 5-year period.

Source: Auditor General staff review of Department's risk management annual reports for fiscal years 2018 through 2022.

- **Took steps to help increase Special Employee Health Insurance Trust Fund (HITF) revenues and reduce HITF expenditures**—A.R.S. §38-654 requires the Department to administer the HITF for State employees and officers who participate in the State’s health insurance benefit programs.<sup>26,27</sup> According to statute, allowable uses for HITF monies include paying for costs associated with administering the State employee health insurance benefit program and health insurance premiums, claims costs, and related administrative expenses.<sup>28</sup> The HITF consists of legislative appropriations, monies collected from State employers and employees for the health insurance benefit plans (contributions), and investment earnings on employee contributions. The Joint Legislative Budget Committee (JLBC) recommends that the Department maintain between \$50 million and \$100 million in reserves in the HITF to ensure the Department can meet its obligations in the event of cash flow fluctuations or catastrophic expenses.<sup>29</sup>

As shown in Table 2, page 15, the HITF’s expenditures have consistently exceeded its annual revenues between calendar years 2016 and 2021, resulting in a decrease to the HITF’s balance. Further, beginning in calendar year 2020, the HITF’s balance fell below JLBC’s recommended reserve goal of \$50 million to \$100 million. The Department reported that various factors have contributed to the HITF revenues being insufficient to cover its expenditures, including insufficient employee and employer contribution rates and increasing medical and pharmacy costs.<sup>30</sup> Additionally, between fiscal years 2012 and 2017, the Legislature transferred HITF monies to supplement other funds for various purposes. For example, Laws 2016, Ch. 117, §8, transferred nearly \$79 million from the HITF to the State General Fund for the purpose of providing adequate support and maintenance to State agencies.

The Department has pursued various strategies to help increase HITF revenues and reduce HITF expenditures. For example, the Department:

- **Proposed increases in employee and employer contribution rates to generate additional HITF revenues**—For example, the Department proposed to and implemented an increase in some employee contribution rates through health insurance plan modifications it made in calendar year 2021 (see next paragraph for more information on the modifications). At the time the Department proposed these increases, it estimated that these rate changes would increase HITF revenue by \$7.9 million annually. The Department also proposed employer contribution rate changes to the Legislature, and the Legislature has appropriated additional monies to State agencies to allow them to pay higher employer contribution rates. For example, the Department proposed a permanent employer contribution rate increase for fiscal year 2022, which it estimated would generate \$36.9 million annually in ongoing HITF revenue. In fiscal year 2022, the Legislature appropriated approximately \$36.8 million to State agencies to allow them to pay higher contribution rates during that year.<sup>31</sup>
- **Modified health insurance plans to reduce HITF expenditures**—In calendar year 2021, the Department made significant changes to the health insurance plans that it offered to eligible individuals, including increasing deductibles, copayments, and out-of-pocket maximum amounts that plan participants pay.<sup>32</sup> At the time the Department proposed these changes, it estimated that they would result in savings of approximately \$26 million per year.

<sup>26</sup> According to the Department, the HITF supports its medical and dental insurance programs.

<sup>27</sup> A.R.S. §§38-651 and 38-651.01 authorize the Department to purchase health insurance coverage for eligible individuals such as State employees, officers, retirees, and their dependents.

<sup>28</sup> A.R.S. §38-654.

<sup>29</sup> According to A.R.S. §41-1272, JLBC is responsible for ascertaining facts and making recommendations to the Legislature regarding the State’s budget, revenues and expenditures, future fiscal needs, and the organization and functions of State agencies or their divisions.

<sup>30</sup> A.R.S. §38-658 requires the Department to meet with JLBC to review the contributions for health plans before the Department enters into or renews contracts for health insurance coverage.

<sup>31</sup> The Department did not make changes to employee contribution rates in fiscal year 2022.

<sup>32</sup> A deductible is the amount of money an individual must pay for healthcare services before a health insurance plan begins to pay for these services; copayments are fixed amounts of money that an individual must pay for a specific healthcare service; and out-of-pocket maximum refers to the limit on the amount of money an individual must pay per year before a health insurance plan covers 100 percent of the cost of services.

**Table 2****HITF expenditures, including transfers to the State General Fund, exceeded revenues resulting in the HITF balance decreasing from \$280 to \$40 million from calendar years 2016 to 2021**

(Unaudited)

(In millions)

Header	2016	2017	2018	2019	2020	2021 <sup>1</sup>
Fund balance, beginning of year	\$369.0	\$279.6	\$151.3	\$109.9	\$83.6	\$40.3
Revenues	804.0	852.8	880.2	869.3	870.3	840.2
Expenditures	889.3	902.3	921.6	895.6	913.7	840.7
Transfers to the State General Fund <sup>2</sup>	4.1	78.9	-	-	-	-
Fund balance, end of year	279.6	151.3	109.9	83.6	40.3	39.8
<b>Net annual change in fund balance</b>	<b>\$(89.4)</b>	<b>\$(128.3)</b>	<b>\$(41.4)</b>	<b>\$(26.3)</b>	<b>\$(43.3)</b>	<b>\$(0.5)</b>

<sup>1</sup> The calendar year 2021 total expenditures do not include approximately \$28.7 million in medical and pharmacy claim costs the Department paid with a one-time \$28.7 million COVID-19 relief award, which the Department received in fiscal year 2021 from the Governor's Office from the Coronavirus Relief Fund. Without this award, the net annual change in fund balance for calendar year 2021 would have been a decrease of \$29.2 million with a year-end fund balance of \$11.1 million.

<sup>2</sup> Laws 2016, Ch. 117, §§8 and 157, transferred monies from the HITF to the State General Fund for the purpose of providing "adequate support and maintenance to agencies of this State." Specifically, Laws 2016, Ch. 117, §157, transferred approximately \$4.1 million in fiscal year 2016, while Laws 2016, Ch. 117, §8, amended Laws 2015, Ch. 8, §136, to transfer \$78.9 million in fiscal year 2017.

Source: Arizona Department of Administration's *Health Insurance Trust Fund Annual Report* for calendar years 2016 through 2021 and Laws 2016, Ch. 117, §§8 and 157.

- **Created a task force to identify additional opportunities to reduce HITF expenditures**—For fiscal year 2023, the Legislature appropriated the Department \$203,100 from the HITF for medical and pharmacy consulting services to explore opportunities to reduce HITF costs. The Department reported using this appropriation to create a task force by partnering with the Governor's Office and pharmaceutical industry experts. According to Department documentation, as of July 2023, the task force conducted market research and was able to negotiate pharmaceutical cost savings for the Department's health insurance plans.
- **Developed processes to monitor employee productivity, including remote employees**—The Department has developed remote work policies and procedures for the SPS.<sup>33</sup> These policies and procedures provide guidance to State agencies on remote work requirements, including that supervisors

<sup>33</sup> In November 2012, the Department developed SPS remote work policies and procedures that applied to all State agencies in the SPS. These policies and procedures were updated in December 2020 and 2021 to increase flexibility and provide additional guidance related to remote work.

establish productivity and quality standards and implement accountability measures to ensure employees, including those with remote work schedules, adhere to these standards. The Department’s SPS policies and procedures are consistent with remote work productivity recommended practices from the U.S. General Services Administration (GSA), which state that supervisors should establish clear objectives and performance indicators adapted to the specifics of the workplace and closely monitor these indicators.<sup>34</sup>

Our review of the Department’s practices related to employee productivity found that it has established processes for monitoring its employees’ productivity consistent with its SPS remote work policies and procedures and recommended practices from GSA.<sup>35</sup> Specifically, the Department has established productivity standards across its divisions, offices, and sections (hereafter referred to as groups), and documents its performance related to these standards in monthly scorecards.<sup>36</sup> According to the Department’s process, its leadership reviews group performance on a monthly basis to determine whether its groups are meeting their productivity standards. Further, the Department has a corrective action form that it reported requiring its groups to fill out if they do not meet productivity standards for 2 consecutive months. This form requires Department groups to outline the reasons for not meeting the productivity standards and their plans for meeting them.

- **Provided training on financial-related topics to State agencies**—As reported in the Introduction (see page 2), A.R.S. §35-131 requires the Department to develop a uniform accounting system for State agencies, and the Department prepares and maintains the SAAM, which outlines State requirements for and guidance on accounting, internal control, and management matters. The Department has also established a process to provide periodic training on financial-related topics included in the SAAM to State agency financial personnel. According to the Department, it develops these trainings in response to issues identified by its review of State agency internal control assessments and its internal audit team, and questions from State agencies. Examples of training topics that the Department has provided to State agencies include conflict-of-interest, purchasing and travel cards, and fixed assets. The Department keeps track of who attends these trainings and notifies State agencies when new training materials have been posted to its website.
- **Made progress toward meeting several of its space reallocation goals**—According to A.R.S. §41-791, the Department is statutorily responsible for allocating space in and operating State-owned and leased buildings.<sup>37</sup> Prior to fiscal year 2020, the Department engaged in various planning efforts to assess the condition of buildings that it manages and the State’s needs for building space. Beginning in fiscal year 2020 and following an increase in State employees working remotely during and after the COVID-19 pandemic, the Department formalized these efforts into a space-reallocation plan, known as the compression plan (see textbox for the compression plan’s goals). As of July 2023, the Department had

**Compression plan goals**

- Reduce the State’s physical footprint.
- Reduce deferred maintenance costs.
- Reduce lease costs.
- Colocate similar State agencies to improve adjacencies and operations.
- Improve workspace conditions.
- Reallocate repair and maintenance resources.
- Generate one-time revenues from property sales.

Source: Auditor General staff review of Department documents.

<sup>34</sup> U.S. General Services Administration (GSA). (2020). *Resources for managing teleworkers*. Retrieved 05/25/2023 from <https://www.gsa.gov/governmentwide-initiatives/telework/resources-for-managing-teleworkers>; U.S. General Services Administration (GSA). (2011). *Knowledge worker productivity: Challenges, issues, solutions*. Retrieved 04/19/2023 from <https://www.gsa.gov/system/files/KnowledgeWorkerProductivity.pdf>.

<sup>35</sup> GSA, 2020; GSA, 2011.

<sup>36</sup> Based on our review of the Department’s fiscal year 2023 scorecards, the Department’s productivity standards included internal Departmental goals as well as customer service metrics. Examples of customer service-related performance standards included timely work order completion for the General Services Division and average customer ratings for the State Procurement Office.

<sup>37</sup> A.R.S. §41-791 exempts some State buildings from the Department’s operation, such as the buildings occupied, operated, and maintained by the Arizona Department of Transportation and the Arizona Power Authority.

made progress toward meeting several compression plan goals by selling and demolishing State buildings, discontinuing private sector leases, and relocating State agency offices.<sup>38</sup> For example, the Department:

- Sold 4 buildings and demolished 6 buildings. Through these sales and demolitions, the Department eliminated approximately 450,000 gross square feet of building space and reported eliminating nearly \$72 million of deferred maintenance.<sup>39,40</sup>
- Reduced private sector lease expenditures by approximately \$8 million.
- Colocated 6 State agencies focused on natural resources in 1 building, including the Arizona State Land Department and the Arizona Department of Forestry and Fire Management.
- Generated approximately \$14 million in one-time revenues from the 4 building/property sales.

The Department estimated it would complete the compression plan in fiscal year 2024. For example, it reported that it was planning 4 additional building demolitions in fiscal year 2024, which would reduce its building footprint and deferred maintenance costs by another 108,000 gross square feet and \$19 million, respectively.<sup>41</sup> Finally, the Department estimated that its compression efforts will reduce its office space capacity by approximately 2,500 employee workspaces once fully completed.<sup>42</sup>

- **Took steps to plan for the development of underutilized State property in the Governmental Mall**—According to A.R.S. §41-1362, the Department is responsible for planning for and developing the Governmental Mall.<sup>43</sup> In January 2022, the Department entered into a contract with a consultant to provide strategies for addressing underutilized real property in the Governmental Mall, including recommendations for potential uses of these underutilized properties.<sup>44</sup> The strategies are part of a phased plan to develop the Governmental Mall to include a mix of uses, such as commercial, retail, residential, and governmental. The consultant’s strategy and preliminary plan, which was completed in December 2022, identified various recommendations to address the underutilized State property in the Governmental Mall, including that the Department should work with various stakeholders, such as the Legislature, to:
  - **Consolidate State activities toward the west end of the Governmental Mall**—Specifically, the consultant recommended the Department consolidate and focus governmental activities toward the west end of the Governmental Mall around the Capitol and Wesley Bolin Memorial Plaza, including potentially rehabilitating existing buildings or constructing new facilities.

<sup>38</sup> The Joint Committee on Capital Review (JCCR), a 14-member committee consisting of members of the Arizona Senate and House of Representatives, has various capital-related oversight responsibilities. For example, pursuant to A.R.S. §41-1252, the JCCR reviews the Department’s building system capital improvement plans and makes recommendations to the Legislature concerning monies for land acquisition, capital projects, building renewal, and reviews related expenditures. JCCR has reviewed parts of the Department’s compression plan. For example, in September 2022, it gave a favorable review to the Department’s request to demolish 3 buildings, and in October 2021, it gave a favorable review to the Department’s request to renovate a building and relocate a State agency into the renovated building.

<sup>39</sup> The 4 State buildings the Department sold were located at 2910 N. 44th St., Phoenix, AZ 85018; 9535 E. Doubletree Ranch Rd., Scottsdale, AZ 85258; 9545 E. Doubletree Ranch Rd., Scottsdale, AZ 85258; and 519 E. Beale St., Kingman, AZ 86401. The 6 buildings the Department demolished were located at 1275 W. Washington St., Phoenix AZ 85007; 1601 W. Jefferson St., Phoenix AZ 85007; 1645 W. Jefferson St., Phoenix, AZ 85007; 1510 W. Adams St., Phoenix, AZ 85007; and 1520 W. Adams St., Phoenix, AZ 85007. One of the buildings the Department demolished was a mechanical building shared by the buildings located at 1510 and 1520 W. Adams St., Phoenix, AZ 85007.

<sup>40</sup> According to the Department, it calculated the deferred maintenance savings for these buildings based on information from a 2016 building condition study prepared for Department-managed facilities, which it reported updating annually.

<sup>41</sup> The 4 buildings the Department planned on demolishing were located at 1720 W. Madison St., Phoenix, AZ 85007; 1850 W. Jackson St., Phoenix, AZ 85007; 1818 W. Adams St., Phoenix, AZ 85007; and 1624 W. Adams St., Phoenix, AZ 85007.

<sup>42</sup> The Department calculated its estimate for reduced office space capacity by using an average of 200 square feet per employee workspace.

<sup>43</sup> The Governmental Mall is located in Phoenix, AZ, between 7th and 19th Avenues and Van Buren and Harrison Streets and includes the State Capitol, Arizona Supreme Court, and other State buildings.

<sup>44</sup> According to the Department, real property includes land, buildings, structures, rights-of-way, fences, sidewalks, water and sewage systems, irrigation and drainage systems, easements, and other fixtures or appliances when permanently incorporated in or attached to buildings and structures.

- **Redevelop State land for various uses**—For example, for the areas to the south of Jefferson Street and west of 15th Avenue, the consultant recommended that the Department consider several land use options including office and residential. The consultant also recommended the Department consider maintaining ownership of the land but encourage nonprofit or private development through options such as long-term land leases.

The Department reported that as of June 2023, it began regularly meeting with the Governor’s Office to prioritize the consultant’s recommendations.

- **Corrected previously identified noncompliance with procurement requirements when its State cooperative awarded contracts used by school districts**—A.R.S. §15-213(F) requires school purchasing cooperatives to have a systematic review of their purchasing practices performed in conjunction with their annual financial audits, using guidelines that our Office established. The review’s purpose is to determine whether the cooperative complied with State procurement laws and applicable rules when awarding contracts that Arizona school districts use through a procurement questionnaire that assesses compliance with 22 procurement requirements (see textbox for examples of these requirements).<sup>45</sup> The Department has established a State purchasing cooperative, which allows political subdivisions and other entities, including school districts, to use its State-wide cooperative contracts. As such, our Office conducts an annual review of the Department’s State purchasing cooperative. Our Office’s fiscal year 2020 review found 2 instances of noncompliance, including a procurement file lacking an updated award determination; however, our Office did not find any noncompliance in our fiscal years 2021 and 2022 reviews.

**Examples of procurement requirements that the procurement questionnaire assesses**

- Cooperative’s contracts awarded through competitive sealed bidding were awarded to the lowest responsible and responsive bidder whose bid conformed, in all material respects, to the requirements and evaluation criteria in the invitation for bid.
- Cooperative’s procurement files included applicable written determinations, as required throughout the procurement rules.

Source: Arizona Auditor General report *Arizona State Procurement Office Procurement Compliance Questionnaire for Fiscal Year Ended June 30, 2022*.

However, the Department can better meet its statutory objective and purpose and/or improve its efficiency in the following areas:

- **Department entered into interagency services agreements (ISAs) for CSB-provided financial services and generally met related ISA requirements that we reviewed, but lacked ISAs for ASET-provided IT services**—A.R.S. §35-148(A) authorizes a State agency to enter into an ISA with another State agency to allow for reimbursement of monies related to services performed or advancements of monies related to services to be performed. The Department provides financial and IT services to other State agencies through CSB and ASET, respectively. Specifically, CSB provides financial services, such as processing transactions through AFIS and APP, and ASET provides IT services, such as software services and technical support.<sup>46</sup> Our review of the Department’s processes for providing financial and IT services to State agencies found that the Department:
  - **Entered into ISAs for CSB-provided financial services and generally met related ISA requirements that we reviewed**—Our review of 10 of 57 State agencies that CSB was providing financial services to as of October 2022 found that the Department had signed ISAs with all 10 agencies.<sup>47</sup>

<sup>45</sup> A.R.S. §§15-213 and 41-2631 define school purchasing cooperatives as entities that are engaged in cooperative purchasing, and cooperative purchasing as procurement conducted by, or on behalf of, more than 1 public procurement unit.

<sup>46</sup> AFIS is the State-wide automated accounting system, and APP is the State’s central electronic procurement system (see Introduction, pages 2 through 4, for information on how the Department uses AFIS and APP).

<sup>47</sup> We judgmentally selected 10 of 57 State agencies that CSB provided financial services to as of October 2022 based on the level and type of services that CSB provided to these agencies.

Additionally, our review of 18 AFIS/APP transactions from 2 State agencies serviced by CSB found that CSB processed 17 transactions within 3 or 5 working days, as required by its ISAs with these State agencies.<sup>48,49</sup> CSB exceeded the 3-day processing time frame by 5 days for a \$50 transaction that we reviewed.

- **Lacked ISAs for IT services that ASET reported providing to some State agencies**—Our review of Department-provided information related to 91 State agencies that ASET reported providing IT services to as of June 2023 found the Department lacked signed ISAs with 12 of these State agencies. The Department provided various explanations for lacking signed ISAs with these State agencies, including State agencies being unresponsive to the Department’s communications regarding the ISAs. The Department also reported that 3 of the 12 agencies refused to sign the standard ISA ASET uses because the ISA lacked a specific expiration date, and these agencies wanted to renew the ISA on an annual basis.<sup>50</sup> However, ASET may be performing unauthorized services on behalf of State agencies, and both parties may be uninformed as to their respective duties and responsibilities in administering the ISAs.

In July 2023, the Department reported it was developing an ASET ISA that could be renewed on an annual basis and planned to request that the 12 State agencies without a signed ISA sign either the standard ASET ISA or the newly developed annual ASET ISA. Further, Department staff reported that if, after undertaking these efforts, State agencies that receive ASET services do not sign an ASET ISA, it will work with Department leadership to take appropriate action, such as terminating the IT services it was providing to the applicable State agencies.

- **Department established a process to periodically review and adjust the appropriateness of its fees for IT services but did not have a similar process for its financial service fees**—The Department charges fees for the financial and IT services that it provides to State agencies through CSB and ASET, respectively. The Department has developed a documented process to review the appropriateness of its IT service fees consistent with Government-fee setting recommended practices we reviewed, which state that fees should be based on the cost of providing services and reviewed periodically to ensure they are based on costs.<sup>51</sup> According to the Department’s process, ASET conducts annual reviews and evaluates the IT services that it provides to State agencies, including its costs for providing these services, and adjusts its fees, as applicable.<sup>52</sup> For example, in fiscal year 2023, the Department

<sup>48</sup> According to the Department’s ISAs, CSB is required to process AFIS and APP transactions within 3 working days after receiving complete and accurate supporting documentation. However, during July and August, CSB is required to process these transactions within 5 days.

<sup>49</sup> We judgmentally selected 2 of 57 State agencies that CSB serviced as of October 2022 because they were regulatory agencies that licensed healthcare professionals. One State agency had 218 total transactions related to professional and outside services and other operating costs between July and December 2022. We judgmentally selected 6 of these transactions based on the vendor type and randomly selected 2 of the remaining 212 transactions. The other State agency had 193 total transactions related to professional and outside services and other operating costs between July and December 2022. We judgmentally selected 8 of these transactions based on the vendor type and randomly selected 2 of the remaining 185 transactions.

<sup>50</sup> Although the standard ASET ISA does not contain a specific expiration date, it includes provisions for notifying the Department of any disputes related to IT service payments and terminating the agreement. Further, the standard ASET ISA requires the Department to provide State agencies with an itemized statement of services rendered each month.

<sup>51</sup> We reviewed the following fee-setting recommended practices: U.S. Government Accountability Office. (2015). *Federal user fees: Key considerations for designing and implementing regulatory fees*. Washington, DC. Retrieved 8/10/2023 from <https://www.gao.gov/assets/680/672572.pdf>; Government Finance Officers Association. (2014). *Best practices: Establishing government charges and fees*. Chicago, IL. Retrieved 8/10/2023 from <http://www.gfoa.org/establishing-government-charges-and-fees>; Arizona State Agency Fee Commission. (2012). *Arizona State Agency Fee Commission report*. Phoenix, AZ; U.S. Government Accountability Office. (2008). *Federal user fees: A design guide*. Washington, DC. Retrieved 8/10/2023 from <https://www.gao.gov/assets/gao-08-386sp.pdf>; Michel, R.G. (2004). *Cost analysis and activity-based costing for government*. Chicago, IL: Government Finance Officers Association; Mississippi Joint Legislative Committee on Performance Evaluation and Expenditure Review. (2002). *State agency fees: FY 2001 collections and potential new fee revenues*. Jackson, MS. Retrieved 8/10/2023 from [https://www.peer.ms.gov/sites/default/files/peer\\_publications/rpt442.pdf](https://www.peer.ms.gov/sites/default/files/peer_publications/rpt442.pdf); and U.S. Office of Management and Budget. (1993). *OMB Circular No. A 25, revised*. Washington, DC. Retrieved 8/10/2023 from <https://www.whitehouse.gov/wp-content/uploads/2017/11/Circular-025.pdf>.

<sup>52</sup> This process includes ASET working with the Department’s Division of Business and Finance.



reviewed its costs to provide server and data backup services and plans to increase its fee for these services in July 2024.

However, the Department had not established a similar process for periodically reviewing its fees for the financial services that CSB provides to State agencies, such as processing transactions through AFIS and APP. Additionally, the Department reported that it has not conducted an analysis to determine the costs related to the services CSB provides to State agencies. By not evaluating the appropriateness of all its fees related to CSB services to help ensure they are commensurate with the costs of its activities to provide financial services to agencies, the Department may be at risk of collecting more or less revenue than it needs to operate CSB.

- **Department had multiple outstanding recommendations related to the Arizona School Facilities Board**—As discussed in the Introduction (see pages 2 and 3), effective September 29, 2021, Laws 2021, Ch. 404, transferred the Arizona School Facilities Board’s (Board) statutory responsibilities to the Department, resulting in the Board’s termination. The law established a Division of School Facilities within the Department and transferred most of the Board’s statutory responsibilities to this division. The law also established a School Facilities Oversight Board within the Department and transferred some of the Board’s responsibilities to the School Facilities Oversight Board.<sup>53</sup> Prior to this transfer and since 2017, we had issued 3 audit reports on the Board.<sup>54</sup> These audits found, among other issues, that the Board lacked processes for ensuring that approved projects were completed successfully, identified hundreds of Board-approved Building Renewal Grant Fund projects that had been open for 12 months or longer, and that the Board had not inspected school buildings, limiting its ability to ensure student and staff health and safety and efficient use of State monies. We made a combined total of 77 recommendations, including subparts, to the Board to address these issues. Because the Board’s responsibilities were transferred to the Department, the Department is responsible for addressing our audits’ recommendations. As of October 2022, of the 77 recommendations we made to the Board:
  - 42 recommendations had been implemented, partially implemented, or were not yet or no longer applicable.
  - 22 recommendations had not been implemented.
  - 13 recommendations were in process of being implemented.<sup>55</sup>
- **Our July 2023 performance audit of ASET found that it provided insufficient oversight of IT projects**—The Department is statutorily responsible for State government IT functions and has assigned these responsibilities to ASET.<sup>56</sup> ASET’s responsibilities include reviewing, approving, or recommending ITAC approve agencies’ IT projects; monitoring agencies’ IT projects through expenditure and activity reports and conducting periodic reviews; temporarily suspending the expenditure of monies related to an IT project if it determines that the project is at risk of failing to achieve its intended results; and requiring agencies to contract for independent third-party reviews of IT projects with total costs over \$5 million before recommending these projects to ITAC for approval.

However, we found that ASET provided insufficient oversight of IT projects, which hampers its ability to assess whether IT projects are at risk of failure and whether they have met intended results. For example, ASET:

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<sup>53</sup> According to A.R.S. §§41-3025.07 and 41-2953, the School Facilities Oversight Board has its own termination date and is subject to a separate sunset review. JLAC assigned our Office to conduct its next sunset review, which is due by October 1, 2024.

<sup>54</sup> See Arizona Auditor General reports 21-112 *Arizona School Facilities Board—Sunset review*, 19-105 *Arizona School Facilities Board—Building Renewal Grant Fund*, and 17-108 *Arizona School Facilities Board*.

<sup>55</sup> These implementation statuses are based on our November 2021 48-month followup to the 2017 Board audit, November 2021 24-month followup to the 2019 Board audit, and October 2022 initial followup to the 2021 Board audit. We will issue follow-up reports on the Department’s status in implementing outstanding recommendations related to these 3 audits by calendar year 2024.

<sup>56</sup> A.R.S. §§18-101 through 18-106.

- Did not consistently receive or document its review of status reports for 15 of 20 IT projects we reviewed.<sup>57</sup>
- Did not consistently track project start and end dates for 14 of 20 IT projects we reviewed.
- Did not consistently corroborate or receive IT project expenditure information.
- Closed IT projects with unresolved issues.
- Had not taken action to suspend IT projects that had significant implementation and post-implementation issues and/or did not meet some of their intended results.
- Did not evaluate or ensure that State agencies evaluated project outcomes.

We also found that ASET did not ensure that State agencies contracted for statutorily required independent third-party reviews before recommending high-risk IT projects for ITAC approval, potentially jeopardizing their success. For example, 2 independent third-party reviews identified concerns and risks that were not considered during ASET's or ITAC's review and consideration of the IT projects' approval.

We made various recommendations to ASET, including that it should develop and implement policies, procedures, and/or standards for ensuring it meets its oversight responsibilities and work with ITAC to develop a process for requiring that State agencies obtain and provide ASET and ITAC with the initial results of independent third-party reviews. See Auditor General report 23-104 *Arizona Department of Administration—Arizona Strategic Enterprise Technology Office (ASET) IT Project Oversight* for additional information.

## Recommendations

The Department should:

1. Obtain signed ISAs from all State agencies that receive its IT services.
2. Develop and implement policies and procedures for periodically reviewing the appropriateness of CSB fees that require it to analyze the costs of CSB activities, compare these costs to the associated fees, determine the appropriate fees, and then revise CSB fees as needed.
3. Require its Division of School Facilities to develop and implement a written plan that outlines key steps that it will take to address outstanding recommendations related to the prior audits of the Arizona School Facilities Board, including associated completion deadlines for each step.

**Department response:** As outlined in its [response](#), the Department agrees with the findings and will implement the recommendations.

### Sunset factor 3: The extent to which the Department serves the entire State rather than specific interests.

The Department serves the entire State by performing several State-wide support functions. For example, in calendar year 2021, the Department offered health and life insurance benefits to approximately 132,000 members, which includes eligible individuals such as State employees, retirees, and their dependents throughout the State. The Department also provides State-wide IT services and manages State-owned and leased buildings. Further, the Department has established a State purchasing cooperative that provides cooperative purchasing services to approximately 950 members throughout the State, including entities such as cities and towns, schools and educational institutions, healthcare institutions, charities, and other nonprofit organizations.

<sup>57</sup> These 20 projects consisted of a random sample of 19 completed IT projects ASET or ITAC approved in fiscal years 2018 through 2022 and 1 judgmentally selected IT project ITAC approved in 2017. See Auditor General report 23-104 *Arizona Department of Administration—Arizona Strategic Enterprise Technology Office (ASET) IT Project Oversight*, page c-1, for additional information on our sampling methodology.

We also assessed whether the Department serves the entire State rather than special interests by reviewing its conflict-of-interest practices. The State's conflict-of-interest requirements exist to remove or limit the possibility of personal influence from impacting a decision of a public agency employee or public officer. Specifically, statute requires public officers, such as ITAC and IOC members, and employees of public agencies to avoid conflicts of interest that might influence or affect their official conduct.<sup>58</sup> These laws require employees and public officers to disclose substantial financial or decision-making interests and then refrain from participating in matters related to the disclosed interests. To help ensure compliance with these statutory requirements, the Department's *State Personnel System Employee Handbook* and conflict-of-interest disclosure form (disclosure form) require State employees to disclose if they have any business or decision-making interests, outside employment, and relatives employed by the State at the time of initial hire and anytime there is a change. The Department disclosure form also requires State employees to attest that they do not have any of these potential conflicts, if applicable, also known as an "affirmative no." In addition, A.R.S. §38-509 requires public agencies to maintain a special file of all documents necessary to memorialize all disclosures of substantial interest and to make this file available for public inspection.

Further, in response to conflict-of-interest noncompliance and violations investigated in the course of our work, such as employees/public officers failing to disclose substantial interests and participating in matters related to these interests, we have recommended several practices and actions to various school districts, State agencies, and other public entities.<sup>59</sup> Our recommendations are based on recommended practices for managing conflicts of interest in government and are designed to help ensure compliance with State conflict-of-interest requirements by reminding employees/public officers of the importance of complying with the State's conflict-of-interest laws.<sup>60</sup> Specifically, conflict-of-interest recommended practices indicate that all public agency employees and public officers complete a disclosure form annually. Recommended practices also indicate that the form include a field for the individual to provide an "affirmative no," if applicable. Finally, these recommended practices indicate that agencies develop a formal remediation process and provide periodic training to ensure that identified conflicts are appropriately addressed and help ensure conflict-of-interest requirements are met.

Our review of the Department's conflict-of-interest practices for its employees and IOC and ITAC members found that the Department complied with State conflict-of-interest requirements we reviewed and adopted some recommended practices. In addition, during the audit, the Department began implementing conflict-of-interest practices for IOCs and ITAC.<sup>61</sup> However, it can enhance its conflict-of-interest processes by adopting additional recommended practices. Specifically, the Department:

- **Complied with most State conflict-of-interest requirements and some recommended practices related to its employees**—We found the Department maintains a special file for employee disclosure forms that document potential conflicts-of-interest and is available for public inspection, as required by A.R.S. §38-509.<sup>62</sup> Additionally, consistent with recommended practices, the Department sent emails to its

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<sup>58</sup> A.R.S. §38-501 et seq.

<sup>59</sup> See, for example, Arizona Auditor General reports 21-402 *Higley Unified School District—Criminal Indictment—Conspiracy, Procurement Fraud, Fraudulent Schemes, Misuse of Public Monies, False Return, and Conflict of Interest*; 19-105 *Arizona School Facilities Board—Building Renewal Grant Fund*; and 17-405 *Pine-Strawberry Water Improvement District—Theft and misuse of public monies*.

<sup>60</sup> Recommended practices we reviewed included Organization for Economic Cooperation and Development (OECD). (2022). *Recommendation of the council on OECD guidelines for managing conflict of interest in the public service*. Paris, France. Retrieved 8/10/2023 from <https://legalinstruments.oecd.org/public/doc/130/130.en.pdf>; Ethics & Compliance Initiative (ECI). (2016). *Conflicts of interest: An ECI benchmarking group resource*. Arlington, VA. Retrieved 8/10/2023 from <https://www.ethics.org/wp-content/uploads/2021-ECI-WP-Conflicts-of-Interest-Defining-Preventing-Identifying-Addressing.pdf>; and Controller and Auditor General of New Zealand. (2020). *Managing conflicts of interest: A guide for the public sector*. Wellington, New Zealand. Retrieved 8/10/2023 from <https://oag.parliament.nz/2020/conflicts/docs/conflicts-of-interest.pdf>.

<sup>61</sup> To assess the Department's conflict-of-interest practices related to its public bodies, we judgmentally selected 10 of 14 Department public bodies that do not have a separate sunset date based on the scope of their responsibilities. Specifically, we reviewed conflict-of-interest practices for ITAC because it is responsible for approving and monitoring State agency IT projects with total costs exceeding \$1 million and all 9 IOCs because they are responsible for promoting the rights of vulnerable populations receiving services from State agencies by reviewing incident reports of abuse, neglect, or denial of client rights (see Introduction, page 8, for more information on ITAC and IOC responsibilities).

<sup>62</sup> As of June 2023, the Department had 68 conflict-of-interest disclosure forms in its special file.

employees in July 2022 and August 2023 reminding them of conflict-of-interest requirements. Finally, our review of a random sample of 20 of the Department’s 538 employees as of May 2023 found that these employees completed a Department disclosure form, as required by the *State Personnel System Employee Handbook*. However, 7 of 20 employees completed an older version of the Department’s disclosure form that did not require them to disclose whether they or their relatives had a substantial interest in any Department decision making.<sup>63</sup>

- **Began implementing conflict-of-interest requirements and some recommended practices for IOC and ITAC members during the audit**—During the audit, the Department began implementing an annual conflict-of-interest and a meeting-specific disclosure process for the IOCs. As of June 2023, the Department reported that 46 of 63 IOC members had completed an initial conflict-of-interest disclosure form. We reviewed a random sample of 5 of the 46 IOC completed initial conflict-of-interest disclosure forms as of June 2023 and found that no substantial interests had been disclosed. Further, during the audit, the Department also implemented a meeting-specific disclosure form for ITAC members. However, it did not have a documented process in place to remind ITAC members of conflict-of-interest requirements annually.
- **Lacked comprehensive policies and procedures for conflict of interest**—The Department lacked comprehensive conflict-of-interest policies and procedures for Department employees and members of its public bodies. Specifically, the Department lacked policies and procedures that outline a conflict-of-interest remediation process, require members of its public bodies to complete a disclosure form at appointment, and require the Department to remind its employees and members of its public bodies of conflict-of-interest requirements annually.

## Recommendations

The Department should:

4. Ensure that all its employees have a completed conflict-of-interest disclosure form that requires them to disclose whether they or their relatives have a substantial interest in any Department decision making.
5. Develop and implement internal conflict-of-interest policies and procedures, that include:
  - a. Requirements for public officers to complete a disclosure form at appointment.
  - b. Reminding all employees and public officers at least annually to complete a new disclosure form when their circumstances change.
  - c. A process for remediating conflicts of interest disclosed by employees or members of public bodies.
6. Provide training to its employees and members of its public bodies on its newly developed conflict-of-interest policies and procedures.

**Department response:** As outlined in its [response](#), the Department agrees with the findings and will implement the recommendations.

### Sunset factor 4: The extent to which rules adopted by the Department are consistent with the legislative mandate.

Our review of the Department’s statutes and rules found that the Department has adopted rules when required to do so.<sup>64</sup>

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<sup>63</sup> In June 2020, the Department updated its disclosure form to include decision-making disclosures.

<sup>64</sup> In conducting this assessment, we relied, in part, upon Department-reported information.

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

The Department informed the public of its rulemakings and their expected impacts and provided opportunities for and encouraged public input as part of rulemakings it finalized in June 2019, October 2019, June 2020, and August 2022 related to the State Procurement Office, public building maintenance, and IT. Specifically, the Department published notices of its proposed rulemaking in the Arizona Administrative Register and included a statement detailing the impact on the public, as applicable. Additionally, the Department provided opportunities for public input by listing in the notices the name of Department staff who could be contacted to provide input about the proposed rulemaking. The Department received public input for 2 of the proposed rulemakings we reviewed. Specifically, the Department received 3 comments for the rulemaking it finalized in August 2022 related to the State Procurement Office and received several comments and questions for the rulemaking it finalized in June 2019 related to IT.<sup>65</sup>

However, our observation of 9 meetings of 4 Department public bodies—ITAC and 3 IOCs—held between October 2022 and May 2023 found that the Department:<sup>66</sup>

- **Did not comply with most executive session meeting requirements we reviewed for 2 public meetings**—A.R.S. §38-431.02 requires that if an executive session is scheduled, the meeting notice must state the specific provision of law authorizing the executive session and include a general description of the matters to be considered (see textbox).<sup>67</sup> Statute also requires that the agenda for an executive session provide more than just a recital of the statutory provisions authorizing the executive session but does not contain information that would defeat the purpose of holding an executive session.<sup>68</sup> Further, A.R.S. §38-431.03(A) requires a quorum of members to vote in a public meeting to hold an executive session. According to the Arizona Attorney General’s *Arizona Agency Handbook*, the motion to enter executive session must state the grounds for the executive session so that the public understands why the public body is entering executive session.<sup>69,70</sup> As shown in Table 3, page 25, for 2 public meetings we observed, the Department did not comply with most executive session requirements we reviewed.<sup>71</sup>

**Executive session**

A gathering of a quorum of members of a public body from which the public is excluded for 1 or more specific reasons outlined in statutes, such as the public body receiving legal advice from its attorney or discussing records exempt by law from public inspection.

Source: A.R.S. §§38-431 and 38-431.03.

<sup>65</sup> Our review of the Department’s *Notice of Final Rulemaking* published in the Arizona Administrative Register for these 2 rulemakings found the Department identified the action it took in response to the public input it received, such as making changes to proposed rules, or provided a response that explained why no action was necessary.

<sup>66</sup> We judgmentally selected 4 of the 14 Department public bodies that do not have a separate sunset date based on the scope of their responsibilities and geographical areas the public bodies served, as applicable. Specifically, we selected 3 IOCs that are responsible for promoting the rights of vulnerable populations receiving services from State agencies. The 3 IOCs we selected were the IOCs for the Arizona Health Care Cost Containment System—south region, Arizona Department of Economic Security’s Division of Developmental Disabilities—north region, and the Arizona Department of Health Services’ Arizona State Hospital. In addition, we selected ITAC because its statutory responsibilities included approving and monitoring State agency IT projects with total costs exceeding \$1 million.

<sup>67</sup> A.R.S. §38-431.02(G) states that a public meeting notice must include the agenda of the matters to be discussed or decided at the meeting or information on how the public may obtain a copy of the agenda.

<sup>68</sup> A.R.S. §38-431.02.

<sup>69</sup> Arizona Attorney General. (2018). *Arizona agency handbook*. Retrieved 6/7/2023 from <https://www.azag.gov/outreach/publications/agency-handbook>.

<sup>70</sup> A motion is when a member introduces a new piece of business or proposes a decision or action, such as proposing to enter executive session.

<sup>71</sup> Only 2 of the 9 public meetings we observed included an executive session.

**Table 3**

**Department did not comply with 4 executive session requirements we reviewed during 2 IOC meetings that we observed**

<b>Executive session requirements we reviewed</b>	<b>IOC Meeting 1<sup>1</sup></b>	<b>IOC Meeting 2<sup>1</sup></b>
Meeting notice stated specific provision of law authorizing the executive session.	X	X
Meeting notice included a general description of the matters to be discussed during executive session.	X	X
Quorum of members voted in a public meeting to go into executive session.	✓	X
Motion to go into executive session specified the grounds for doing so.	X	X

<sup>1</sup> Meeting 1 refers to the of Arizona Department of Health Services' Arizona State Hospital IOC meeting held on December 21, 2022, and meeting 2 refers to the Arizona Department of Economic Security's Division of Developmental Disabilities—North Region IOC on January 18, 2023.

Source: Auditor General staff observation of Arizona Department of Health Services' Arizona State Hospital IOC meeting on December 21, 2022, and the Arizona Department of Economic Security's Division of Developmental Disabilities—North Region IOC on January 18, 2023.

- **Held 2 public meetings we observed despite not having enough members to establish a quorum**—A.R.S. §§41-3801 through 41-3803 require IOCs to consist of at least 7 and no more than 15 members and A.R.S. §41-3804 requires each IOC to adopt guidelines that govern its operation, including quorum requirements. The Department reported that a quorum for IOCs is the majority of appointed members but no less than 4 members. For 2 IOC meetings we observed, an IOC held its meetings with 1 and 2 members, respectively. In 1 of these 2 meetings, the IOC voted to approve adding a new IOC member.

The Department reported that some of the open meeting law compliance issues we identified were related to IOC members being unfamiliar with and having difficulties understanding open meeting law requirements. In June 2023, the Department reported that it would update its open meeting law guidance for IOCs and that Department staff administering IOC meetings would take a more active role in facilitating the meetings and interjecting if IOC members deviate from open meeting law requirements.

**Recommendations**

The Department should:

7. Develop and/or update and implement open meeting law policies and procedures for all Department public bodies to help ensure that they comply with open meeting law requirements, including:
  - a. Requirements related to executive session, including notices, agendas, and motions and votes to hold executive session.
  - b. Requirements related to quorum, such as public bodies only holding meetings if a quorum of members is present.
8. Consult with the Attorney General's Office to ensure its open meeting law policies and procedures, including executive session and quorum practices, comply with open meeting law.
9. Consult with the Attorney General's Office to determine and address potentially invalid actions taken at meetings that did not meet quorum requirements.

10. Provide training for public body members and applicable Department staff on its open meeting law policies and procedures.

**Department response:** As outlined in its [response](#), the Department agrees with the findings and will implement the recommendations.

**Sunset factor 6: The extent to which the Department has been able to investigate and resolve complaints that are within its jurisdiction and the ability of the Department to timely investigate and resolve complaints within its jurisdiction.**

Statute and/or rule authorize the Department to address State employee personnel complaints, procurement protests and appeals from interested parties, and benefit grievances from individuals who participate in insurance plans. Our review of the Department's complaint-handling practices found that it:

- **Resolved discrimination and/or harassment complaints that we reviewed within time frames required by rule**—According to A.R.S. §41-743, the Department is required to establish rules and procedures relating to personnel, including procedures for reviewing complaints if the complaint contains an allegation of discrimination or harassment. As such, according to AAC R2-5A-902, an employee who is not satisfied with an agency head's response to a complaint alleging discrimination or harassment may elevate the complaint to the Department.<sup>72,73</sup> According to Department policies and procedures, the Department's review of these complaints includes reviewing complainant-provided documentation and requesting and reviewing information from the applicable State agency's review and decision-making related to the complaint, as appropriate. Rule requires the Department to furnish a copy of the Department's final decision to the agency head and the complainant within 20 business days following the Department's receipt of the complaint and states that the Department may extend the 20 business days with the concurrence of the complainant.<sup>74,75</sup> Our review of the 13 complaints alleging discrimination and/or harassment that employees from other State agencies elevated to the Department in calendar years 2021 and 2022 found that the Department reviewed the complaints and provided a final decision to the agency head and complainant within 20 business days or worked with complainants to extend the 20 business days.
- **Resolved procurement protests and appeals we reviewed in accordance with statutory and rule requirements**—As discussed in the Introduction (see pages 3 and 4), the Department has statutory responsibilities to procure and supervise State purchases of goods and services. According to AAC R2-7-A901, any interested party may file a written protest against a solicitation, an agency chief procurement officer's determination that an offer is not susceptible for award, or a contract award.<sup>76</sup> Additionally, AAC R2-7-A903 requires the agency chief procurement officer to issue a written decision, including the basis for the decision, in writing within 14 days after a protest has been filed and states that the Department Director may grant an extension up to an additional 30 days. Our review of a random sample of 5 of 10 procurement protests that interested parties filed with the Department between July 1, 2020 and December 1, 2022, found that the Department provided a written decision to interested parties within 14 days that included its basis for reaching its decision or worked with the Department Director to extend the 14 days.

<sup>72</sup> AAC R2-5A-101 defines an agency head as the chief executive officer of a State agency or the officer's designee.

<sup>73</sup> If a Department employee is not satisfied with the Department's decision on a complaint alleging discrimination or harassment, the Department employee may resubmit the complaint to the Department. According to AAC R2-5A-902, the Department is required to appoint an individual who is not an employee of the Department and who serves in a position that is assigned to manage an agency's employee relations or investigations work unit to investigate the resubmitted complaint.

<sup>74</sup> AAC R2-5A-902.

<sup>75</sup> Although AAC R2-5A-902 establishes a time frame for the Department to provide an agency head and a complainant a final decision related to a complaint, it does not include specific requirements related to the Department's review of the complaint.

<sup>76</sup> According to AAC R2-7-101, an interested party refers to an offeror or prospective offeror whose economic interest is affected substantially and directly by the issuance of a solicitation, an award, or loss of an award. Further, an agency chief procurement officer is a procurement officer within a State governmental unit who is acting under specific, written authority from the State procurement administrator, or any person delegated that authority in writing.

Additionally, in accordance with AAC R2-7-A905, an interested party may file an appeal against an agency chief procurement officer's decision on a protest with the Department Director. Further, rule requires the respective agency chief procurement officer to file an agency report with the Department Director within 21 days after the interested party files an appeal and provide a copy of this report to the interested party.<sup>77</sup> In addition, statute requires the Department Director to render a decision on an appeal within 42 days after the agency report or comments on the agency report, if applicable, are filed.<sup>78</sup> According to AAC R2-7-A911, if the Department Director determines that an appeal does not state a valid basis for protest, is untimely, or attempts to raise issues not raised in the protest, the Department Director may dismiss the appeal before scheduling a hearing and must notify the interested party in writing of a determination to dismiss. Our review of a random sample of 5 of 11 appeals that were elevated to the Department Director between July 1, 2020 and December 1, 2022, found that the Department Director rendered a decision on the appeal within 42 days after the agency report or comments on the agency report, if applicable, were filed. Additionally, our review found that the Department Director's decisions included the basis for dismissing the appeal without a hearing, as applicable, and was provided in writing in accordance with rule requirements.

- **Did not provide written responses to most benefit grievances we reviewed, inconsistent with rule requirements**—The Department administers benefits for eligible individuals such as State employees, retirees, and their dependents. According to rule, an individual who participates in 1 or more of the insurance plans made available by the Department may file a grievance related to their insurance plan (benefit grievance), and the Department is required to provide a written response to the benefit grievance within 60 calendar days.<sup>79</sup> We reviewed a random sample of 10 of 60 closed benefit grievances that, according to the Department's benefit grievances log, it received between February 2022 and January 2023 regarding issues such as lack of available specialists within a health plan and eligibility for medical coverage. Our review found that the Department did not comply with rule requirements related to benefit grievances for 7 of 10 grievances we reviewed. Specifically, the Department did not provide a written response within 60 calendar days for 1 of the grievances and did not provide any written responses for 6 grievances we reviewed. The Department had documentation demonstrating that 4 of these 7 grievances were ultimately resolved through other means, such as working with the applicable insurance plan provider. However, the Department did not have documentation demonstrating that it resolved 3 of these 7 grievances. As such, individuals who filed grievances with the Department may be unaware of whether or how their grievance, which can relate to important information such as eligibility for medical coverage, was addressed. Finally, the Department did not have a documented process for providing written responses to benefit grievances.

## Recommendation

The Department should:

11. Develop and implement a process, including written procedures, for providing a written response to benefit grievances within 60 days, as required by rule, and provide written responses to benefit grievances within this time frame.

**Department response:** As outlined in its [response](#), the Department agrees with the finding and will implement the recommendation.

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<sup>77</sup> According to AAC R2-7-A908, an agency report includes a statement by the State agency chief procurement officer setting forth findings, actions, recommendations, and any additional evidence or information necessary to determine the validity of the appeal. Additionally, an interested party may provide comments on the agency report, which must be filed with the Director within 10 days after receipt of the agency report.

<sup>78</sup> A.R.S. §41-2611(B).

<sup>79</sup> According to AAC R2-6-402, an individual who participates in 1 or more of the insurance plans made available by the Department may file a grievance regarding issues such as determination of eligibility; dissatisfaction with care, an insurance plan, or a plan provider; access to care; and inconsistent application of statute or rule.



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

According to A.R.S. §41-192(A), the Attorney General serves as the Department's legal advisor and renders legal services the Department requires. Additionally, as discussed in the Introduction (see pages 3 and 4), the Department is responsible for monitoring State agencies' compliance with State procurement laws, and according to A.R.S. §41-2616(D), the Attorney General is responsible for enforcing the provisions of State procurement laws.

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

The Department reported that it sought statutory changes during the 2022 legislative session to clarify and update some of its enabling statutes. For example:

- Laws 2022, Ch. 40, §1, made changes to A.R.S. §41-791, which states that the Department is responsible for the allocation of space, operation, alteration, renovation, and security of a list of buildings outlined within A.R.S. §41-791. These laws removed 4 buildings and added 3 buildings to this list, effective September 2022. According to the Department, these changes reflected sales and acquisitions of State buildings.
- Laws 2022, Ch. 50, made changes to A.R.S. §18-104, repealed A.R.S. §18-105, and transferred the Statewide Information Security and Privacy Office and most of its responsibilities from the Department to the Arizona Department of Homeland Security, effective September 2022. According to the Department, these changes aligned cyber security functions to other functions of the Arizona Department of Homeland Security.
- Laws 2022, Ch. 308, made changes to A.R.S. §§41-621 and 41-622, requiring the Department to obtain insurance against loss related to actual or suspected data breaches, security incidents, or security system breaches for select agencies, boards, and commissions; and establishing the cyber risk insurance fund within the Department, effective September 2022. According to the Department, establishing the cyber risk insurance fund is intended to help maintain the continuity of State government operations and services in the event of a data breach.<sup>80</sup>

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

We did not identify any statutory changes that are necessary to help the Department adequately comply with the factors listed in the sunset law.

**Sunset factor 10: The extent to which the termination of the Department would significantly affect the public health, safety, or welfare.**

The Department provides various centralized services to support State government, including:

- A variety of insurance coverage including health, life, and disability insurance. For example, according to the calendar year 2021 HITF annual report, it offered a comprehensive insurance package to approximately 132,000 members, which includes eligible individuals such as State employees, retirees, and their dependents.
- IT services to State agencies. For example, as of June 2023, the Department reported providing IT services, such as technical support, to 91 State agencies.

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<sup>80</sup> According to the Department's fiscal year 2024 budget request, beginning in fiscal year 2025, this fund's revenues will consist of cybersecurity risk management charges to State agencies.

- Financial services to State agencies. For example, as of October 2022, the Department provided financial services, such as processing transactions through AFIS and APP and preparing budgets, to 57 State agencies.
- Payroll services for State employees. For example, in fiscal year 2023, the Department processed an annual payroll of approximately \$2.6 billion for approximately 39,000 State employees.
- Insurance against losses, including property, liability, and workers' compensation insurance.

As such, terminating the Department could harm State employees' and, indirectly, the public's health, safety, and welfare due to the disruption of the various centralized services the Department provides to other State agencies if its responsibilities were not transferred to other State agencies.

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

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

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

The Department uses private contractors in the performance of its mission-critical functions. For example, the Department uses private contractors for providing IT, employee benefits, facility management, and risk management services. We contacted 4 other states—Montana, Nebraska, Kansas, and Colorado—to obtain information regarding their state administrative agencies' use of private contractors for mission-critical activities.<sup>81</sup> These 4 states generally reported making use of private contractors to perform the same mission critical functions as the Department. Specifically, 3 of the 4 states reported contracting for IT services, 3 of the 4 states reported contracting for health and benefits-related services, and 2 of the 4 states reported contracting for facility services, such as janitorial services.<sup>82</sup>

We did not identify any additional areas where the Department should consider using other private contractors.

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<sup>81</sup> We judgmentally selected these 4 states because their state administrative agencies provided similar services to the services the Department provides, such as procurement, risk management, human resources, employee benefits, and facilities management.

<sup>82</sup> The state administrative agencies in Nebraska, Kansas, and Colorado reported using private contractors for several mission-critical functions and only provided examples of the types of goods and services they contract for. Therefore, these administrative agencies may contract for goods and services beyond the examples reported herein.



# SUMMARY OF RECOMMENDATIONS

## Auditor General makes 11 recommendations to the Department

The Department should:

1. Obtain signed ISAs from all State agencies that receive its IT services (see Sunset Factor 2, pages 11 through 21, for more information).
2. Develop and implement policies and procedures for periodically reviewing the appropriateness of CSB fees that require it to analyze the costs of CSB activities, compare these costs to the associated fees, determine the appropriate fees, and then revise CSB fees as needed (see Sunset Factor 2, pages 11 through 21, for more information).
3. Require its Division of School Facilities to develop and implement a written plan that outlines key steps that it will take to address outstanding recommendations related to the prior audits of the Arizona School Facilities Board, including associated completion deadlines for each step (see Sunset Factor 2, pages 11 through 21, for more information).
4. Ensure that all its employees have a completed conflict-of-interest disclosure form that requires them to disclose whether they or their relatives have a substantial interest in any Department decision making (see Sunset Factor 3, pages 21 through 23, for more information).
5. Develop and implement internal conflict-of-interest policies and procedures, that include:
  - a. Requirements for public officers to complete a disclosure form at appointment.
  - b. Reminding all employees and public officers at least annually to complete a new disclosure form when their circumstances change.
  - c. A process for remediating conflicts of interest disclosed by employees or members of public bodies (see Sunset Factor 3, pages 21 through 23, for more information).
6. Provide training to its employees and members of its public bodies on its newly developed conflict-of-interest policies and procedures (see Sunset Factor 3, pages 21 through 23, for more information).
7. Develop and/or update and implement open meeting law policies and procedures for all Department public bodies to help ensure that they comply with open meeting law requirements, including:
  - a. Requirements related to executive session, including notices, agendas, and motions and votes to hold executive session.
  - b. Requirements related to quorum, such as public bodies only holding meetings if a quorum of members is present (see Sunset Factor 5, pages 24 through 26, for more information).
8. Consult with the Attorney General's Office to ensure its open meeting law policies and procedures, including executive session and quorum practices, comply with open meeting law (see Sunset Factor 5, pages 24 through 26, for more information).

9. Consult with the Attorney General's Office to determine and address potentially invalid actions taken at meetings that did not meet quorum requirements (see Sunset Factor 5, pages 24 through 26, for more information).
10. Provide training for public body members and applicable Department staff on its open meeting law policies and procedures (see Sunset Factor 5, pages 24 through 26, for more information).
11. Develop and implement a process, including written procedures, for providing a written response to benefit grievances within 60 days, as required by rule, and provide written responses to benefit grievances within this time frame (see Sunset Factor 6, pages 26 through 27, for more information).



## Objectives, scope, and methodology

The Arizona Auditor General has conducted a sunset review of the Department pursuant to a December 17, 2020, resolution of the Joint Legislative Audit Committee. The audit was conducted as part of the sunset review process prescribed in A.R.S. §41-2951 et seq.

We used various methods to address the audit's objectives. These methods included reviewing the Department's statutes, rules, and policies and procedures; interviewing Department staff; and reviewing Department records and information from the Department's annual reports and website. In addition, we used the following specific methods to meet the audit objectives:

- To assess the Department's provision of financial and IT services to State agencies, we reviewed ASET's services catalog and standard ISA and invoices; CSB ISAs for 10 of 57 State agencies that CSB was providing financial services to as of October 2022; and 18 AFIS/APP financial transactions that CSB completed for 2 State agencies.<sup>83,84</sup>
- To determine whether the Department established CSB and ASET service fees based on costs, we interviewed ASET and CSB staff and reviewed Department documentation related to ASET's fee-setting methodology, and ASET's review of service fees. We also reviewed fee-setting standards and guidance developed by government and professional organizations.<sup>85</sup>
- To assess the Department's complaint-resolution process, including timeliness of resolution, we reviewed a random sample of 10 of 60 closed benefit grievances the Department received between February 2022 and January 2023; all 13 complaints alleging discrimination and/or harassment that employees from other State agencies elevated to the Department in calendar years 2021 and 2022; a random sample of 5 of 10 procurement protests that interested parties filed with the Department between July 1, 2020 and December 1, 2022; and a random sample of 5 of 11 appeals against an agency chief procurement officer's decision on a protest that were filed with the Department Director between July 1, 2020 and December 1, 2022.

<sup>83</sup> We judgmentally selected 10 of 57 State agencies that CSB provided financial services to as of October 2022 based on the level and type of services that CSB provided to these agencies.

<sup>84</sup> We judgmentally selected 2 of 57 State agencies that CSB serviced as of October 2022 because they were regulatory agencies that licensed healthcare professionals. One State agency had 218 total transactions related to professional and outside services and other operating costs between July and December 2022. We judgmentally selected 6 of these transactions based on the vendor type and randomly selected 2 of the remaining 212 transactions. The other State agency had 193 total transactions related to professional and outside services and other operating costs between July and December 2022. We judgmentally selected 8 of these transactions based on the vendor type and randomly selected 2 of the remaining 185 transactions.

<sup>85</sup> We reviewed the following fee-setting recommended practices: U.S. Government Accountability Office. (2015). *Federal user fees: Key considerations for designing and implementing regulatory fees*. Washington, DC. Retrieved 8/10/2023 from <https://www.gao.gov/assets/680/672572.pdf>; Government Finance Officers Association. (2014). *Best practices: Establishing government charges and fees*. Chicago, IL. Retrieved 8/10/2023 from <http://www.gfoa.org/establishing-government-charges-and-fees>; Arizona State Agency Fee Commission. (2012). *Arizona State Agency Fee Commission report*. Phoenix, AZ; U.S. Government Accountability Office. (2008). *Federal user fees: A design guide*. Washington, DC. Retrieved 8/10/2023 from <https://www.gao.gov/assets/gao-08-386sp.pdf>; Michel, R.G. (2004). *Cost analysis and activity-based costing for government*. Chicago, IL: Government Finance Officers Association; Mississippi Joint Legislative Committee on Performance Evaluation and Expenditure Review. (2002). *State agency fees: FY 2001 collections and potential new fee revenues*. Jackson, MS. Retrieved 8/10/2023 from [https://www.peer.ms.gov/sites/default/files/peer\\_publications/rpt442.pdf](https://www.peer.ms.gov/sites/default/files/peer_publications/rpt442.pdf); and U.S. Office of Management and Budget. (1993). *OMB Circular No. A 25, revised*. Washington, DC. Retrieved 8/10/2023 from <https://www.whitehouse.gov/wp-content/uploads/2017/11/Circular-025.pdf>.

- To assess the Department's compliance with State conflict-of-interest requirements and alignment with recommended practices, we reviewed statute, recommended practices, and disclosure forms for Department employees and Department public body members.<sup>86,87</sup> We also reviewed completed disclosure forms for a random sample of 20 of 538 Department employees as of May 2023 and for a random sample of 5 of 46 IOC members who completed disclosure forms as of June 2023.
- To assess the Department's and its public bodies' compliance with the State's open meeting law requirements, we reviewed the Arizona Attorney General's *Arizona Agency Handbook* and observed 9 meetings held between October 2022 and May 2023 for 4 Department public bodies.<sup>88,89</sup> We also reviewed the meeting notices, agendas, and minutes from these 9 meetings, and existing guidelines for 3 of 4 public bodies.
- To obtain additional information for the Sunset Factors, we reviewed the Arizona Administrative Register regarding the Department's rulemakings; training documents related to the SAAM; the Department's space reallocation plan and related documents; a Department consultant's strategy and preliminary plan for the development of underutilized State property in the Governmental Mall; SPS policies and procedures, U.S. GSA recommended practices, and Department standards and metrics for employee productivity; our Office's review of the Department's State purchasing cooperative for fiscal years 2020 through 2022; and our prior audits on the Arizona School Facilities Board.<sup>90,91</sup> Further, we selected and contacted 4 states—Montana, Nebraska, Kansas, and Colorado—to obtain information regarding their state administrative agencies' use of private contractors.<sup>92</sup>
- To obtain information for the Introduction, we reviewed Department-prepared information regarding its organization, staffing, and vacancies. In addition, we compiled and analyzed unaudited financial information from the AFIS *Accounting Event Transaction File* for fiscal years 2021 and 2022, the State of Arizona *Annual Financial Report* for fiscal years 2021 and 2022, and Department-provided estimates for fiscal year 2023. Further, to obtain information about Department distributions related to county sheriff

<sup>86</sup> Recommended practices we reviewed included: Organization for Economic Cooperation and Development (OECD). (2022). *Recommendation of the council on OECD guidelines for managing conflict of interest in the public service*. Paris, France. Retrieved 8/10/2023 from <https://legalinstruments.oecd.org/public/doc/130/130.en.pdf>; Ethics & Compliance Initiative (ECI). (2016). *Conflicts of interest: An ECI benchmarking group resource*. Arlington, VA. Retrieved 8/10/2023 from <https://www.ethics.org/wp-content/uploads/2021-ECI-WP-Conflicts-of-Interest-Defining-Preventing-Identifying-Addressing.pdf>; and Controller and Auditor General of New Zealand. (2020). *Managing conflicts of interest: A guide for the public sector*. Wellington, New Zealand. Retrieved 8/10/2023 from <https://oag.parliament.nz/2020/conflicts/docs/conflicts-of-interest.pdf>.

<sup>87</sup> To assess the Department's conflict-of-interest practices related to its public bodies, we judgmentally selected 10 of the 14 Department public bodies that do not have a separate sunset date based on the scope of their responsibilities. Specifically, we reviewed conflict-of-interest practices for ITAC because it is responsible for approving and monitoring State agency IT projects with total costs exceeding \$1 million and all 9 IOCs because they are responsible for promoting the rights of vulnerable populations receiving services from State agencies by reviewing incident reports of abuse, neglect, or denial of client rights.

<sup>88</sup> We judgmentally selected 4 of the 14 Department public bodies that do not have a separate sunset date based on the scope of their responsibilities and geographical areas the public bodies served, as applicable. Specifically, we selected 3 IOCs that are responsible for promoting the rights of vulnerable populations receiving services from State agencies. The 3 IOCs we selected were the IOCs for the Arizona Health Care Cost Containment System—south region, Arizona Department of Economic Security's Division of Developmental Disabilities—north region, and the Arizona Department of Health Services' Arizona State Hospital. In addition, we selected ITAC because its statutory responsibilities included approving and monitoring State agency IT projects with total costs exceeding \$1 million.

<sup>89</sup> Arizona Attorney General. (2018). *Arizona agency handbook*. Retrieved 6/7/2023 from <https://www.azag.gov/outreach/publications/agency-handbook>.

<sup>90</sup> U.S. General Services Administration (GSA). (2020). *Resources for managing teleworkers*. Retrieved 05/25/2023 from <https://www.gsa.gov/governmentwide-initiatives/telework/resources-for-managing-teleworkers>; U.S. General Services Administration (GSA). (2011). *Knowledge worker productivity: Challenges, issues, solutions*. Retrieved 04/19/2023 from <https://www.gsa.gov/system/files/KnowledgeWorkerProductivity.pdf>.

<sup>91</sup> See Arizona Auditor General reports 21-112 *Arizona School Facilities Board—Sunset review*, 19-105 *Arizona School Facilities Board—Building Renewal Grant Fund*, and 17-108 *Arizona School Facilities Board*.

<sup>92</sup> We judgmentally selected these 4 states because their administrative agencies provided similar services to the services the Department provides, such as procurement, risk management, human resources, employee benefits, and facilities management.

deputy and detention officer compensation and the School Safety Interoperability Fund, we reviewed Department accounting data as of June 2023.<sup>93</sup>

Our work on internal controls included reviewing relevant policies and procedures, statutes, and recommended practices; and where applicable, testing compliance and/or alignments with these requirements and recommended practices. We reported our conclusions on applicable internal controls in Sunset Factors 2, 3, 5, and 6.

We selected our audit samples to provide sufficient evidence to support our findings, conclusions, and recommendations. Unless otherwise noted, the results of our testing using these samples were not intended to be projected to the entire population.

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

We express our appreciation to the Department Director and staff for their cooperation and assistance throughout the audit.

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<sup>93</sup> Department accounting data that we reviewed had not been finalized for fiscal year 2023.

# DEPARTMENT RESPONSE



**Katie Hobbs**  
Governor



**Elizabeth  
Alvarado-Thorson**  
Director

**ARIZONA DEPARTMENT OF ADMINISTRATION**

OFFICE OF THE DIRECTOR  
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September 12, 2023

Linsey A. Perry  
Auditor General  
2910 N. 44th Street, Suite 410  
Phoenix, AZ 85018

Dear Ms. Perry,

Thank you for providing us with the preliminary draft report of the sunset audit for the Arizona Department of Administration. We appreciate the opportunity to respond. Attached, please find our final response to the sunset audit findings.

Please feel free to contact me with any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "EAT", with a long horizontal flourish extending to the right.

Elizabeth Alvarado-Thorson  
Director

Attachment (1)

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

**Recommendation 1:** The Department should obtain signed ISAs from all State agencies that receive its IT services.

Department response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation:

The Department's Engagement Management team is currently working on a campaign to request agencies without a current Internal Service Agreement (ISA) to execute the Evergreen/Annual ISA. We expect to complete the ISA Evergreen/Annual campaign by June 30, 2024.

Following the completion of the campaign, the department will determine which, if any, agencies are unwilling to sign an ISA and then determine which options are available for maintaining, transferring, or terminating agency services.

**Recommendation 2:** The Department should develop and implement policies and procedures for periodically reviewing the appropriateness of CSB fees that require it to analyze the costs of CSB activities, compare these costs to the associated fees, determine the appropriate fees, and then revise CSB fees as needed.

Department response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: Beginning FY24 CSB began meeting with all agencies to establish and/or modify ISAs outlining the services to be provided. For FY24 CSB also established a new rate setting methodology that is included in the agreements. In FY24 CSB will also begin establishing rules for publishing rates, determining fees, and reporting actual costs to agencies in accordance with ARS 35-193.02.

**Recommendation 3:** The Department should require its Division of School Facilities to develop and implement a written plan that outlines key steps that it will take to address outstanding recommendations related to the prior audits of the Arizona School Facilities Board, including associated completion deadlines for each step.

Department response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: The Department will submit a plan to address outstanding recommendations and associated deadlines by October 31, 2023.

**Sunset Factor 3:** The extent to which the Department serves the entire State rather than specific interests.

**Recommendation 4:** The Department should ensure that all its employees have a completed conflict-of-interest disclosure form that requires them to disclose whether they or their relatives have a substantial interest in any Department decision making.

Department response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: In addition to providing all Department new hires with a conflict-of-interest disclosure, a process has been implemented to include employees transferring into the Department from other agencies. The Department will implement a process to ensure that all current employees have the most recent conflict of interest form completed as well.

**Recommendation 5:** The Department should develop and implement internal conflict-of-interest policies and procedures, that include:

**Recommendation 5a:** Requirements for public officers to complete a disclosure form at appointment.

Department response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: The department will develop a process to obtain disclosure forms for public officers at appointment.

**Recommendation 5b:** Reminding all employees and public officers at least annually to complete a new disclosure form when their circumstances change.

Department response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: The Department issued an ethics reminder email to all agency employees on August 17, 2023, which included a reminder to complete an updated conflict of interest disclosure form when circumstances change. The ethics reminder email is scheduled to be issued annually. Going forward, public officers, including board members, will receive a copy of the annual ethics reminder.

**Recommendation 5c:** A process for remediating conflicts of interest disclosed by employees or members of public bodies.

Department response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: The Department will develop a process to review and remediate conflicts of interest disclosed by an employee or member of a public body. The Department has already begun to implement a standard process to remediate conflicts of

interest at meetings of many of its public bodies, and will implement that process for all its public bodies.

**Recommendation 6:** The Department should provide training to its employees and members of its public bodies on its newly developed conflict-of-interest policies and procedures.

Department response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: The Department will create a plan to identify employees and members of its public bodies who would benefit from training on the Department's newly developed conflict-of-interest policies and procedures and provide such training.

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

**Recommendation 7:** The Department should develop and/or update and implement open meeting law policies and procedures for all Department public bodies to help ensure that they comply with open meeting law requirements, including:

**Recommendation 7a:** Requirements related to executive session, including notices, agendas, and motions and votes to hold executive session.

Department response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: The Department will develop a process to manage executive sessions in alignment with Arizona's open meeting law statutes and guidance from the Attorney General's Agency Handbook including how to provide adequate specificity when agendizing and moving to enter executive session and ensuring a quorum is present to vote to enter executive session.

**Recommendation 7b:** Requirements related to quorum, such as public bodies only holding meetings if a quorum of members is present.

Department response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: The Department will update its open meeting law guidance as it relates to the necessity of a quorum for public bodies to hold meetings and Department staff administering public meetings will take a more active role in facilitating the meetings and interjecting if public body members deviate from open meeting law requirements.

**Recommendation 8:** The Department should consult with the Attorney General's Office to ensure its open meeting law policies and procedures, including executive session and quorum practices, comply with open meeting law.

Department response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: The Department will consult with the Attorney General's Office to review any processes or guidance created in response to Recommendations 7a and 7b, to ensure they comply with the open meeting law.

**Recommendation 9:** The Department should consult with the Attorney General's Office to determine and address potentially invalid actions taken at meetings that did not meet quorum requirements.

Department response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: The Department will consult with the Attorney General's Office regarding steps to ratify, pursuant to A.R.S. § 38-431.05(B), any potentially invalid actions taken at meetings in which a quorum was not present.

**Recommendation 10:** The Department should provide training for public body members and applicable Department staff on its open meeting law policies and procedures.

Department response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: The Department will provide new public body members with a copy of Chapter 7 of the Attorney General's Agency Handbook related to Arizona's open meeting law with instructions to review the material prior to their first meeting pursuant to A.R.S. § 38-431.01(G). The Department will also provide public body members with copies of any newly developed material related to open meeting law policies and procedures, including processes for managing executive sessions and guidance on quorum requirements. The Department will also provide training for public body members and Department staff on open meeting law policies and procedures.

**Sunset Factor 6:** The extent to which the Department has been able to investigate and resolve complaints that are within its jurisdiction and the ability of the Department to timely investigate and resolve complaints within its jurisdiction.

**Recommendation 11:** The Department should develop and implement a process, including written procedures, for providing a written response to benefit grievances within 60 days, as required by rule, and provide written responses to benefit grievances within this time frame.

Department response: The finding of the Auditor General is agreed to, and the audit recommendation will be implemented.

Response explanation: The Benefits Services Division will implement a process for the review of grievances and the documentation of grievance decisions.

