

## We make a positive difference for Arizona citizens

We are committed to making a positive difference in the way our State and its local governments operate, and we focus on helping Arizona government improve accountability and effectively use public monies. We accomplish this through our audit and oversight activities by providing independent and impartial information and recommendations in our reports, at briefings and hearings, and by providing technical assistance to government officials who manage operations. The Auditor General is assisted by a Deputy Auditor General and approximately 190 professionals in fulfilling these responsibilities. We provide information, assistance, and recommendations to improve Arizona government for its citizens.

## We provide effective information and recommendations

As the State's independent auditor, our oversight responsibilities focus on conducting audits and issuing effective reports that focus on helping Arizona government improve. During fiscal year 2016, we issued 238 reports that covered various matters regarding state agencies, universities, school districts, counties, and community colleges (see the table on page 2). These reports can be broadly categorized into three main types described in the textbox below. In addition, the Legislature requires us to prescribe standards and procedures for uniform accounting and budgeting systems for school districts and other local governments.

**Our Mission**—We provide information, assistance, and recommendations to improve Arizona government for its citizens.

**Our Vision**—To make a positive difference by promoting better government.

**Our Authority**—The Arizona Auditor General's Office is a legislative agency under the direction of the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives.

**Special audits requested by the Legislature**—The Legislature relies on our Office to provide useful information to help legislative members make better decisions in governing our State. This year we issued special reports on:

- [School district spending](#), which provided details about school districts' classroom and nonclassroom spending, revenues, and operational trends over time.
- [Child safety and risk assessment practices](#), which recommended the Arizona Department of Child Safety make improvements to critical aspects of its processes.
- [A differential response system for child abuse and neglect reports](#), which recommended the Arizona Department of Child Safety work with the Legislature to pursue statutory changes that would be needed for a differential response system and adopt common practices from other jurisdictions.

### Three main report types

**Performance and special audits**—Reports focus on how effectively, efficiently, and economically state agencies and school districts conduct business and include special studies the Legislature requests.

**Financial and federal compliance audits**—Reports are about the accuracy of annual financial statements and on internal control and compliance over financial and federal grant regulations.

**Procedural and compliance reviews and investigations**—Reports show whether entities have fully complied with expenditure limitations, whether school districts have fully complied with certain standards over financial operations, or results of special investigations of potential misuse of public monies.

**Office reports issued by report type and government  
Fiscal year 2016**

Report type	State agencies	Universities	School districts	Counties	Community colleges	Special districts	Total reports
<b>Performance and special audits</b>							
Performance audit	18		11	1			30
Audit follow-up letter	36		34	3			73
Special legislative requests	3		1				4
<b>Financial and federal compliance audits</b>							
Financial statement	6	3		9	15		33
Internal control	3	3		9	15		30
Federal compliance	1			9	10		20
<b>Procedural and compliance reviews and investigations</b>							
Special investigation			2			2	4
Procedural review	5						5
Compliance review			7	1	1		9
Agreed-upon procedures		1		6	3		10
Expenditure limitation				6	14		20
<b>Total reports</b>	<b>72</b>	<b>7</b>	<b>55</b>	<b>44</b>	<b>58</b>	<b>2</b>	<b>238</b>

For fiscal years 2017 and 2018, the Legislature directed our Office to conduct four more special reviews of the Arizona Department of Child Safety. Our first report, issued in September 2016, focused on permanency practices for children in out-of-home care. The second report, due in February 2017, will examine the Department’s administrative staffing levels; the third report, due in September 2017, will review how the Department recruits, trains, retains, and uses staff; and the fourth report, due in March 2018, will evaluate the Department’s substance abuse treatment program, Arizona Families F.I.R.S.T. (Families in Recovery Succeeding Together).

**State agency performance audits**—Our [performance audits and sunset reviews](#) covered state agencies, boards, and commissions that provide a variety of services to Arizona citizens. These reports included many recommendations to help state leaders and agencies provide services more effectively and efficiently and had wide-ranging impacts for Arizona citizens. Some examples of our reports that had a significant impact include:

- State retirement systems—We made recommendations to strengthen the sustainability of the general public employees’ Arizona State Retirement System and the public safety personnel, correctional workers, and elected officials retirement plans that comprise the Public Safety Personnel Retirement System. Consistent with some of our recommendations, the Legislature made changes to the retirement plan covering public safety personnel, and Arizona voters approved a constitutional amendment needed for implementing those changes. We also published an information brief that compares and contrasts the two retirement systems in various areas including members, benefits, and investment portfolios.
- Arizona Department of Education—We recommended that this department strengthen spending oversight and eligibility determination for the Empowerment Scholarship Accounts program, and improve consistency in how school districts and charter schools implement the K-3 reading program meant to ensure students meet reading proficiency standards before moving on to fourth grade.
- Arizona Commerce Authority—We recommended that the Authority improve how it reports results and formalize its grant selection and monitoring processes to better ensure that the grants it awarded benefit the State.

**School district performance audits**—In our [school district performance audits](#), we identified issues that affect the accountability for and effective use of public monies. For example, we highlighted best practices at efficiently operated districts such as reviewing the use of school space and boundaries, using part-time labor and county services when appropriate to reduce staffing needs, negotiating favorable contracts, and operating efficient school bus routes. In addition, our reports included various recommendations for improvement at some districts that:

- Overstaffed operational areas or paid higher salaries, making these areas more costly than necessary.
- Had higher costs due to maintaining excess building space or operating inefficient school bus routes.
- Over-reported student ridership or mileage resulting in the overfunding of student transportation.
- Failed to ensure that bus driver certification requirements were met or that bus maintenance was performed, creating a potential student and public safety risk.
- Lacked adequate controls to minimize the risk of errors, fraud, misuse or unauthorized access to sensitive information, and loss or theft.

**Financial and federal compliance audits**—These audits focused on the accuracy of state and local government financial statements along with evaluating the effectiveness of internal controls and compliance with required accounting practices and state and federal laws and regulations. We provided the State's agencies, universities, counties, and community colleges with various recommendations to help them report financial information accurately, keep their electronic data safely protected, and ensure they will continue to receive federal grant monies that help to provide services such as healthcare and education to Arizona citizens. Included in these reports is our annual state-wide report, which addresses the State's controls over [financial reporting and federal compliance](#). We have also published [financial report user guides](#) and [an internal control and compliance reports user guide](#) to help users identify and understand important and useful information in state and local government financial reports and in our reports on internal control and on compliance over financial reporting and federal programs.

**Special investigations**—Special fraud investigations result in individuals being held responsible for their unlawful and inappropriate use of public monies. We issued [four reports](#) during fiscal year 2016 detailing misappropriations at two special taxing districts and two school districts, for which two examples follow:

- [Show Low Fire District](#) administrative manager embezzled and misused nearly \$1.8 million of district monies. Our report led to the Navajo County Attorney's Office presenting evidence to the Navajo County Grand Jury. The Grand Jury indicted the administrative manager on 21 felony counts related to theft, misuse of public monies, fraudulent schemes, computer tampering, forgery, and false filing. Additionally, the administrative manager and her father, who was also the district fire chief, were each indicted on four felony counts related to conspiracy, illegally conducting an enterprise, assisting a criminal syndicate, and money laundering.
- [Tolleson Union High School District](#) bookstore manager embezzled and misused more than \$120,000 of district monies. From our findings, the Arizona Attorney General's Office presented evidence to the State Grand Jury, resulting in the bookstore manager's indictment on three felony counts related to theft, misuse of public monies, and fraudulent schemes.

### Making a positive difference

- State agencies, school districts, and other local governments have consistently implemented approximately 98 percent of our performance audit recommendations within 2 years.
- Federal compliance audits of the State's agencies, universities, community colleges, and counties verify appropriate spending of federal monies. In our audits covering fiscal year 2015, these entities spent over \$15.9 billion in federal monies to provide services such as healthcare and education programs to Arizona citizens.
- Technical assistance we regularly provide to the State's agencies and local governments helps to improve state government effectiveness, efficiency, and accountability.

**Audit followup**—After audits are completed, we follow up on state agency, local government, and school district efforts to implement our recommendations. We report on the status of these efforts to legislative members and governing bodies. Specifically, following the release of state agency performance audits and/or sunset reviews, we conduct followups at 6 and 18 months and 98 percent of our recommendations were implemented in fiscal year 2016. We also conducted follow-up visits at school districts to determine their status in implementing our audit recommendations. Cumulatively, districts reported saving millions of dollars by implementing our audit recommendations. Finally, our annual financial and federal compliance audits allow us to provide ongoing assistance that helps ensure state and local governments implement our recommendations.

## Office provides helpful technical assistance

Our Office impacts governments through ongoing technical assistance that we provide through webinars, budget preparation packages, alerts and informational memorandums, annual financial reporting guideline packages, and report templates, user guides, and meetings.

For example, we have continued our effort to help school districts lower their training costs. We conducted free regional school district workshops throughout Arizona. These workshops were designed to help school districts improve financial reporting practices. The response to the workshops has been highly favorable. We also continue to provide webinars and video responses to frequently asked questions.

We also provided various public officials and employees with periodic [fraud prevention alerts](#) through email to cultivate a better understanding of the typical frauds impacting governmental entities and ways to improve controls at those entities. We issued two alerts during fiscal year 2016, including one alert to address the [rationalization element of the fraud triangle](#), which was the last alert in a three-part series. This alert outlined how public officials can minimize an employee's rationalization to commit fraud by establishing a strong ethical climate. We also issued an alert describing [phishing scam emails](#) and how these scams often target business office officials. This alert outlined how public officials and other employees can recognize a phishing scam and thereby reduce the risk of loss due to unapproved and erroneously processed transactions.

Further, our continual presence while auditing state agencies and local governments places our professionals in a unique position to provide ongoing useful and consistent technical assistance that helps Arizona governments improve effectiveness, efficiency, and accountability. We have also worked closely with the State and local governments in our financial statement and federal compliance audits to help improve the timeliness and accuracy of financial statements and federally mandated compliance reports.

## Office professionals have excellent reputation in government auditing

**Office is recognized for high-quality work**—One formal recognition of our work quality and national reputation is our National State Auditors Association (NSAA) External Peer Review. This review represents an independent “audit” of our Office. Specifically, the review measured our compliance with professional standards when we performed our audit work and issued our reports. After reviewing our fiscal year 2016 audit activities, the NSAA review team issued a [Quality Control Review report](#) indicating that our Office has an appropriately designed quality control system to ensure that we follow required *Government Auditing Standards*. Our External Peer Review results gave us the highest mark a state audit organization can receive in such a review.

**Office professionals participate in professional organizations**—Our Office professionals participate in national, state, and local professional organizations. Our professionals demonstrate their expertise, energy, and enthusiasm as leaders in the government-auditing field and give presentations and participate in discussions that help with standard-setting, oversight and monitoring, best practices sharing, and training in many technical areas, such as accounting principles and government auditing standards. During the fiscal year, our Office gave more than 27 presentations to professional organizations or government officials.