

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 and 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 200 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 2017, we issued 223 reports covering 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 studies 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. Below are some of the special reports we issued this year:

- [School district spending](#), which provided details about school districts' instructional and noninstructional spending, revenues, and operational trends over time.
- [Permanency practices and outcomes for children in out-of-home care](#), which recommended that the Arizona Department of Child Safety improve its provision of information to the juvenile courts and Arizona Foster Care Review Board and implement its plans to further improve other permanency practices and outcomes.
- [Arizona's Early Childhood Development Health Board](#), also known as First Things First, which found that the Board effectively manages grants and has implemented a plan to direct its program evaluation efforts, but should strengthen some financial controls and enhance program outcome reporting.

Three main report types

Performance audits and special studies—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 financial 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 financial investigations of potential misuse of public monies.

**Office reports issued by report type and government
Fiscal year 2017**

Report type	State agencies	Universities	School districts	Counties	Community colleges	Total reports
Performance audits and special studies						
Performance audit	7		15			22
Audit follow-up letter	25		35			60
Special legislative studies	3		1			4
Financial and federal compliance audits						
Financial statement	5	3		10	11	29
Internal control	3	3		10	11	27
Federal compliance	1			10	10	21
Procedural and compliance reviews and financial investigations						
Financial investigation		1	1		1	3
Procedural review	9					9
Compliance review			14			14
Agreed-upon procedures		1		7	4	12
Expenditure limitation				9	13	22
Total reports	53	8	66	46	50	223

Future special studies requested by the Legislature—For fiscal years 2018 through 2020, the Legislature directed our Office to conduct four special reviews of the Arizona Department of Child Safety. Our first report, issued in September 2017, focused on how the Department recruits, trains, retains, and uses staff. Future reports will address the Department’s substance abuse treatment program, caseworker caseloads, and foster home recruitment practices. The Legislature also directed our Office to conduct special audits of joint technical education districts, and the Central Arizona Water Conservation District, which we issued in October and December 2017, respectively. Finally, the Legislature directed us to conduct annual reviews of state board member per diem compensation and expense reimbursements. The report on our first review was issued in November 2017.

State agency performance audits—We conduct [performance audits and sunset reviews](#) of state agencies, boards, and commissions that provide various 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. We issued two performance audits this year that were legislative requests:

- [Arizona Foster Care Tuition Waiver Pilot Programs](#)—We recommended that the Arizona Board of Regents and community college districts in Arizona improve these programs’ data management and implementation.
- [Arizona Power Authority](#)—We found the Authority’s most recent process for allocating Hoover Dam power allowed for public input and was consistent with federal and state legal requirements. We recommended that the Authority formally approve power pooling arrangements and improve some administrative practices.

Other state agency performance audits that had a significant impact include:

- [Arizona Department of Economic Security \(DES\)](#)—In three separate reports prepared as part of the DES sunset review, we recommended that DES enhance its processes for managing rehabilitation service costs and clients’ progress for its Vocational Rehabilitation Services Program; improve its child care provider monitoring and complaint-handling processes and examine consolidating child care regulation performed by DES and the Arizona Department of Health Services under one agency; and strengthen security processes and controls over its information technology systems and data, and establish an information security program.
- [Arizona Supreme Court, Administrative Office of the Courts \(AOC\)](#)—The AOC, which is responsible for providing state-wide administration and oversight of Arizona’s adult probation system, has implemented evidence-based practices, state-wide standards and guidelines, and conducted operational reviews of adult probation departments, but can

strengthen its oversight by more effectively using the data it collects to improve program outcomes, enhancing its operational review process, and continuing its efforts to develop a state-wide approach for handling probationers who have served a prison sentence before beginning probation.

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 districts that:

- Overstaffed operational areas or paid higher salaries, making these areas more costly than necessary.
- Had higher costs due to food waste from meal overproduction and insufficient inventory oversight.
- Overreported 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 oversight of vendors, including not ensuring that vendors operated efficiently and all contract provisions were met.

Making a positive difference

- State agencies, school districts, and other local governments have consistently implemented approximately 95 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 2016, these entities spent over \$16.7 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.

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.

Financial investigations—Financial investigations result in individuals being held responsible for their unlawful and inappropriate use of public monies. We issued [three reports](#) during fiscal year 2017 detailing alleged misappropriations at a university, school district, and community college district. For example:

- A [Northern Arizona University](#) postal services manager allegedly embezzled and misused more than \$350,000 of university monies by orchestrating two fictitious vendor schemes. Our report led to the Coconino County Attorney's Office presenting evidence to the Coconino County Grand Jury. The Grand Jury indicted the postal services manager on six felony counts related to theft, misuse of public monies, fraudulent schemes, and money laundering.
- An [Eloy Elementary School District](#) payroll clerk may have embezzled and misused nearly \$24,000 of district monies when she paid herself unauthorized overtime and prepared documents containing her supervisors' forged signatures. From our findings, the Arizona Attorney General's Office presented evidence to the Arizona State Grand Jury, resulting in the payroll clerk's indictment on 14 felony counts related to theft, misuse of public monies, fraudulent schemes, and forgery.

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 and special audits and/or sunset reviews, we conduct followups at 6 and 18 months. In fiscal year 2017, 92 percent of our recommendations were implemented. 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 cash receipt and disbursement 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 emailed periodic [fraud prevention alerts](#) to various public officials and employees 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 2017, including one 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. We also issued an alert to address the [unauthorized use of signature mechanisms](#), which can lead to the theft and misuse of public monies. This alert outlined how public officials can help protect public monies and deter and detect fraud by developing and implementing policies and procedures regulating the use of signature stamp mechanisms; restricting the use of these mechanisms to the person whose signature is represented; and ensuring the appropriate segregation of duties for those employees who have access to these mechanisms.

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. For example, while conducting financial statement and federal compliance audits we have worked closely with the State and local governments 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 recognition of our high-quality work is the National Legislative Program Evaluation Society (NLPES) Certificate of Impact for our Payson Unified School District performance audit and our Arizona Radiation Regulatory Agency, Arizona Radiation Regulatory Hearing Board, and Medical Radiologic Technology Board of Examiners performance audit. Based on the audit reports' impact from both the legislative and public perspectives, the NLPES presented us with this award for providing information to our Legislature and the public regarding impactful improvements that can result from implementing our recommendations.

In addition, we received the National Conference of State Legislatures' (NCSL) Legislative Research Librarians staff section's Notable Document Award for our *Arizona School District Spending* report. NCSL presented us with this award based on the report topic's interest to legislators and legislative staff and our presentation of substantive material in an outstanding format.

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 29 presentations to professional organizations or government officials.