



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Procedural Review

Use of Voluntary Taxpayer Donations

July 1, 2011 through April 30, 2014

April • 2015
Report No. 15-301



Debra K. Davenport
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

The Joint Legislative Audit Committee

Senator **Judy Burges**, Chair

Representative **John Allen**, Vice Chair

Senator **Nancy Barto**

Representative **Gina Cobb**

Senator **Lupe Contreras**

Representative **Debbie McCune Davis**

Senator **David Farnsworth**

Representative **Rebecca Rios**

Senator **Lynne Pancrazi**

Representative **Kelly Townsend**

Senator **Andy Biggs** (*ex officio*)

Representative **David Gowan** (*ex officio*)

Audit Staff

Jay Zsorey, Director

Rick Meyer, Manager and Contact Person

Monette Kiepke, Team Leader

Ricardo Carrillo

The Auditor General's reports are available at:

www.azauditor.gov

Printed copies of our reports may be requested by contacting us at:

Office of the Auditor General

2910 N. 44th Street, Suite 410 • Phoenix, AZ 85018 • (602) 553-0333



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

April 30, 2015

The Honorable Doug Ducey, Governor
State of Arizona

Andy Biggs, President
Arizona State Senate

David M. Gowan Sr., Speaker of the House
Arizona House of Representatives

We have performed a procedural review of the internal controls over the collection, distribution, and administration of monies donated by taxpayers on their annual state personal income tax returns for the period July 1, 2011 through April 30, 2014. Our review included an evaluation of controls at seven agencies and consisted primarily of inquiries, observations, and selected tests of internal control policies and procedures, accounting records, and related documents. The review was more limited than would be necessary to give an opinion on internal controls. Accordingly, we do not express an opinion on internal controls or ensure that all deficiencies in internal controls are disclosed.

Specifically, we reviewed receipts, disbursements, transfers, payroll, and purchases at seven agencies, including the Arizona Departments of Economic Security, Education, Emergency and Military Affairs, Revenue, and Veterans' Services; the Game and Fish Department; and the Office of the Arizona State Treasurer.

As a result of our review, we noted a deficiency in internal controls at the Arizona Department of Veterans' Services that should be corrected to ensure the Department fulfills its responsibility to establish and maintain adequate internal controls over the use of voluntary gifts made by taxpayers. Our finding and recommendation concerning the deficiency is described in the accompanying report.

Should you have any questions concerning our procedural review, please let us know.

Sincerely,

Debbie Davenport
Auditor General

cc: Timothy Jeffries, Director, Arizona Department of Economic Security
Honorable Diane Douglas, State Superintendent of Public Education, Arizona Department of Education
Major General Michael T. McGuire, Adjutant General, Arizona Department of Emergency and Military Affairs
David Raber, Director, Arizona Department of Revenue
Wanda Wright, Director, Arizona Department of Veterans' Services
Larry D. Voyles, Director, Arizona Game and Fish Department
Honorable Jeff DeWit, Treasurer, Office of the Arizona State Treasurer

TABLE OF CONTENTS



Introduction	1
Use of taxpayer donations	5
Most agencies spent taxpayer donations in accordance with statutes	5
Arizona Department of Veterans' Services did not ensure all donations benefited Arizona veterans	6
Recommendation	7
Appendix A: Use of voluntary taxpayer donations by fund	a-i
Appendix B: Methodology	b-i
Agency Response	
Tables	
1 Voluntary taxpayer donation funds by agency For the period July 1, 2011 through April 30, 2014	2
2 Voluntary taxpayer donations by fund For the period July 1, 2011 through April 30, 2014	2
3 Expenditures by fund For the period July 1, 2011 through April 30, 2014	3
Figures	
1 Compliance tests of taxpayer donations spent For the period July 1, 2011 through April 30, 2014	5
2 Use of voluntary taxpayer donations by fund For the period July 1, 2011 through April 30, 2014	a-i

Introduction

Audit scope and objectives

The Office of the Auditor General has conducted a procedural review of internal controls over the collection, distribution, and administration of monies taxpayers donated on their annual state personal income tax returns from July 1, 2011 through April 30, 2014. This review included an evaluation of controls at seven agencies: the Arizona Departments of Economic Security, Education, Emergency and Military Affairs, Revenue, and Veterans' Services; the Game and Fish Department; and the Office of the Arizona State Treasurer. This review was conducted under the authority vested in the Auditor General by Arizona Revised Statutes (A.R.S.) §41-1279.03.

Taxpayers can donate monies to state funds when filing their personal income tax returns

When filing their annual state personal income tax returns (tax returns) with the Arizona Department of Revenue (ADOR), taxpayers have the option to donate monies to ten different funds that are administered by seven state agencies (see Table 1 on page 2). The monies in these funds are used for various purposes as indicated in Table 1. Depending on these monies' statutorily allowed uses, these seven agencies may use the monies for their own operations or distribute them to external groups or individuals. In any year, expenditures in a fund may exceed the taxpayer donations as some funds receive monies from other sources, such as court and notary fees, license plate fees, or other individual gifts, or the donated monies accumulate over a period of years prior to being spent.

The ADOR is responsible for collecting taxpayer donations to the ten funds and distributing them to the state agencies responsible for administering the monies. The ADOR receives tax returns and enters data from the tax returns into its tax administration system using a unique transaction code for each donation, including the amount donated. Once a month, the ADOR runs a report detailing the donations received for each fund. The ADOR then transfers the monies to the appropriate agencies monthly, quarterly, semiannually, or annually, as applicable, depending on the fund. The taxpayer donations totaled \$2,271,701 from July 1, 2011 through April 30, 2014. A breakout of these taxpayer donations by fund and year is presented in Table 2 (see page 2). Further, as shown in Table 3 (see page 3), the funds' expenditures totaled \$15,751,419 from July 1, 2011 through April 30, 2014.

Table 1: Voluntary taxpayer donation funds by agency
For the period July 1, 2011 through April 30, 2014

Agency/Fund name	Purpose of fund
Arizona Department of Economic Security	
Child Abuse Prevention Fund	To provide financial aid to community agencies for child abuse prevention programs
Domestic Violence Shelter Fund	To provide financial aid to shelters for victims of domestic violence
Neighbors Helping Neighbors Fund	To provide eligible recipients with emergency aid in paying energy utility bills
Special Olympics Fund	To help provide programs of the Special Olympics Arizona
Arizona Department of Education	
Solutions Teams Assigned to Schools Fund	To pay for professionals on the solutions teams who are assigned to those schools with a letter grade of D or F, or other schools as agreed to, to help develop a viable plan to improve the school.
Arizona Department of Emergency and Military Affairs	
National Guard Relief Fund	To provide financial aid to families of Arizona National Guard members when members are placed on active duty
Arizona Department of Revenue	
I Didn't Pay Enough Fund	To support the State's general operating costs
Arizona Department of Veterans' Services	
Veterans' Donations Fund	To benefit veterans in the State of Arizona
Arizona Game and Fish Department	
Game, Nongame, Fish and Endangered Species Fund	To protect wildlife in this State and improve areas for watching wildlife
Office of the Arizona State Treasurer	
Political Parties Trust Fund	To provide a gift to the political party the taxpayer designates

Source: Auditor General staff analysis of A.R.S. §§43-612 through 43-621, 15-241(Q) and the 2013 Arizona Form 140—Resident Personal Income Tax Return on the Arizona Department of Revenue's Web site (see Appendix B, page b-i, for additional information about this method).

Table 2: Voluntary taxpayer donations by fund
For the period July 1, 2011 through April 30, 2014

Agency/Fund name	Fiscal year 2012	Fiscal year 2013	July 1, 2013 - April 30, 2014 ¹	Total donations
Arizona Department of Economic Security:				
Child Abuse Prevention Fund	\$156,194	\$158,556	\$150,089	\$ 464,839
Domestic Violence Shelter Fund	122,343	115,625	115,056	353,024
Neighbors Helping Neighbors Fund	31,315	32,549	30,650	94,514
Special Olympics Fund	74,582	63,923	64,405	202,910
Arizona Department of Education:				
Solutions Teams Assigned to Schools Fund	67,806	84,949	29,850	182,605
Arizona Department of Emergency and Military Affairs:				
National Guard Relief Fund	43,577	40,660	34,289	118,526
Arizona Department of Revenue				
I Didn't Pay Enough Fund	14,523	15,206	11,877	41,606
Arizona Department of Veterans' Services				
Veterans' Donations Fund	97,546	103,323	108,663	309,532
Arizona Game and Fish Department				
Game, Nongame, Fish and Endangered Species Fund	154,626	143,775	149,141	447,542
Office of the Arizona State Treasurer				
Political Parties Trust Fund				
Americans Elect ²	-	210	754	964
Democratic Party	11,597	11,266	9,935	32,798
Green Party	638	518	387	1,543
Libertarian Party	568	444	797	1,809
Republican Party	8,649	5,986	4,854	19,489
Total taxpayer donations	<u>\$783,964</u>	<u>\$776,990</u>	<u>\$710,747</u>	<u>\$2,271,701</u>

¹ These amounts represent donations the ADOR collected from July 1, 2013 through April 30, 2014; however, they may not have been distributed to the agencies as of April 30.

² The Office of the Arizona State Treasurer is holding Americans Elect monies because the party had not filed the appropriate documentation to receive payment as of April 30, 2014. Auditors performed no additional procedures over these monies.

Source: Auditor General staff analysis of the ADOR's financial records from July 1, 2011 through April 30, 2014.

Table 3: Expenditures by fund
For the period July 1, 2011 through April 30, 2014

Agency/Fund name	Fiscal year 2012	Fiscal year 2013	July 1, 2013 - April 30, 2014	Total expenditures
Arizona Department of Economic Security:				
Child Abuse Prevention Fund	\$1,118,300	\$1,450,000	-	\$2,568,300
Domestic Violence Shelter Fund	2,220,000	2,220,000	\$2,236,000	6,676,000
Neighbors Helping Neighbors Fund	63,175	44,961	30,210	138,346
Special Olympics Fund	47,717	65,666	34,188	147,571
Arizona Department of Education:				
Solutions Teams Assigned to Schools Fund ¹	-	-	263,127	263,127
Arizona Department of Emergency and Military Affairs:				
National Guard Relief Fund	43,457	-	6,508	49,965
Arizona Department of Revenue				
I Didn't Pay Enough Fund	14,523	15,206	-	29,729
Arizona Department of Veterans' Services				
Veterans' Donations Fund ²	1,912,074	2,158,426	1,308,156	5,378,656
Arizona Game and Fish Department				
Game, Nongame, Fish and Endangered Species Fund	205,567	104,050	130,910	440,527
Office of the Arizona State Treasurer				
Political Parties Trust Fund	23,918	17,454	17,826	59,198
Total expenditures	\$5,648,731	\$6,075,763	\$4,026,925	\$15,751,419³

¹ Prior to fiscal year 2014, these monies had to accumulate until they were sufficient to provide a minimum of \$5 per unweighted student count to be distributed to Arizona school districts. However, Laws 2013, Ch. 251, §18, amended the law so monies could be used to pay the solutions teams assigned to schools. As such, the Arizona Department of Education did not have expenditures in the fund until fiscal year 2014.

² Auditors did not review expenditures in the Veterans' Donations Fund of \$1,912,074 from fiscal year 2012 as the Department was in the process of implementing procedures in response to the Office of the Auditor General's Performance Audit (Report No. 11-09), which made recommendations on the use of monies in this fund.

³ Total expenditures of \$15,751,419 are much greater than the total taxpayer donations reported in Table 2 (see page 2), as most of these funds receive monies from other sources or had accumulated donated monies over a period of years prior to being spent.

Source: Auditor General staff analysis of the financial records of the agencies listed in the table from July 1, 2011 through April 30, 2014.

Use of taxpayer donations

Six of the seven agencies used taxpayer donations in accordance with statutes. However, the Department of Veterans' Services did not always ensure that donations were used for the benefit of Arizona veterans as required by statute. This concern was previously identified and reported by auditors in 2011.

Most agencies spent taxpayer donations in accordance with statutes

As shown in Figure 1, auditors determined that six of the seven agencies spent taxpayer donations in accordance with the applicable statutes. Additionally, these six agencies had good internal control policies and procedures in place to control the use of the donated monies. The seven agencies administering the donations are responsible for ensuring that the monies are spent as required by statute. Auditors reviewed a sample of 179 expenditure transactions at the seven agencies and determined that 177 expenditures were in accordance with statutes (see Appendix A, pages a-i through a-ii, for additional details on the use of monies). For example, the Department of Economic Security used taxpayer donations in the Neighbors Helping Neighbors Fund to help eligible individuals pay their utilities. Additionally, the Arizona Game and Fish Department used taxpayer donations to pay salaries to employees responsible for performing wildlife management duties that qualified as game, nongame, fish, and endangered species activities.

**Figure 1: Compliance tests of taxpayer donations spent
For the period July 1, 2011 through April 30, 2014**

Agency/Fund name	
Arizona Department of Economic Security	
Child Abuse Prevention Fund	✓
Domestic Violence Shelter Fund	✓
Neighbors Helping Neighbors Fund	✓
Special Olympics Fund	✓
Arizona Department of Education	
Solutions Teams Assigned to Schools Fund	✓
Arizona Department of Emergency and Military Affairs	
National Guard Relief Fund	✓
Arizona Department of Revenue	
I Didn't Pay Enough Fund	✓
Arizona Department of Veterans' Services	
Veterans' Donations Fund	X
Arizona Game and Fish Department	
Game, Nongame, Fish and Endangered Species Fund	✓
Office of the Arizona State Treasurer	
Political Parties Trust Fund	✓

✓ = spent in compliance with statute X = noncompliance noted

Source: Auditor General staff analysis of 179 expenditure transactions from all seven agencies for the period July 1, 2011 through April 30, 2014 (see Appendix B, page b-i, for additional information).

Arizona Department of Veterans' Services did not ensure all donations benefited Arizona veterans

Although Arizona Revised Statutes (A.R.S.) §41-608 requires that the Veterans' Donations Fund monies be used to benefit veterans, in 2 of 45 payments reviewed, the Arizona Department of Veterans' Services (Veterans' Services) awarded these monies for other purposes. Specifically, Veterans' Services has different policies and procedures in place for awarding large grants, requests of \$5,000 or more, than it has for small grants, requests of less than \$5,000. Our review found that Veterans' Services authorized two grant awards of \$4,999.99 each to support the administrative costs of fund-raising events held by two different organizations. The first grant was awarded in January 2013 to an organization whose primary mission was to empower women and eliminate racism. The second grant was awarded in February 2013 to an organization whose primary mission was to enrich the lives of youth and teens in Tempe. Although these two organizations had programs that may have benefited veterans, awarding monies to support the administrative costs of hosting fund-raising events did not benefit Arizona's veterans as required by statute. Further, auditors noted that for the January 2013 payment, the evaluation committee that reviewed the grant application documented their concerns that the charitable organization did not clearly identify how the monies requested would benefit Arizona veterans. The deputy director noted those same concerns when reviewing the application and recommended that the application be denied. However, in January 2013, a former director authorized the award, as the policies that Veterans' Services had adopted gave the director final authority. The former director noted in his approval that the organization applying for the monies had proven to be an instrumental partner in supporting veterans and that it was the organization's overall mission and activities that were being supported. Regarding the February 2013 payment, the majority of the evaluation committee and the former director approved it.

This is not the first time auditors have identified concerns with Veterans' Services spending Veterans' Donations Fund monies contrary to statutory requirements. In 2011, the Office of the Auditor General found that Veterans' Services spent monies that did not benefit Arizona's veterans. Specifically, it paid a total of \$70,000 in large grants to four nonprofit veterans' organizations to support administrative and fund-raising costs (see Report No. 11-09). As a result, auditors recommended that, in accordance with statute, Veterans' Services limit Veterans' Donations Fund expenditures to only those that benefit Arizona veterans. As this current review found similar concerns for small grants, Veterans' Services needs to train staff responsible for reviewing small grant requests on the appropriate use of Veterans' Donations Fund monies, and approve only those grants that benefit Arizona veterans.

Recommendation:

- 1.1 Consistent with the recommendation made in the September 2011 Office of the Auditor General's performance audit report (see Report No. 11-09) and in accordance with A.R.S. §41- 608, the Arizona Department of Veterans' Services should limit Veterans' Donations Fund expenditures to only those requests that benefit Arizona veterans. Specifically, Veterans' Services should train staff responsible for reviewing small grant requests so only those requests that benefit veterans are approved.

Appendix A

Figure 2: Use of voluntary taxpayer donations by fund
For the period July 1, 2011 through April 30, 2014

Arizona Department of Economic Security

Child Abuse Prevention Fund

Purpose—According to Arizona Revised Statutes (A.R.S.) §8-550.01, monies in this fund must be used to provide financial assistance to community child abuse and neglect prevention programs and family resource programs that provide services to children and their parents or guardians. No more than 5 percent of monies in this fund shall be spent on administrative expenses.

Primary use of monies—The Arizona Department of Economic Security spent \$2,450,000, or 95 percent of monies in this fund, to pay individuals in need. In lieu of making payments to individuals from the Child Abuse Prevention Fund, the Arizona Department of Economic Security identified qualifying expenditures from other funds and then transferred those expenditures into this fund.

Domestic Violence Shelter Fund

Purpose—According to A.R.S. §36-3002, monies in this fund must be used to provide financial assistance to shelters for victims of domestic violence through contracts for shelter services.

Primary use of monies—The Arizona Department of Economic Security awarded \$6,660,000, or nearly 100 percent of monies in this fund, to domestic violence shelters in Arizona.

Neighbors Helping Neighbors Fund

Purpose—According to A.R.S. §46-741, monies in this fund must be used to provide eligible recipients with assistance in paying utility bills, conserving energy, and weatherizing homes.

Primary use of monies—The Arizona Department of Economic Security awarded \$138,346, or 100 percent of monies in this fund, to local governments and nonprofit organizations to help eligible recipients pay their utilities and conserve energy.

Special Olympics Fund

Purpose—According to A.R.S. §41-173, monies must be used to contract with the Special Olympics Arizona to fund services essential to citizens of Arizona with intellectual disabilities, including coordination and development of programs within Arizona.

Primary use of monies—The Arizona Department of Economic Security awarded \$147,571, or 100 percent of monies in this fund, to Special Olympics Arizona, a nonprofit organization, as directed by state laws.

Arizona Department of Education

Solutions Teams Assigned to Schools Fund

Purpose—According to A.R.S. §§43-617, 15-973.01, and 15-241(Q), monies must be used to pay for solutions teams assigned to those schools that are assigned a letter grade of D or F, or to other schools as agreed to by the school and the Arizona Department of Education.

Primary use of monies—The Arizona Department of Education spent \$263,127, or 100 percent of expenditures in this fund, to pay salaries of those individuals on the solutions teams that are assigned to schools when they are performing below a certain level.¹ The solutions teams comprise experienced staff, including education leaders, master teachers, curriculum experts, and fiscal analysts, who the Arizona Department of Education trains and employs to provide schools with valuable information to develop a viable plan to improve performance.

Arizona Department of Emergency and Military Affairs

National Guard Relief Fund

Purpose—According to A.R.S. §26-183, monies in this fund must be used to provide financial assistance to families of Arizona National Guard members who are mobilized in support of a contingency operation or state emergency.

Primary use of monies—From July 1, 2013 through April 30, 2014, the Arizona Department of Emergency and Military Affairs awarded \$6,508 to Arizona National Guard members or their family members who demonstrated a financial hardship. Specifically, monies were paid to vendors to provide basic and temporary living expenses, including mortgage, utilities, and medical expenses. Auditors did not examine the payment of \$43,457 recorded in fiscal year 2012 during this procedural review as the Office of the Auditor General previously identified it as misappropriated monies (see the Office of the Auditor General's Special Investigative Report of the Arizona Department of Emergency and Military Affairs dated February 2012).²

Figure 2: (Continued)

Arizona Department of Revenue

I Didn't Pay Enough Fund

Purpose—According to A.R.S. §43-211, monies in this fund shall be used to support the State's general operating costs. The Arizona Department of Revenue (ADOR) may use up to 10 percent of monies in the fund for administrative costs.

Primary use of monies—Monies received are held until the end of the fiscal year, and then the ADOR transfers them into the State's General Fund as directed by state law. Although the ADOR may use up to 10 percent of monies in the fund for administrative costs, auditors determined that 100 percent of monies collected in fiscal years 2012 and 2013, totaling \$29,729, were transferred into the State General Fund at their respective years-end.³

Arizona Department of Veterans' Services

Veterans' Donations Fund

Purpose—According to A.R.S. §41-608, monies in this fund shall be used for the benefit of the veterans within this State.

Primary use of monies—The Arizona Department of Veterans' Services (Veterans' Services) primarily awards monies to charitable organizations to pay for service events, programs, and projects. These payments totaled \$1,969,973 and accounted for approximately 57 percent of Veterans' Donations Fund expenditures. Auditors determined that two expenditures totaling almost \$10,000 were inappropriate because they did not benefit veterans (see pages 5 and 6 for additional information). Additionally, Veterans' Services used monies to pay for payroll costs at its two Veteran Homes and for an administrative staff member at Veterans' Services. These payments totaled \$847,702, including travel-related expenditures of \$6,781, and accounted for approximately 24 percent of total fund expenditures recorded in the review period.⁴ Further, Veterans' Services made payments to vendors for various goods and services, including therapy equipment at the Veterans' Home, design and construction services for a memorial cemetery, and chair rental and catering services for outreach events Veterans' Services hosted. These payments totaled \$648,907 and accounted for nearly 19 percent of total fund expenditures.

Arizona Game and Fish Department

Game, Nongame, Fish and Endangered Species Fund

Purpose—According to A.R.S. §17-268, monies in this fund shall be used for game, nongame, fish, and endangered species purposes.

Primary use of monies—The Arizona Game and Fish Department spent \$434,309, or approximately 99 percent of total fund expenditures, to pay salaries to employees responsible for performing wildlife management duties, which falls under the game, nongame, fish, and endangered species categories.

Office of the Arizona State Treasurer

Political Parties Trust Fund

Purpose—According to A.R.S. §16-807, the Office of the Arizona State Treasurer shall distribute monies to the political party indicated on a taxpayer's annual tax return.

Primary use of monies—Taxpayers can elect to donate to a political party by indicating their donation amount and party preference on their annual tax return. Those parties included the Americans Elect, Democratic, Green, Libertarian, and Republican parties. The Office of the Arizona State Treasurer disbursed 100 percent of the monies collected, totaling \$59,198, to the applicable political party.

¹ As noted in Table 3 on page 3, footnote 1, the Department did not record any expenditures in the Solutions Teams Assigned to Schools Fund in fiscal years 2012 or 2013. In fiscal year 2014, the Department spent \$263,127, which was an accumulation of monies collected in fiscal years 2012, 2013, and 2014, as well as fiscal years prior to auditors' review period.

² The Arizona Department of Emergency and Military Affairs reported one expenditure in fiscal year 2012, no expenditures in fiscal year 2013, and nine expenditures in fiscal year 2014 as of April 30, 2014.

³ As fiscal year 2014 monies were scheduled to be transferred after April 30, 2014, no transactions were available for review.

⁴ Auditors did not review expenditures in the Veterans' Donations Fund of \$1,912,074 from fiscal year 2012 as the Department was in the process of implementing procedures in response to the Office of the Auditor General's Performance Audit (Report No. 11-09), which made recommendations on the use of monies in the fund.

Source: Auditor General staff analysis of Arizona Revised Statutes pertaining to the funds and the financial records of the agencies listed in the table from July 1, 2011 through April 30, 2014.

Appendix B

Methodology

This appendix provides information on the methods used to meet the objectives of the procedural review. The Auditor General and staff express appreciation to the staff at the Arizona Departments of Economic Security, Education, Emergency and Military Affairs, Revenue, and Veterans' Services; the Game and Fish Department; and the Office of the Arizona State Treasurer for their cooperation and assistance throughout the procedural review.

Auditors used a number of methods to review internal controls over the collection, distribution, and administration of monies donated by taxpayers on their annual state personal income tax returns. These methods included conducting interviews with management and staff at each of the seven agencies, and reviewing agency records and policies and procedures over the use of monies in the funds that received taxpayer donations (see Table 1 on page 2 for a list of funds and their purposes). Auditors also reviewed applicable Arizona Revised Statutes.

In addition, auditors used the following specific methods:

- To identify those funds that taxpayers can elect to donate monies to on their personal income tax returns, auditors reviewed lines 39-48 of Arizona Form 140-Resident Personal Income Tax Return for calendar year 2013. The 2013 form was used as it was the most current tax form available at the time this review commenced. This form is available on the Arizona Department of Revenue's Web site and identifies ten different funds.
- To assess compliance with statutory requirements, auditors reviewed prior audit reports applicable to the agencies administering taxpayer donation monies. Specifically, auditors reviewed the Office of the Auditor General's Performance Audit of the Arizona Department of Veterans' Services—Veterans' Donations Fund and Military Family Relief Fund (Report No. 11-09), which made recommendations on the use of Veterans' Donations Fund monies. Auditors also reviewed the Office of the Auditor General's Special Investigative Report of the Arizona Department of Emergency and Military Affairs dated February 2012, which made recommendations on the use of National Guard Relief Fund monies. Auditors also selected a total sample of 179 expenditure transactions from all seven agencies for the period July 1, 2011 through April 30, 2014.¹ Auditors reviewed the sample to assess:
 - Whether donation fund monies were spent according to applicable laws and policies; and
 - To determine if each agency had adequate controls over these payments and that they were reviewed and approved by the appropriate personnel.

¹ Auditors did not review expenditures in the Veterans' Donations Fund of \$1,912,074 from fiscal year 2012 as the Department was in the process of implementing procedures in response to the Office of the Auditor General's Performance Audit (Report No. 11-09), which made recommendations on the use of monies in the fund.

AGENCY RESPONSE



DOUGLAS A. DUCEY

GOVERNOR

WANDA A. WRIGHT

DIRECTOR

**ARIZONA DEPARTMENT OF
VETERANS' SERVICES**
3839 NORTH THIRD STREET, SUITE 200
PHOENIX, ARIZONA 85012
PHONE (602) 255-3373 FAX (602) 255-1038

April 21, 2015

Debra K. Davenport
Auditor General
State of Arizona Office of the Auditor General
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

Re: Auditor General Report No. 15-301 Procedural Review —Tax Donations &
Veterans' Donation Fund.

Dear Ms. Davenport:

I have reviewed the audit report of the use of voluntary taxpayer donations, specifically those monies included in the Veterans. Donation Fund. Please accept the Department's one-page response to the audit, which is enclosed.

Sincerely,

Wanda A. Wright
Director

Recommendation:

1.1 Consistent with the recommendation made in the September 2011 Office of the Auditor General's performance audit report (see Report No. 11-09) and in accordance with A.R.S. §41- 608, the Arizona Department of Veterans' Services should limit Veterans' Donations Fund expenditures to only those requests that benefit Arizona veterans. Specifically, Veterans' Services should train staff responsible for reviewing small grant requests so only those requests that benefit veterans are approved.

ADVS Response:

The finding of the Auditor General is agreed to, and the procedures previously implemented to address the audit recommendation made in the Office of the Auditor General's Performance audit report (Report 11-09) will be revised as follows.

Effective July 1, 2015, The ADVS assigned assistant attorney general will brief Executive staff, leadership, and review committee members, at least annually, on the provisions of A.R.S. §41-608.

