



# Annual Report

## Fiscal Year 2024



**Lindsey A. Perry**  
Auditor General

# Message from the Auditor General




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I am pleased to submit the Office's annual report for the fiscal year ending June 30, 2024. My Office's annual report outlines the accomplishments of a skilled and knowledgeable staff who diligently maintain an excellent reputation for accuracy, quality of work, and the information we provide. This reputation extends nationally among audit organizations at all levels of government, largely resulting from our leadership in the government auditing field and our recognized body of work. As a legislative agency, we are positioned to fulfill our many mandates, the most important of which is to provide independent, impartial, precise, and timely information to the Arizona Legislature.

Our audit and investigative work and resulting reports make a positive difference for Arizona and its citizens by lowering government costs and helping government work better, identifying deficiencies and making recommendations for improvements, and holding State and local governments accountable. For example, in fiscal year 2024, we issued 206 reports covering a wide range of topics and entities, including State agencies, counties, universities, community colleges, and school districts, and made 945 recommendations to improve the operations of those entities.

The Arizona Legislature has appropriated the Office resources to follow up on audit findings and recommendations periodically for 2 years after we issue our reports. Depending on the audit recommendations' complexity or, at times, how much the entities focus on implementing our recommendations, sometimes it takes entities longer than 2 years to implement critical recommendations. However, because our recommendations are important to the Arizona Legislature in holding entities accountable to making these improvements for Arizona citizens, we will continue to follow up even after 2 years if the entity has not implemented all critical recommendations. In fiscal year 2024, we performed 46 follow-up reviews and determined that State agencies and school districts implemented 80 percent of our recommendations.

I express gratitude and appreciation to members of the Arizona Legislature for their continuing support and to the valued staff members of the Arizona Auditor General for their commitment to professionalism and leadership in the field of governmental auditing, dedication to performance, demonstrated excellence, and incredible focus on improving Arizona government for its citizens.

## Our mission

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The Arizona Auditor General's mission is to provide independent and impartial information, impactful recommendations, and stakeholder education to improve Arizona government for its citizens. To this end, the Office conducts financial statement audits and provides certain accounting services to the State and political subdivisions, investigates possible criminal violations involving public officials and public monies, and conducts performance audits and special reviews of school districts, State agencies, and the programs they administer.

## Our award-winning reporting

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### NLPES Certificate of Impact Award

#### Buckeye Elementary School District Performance Audit

In fiscal year 2024, our performance audit of the Buckeye Elementary School District—Report 2 of 2 received a National Legislative Program Evaluation Society (NLPES) Certificate of Impact award.

We found the District paid to or on behalf of its superintendent more than \$1.7 million of additional compensation from July 2016 through December 2021, which brought the superintendent's total compensation to about \$3.3 million, which was about 100 percent more than what the State's 3 largest districts spent on average for superintendent compensation and, as a result, may have been a gift of public monies in violation of the Arizona State Constitution. A substantial portion of this additional compensation was not publicly known because the District omitted critical information from 2 of 3 employment agreements authorizing it.

As a result of the report's findings, the Arizona Attorney General filed a civil complaint on behalf of the State against the District and its superintendent, who resigned in September 2023, reached a settlement with the Arizona Attorney General, and repaid more than \$407,000 to the District. In response to our recommendations, the District substantially changed its process for developing new superintendent-employment contracts.



# Our reports and recommendations

Our report products include performance audits, sunset reviews, follow-up reports, financial investigations and alerts, financial and federal compliance audits, accountability reviews, and special audits/reviews. We contract for the performance of some audits and preparation of associated audit reports, which we oversee and issue. These reports are also reflected in the totals below.

In fiscal year 2024, we issued:

- ▶ **206 report products**
- ▶ **945 recommendations**

## Performance audits and sunset reviews

These audits and reviews assess how governmental entities such as State agencies and school districts are performing—that is, how well they are fulfilling statutory mandates and serving Arizona. Sunset reviews help the Legislature decide whether to continue, modify, or terminate (“sunset”) an agency. We include recommendations to guide entities so they can better serve the public.



## Follow-up reports

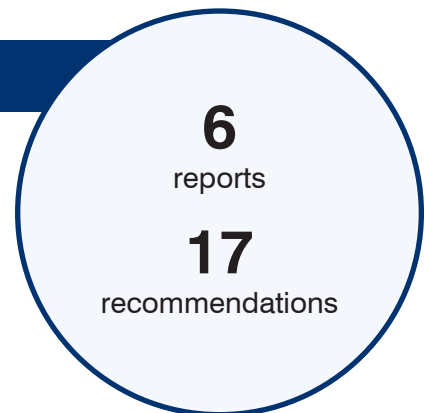
After issuing performance audits and sunset reviews, we follow up with governmental entities at regular intervals to assess the status of our recommendations and issue follow-up reports showing implementation progress. We conduct regular followups within the first 2 years of report issuance and, in some instances, may follow up for several years.



**80 percent of agency/school district recommendations implemented.**

## Special audits/reviews

We conduct these reviews when required by law or when the Joint Legislative Audit Committee directs us to perform them.



## Financial investigations and alerts

Financial investigations occur when we receive allegations that public officials or government employees have potentially committed criminal violations, such as theft, fraud, misuse of public monies, and conflict of interest. We review these allegations, and if we uncover potential criminal violations, we submit our findings to prosecutors for independent reviews. After the prosecutor files a criminal indictment or complaint, we issue public reports with this information. We also help protect public monies by issuing timely fraud prevention alerts designed to help government officials deter and detect fraud.

**3**  
reports

## Financial statement and federal compliance audits

Financial statement audits provide reasonable assurance that the financial statements of Arizona State agencies, universities, community college districts, and counties are free from material omissions or errors. In fiscal year 2024, these entities' financial statements represented \$77.7 and \$68.1 billion in public monies that were received and spent, respectively. Federal compliance audits help ensure federal monies are being used and reported in accordance with federal requirements. Our reports include our findings and recommendations, which are also summarized in our report highlights.

**50**  
reports

**453**  
recommendations

## Accountability reviews

These reviews, such as school district compliance reviews and county and community college district expenditure limitation reports, help ensure school districts maintain adequate accounting, financial reporting, and other internal controls that help safeguard district monies and property, and that government entities follow certain State laws and regulations.

**67**  
reports

## Our high-impact training and presentations

Our staff provide presentations to legislators and other government officials, and provide trainings, webinars, technical assistance, and other outreach to help improve governmental services.

### Key presentation and training topics

- ▶ Audit findings and recommendations
- ▶ Accounting controls and practices
- ▶ School district accounting practices

### Presentation and training statistics

- ▶ **109** presentations and briefings
- ▶ **19** trainings
- ▶ **3,850** attendees

# Our impact

## We improve Arizona government for its citizens by:

- ▶ Lowering costs.
- ▶ Investigating fraud and financial misconduct.
- ▶ Helping government work better.
- ▶ Holding State agencies and school districts accountable.
- ▶ Informing stakeholders.

## Lowering costs

Our September 2023 performance audit and sunset review of the **Arizona Commerce Authority (ACA)** found it spent more than \$2.4 million of public monies between 2018 and 2023 hosting 5 private chief executive officer (CEO) forums at 5 Waste Management Phoenix Opens and the 2023 Super Bowl ([Report 23-116](#)). The ACA reported these forums were meant to market the State to decision-makers from companies considering moving to or expanding their operations in the State. Our report informed stakeholders on the ACA's use of public monies, including providing lodging, transportation, and social and entertainment events, such as concert tickets and VIP suite tickets with food and alcohol for executives and their spouses. After we published our audit report, the Arizona Attorney General issued an opinion that these forums violated the Arizona Constitution's Gift Clause. Additionally, to avoid increased risk of fraud and waste of public monies, the Legislature passed legislation requiring the ACA to adopt policies prohibiting the use of public monies for executives' lodging, alcohol, transportation, and tickets to entertainment events.

As part of our financial audit work, we identify costs that State entities should not have incurred and recommend they recover those costs. For example, the Fiscal Year 2022 [State of Arizona Single Audit Report](#) issued in October 2023 included separate findings to the **Arizona Departments of Housing and Economic Security** regarding unallowable costs totaling \$58,779. These agencies reimbursed nonprofit organizations with federal monies for costs that were unsupported, unallowable, and/or paid to a nonprofit organization's principal officers or their immediate family member in violation of conflict-of-interest disclosure requirements. These costs included monies spent on financial and accounting services, bookkeeping services and related supplies, repairs and maintenance, travel, and incentive payments without a documented agreement authorizing it. Therefore, these monies were not available for their intended purpose of providing housing assistance to those in need. We made several recommendations to these agencies to address the unallowable use of monies, including stopping these reimbursements, recovering the monies, updating policies and procedures for reviewing and approving reimbursement requests, and performing appropriate monitoring based on the nonprofit organizations' risk of noncompliance.

## Investigating fraud and financial misconduct

We investigated and reported on a former **Arizona State University (ASU)** employee for alleged financial misconduct and embezzlement after he used his ASU purchase card to make 810 unauthorized personal purchases totaling \$124,093 ([Report 23-406](#)). He concealed his scheme by submitting 347 forged receipts and 358 false business purpose descriptions, making it falsely appear as if the purchases were for valid ASU purposes. We found ASU Executive Administration officials allowed the employee to bypass purchase card policies and procedures to provide immediate information technology (IT)-related equipment to senior leadership. This former employee has been indicted on 14 felony counts related to theft, misuse of public monies, fraudulent schemes, and forgery.

## Helping government work better

Our review of the **Blue Elementary School District** found it lacked procedures for reporting transportation information to the Arizona Department of Education (ADE) ([Report 24-207](#)). Because the District educates a small number of students in a remote community, it contracted with parents to transport students to and from school. However, the District was unaware that it should report contracted miles and riders to ADE to calculate State aid, and it was underfunded by more than \$31,000 in fiscal year 2023, which represented about 18 percent of its fiscal year spending. We recommended the District accurately report transportation information to ADE and work with ADE to correct its transportation-funding reporting for the previous 3 fiscal years to ensure it receives the correct State aid funding. Once it implements our recommendations, the District will have additional monies to increase teacher salaries or use for other District priorities.

Our second performance audit of the **East Valley Institute of Technology (EVIT)** found EVIT had not developed and implemented comprehensive capital and strategic plans, increasing the risk it may not meet the legislative intent of a \$10 million appropriation to construct and furnish a new foster youth housing facility, HopeTech ([Report 24-209](#)). Additionally, EVIT had not conducted an analysis to estimate HopeTech's ongoing operational costs and had not identified what services it would provide to HopeTech residents, the cost of these services, and how it would pay for HopeTech's ongoing operations. To help ensure it could successfully operate HopeTech over the long term without diverting monies away from career and technical education (CTE) programs, we recommended that EVIT develop and implement a formal multiyear capital plan for its central campuses that includes capital needs, maintenance requirements, funding options, operating budget impacts, and a formal strategic plan and planning process.

Additionally, our annual financial audits of **counties, community college districts, the 3 universities, and various State agencies** in fiscal year 2024 identified and reported on IT vulnerabilities at many of these entities, including weaknesses in processes for protecting sensitive information and in IT security controls, inappropriate and potentially unnecessary access to IT systems, and inadequate authentication requirements to help ensure only authorized access to IT systems and data. We made 169 recommendations to address these deficiencies, helping ensure these entities take necessary steps to reduce IT risks and help prevent and/or detect unauthorized access to and the loss of confidentiality or integrity of systems and data.

## Holding State agencies and school districts accountable

Our September 2023 performance audit and sunset review of the **Arizona Department of Forestry and Fire Management (Department)** found that the Department's State Fire Marshal's Office failed to develop and implement a statutorily required fire safety inspection program, despite 4 previous performance audits spanning 35 years recommending it do so, increasing the risk of fire-related deaths, injuries, and property damage ([Report 23-108](#)). For example, the Fire Marshal's Office assigned a "high-risk" classification to school buildings, but reported it was inspecting schools every 3 years instead of annually as required by national standards. These failures limit the Department's ability to identify and address fire code violations such as malfunctioning or poorly maintained fire alarm and sprinkler systems that can put students' and the public's health and safety at risk. We made several recommendations to the Department, including that it develop and implement a plan outlining key steps and deadlines to establish a fire safety inspection program and hold the Fire Marshal's Office accountable for implementing the plan.

Our June 2024 followup of our September 2021 performance audit and sunset review of the **Arizona State Board of Nursing** found that it had not made progress toward implementing our recommendations to resolve public complaints within 180 days ([Follow-up of Report 21-111](#)). Specifically, the Board had not resolved within 180 days approximately 75 percent of the more than 2,000 public complaints we reviewed, including 78 high-risk complaints involving allegations such as prescribing a 233 percent

increase in a patient's opioid dosage and sexually harassing patients. We also identified other deficiencies in the Board's complaint-handling processes, such as combining an individual licensee's multiple complaints into a single investigation, which led to years-long complaint-resolution delays, and failing to investigate complaints that alleged licensees engaged in unprofessional conduct, including allegations of stolen medication from their workplaces. Both the previous and new deficiencies potentially put patient safety at risk. Based on our continued review of the Board, we made 4 new recommendations to address the additional deficiencies.

## Informing stakeholders

Our March 2024 [Arizona School District Spending](#) report found that in fiscal year 2023, State-wide school district spending increased nearly \$1 billion from fiscal year 2022, likely due to continued COVID-19 relief spending. The State-wide instructional spending percentage (ISP) decreased to 53.4 percent, a 1.1 percentage point decrease from fiscal year 2022 and the lowest recorded ISP since we began monitoring. Sixty-eight percent of districts had decreased ISPs. The State's per student operational spending increased by \$974, or 9.1 percent, and less than half of the increase went toward instruction. The State's average teacher salary increased to \$62,934, and 79 percent of districts' average teacher salaries increased from fiscal year 2022. Districts reported spending a majority of COVID-19 federal relief monies on salaries and benefits. Despite similar numbers of students attending compared to the prior year, State-wide meals decreased by 19 percent, likely due to expiring free school lunch federal waivers. In addition, we identified inefficient district practices that, if addressed, could result in more money for instruction.

We completed our annual [school district financial risk analysis](#), which identified districts at the highest risk of not being able to operate within their available cash resources or budget constraints. Our December 2023 analysis found 4 districts at higher financial risk than other Arizona school districts. These risks involved operating and capital budget limit reserves, changes in general fund balances, decreasing students, and frozen property tax rates. Two of the previous year's highest-risk districts reported using COVID-19 federal relief monies in fiscal years 2021 through 2023, which contributed to their improved budgetary reserves and financial position measures, resulting in the districts being removed from the highest-risk list. Similar to these previously high-risk districts, nearly all Arizona districts reported using COVID-19 federal relief monies in fiscal years 2021 through 2023, contributing to improved budgetary reserves and financial positions after fiscal year 2020, when they first received relief monies. In total, State-wide district operating budget limit reserves, capital budget limit reserves, and general fund balances continued to rise in fiscal year 2023, increasing 75.7 percent, 95.2 percent, and 53 percent, respectively, since fiscal year 2020.

