

## SAMPLE CONTRACT

This Contract is entered into by and between the State of Arizona, Arizona Auditor General, hereinafter referred to as the Office, and [REDACTED], hereinafter referred to as the Firm.

WITNESSETH: In consideration of the mutual promises herein contained, the parties have agreed and do hereby enter into this Contract according to the provisions set out herein:

### I. Recitals:

- A. In accordance with the authority granted under the laws of the State of Arizona, the Office wishes to procure the services of the Firm to conduct a forensic audit of the Arizona State Schools for the Deaf and the Blind hereinafter referred to as the Auditee, in accordance with the *CFE Code of Professional Standards*, issued by the Association of Certified Fraud Examiners.
- B. The Firm desires and is capable of conducting such forensic audit and issuing such forensic audit report for the Auditee.
- C. The Firm and the Office desire to enter into and execute a written contract involving said services, and to agree upon the terms thereof.

NOW, THEREFORE, in consideration of the foregoing recitals and of the covenants and agreements by the parties made to be kept and performed, the parties agree as follows:

### II. Agreement:

#### A. Term of agreement

The term of this Agreement shall be for the period beginning on the date signed by the Auditor General and ending two weeks after the day the final follow-up report is submitted. The Office assumes no liability for work performed or costs incurred prior to the beginning date or subsequent to the contract completion date.

#### B. Option for Additional Follow-up Work

The Office reserves the option to extend the Contract to include additional follow-up work and follow-up reports. This option will be exercised no later than two weeks after the 18-month follow-up report issuance. The Office may contract the Firm to perform the follow-up report at the fees shown under the payments and compensation section of this Contract.

#### C. Services

The Firm, as an independent contractor and not as an agent of the Office, agrees to provide services as set forth in this Agreement, after receiving formal "Notice to Proceed" from the

Office, make all necessary off-site preparations for the Firm to execute the project with minimal support from the Office. The Firm agrees to:

1. Organize, schedule, and facilitate a project entrance conference no later than April 11, 2025, by video or teleconference if necessary, with representatives from the Auditee and the Office. The purpose of this entrance conference is to introduce the Firm, establish workspace if needed, identify liaisons, determine a periodic meeting schedule, and discuss the scope and time frame for the audit.
2. Conduct preliminary work to plan for completing the tasks outlined in Section II(C)(3)(a)-(i) of this Agreement. This work must include, but is not limited to:
  - a. Assessing the availability of the Auditee's educational, financial, and operational data relevant to the audit areas, including interviewing Auditee staff to determine what data the Auditee maintains and where it is stored, how it is used, and what controls are in place to ensure its accuracy and reliability; review the data and data system(s) to determine what data is necessary to address audit issues; and request and obtain the data and ensure the data provided is fully responsive to the request.
  - b. Conducting data validity/reliability testing after the data is obtained, such as by looking for blank fields, potential errors in logic or calculations, inconsistent names or values within fields, etc., and randomly pulling a sample of hard copy files to test data reliability and completeness. This will also require determining the validity of the Auditee's timekeeping records, which may require interviews with Auditee staff, observation of classrooms, and review of the Auditee's formal and informal policies and procedures.

Based on the results of this work, the Firm should determine the data's reliability for audit purposes. If the Firm determines the data is not available or not reliable for audit purposes, it should contact the Office to discuss and determine alternative procedures for any of the areas listed below for which the Firm has determined data analysis would be useful.

- c. Performing any other work the Firm deems necessary for completing the tasks outlined in Section II(C)(3)(a)-(i), including but not limited to developing work plans, conducting initial interviews with Auditee staff, and completing work to gain an understanding of the areas to be reviewed.
3. Complete the following audit tasks:
  - a. Conduct a detailed review of all Auditee payroll expenditures in fiscal years 2022 through 2024, including:

- i. Reviewing personnel records such as personnel action forms and contracts, for each Auditee employee to obtain approved salary and related benefits, including any allowable bonuses or other discretionary payments, position descriptions, and approved allocation of salary and benefits to educational programs or administrative/support categories.
  - ii. Reviewing payroll records for each employee to determine if the amount paid to the employee was appropriate based on the review of the personnel records above, and if the salaries were allocated to the appropriate educational program or administrative/support category. Additionally, whether teachers and paraprofessionals were paid in accordance with the Auditee's salary schedule. This work should also review whether the employees for which the Auditee received Medicaid reimbursements for their services performed the services and were authorized for Medicaid reimbursement.
  - iii. Reviewing timekeeping records for each Auditee employee to determine if employees accurately reported their hours (worked, vacation, holiday, etc.) after the pay period ended and that the hours were approved by a supervisor prior to being paid.
  - iv. Preparing a report listing all exceptions identified in the previous steps, including the dollar amount and the nature of the exception (i.e., unsupported, unapproved, unallowable, etc.). This report must be provided to the Office by a mutually agreed upon date.
- b. Conduct a detailed review of all the Auditee's fiscal years 2022 through 2024 nonpayroll expenditures, including:
  - i. Conducting a trend analysis over the three fiscal years and investigating any unexpected variances between years.
  - ii. Reviewing all nonpayroll expenditure transactions, including but not limited to transactions from professional and outside services, travel, purchasing and fuel cards, pupil expenses billed to the parent/legal guardian, other operating expenditures, and capital/noncapital expenditure categories. This review should determine if each transaction was properly procured and supported by documentation, approved, and allowable by:
    - Reviewing underlying documentation such as internal/external purchase orders, invoices, receipts, receiving reports, and other documents to determine if the goods were received and/or the services were provided.
    - Reviewing documentation demonstrating transactions were approved and allowable according to State and federal laws, applicable agreements and contracts, the Arizona State Procurement Code, the State Accounting Manual, Auditee policy, and any other applicable requirements.

- iii. Identifying transfers out and reviewing underlying documentation to determine the purpose of the transfers to other State agencies and whether the transfers were approved and allowable in accordance with State and federal laws and other applicable requirements.
  - iv. Preparing a report listing all exceptions identified in the previous steps, including the dollar amount and the nature of the exception (i.e., unsupported, unapproved, unallowable, etc.). This report must be provided to the Office by a mutually agreed upon date.
- c. Conduct a detailed review of all Auditee revenues/monies collected in fiscal years 2022 through 2024, to ensure all monies collected were properly received, recorded, and deposited timely and completely, including reviewing activity in:
- i. Schools for the Deaf and Blind Fund.
  - ii. Corporate Services Fund.
  - iii. Classroom Site Fund.
  - iv. Gifts, grants, and donations.
  - v. Proceeds of or income from the proceeds of land.

The Firm must document its review of all Auditee revenues/monies collected in fiscal years 2022 through 2024 and submit a summary report of its understanding and conclusions for this area to the Office by a mutually agreed upon date.

- d. For fiscal years 2022 through 2024, assess the Auditee's Itinerant Services Program fees and voucher reimbursement amount, including determining whether the monies collected from Auditee's fees and voucher reimbursements align with its costs and if extra money is collected, how this extra money is used. The work should include determining the Auditee's status in implementing the recommendations from the Auditor General's 2022 performance audit and sunset review to develop and implement policies and procedures to periodically review the appropriateness of its Itinerant Services Program fees and voucher reimbursement amount, including analyzing the costs of the processes and services the Itinerant Services Program provides, comparing these costs to associated fees, determining the appropriate fees and reimbursement amounts, and revising its fees and reimbursement amounts accordingly.

The Firm must document its assessment of the Auditee's Itinerant Services Program fees and voucher reimbursement amounts and submit a summary report of its understanding and conclusions for this area to the Office by a mutually agreed upon date.

- e. Compile multiple financial tables with detailed financial information for each year for the period of fiscal years 2022 through 2024, as follows:

- i. Total expenditures from each revenue source (i.e., State General Fund appropriations, Intergovernmental, State Education vouchers, Itinerant Services Program fees). For transfers in, report the revenues in the appropriate underlying revenue source (e.g., Intergovernmental revenues for transfers of State monies from other agencies). This table(s) must be provided to the Office by a mutually agreed upon date.
- ii. Total expenditures by revenue source for each educational program (Tucson campus day school, Tucson campus residential program, Phoenix Day School, Itinerant Services Program, Arizona Early Intervention Program (AzEIP), Auditee preschools, contracted preschools). This table(s) must be provided to the Office by a mutually agreed upon date.
- iii. Detailed payroll expenditures for Auditee employees in each educational program (Tucson campus day school, Tucson campus residential program, Phoenix Day School, Itinerant Services Program, AzEIP, Auditee preschools, State-wide deaf and blind programs), reported as follows:
  - Annual payroll and related benefits expenditures for each instructional staff member, including reporting position description and any bonuses or other discretionary payments.
  - Annual payroll and related benefits expenditures for each student support staff member, including reporting position description and any bonuses or other discretionary payments.
  - Annual payroll and related benefits expenditures for each noninstructional/administrative staff member, including reporting position description and any bonuses or other discretionary payments.

This table(s) must be provided to the Office by a mutually agreed upon date.

- iv. Detailed nonpayroll (operational/nonoperational) expenditures for each educational program (Tucson campus day school, Tucson campus residential program, Phoenix Day School, Itinerant Services Program, AzEIP, Auditee preschools, State-wide deaf & blind programs), reported in the following categories and providing specific examples of common and unusual expenditures in each category:
  - Administration
  - Plant operations
  - Food services
  - Transportation
  - Land and buildings

- Equipment

This table(s) must be provided to the Office by a mutually agreed upon date.

- v. Detailed administrative/support expenditures that are not allocated to a specific educational program, including:

- Annual payroll and related benefits expenditures for each non-program administrative and support staff member, including reporting position description and any bonuses or other discretionary payments.
- Detailed nonpayroll administrative expenditures, broken into categories as applicable and providing specific examples of common and unusual expenditures in each category.

This table(s) must be provided to the Office by a mutually agreed upon date.

- vi. Revenues, expenditures, and year-end fund balances for fiscal years 2022, 2023, 2024, 2025, and estimates for fiscal year 2026 for inclusion in a financial table. This table must be provided to the Office by a mutually agreed upon date.

- f. Conduct a forensic review of all fiscal years 2022 through 2024 transactions by:

- i. Using a Certified Fraud Examiner, conduct inquiries, review the financial information reviewed/compiled in the previous steps, use advanced data analytics, and conduct any additional audit procedures as appropriate to identify potential instances of fraud and/or misappropriation of monies, conflict-of-interest violations, and discrepancies, irregularities, or misstatements of financial activity.
- ii. Conducting forensic audit procedures to determine if any potential fraud/misappropriation, conflict-of-interest violations, or discrepancies, irregularities, or misstatements of financial activity occurred and quantifying the dollar amount of any potential losses of public monies that occurred as a result of the identified issue(s).

The Firm must document the results of its forensic review and provide a summary report of its conclusions to the Office by a mutually agreed upon date.

- g. Evaluate if the Auditee is in compliance with the State's Open Meeting Law (OML) (see A.R.S. §38-431 through §38-431.03 and the Arizona Agency Handbook, Ch. 7, requirements by:

- i. Observing Auditee meetings and reviewing Auditee meeting materials to assess if the Auditee is complying with OML requirements (if needed, the Office will conduct work related to executive session meetings).

- ii. Reviewing the Auditee's policies, procedures, and processes for ensuring it complies with OML requirements.
- iii. Assessing whether the Auditee's policies, procedures, and processes appear adequately designed to ensure compliance with OML requirements and/or have contributed to any observed noncompliance.
- iv. In consultation with the Office, reviewing information from the Attorney General's Office and the State Ombudsman on whether the agency has received any OML complaints.
- v. Developing recommendations to address any identified problems.

The Firm must document its review and assessment of the Auditee's compliance with the State's Open Meeting Law requirements. The Firm must submit a summary report of its review and assessment with the evidence used to support its conclusions to the Office by a mutually agreed upon date.

- h. Evaluate the extent to which the Auditee has established safeguards against possible conflicts of interest. Specific procedures that should be completed to evaluate if the Auditee's conflict-of-interest practices comply with the State's conflict-of-interest statutes (see A.R.S. §38-501 et seq.), the Arizona Attorney General's Agency Handbook, Ch. 8, and recommended practices include:
  - i. Reviewing the Auditee's policies, procedures, and processes for ensuring Auditee Staff and Board members comply with the State's conflict-of-interest statutes and recommended practices.
  - ii. Assessing whether the Auditee's policies, procedures, and processes appear adequately designed to ensure compliance with conflict-of-interest statutes and recommended practices.
  - iii. Reviewing the Auditee's compliance with State conflict-of-interest requirements and its policies and procedures by reviewing employee/board member conflict-of-interest forms, reviewing the agency's special file of conflict-of-interest forms, observing Auditee Board meetings, and conducting any additional procedures to review its processes for identifying and mitigating conflicts of interest.
  - iv. Developing recommendations to address any identified problems.

The Firm must document its review and assessment of the Auditee's compliance with the conflict-of-interest requirements. The Firm must submit a summary report of its review and assessment with the evidence used to support its work to the Office by a mutually agreed upon date.

- i. Obtain background information necessary to develop a report introduction for any applicable information the Firm includes in its report. The Firm must

document its work and provide a written summary of the information gathered to the Office by a mutually agreed upon date.

4. Receive approval from the Office regarding sample sizes and sampling methodology prior to beginning test work. The Office reserves the right to provide guidance for the selected Firm, upon the Firm's request or if the Office determines it is necessary, in matters such as sample sizes, the nature and extent of testing procedures, audit report content and format, and other areas, as applicable, to ensure the Firm fully addresses the issues identified in Section II(C)(3)(a)-(i).
5. During the audit, hold a pre-meeting with the Office prior to each monthly meeting with Auditee representatives.
6. During the audit, schedule and hold periodic meetings (at least 1 meeting every 4 weeks) with representatives from the Auditee and other appropriate entities as determined by the Office to update them on the audit's progress, including any preliminary conclusions. The Office must also be invited to attend these meetings.
7. Upon completion of fieldwork, hold a fieldwork exit meeting with the Office and the Auditor General prior to initiation of the report outline.
8. After submitting the report outline to the Office, hold a messaging meeting with the Office to discuss and approve the outline prior to initiation of the report draft.
9. Hold a follow-up expectations meeting with the Auditee one month following issuance of the initial report.
10. Participate in presentations to legislative committees or briefings for legislative members, if requested, including at least 1 in-person trip for a presentation to the legislative committees when the Auditor General requires. The Firm may be required to participate in several presentations or briefings during 1 trip.
11. Conduct at least 2 follow-ups, including 1 at 6 months and 1 at 18 months after the audit report is released.
12. If the Office exercises the option for additional follow-up work as set forth in Section II(B) of this Agreement, plan and budget time and resources to conduct additional follow-up work.

#### D. Report requirements

1. The Office requires the Firm to prepare and submit written progress reports every 4 weeks for the purpose of monitoring the status, progress, and direction of the Firm's work, including any preliminary findings, conclusions, and recommendations. The



Office may require additional information and/or that the Firm meet to discuss the audit's status, progress, and direction.

2. The Office requires the Firm to prepare and submit by April 7, 2025, its project timeline for completing audit planning work. The Office must approve and agree to the project timeline.

The Office requires the Firm to prepare and submit by May 5, 2025, its project timeline for completing fieldwork. The Office must approve and agree to the project timeline. The fieldwork timeline must include deadlines for key audit steps, test work, and report pieces to be initiated and completed, including deadlines for completing each of the tasks outlined in Section II(C)(3), including but not limited to when the Firm will complete and submit the following:

- a. A report listing all exceptions identified in the Firm's detailed review of all Auditee payroll expenditures in fiscal years 2022 through 2024 (see Section II(C)(3)(a)(iv)).
- b. A report listing all exceptions identified in the Firm's detailed review of all Auditee nonpayroll expenditures in fiscal years 2022 through 2024 (see Section II(C)(3)(b)(iv)).
- c. A summary report of its understanding and conclusions related to the Firm's detailed review of all Auditee revenues/monies collected in fiscal year 2022 through 2024 to ensure all monies collected were properly received, recorded, and deposited timely and complete (see Section II(C)(3)(c)).
- d. A summary report of its understanding and conclusions related to the Firm's assessment of the Auditee's Itinerant Services Program fees and voucher reimbursement amount (see Section II(C)(3)(d)).
- e. A financial table(s) with total expenditures from each revenue source (see Section II(C)(3)(e)(i)).
- f. A financial table(s) with total expenditures for each educational program (see Section II(C)(3)(e)(ii)).
- g. A financial table(s) with detailed payroll expenditures for Auditee employees in each educational program (see Section II(C)(3)(e)(iii)).
- h. A financial table(s) with detailed nonpayroll expenditures for each educational program (see Section II(C)(3)(e)(iv)).
- i. A financial table(s) with detailed administrative/support expenditures that are not allocated to a specific educational program (see Section II(C)(3)(e)(v)).
- j. A financial table(s) with revenues, expenditures, and year-end fund balances for fiscal years 2022, 2023, 2024, 2025, and estimates for 2026 (see Section II(C)(3)(e)(vi)).
- k. A summary report of the results of its forensic review (see Section II(C)(3)(f)).
- l. A summary report of its review and assessment of the Auditee's compliance with the State's Open Meeting Law requirements (see Section II(C)(3)(g)).
- m. A summary report of its review and assessment of the Auditee's compliance with the conflict-of-interest requirements (see Section II(C)(3)(h)).

- n. A summary of background information developed for the report introduction (see Section II(C)(3)(i)).

The agreed upon dates in the Firm's planning and fieldwork project timelines will be incorporated as an attachment to the contract, and the agreed upon dates will apply unless the Auditor General waives or modifies them in writing.

- 3. The Office requires that the Firm provide reports to the following entities by the following dates:
  - a. A draft report outline must be submitted to the Office on or before March 18, 2026. The Office will provide feedback on the outline, which the Firm must incorporate as it drafts the report.
  - b. An initial draft report of the Firm's findings, conclusions, and recommendations must be submitted to the Office on or before April 14, 2026. The initial draft report must include the information and evidence supporting the Firm's findings, conclusions, and recommendations and must address the issues identified in Section II(C)(3) of this Agreement. The Office will provide feedback on the initial draft, and the Firm must revise the draft based on this input and resubmit the draft to the Office to approve the changes. If the Office determines the resubmitted draft needs additional changes, the Firm must revise the draft to make these changes and resubmit the draft to the Office to approve the changes. The Firm must not submit the initial draft to the Auditee until the Office has approved the initial draft.
  - c. Once the Firm receives the Office's approval, before the Firm must submit the initial draft report to the Office and the Auditee on or before June 25, 2026.
  - d. At a draft exit meeting to discuss the initial draft, the Auditee may identify accuracy or other concerns with report information, and the Firm is required to revise the report to address these concerns. The revised draft must be submitted to the Office on or before July 16, 2026. The Office will provide feedback on the revised draft, and the Firm is required to revise the draft based on this input and resubmit the draft to the Office to approve the changes. The Firm must not send the revised draft to the Auditee until the Office has approved all changes made to the report.
  - e. Once the Firm receives the Office's approval, the Firm must submit the revised draft report to the Office and the Auditee on or before July 29, 2026. The revised draft report will be the basis for the Auditee to submit their final written response, which the Firm must include in the final report.
  - f. The Firm must submit the final report of the Firm's findings, conclusions, and recommendations, including the written response from the Auditee to the Office on or before August 5, 2026. The Firm must provide the Office with an electronic

copy of the final report, including any graphics and appendices. The Firm must provide the electronic report version through a ShareFile upload link that the Office will provide to the Firm and must provide the electronic report in PDF format, and it must not be password protected. Further, the Firm must complete final copy editing of the final report prior to providing to the Office.

The due dates set forth in Section II(2)(D)(3)) of this Agreement will apply unless the Auditor General waives or modifies them in writing. The Firm must submit any request for a waiver or modification to the due dates set forth in Section II(2)(D)(3) of this Agreement in writing to the Office.

4. The Firm agrees to issue follow-up reports on the implementation status of the final report's recommendations at 6-months and 18-months. The follow-up work and follow-up report format must follow the format of the follow-up reports the Office issues.
5. If the Office exercises the option for additional follow-up work as set forth in Section II(B) of this Agreement, the Firm agrees to issue a follow-up report on the implementation status of the final report's recommendations. The follow-up work and follow-up report format must follow the format of the follow-up reports the Office issues.

#### E. Onsite work

The Firm must conduct some work onsite at the Auditee's locations. At a minimum, the Firm must conduct work onsite during the initial planning phase to build rapport with the Auditee, review the Auditee's data system and controls, and review hard copy files. During fieldwork, the Firm must conduct work onsite to observe Auditee Board meetings, conduct observations of Auditee operations, and conduct interviews and other procedures as necessary.

#### F. Audit standards

The Firm attests that it meets the integrity and objectivity standards of and will conduct the audit in accordance with *the CFE Code of Professional Standards* promulgated by the Association of Certified Fraud Examiners.

#### G. Independence

1. The Firm and anyone conducting work on behalf of or at the direction of the Firm must have no conflict of interest with regard to any other work performed for the State of Arizona or Auditee. The Auditor General is the sole authority in determining whether any conflicts of interest or independence issues exist. The Firm agrees that the Firm and anyone performing any work pursuant to this Agreement will be

independent and remain independent during the Agreement period. The Firm agrees to submit Independence Disclosure Forms to the Office for the Firm and for anyone who will perform any work pursuant to this Agreement. The Firm agrees that the Firm will not commence any work pursuant to this Agreement until the Office has reviewed and approved in writing the Independence Disclosure Forms for the Firm. The Firm agrees that any person who will perform work pursuant to this Agreement on behalf of or at the direction of the Firm will not commence any work until the Office has reviewed and approved in writing that person's Independence Disclosure Form.

2. Individuals performing work under this Agreement are not employees of the Auditee or its governing body or bodies, and the Firm has disclosed that it has no contractual relationship with these entities or the government employers that participate in them.

#### H. Exit conference

Following completion of the draft reports, the Firm must be available to participate in an exit conference with Auditee officials. The Firm must hold the exit conference meeting no later than July 10, 2026. Office staff may participate in the exit conference if necessary. The purpose of the exit conference is to discuss the draft forensic audit report with the Auditee, identify any errors, and obtain comments on the report's findings and recommendations. The Firm must require the Auditee to provide a preliminary written response to the draft audit report, including whether it agrees to the findings and plans to implement any recommendations directed to it. The response is required to be provided to the Firm and the Office at least 48 hours before the draft exit meeting. The Office will provide specific instructions for the response. Attendance at the draft exit conference is mandatory for the selected Firm's project manager and key staff who oversaw tasks as listed in Section II(C)(3) of this Agreement.

#### I. Payments and compensation

##### 1. Forensic Audit Engagement

- a. Total compensation for the forensic audit engagement, including travel costs and out-of-pocket expenses, will be \$\_\_\_\_\_, excluding compensation for 6-month and 18-month follow-up work.
- b. The Office will pay the Firm upon successful completion, as determined at the sole discretion of the Office, of the tasks set forth in Attachment \_\_\_\_ . The Firm agrees to submit invoices to the Office for the tasks set forth in Attachment \_\_\_\_ as the tasks are completed. The invoices must indicate which tasks the Firm has completed and must include a list of the Firm's employees who worked on each of the tasks.

- c. The Office will withhold the final 20 percent of the contract amount set forth in Section II(H)(1)(a) of this Agreement until completion of the last Legislative hearing regarding the final report.

## 2. 6-Month and 18-Month Follow-Up Engagement

- a. Total compensation for the 6-month and 18-month follow-up work, including travel costs and out-of-pocket expenses, will be \$\_\_\_\_\_.
- b. The Firm agrees to submit invoices upon completion of the 6-month follow-up report and the 18-month follow-up report, respectively. Invoices must include a list of the Firm's employees who worked on the follow-up.
- c. The Office will pay the Firm 50 percent of the cost set forth in Section II(H)(2)(a) of this Agreement upon acceptance in final form by the Office of the 6-month follow-up report. The Office will pay the Firm 50 percent of the cost set forth in Section II(H)(2)(a) of this Agreement upon acceptance in final form by the Office of the 18-month follow-up report.

## 3. Additional Follow-up Work

- a. If the Office exercises its option to extend the contract to include additional follow-up work, the estimated costs for the additional follow-up work will be based on the hourly rate of \_\_\_\_\_.
- b. Within 30 days of notice from the Office that the Office has exercised its option to extend the contract to include additional follow-up work, the Firm agrees to provide the Office a written estimate of the hours and overall cost, including travel costs and out-of-pocket expenses for the additional follow-up work, based on the hourly rate set forth in Section II(H)(3)(a) of this Agreement. The Firm must not commence work on the additional follow-up work until the Office provides written approval of the overall cost for the additional follow-up work.
- c. The Firm agrees to submit an invoice upon completion of the additional follow-up report. The invoice must include a list of the Firm's employees who worked on the additional follow-up work.
- d. Upon acceptance in final form by the Office of the additional follow-up report, the Office will pay the Firm 100 percent of the cost approved by the Office for the additional follow-up work.

## 4. Additional Auditing Procedures

- a. If the Office requires additional auditing procedures to address changes in work as set forth in Section II(I) of this Agreement, the estimated costs for the additional auditing procedures will be based on the hourly rate of \_\_\_\_\_.
- b. The Firm agrees to submit an invoice upon completion of the additional auditing procedures. The invoice must include a list of the Firm's employees who worked on the additional auditing procedures. The Office will pay the Firm 100 percent of the cost set forth in Section II(I) of this Agreement upon acceptance by the Office of a written statement describing all conclusions, deficiencies, and/or and errors noted resulting from the additional auditing procedures performed and incorporation of such conclusions, deficiencies, and/or and errors into the forensic audit report, as directed by the Office.

#### J. Changes in work

In the event significant changes in the scope, character, or complexity of the work occur, the parties may agree to change the contract amount or duties, or both, based upon a written determination that the changes are advantageous to the State. The Auditor General must authorize contract changes defining, increasing, and/or limiting the work and compensation in writing prior to the performance of the work.

The services as set forth in Section II of this Agreement are the minimum tasks required. The Firm may be required to perform certain additional auditing procedures in connection with the forensic audit, as determined by the Office. Within 10 days of notice from the Office that additional auditing procedures are required, the Firm agrees to provide the Office a written estimate of the hours and overall cost necessary to perform the additional auditing procedures, based on the hourly rate set forth in Section II(H)(4)(a) of this Agreement. The Firm must not commence work on the additional auditing procedures until the Office provides written approval of the overall cost. Compensation for any additional auditing procedures will be paid as set forth in Section II(H)(4)(b) of this Agreement. In completing any additional auditing procedures, the Firm must submit a written statement to the Office describing all conclusions, deficiencies, and/or errors noted resulting from the additional auditing procedures performed and must incorporate such conclusions, deficiencies, and/or errors into the forensic audit report, as directed by the Office.

#### III. **Insurance requirements:**

The Firm and subcontractors shall procure and maintain, until all of their obligations have been discharged, including any warranty periods under this Contract, insurance against claims for injury to persons or damage to property arising from, or in connection with, the performance of the work hereunder by the Firm, its agents, representatives, employees, or subcontractors.

The Insurance Requirements herein are minimum requirements for this Contract and in no way limit the indemnity covenants contained in this Contract. The State of Arizona in no way

warrants that the minimum limits contained herein are sufficient to protect the Firm from liabilities that arise out of the performance of the work under this Contract by the Firm, its agents, representatives, employees, or subcontractors, and the Firm is free to purchase additional insurance.

A. Minimum scope and limits of insurance

The Firm shall provide coverage with limits of liability not less than those stated below.

a. **Commercial General Liability (CGL)—Occurrence Form**

Policy shall include bodily injury, property damage, and broad form contractual liability coverage.

General aggregate	\$2,000,000
Products—completed operations aggregate	\$1,000,000
Personal and advertising injury	\$1,000,000
Damage to rented premises	\$50,000
Each occurrence	\$1,000,000

The policy shall be endorsed to include the following additional insured language: “The State of Arizona and the Auditor General and employees of the Arizona Auditor General shall be named as additional insureds with respect to liability arising out of the activities performed by or on behalf of the Firm.”

Policy shall contain a waiver of subrogation against the State of Arizona and the Auditor General and employees of the Arizona Auditor General for losses arising from work performed by or on behalf of the Firm.

b. **Business Automobile Liability**

Bodily injury and property damage for any owned, hired, and/or nonowned automobiles used in performing this Contract.

Combined single limit (CSL)	\$1,000,000
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- i. The policy shall be endorsed to include the following additional insured language: “The State of Arizona and the Auditor General and employees of the Arizona Auditor General shall be named as additional insureds with respect to liability arising out of the activities performed by or on behalf of the Firm, involving automobiles owned, leased, hired, or borrowed by the Firm.”
- ii. Policy shall contain a waiver of subrogation endorsement against the State of Arizona and the Auditor General and employees of the Arizona Auditor General for losses arising from work performed by or on behalf of the Firm.

**c. Workers' Compensation and Employers' Liability**

- Workers' Compensation Statutory
- Employers' Liability

Each Accident	\$1,000,000
Disease—Each Employee	\$1,000,000
Disease—Policy Limit	\$1,000,000

- Policy shall contain a waiver of subrogation against the State of Arizona and the Auditor General and employees of the Arizona Auditor General for losses arising from work performed by or on behalf of the Firm.
- This requirement shall not apply to: Separately, EACH Firm or subcontractor that is exempt under A.R.S. §23-901, et. seq., AND when such Firm or subcontractor executes the appropriate waiver form (sole proprietor or independent Firm).

**d. Professional Liability (Errors and Omissions Liability)**

- Each Claim \$2,000,000
- Annual Aggregate \$2,000,000

- In the event that the Professional Liability insurance required by this Contract is written on a claims-made basis, Firm warrants that any retroactive date under the policy shall precede the effective date of this Contract and either continuous coverage will be maintained or an extended discovery period will be exercised for a period of two (2) years beginning at the time work under this Contract is completed.
- The policy shall cover professional misconduct or negligent acts for those positions defined in the scope of work of this Contract.

**B. Additional insurance requirements**

The policies shall include, or be endorsed to include, as required by this written Agreement, the following provisions:

The Firm's policies, as applicable, shall stipulate that the insurance afforded the Firm shall be primary and that any insurance carried by the Arizona Auditor General; its agents, officials, employees; or the State of Arizona shall be excess and not contributory insurance, as provided by A.R.S. §41-621 (E).

Insurance provided by the Firm shall not limit the Firm's liability assumed under the indemnification provisions of this Contract.



C. Notice of cancellation

Applicable to all insurance policies required within the Insurance Requirements of this Contract, Firm's insurance shall not be permitted to expire, be suspended, be canceled, or be materially changed for any reason without thirty (30) days' prior written notice to the Arizona Auditor General. Within two (2) business days of receipt, Firm must provide notice to the Arizona Auditor General if they receive notice of a policy that has been or will be suspended, canceled, materially changed for any reason, has expired, or will be expiring. Such notice shall be sent directly to the Auditor General and shall be mailed, emailed, hand-delivered, or sent by facsimile transmission to Julie Cantrell, 2910 N. 44th St., Ste. 410, Phoenix, AZ 85018.

D. Acceptability of insurers

The Firm's insurance shall be placed with companies licensed in the State of Arizona or hold approved nonadmitted status on the Arizona Department of Insurance List of Qualified Unauthorized Insurers. Insurers shall have an "A.M. Best" rating of not less than A-VII. The State of Arizona in no way warrants that the above-required minimum insurer rating is sufficient to protect the Firm from potential insurer insolvency.

E. Verification of coverage

The Firm shall furnish the Office with certificates of insurance (valid ACORD form or equivalent approved by the State of Arizona) evidencing that the Firm has the insurance as required by this Contract. An authorized representative of the insurer shall sign the certificates.

All such certificates of insurance and policy endorsements must be received and approved by the Office before work commences.

The State's receipt of any certificates of insurance or policy endorsements that do not comply with this written Agreement shall not waive or otherwise affect the requirements of this Agreement.

Each insurance policy required by this contract must be in effect at, or prior to, commencement of work under this Contract. Failure to maintain the insurance policies as required by this Contract, or to provide evidence of renewal, is a material breach of contract.

All certificates required by this Contract shall be sent directly to Julie Cantrell, 2910 N. 44th St., Ste. 410, Phoenix, AZ 85018. The project description shall be noted on the certificate of insurance. The State of Arizona reserves the right to require complete copies of all insurance policies required by this Contract at any time. DO NOT SEND CERTIFICATES OF INSURANCE TO THE STATE OF ARIZONA'S RISK MANAGEMENT DIVISION.

F. Subcontractors

The Firm's certificate(s) shall include all subcontractors as insureds under its policies or the Firm shall be responsible for ensuring and/or verifying that all subcontractors have valid and collectable insurance as evidenced by the certificates of insurance and endorsements for

each subcontractor. All coverages for subcontractors shall be subject to the minimum insurance requirements identified above. The Office reserves the right to require, at any time throughout the life of this Contract, proof from the Firm that its subcontractors have the required coverage.

**G. Approval and modifications**

Any modification or variation from the insurance requirements in this Contract shall be made by the Auditor General, whose decision shall be final. Such action will not require a formal contract amendment but may be made by administrative action.

**IV. Indemnification**

To the fullest extent permitted by law, the Firm shall defend, indemnify, and hold harmless the State of Arizona and the Office (hereinafter referred to as "Indemnatee") from and against any and all claims, actions, liabilities, damages, losses, or expenses (including court costs, attorneys' fees, and costs of claim processing, investigation, and litigation) (hereinafter referred to as "Claims") for bodily injury or personal injury (including death), or loss or damage to tangible or intangible property caused, or alleged to be caused, in whole or in part, by the negligent or willful acts or omissions of the Firm or any of its owners, officers, directors, agents, employees, or subcontractors. This indemnity includes any claim or amount arising out of, or recovered under, the Workers' Compensation Law or arising out of the failure of such Firm to conform to any federal, State, or local law, statute, ordinance, rule, regulation, or court decree. It is the specific intention of the parties that the Indemnatee shall, in all instances, except for Claims arising solely from the negligent or willful acts or omissions of the Indemnatee, be indemnified by the Firm from and against any and all claims. It is agreed that the Firm will be responsible for primary loss investigation, defense, and judgment costs where this indemnification is applicable. In consideration of the award of this Contract, the Firm agrees to waive all rights of subrogation against the State of Arizona, its officers, officials, agents, and employees for losses arising from the work performed by the Firm for the State of Arizona.

**V. Additional contract terms:**

- A. Every payment obligation of the Office under this agreement is conditioned upon the availability of funds appropriated or allocated for the payment of such obligation. If funds are not allocated and available for the continuance of the Agreement, this Agreement may be terminated by the Auditor General at the end of the period for which funds are available. No liability shall accrue to the Office in the event this provision is exercised, and the Office shall not be obligated or liable for any future payments or for any damages as a result of termination under this paragraph.
- B. The Firm shall advise and obtain approval from the Auditor General in writing prior to accepting additional engagements for professional services from the Auditee. Such disclosure to the Auditor General shall include a description of the services to be rendered and fees to be charged.

- C. The Firm warrants that no part of the contract amount provided herein shall be paid directly or indirectly to any officer or employee of the State of Arizona as wages, compensation, or gifts in connection with any work contemplated or performed relative to this Contract.
- D. In accordance with A.R.S. §41-4401, the Firm warrants compliance with all Federal immigration laws and regulations relating to employees and warrants its compliance with Section A.R.S. §23- 214, Subsection A.
- E. It is expressly understood and agreed that this instrument contains the entire Agreement between the parties and that, except as otherwise stated herein, there are no collateral conditions, agreements, or representations, all such having been incorporated and resolved into this Agreement. Except as specified herein, no document or communication passing between the parties hereto shall be deemed a part of this Agreement.
- F. This Contract may be modified at any time only by written amendment executed by all parties hereto. No agent, employee, or other representative of either the Firm or the Office is empowered to alter any of the terms of this Contract unless it is done in writing and signed by the Auditor General, Lindsey Perry, and an authorized representative of the Firm.
- G. The provisions of this Contract are severable to the extent that any provision or application held to be invalid shall not affect any other provision or application of the Contract, which shall remain in effect without the invalid provision or application.
- H. The Firm will act in its individual capacity and not as an agent, employee, partner, joint venturer, or associate of the Office. An employee, subcontractor, or agent of the Firm shall not be deemed or construed to be the employee or agent of the Office for any purpose.
- I. The Firm shall not assign this Contract or any part of it or enter into subcontracts for or delegate any of the work described herein without obtaining the prior written approval of the Auditor General. The Firm shall not assign this Contract or any part of it or enter into subcontracts for or delegate any of the work described herein without first obtaining the written agreement of the subcontractor, assignee, or delegate to maintain the confidentiality of the working papers during and after this project and to observe the confidentiality requirements of the Office pursuant to A.R.S. §41-1279.05 and any other applicable confidentiality requirements.
- J. Time is of the essence in this Contract. In case the Firm fails to perform the Agreement at the time fixed for performance by the terms of this Contract, the Office may, at the Auditor General's election, terminate the Contract. Such termination shall be in addition to, and not in lieu of, any other legal remedies provided by this Contract or by law.

- K. This Contract and all work hereunder shall be governed and interpreted by the laws, rules, regulations, and decrees of the State of Arizona.
- L. The Office, by written notice, may terminate this Contract in whole or in part when, in the sole discretion of the Auditor General, it is deemed in the best interest of the State of Arizona. If this Contract is so terminated, the Firm will be compensated for work performed up to the time of the termination notification. In no event shall payment for such costs exceed the total current contract price.
- M. Failure to perform any and all of the terms and conditions of this Contract, including the schedule of work, shall be deemed a substantial breach thereof and give the Office cause to cancel this Contract, which cancellation shall be effective upon written notice to the Firm. In the event of cancellation of this Contract for failure to perform, the Firm shall not be entitled to damages and agrees not to sue the Office for damages therefor. Notwithstanding other legal remedies that may be available to the Office because of the Firm's failure to perform, the Firm agrees to indemnify the Office for its costs in procuring the services of a new firm.
- N. Notwithstanding any provision of this Contract, this Contract may be terminated by the Office without penalty or further obligation pursuant to A.R.S. §38-511. Any termination shall be in writing.
- O. The parties agree to use arbitration, after exhausting applicable administrative review, to the extent required by A.R.S. §12-1518, except as may be required by other applicable statute to resolve disputes arising out of this Agreement. In the event such a dispute is arbitrated, the parties hereby agree that the prevailing party is entitled to recover its attorneys' fees and costs. Attorneys' fees shall be based on the prevailing hourly rate for attorneys in Phoenix, Arizona. The arbitrator shall be selected by the parties, and the arbitrator's decision shall be final and not appealable to any court. Any litigation shall be commenced and prosecuted in an appropriate court of competent jurisdiction within Maricopa County, State of Arizona.
- P. The Firm agrees to maintain the confidentiality of the working papers during and after this project and to observe the confidentiality requirements of the Office pursuant to A.R.S. §41-1279.05 and any other applicable confidentiality requirements. The Firm is prohibited from discussing or releasing any findings to anyone other than the Auditee or Office without written approval from the Auditor General prior to the findings being published in the applicable auditor reports. All reports and working papers are the property of the Office and are subject to the laws and policies governing the Office's reports and working papers.
- Q. The Firm shall comply with all applicable federal and State statutes, executive orders, regulations, and other requirements relating to civil rights and nondiscrimination in employment.

- R. The Firm shall retain and shall contractually require each subcontractor to retain all data, books, and other records ("records") relating to this Agreement for a period of 5 years after completion of the Agreement. All records shall be subject to inspection and audit by the State at reasonable times, free of charge, at a location the Office specifies. Upon request, the Firm shall produce the original of any or all such records. If the Firm or subcontractor does not desire to retain the documentation for such period, the Firm or subcontractor shall give the documentation to the Office for safekeeping.

IN WITNESS WHEREOF, the parties have executed this Contract, consisting of 21 pages, to be effective as of the date of signing by the Auditor General.

**STATE OF ARIZONA**

**ARIZONA AUDITOR GENERAL**

**FIRM**

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Lindsey A. Perry, CPA, CFE  
Auditor General

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EIN

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Date

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Date