

Performance Audit and Sunset Review

Arizona Department of Gaming Arizona Racing Commission Arizona State Boxing and Mixed Martial Arts Commission

Department distributed \$158 million in tribal contributions in fiscal year 2024, consistent with statute, but did not consistently obtain and review third-party documentation to ensure event wagering and fantasy sports contest operators' fee payments were accurate, risking lost State revenues, and Department, Racing Commission, and Boxing and Mixed Martial Arts Commission did not comply with some State conflict-of-interest requirements and recommended practices



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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.

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September 10, 2025

Members of the Arizona Legislature

The Honorable Katie Hobbs, Governor

Director Johnson
Arizona Department of Gaming

Transmitted herewith is the Auditor General's report, *A Performance Audit and Sunset Review of the Arizona Department of Gaming, the Arizona Racing Commission, and the Arizona State Boxing and Mixed Martial Arts Commission*. This report is in response to a September 18, 2024, resolution of the Joint Legislative Audit Committee. These performance audits were conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq. I am also transmitting within this report copies of the Report Highlights to provide a quick summary for your convenience.

As outlined in their responses, the Department and both commissions agree with all the findings and plan to implement all the recommendations. My Office will follow up with the Department and commissions in 6 months to assess their progress in implementing the recommendations. I express my appreciation to Director Johnson, Department staff, and commission members for their cooperation and assistance throughout the audit.

My staff and I will be pleased to discuss or clarify items in the report.

Sincerely,

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

cc: Arizona Racing Commission members
Arizona State Boxing and Mixed Martial Arts Commission members

Arizona Department of Gaming

Performance Audit and Sunset Review

Department distributed \$158 million in tribal contributions in fiscal year 2024, but did not consistently obtain and review third-party documentation to ensure event wagering and fantasy sports contest operators' fee payments were accurate, risking lost State revenues

Audit purpose

To determine whether the Department ensured event wagering and fantasy sports contest operators paid all required fees, developed systematic complaint-handling processes, and complied with conflict-of-interest requirements; to provide information on the Tribal-State Gaming Compact; and to respond to the 10 statutory sunset factors.¹

Key findings

- ▶ Department is responsible for regulating the gaming industry in Arizona.
- ▶ Department distributed more than \$158 million in tribal contributions to various State programs and funds in fiscal year 2024, in accordance with statute.
- ▶ Department issued event wagering operator licenses to qualified applicants.
- ▶ Department did not consistently obtain and review third-party audit reports to ensure fee payments from event wagering and fantasy sports contest operators in calendar year 2023 were correct, increasing the risk of lost State revenues.
- ▶ Department could not demonstrate it timely investigated most complaints it received because it lacked comprehensive complaint-handling processes and data.
- ▶ Department did not comply with some State conflict-of-interest requirements or align its process with recommended practices, increasing the risk that employees did not disclose interests that might influence their official conduct.

Key recommendations to the Department

- ▶ Obtain and review third-party audit reports to ensure accuracy of operators' fee payments.
- ▶ Develop and implement comprehensive complaint-handling processes.
- ▶ Comply with conflict-of-interest requirements and follow recommended practices.

¹ The Arizona Auditor General conducted this performance audit and sunset review of the Department pursuant to a September 18, 2024, resolution of the Joint Legislative Audit Committee. This audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq.

Arizona Racing Commission

Performance Audit and Sunset Review

Racing Commission did not comply with some State conflict-of-interest and public records request requirements and recommended practices

Audit purpose

To determine whether the Racing Commission complied with State conflict-of-interest requirements and recommended practices; to review the commercial racetrack permitting process; and to respond to the 10 statutory sunset factors.¹

Key findings

- ▶ Racing Commission is responsible for regulating aspects of horse racing in the State, including conducting hearings of commercial racetrack permit applications.
- ▶ Racing Commission conducted hearings related to and approved an application for renewal of a commercial racetrack permit it received in 2024, consistent with its statutory objectives, purposes, and authority.
- ▶ Racing Commission did not comply with some State conflict-of-interest requirements or follow recommended practices, increasing the risk that commission members did not disclose interests that might influence their official conduct.
- ▶ Racing Commission did not consistently provide a written notice of and reason for delays when responding to public records requests.

Key recommendations to the Racing Commission

- ▶ Implement conflict-of-interest policies and procedures to help ensure compliance with State requirements and recommended practices.
- ▶ Update its policies and procedures to provide a written notice to requestors explaining the reason for any delay in fulfilling a public records requests.

¹ The Arizona Auditor General conducted this performance audit and sunset review of the Racing Commission pursuant to a September 18, 2024, resolution of the Joint Legislative Audit Committee. This audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq.

Arizona State Boxing and Mixed Martial Arts (MMA) Commission

Performance Audit and Sunset Review

Boxing and MMA Commission did not comply with some State conflict-of-interest requirements, issued licenses to individuals who did not demonstrate they met all requirements, and did not have a process for handling complaints

Audit purpose

To determine whether the Boxing and MMA Commission complied with State conflict-of-interest requirements and recommended practices, issued licenses to qualified individuals, and timely handled complaints; and to respond to the 10 statutory sunset factors.¹

Key findings

- ▶ Boxing and MMA Commission is responsible for regulating boxing, kickboxing, and mixed martial arts events in Arizona, including issuing licenses to participants.
- ▶ Boxing and MMA Commission complied with public records law and recommended practices from the Arizona Ombudsman-Citizens' Aide Office and the Arizona Agency Handbook for public records requests we reviewed.
- ▶ Boxing and MMA Commission did not comply with some State conflict-of-interest requirements or follow some recommended practices, increasing the risk that commissioners did not disclose interests that might influence their official conduct.
- ▶ Boxing and MMA Commission issued licenses to some applicants who did not demonstrate they met all statutory and rule requirements in calendar year 2023, including not signing a code of conduct or submitting fingerprints for a background check, but revised its processes to help ensure it does not do so in the future.
- ▶ Boxing and MMA Commission did not have a process for handling complaints.

Key recommendations to the Boxing and MMA Commission

- ▶ Implement conflict-of-interest policies and procedures to help ensure compliance with State requirements and alignment with recommended practices.
- ▶ Ensure that boxing and MMA licensing applicants meet all licensing requirements.
- ▶ Develop and implement a process for receiving and handling complaints.

¹ The Arizona Auditor General conducted this performance audit and sunset review of the Boxing and MMA Commission pursuant to a September 18, 2024, resolution of the Joint Legislative Audit Committee. This audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq.

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INTRODUCTION

The Arizona Auditor General has completed a performance audit and sunset review of the Arizona Department of Gaming (Department), the Arizona Racing Commission (Racing Commission), and the Arizona State Boxing and Mixed Martial Arts Commission (Boxing and MMA Commission). This performance audit and sunset review determined whether the Department ensured event wagering and fantasy sports contest operators paid all required privilege fees; whether the Department, Racing Commission, and Boxing and MMA Commission developed systematic complaint-handling processes; and whether the Department, Racing Commission, and Boxing and MMA Commission complied with State conflict-of-interest requirements. This sunset review report also includes responses to the statutory sunset factors for the Department, Racing Commission, and Boxing and MMA Commission.

Department history and responsibilities

The Department was established in 1995 to carry out the State’s duties and responsibilities related to the Tribal-State Gaming Compact (Compact), a formal agreement negotiated between the State and participating tribes that governs tribal gaming in Arizona (see textbox and Questions and Answers, pages 31 through 38, for more information about the Compact, and see textbox on page 2 for tribal gaming key terms).¹ The Department’s other key statutory responsibilities include regulating commercial event wagering (see textbox on page 4 for commercial event wagering key terms), live horse racing, harness racing, and pari-mutuel wagering (see textbox on page 9 for horse racing key terms); supporting efforts aimed at reducing problem gambling; and providing staff support for the Racing Commission and Boxing and MMA Commission.²

The Compact:

- Outlines the types of games that are permitted at casinos
- Establishes technical standards for gaming machines
- Authorizes the State to inspect and audit casinos
- Requires State certification for most tribal gaming facility vendors and employees
- Requires the tribes to contribute a percentage of their gaming revenue to State and local governments

Source: Auditor General staff review of the Compact.

Department is responsible for regulating tribal gaming

Pursuant to the Compact, the Department has specific responsibilities for regulating tribal gaming activity in the State.

These regulatory responsibilities include:

¹ As of April 2025, all 22 federally recognized tribes in Arizona have signed a Compact agreement with the State.

² Laws 2015, Ch. 19, §2, expanded the Department’s responsibilities to include regulating horse racing, and Laws 2021, Ch. 234, expanded the Department’s responsibilities to include regulating commercial event wagering.

► **Certifying tribal gaming employees and vendors**

According to the Compact and statute, the Department is responsible for certifying gaming vendors and gaming employees.^{3,4} As part of the certification process, the Department is required by the Compact and statute to conduct criminal history background checks for gaming employee applicants.⁵ According to the Department's fiscal year 2024 annual report, the Department certified 7,653 gaming employees and 895 vendors in fiscal year 2024.

► **Certifying and inspecting gaming devices**

The Department is required by the Compact to certify new, reinstalled, or modified gaming devices, such as slot machines and electronic roulette, before they are placed into use to ensure they are functioning properly and comply with Compact requirements. According to the Department's fiscal year 2024 annual report, it certified 6,454 gaming machines in fiscal year 2024.

► **Conducting Compact Compliance Reviews (CCRs) of casinos in the State**

The Compact authorizes and the Department's process requires Department staff to conduct biennial CCRs of all 26 Class III gaming facilities (casinos) in the State to ensure compliance with the Compact. For example, the Department is required to ensure casinos conduct game play as required by the Compact, adhere to security and surveillance requirements, and have posted required problem gambling signage.⁶ In calendar year 2024, the Department reported it conducted 8 CCRs that included 11 casinos. See Sunset Factor 2, pages 43 through 44, for more information on our review of the Department's CCR process.

Tribal gaming key terms

- **Class III gaming:** Includes casino games, such as slot machines, and other forms of gambling, such as blackjack, roulette, and craps.¹
- **Tribal Gaming Office (TGO):** The department, agency, or commission chosen by a tribe to oversee and regulate the tribe's Class III gaming activities.
- **Casino operator:** The tribe, an enterprise owned by the tribe, or other tribal entity that has the full authority and responsibility to operate and manage a Class III gaming facility.
- **Gaming employees:** Includes blackjack dealers, surveillance supervisors, and floor managers.
- **Gaming vendors:** Includes gaming machine suppliers, casino management contractors, and vendors providing financing to tribes for casinos.

¹ 25 USC §2703 classifies gaming into 3 classes—Class I refers to social games and traditional/ceremonial games, and Class II includes bingo and nonbanked card games.

Source: Auditor General staff review of the Compact, the Department's website, and 25 USC §2701 et seq.

³ According to the Compact, gaming employees who are tribal members are not required to be certified by the Department but are required to be licensed by the applicable TGO. Additionally, certain gaming employees, such as landscapers, janitorial personnel, and hotel personnel, are not required to be certified by the Department or licensed by the applicable TGO.

⁴ A.R.S. §5-602(A).

⁵ A.R.S. §5-602(E).

⁶ The Compact requires casinos to meet certain security and surveillance requirements, including having an approved security plan, an on-site detention area, and surveillance covering all gaming machines.

► **Investigating illegal gambling operations and complaints related to Compact noncompliance**

According to statute, the Department is authorized to enforce the State's gambling laws by investigating reports of illegal gambling on nontribal lands.⁷ According to the Department's fiscal year 2024 annual report, the Department conducted 144 investigations into illegal gambling operations in fiscal year 2024.

Additionally, the Compact requires the Department to monitor tribal gaming operations and investigate complaints related to Compact noncompliance, such as a casino not displaying problem gambling signage. See Finding 2, pages 20 through 23, for more information on issues we identified with the Department's complaint-handling processes.

► **Reviewing tribal gaming revenue to ensure accuracy of tribal contribution payments**

According to the Compact, each tribe is required to contribute a percentage of its gaming revenues to the State and to submit monthly and quarterly tribal gaming revenue reports to the Department. Consistent with the Compact, Department policies require Department staff to receive and review monthly reports of certain tribal gaming revenues and authorizes the Department to receive, review, and reconcile quarterly tribal gaming revenue reports to the quarterly contribution payments made by tribes to the State to ensure the accuracy of those payments.⁸ In fiscal year 2024, tribes contributed more than \$179 million in tribal gaming revenue to the State. See Sunset Factor 2, pages 45 through 46, for more information regarding the Department's tribal gaming revenue review processes.

Department is responsible for regulating event wagering and fantasy sports contests

Effective April 2021, the Department became statutorily responsible for regulating event wagering and fantasy sports contests.⁹ The Department's event wagering and fantasy sports contest regulatory responsibilities include:

► **Licensing event wagering operators**

The Department is statutorily responsible for licensing event wagering operators that meet statutory and rule requirements, including requirements to demonstrate that the applicant is in good financial standing.¹⁰ See Sunset Factor 2, page 42, for more information on the Department's licensing process for event wagering operators. A.R.S. §5-1304(A) limits the number of available event wagering operator licenses to 10 tribes and 10 professional sports organizations in the State.¹¹ If a license is available, rule requires the Department to announce an application period of at least 10 days to accept applications for licensure.^{12,13}

⁷ A.R.S. §5-602(I).

⁸ The Compact authorizes the Department to receive, review, and reconcile monthly and quarterly tribal gaming revenue reports.

⁹ A.R.S. §§5-1302 and 5-1202(D).

¹⁰ A.R.S. §5-1302(C).

¹¹ A.R.S. §5-1309(A) allows professional sports organizations and tribes to contract with companies to provide event wagering.

¹² AAC R19-4-106(A).

¹³ The Department reported that it announces the application period on its website if a tribe or professional sports organization expresses interest in applying for a license.

If the Department receives more license applications than licenses available, the Department is required to assess qualified applicants against allocation criteria established in rule, such as the applicants' track record in gaming and demonstrated financial stability.¹⁴ Specifically, the Department is required to score applicants against the criteria in rule to determine which applicants are best qualified for licensure and then to allocate and issue the limited number of licenses to the best qualified applicants (see Figure 1, page 5, for more information on the Department's licensing and allocation process).¹⁵

As of June 2025, the Department had held 4 event wagering application periods (see Table 1, page 6, for more information on the Department's application periods). The Department has used the allocation process only 1 time—when the Department received 16 applications from tribes for 10 available tribal event wagering operator licenses during the initial application period in July 2021.¹⁶ After the first licenses were issued in 2021, 5 tribes and 1 professional sports organization later relinquished their licenses, making those licenses available again.¹⁷ As shown in Table 1 below, additional tribes and professional sports organizations have subsequently applied for available licenses. As of June 2025, there were 2 licenses available for tribes and 2 licenses available for professional sports teams.

Event wagering and fantasy sports contest key terms

- **Event wagering:** A wager on sports events or other events made through any system or method of wagering, including in person or through the internet.
- **Fantasy sports contest:** A simulated game or contest offered to the public with an entry fee and with an outcome determined by the performance of multiple individual athletes in real-life sports contests selected by a fantasy sports contest player.
- **Privilege fee:** The monthly fee event wagering and fantasy sports contest operators pay for the privilege of operating event wagering or fantasy sports contests.
- **Event wagering platform:** The internet interface to a single event wagering system, designed to accept mobile event wagers through a website or mobile application.
- **Event wagering system:** The hardware, software, or other equipment used to allow patrons to place wagers.
- **Geofencing:** A virtual perimeter for a real geographic location.

Source: Auditor General staff review of A.R.S. §§5-1201, 5-1301, and 5-1318, and AAC R19-4-101(B).

¹⁴ AAC R19-4-106(E) establishes criteria the Department is required to consider when allocating event wagering operator licenses, including business ability, track record in gaming, demonstrated financial stability, and whether the operator would serve a unique or unaddressed part of the State.

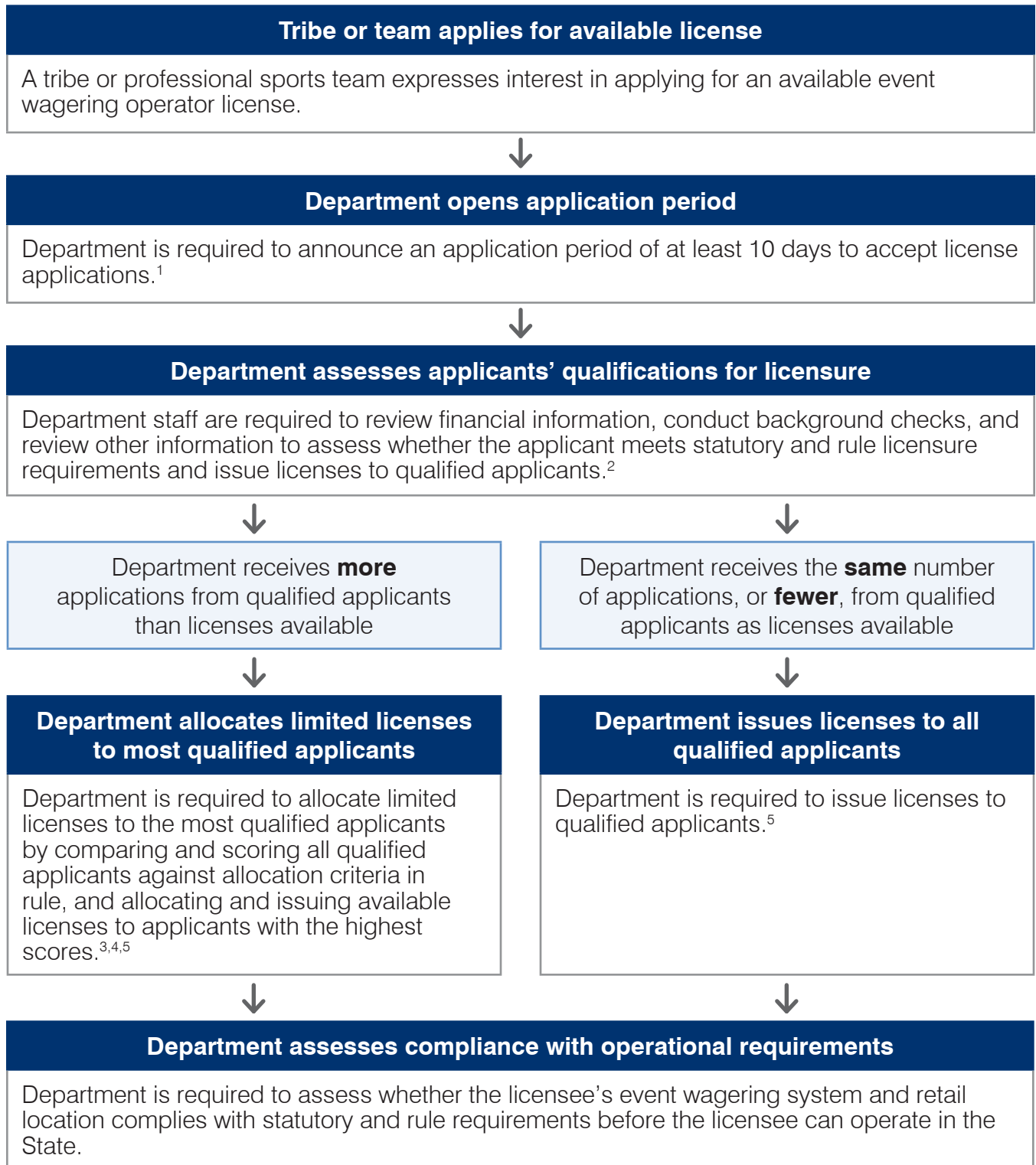
¹⁵ Applicants can appeal the denial of licensure through the Arizona Office of Administrative Hearings.

¹⁶ Three of the 6 tribes that were denied a license appealed the Department's allocation decision through the Arizona Office of Administrative Hearings but later dropped their appeals.

¹⁷ According to the Department, 5 tribes relinquished their licenses because the company they contracted with to operate event wagering either ceased operations or left the market. As noted previously, A.R.S. §5-1309(A) allows professional sports organizations and tribes to contract with companies to provide event wagering. The professional sports organization relinquished its license because it moved to another state.

Figure 1

Department rules establish a process for accepting applications for and issuing event wagering licenses, including a requirement to allocate event wagering licenses if it receives more applications than available licenses



¹ AAC R19-4-106(A) indicates that once licenses become available, the Department is required to hold an application period for at least 10 days to accept license applications. The Department reported it opens an application period when it receives notice that a party is interested in applying for a license, and then it will announce the application period on its website.

Figure 1 continued

- ² A.R.S. §5-1304(B) requires event wagering operator applicants to submit financial background information, including accounting records, ledgers, income and disbursement schedules, tax returns, and other financial reports filed with governmental agencies to demonstrate the applicant's financial stability, including the ability to pay all State and federal taxes and the ability to pay wagers to winning customers. A.R.S. §5-1304(B)(2) also requires applicants to submit fingerprints to the Department for a criminal history background check.
- ³ AAC R19-4-106(E) establishes criteria the Department is required to consider when allocating a limited number of event wagering operator licenses, including business ability, track record in gaming, demonstrated financial stability, and whether the operator would serve a unique or unaddressed part of the State. The Department developed a rubric for scoring qualified applicants that generally matched the criteria outlined in AAC R19-4-106(E) to determine which applicants are best qualified for licensure.
- ⁴ The Department reported it established a committee of Department staff to determine which applicants are best qualified for licensure. The Department required the committee members to sign a confidentiality agreement regarding the allocation process but reported it did not require them to sign a specific conflict-of-interest form regarding their participation on the committee because committee members would have been subject to Arizona's statutory conflict-of-interest requirements. However, some of these committee members had not completed a conflict-of-interest form as of December 2024 (see Finding 3, pages 24 through 30).
- ⁵ According to A.R.S. §5-1304(E), licenses are valid for 5 years.

Source: Auditor General staff review of A.R.S. §5-1304, AAC R19-4-106, and information provided by the Department.

Table 1
Department has held 4 event wagering license application periods

	2021	2023	2024	
	July ¹	August ²	February ²	July ²
Professional sports organizations				
Licenses available	10	2	2	2
Applications received	10	1	0	0
Licenses issued	8 ³	0 ³	0	0
Tribes				
Licenses available	10	1	1	2
Applications received	16	1	1	2
Licenses issued	10	1	1	2

- ¹ During the Department's initial application period in July 2021, the Department was required to allocate licenses to 10 of the 16 qualified tribal applicants who applied for a license.
- ² The Department was not required to allocate licenses because the Department did not receive more applications from qualified applicants than licenses available.
- ³ The Department did not issue licenses to professional sports organization applicants because the Department determined that these applicants did not meet the statutory requirement to be considered a professional sport.

Source: Auditor General staff review of the Department's website and licensing information provided by the Department.

Finally, statute requires the Department to establish licensing and application fees for event wagering operators, and the Department established the fees in rule.¹⁸ Specifically, AAC R19-4-105 requires event wagering operator applicants to pay an application fee of \$100,000 and an initial licensing fee of \$750,000. According to Department documentation, it considered various factors when determining these fee amounts, including the licensing fee amounts and privilege fee rates in other states. The Department also reported it considered input from various stakeholders. Pursuant to Laws 2023, Ch. 134, the Department was required to issue refunds for event wagering operator license application fees to the 6 tribes that were not allocated a license during the Department's application period in July 2021.

► **Inspecting event wagering facilities and mobile wagering systems**

According to statute and rule, the Department is responsible for conducting preinspections of event wagering retail facility locations after they receive a license but before they open to assess whether the facilities comply with all statutory and rule requirements, including whether the event wagering facility only offers wagering on events approved by the Department.^{19,20} Additionally, the Department is required to inspect mobile wagering systems to ensure they comply with all statutory and rule requirements.²¹ As part of the assessment, the Department is required to ensure that the systems comply with internal control standards, geofencing requirements, and laboratory testing requirements, such as requirements for ensuring financial records are accurate and that access to the wagering system is restricted to individuals within the State. In fiscal year 2024, the Department conducted 3 inspections of mobile event wagering systems and 1 inspection of a retail event wagering facility.

► **Licensing fantasy sports contest operators**

The Department is statutorily responsible for licensing fantasy sports contest operators that meet statutory and rule requirements.²² As part of the licensing process, the Department is required to review and approve each applicant's internal control procedures to ensure they meet statutory and rule requirements, such as procedures for ensuring their employees refrain from participating in fantasy sports contests.²³ As of June 2025, the Department reported there were 16 licensed fantasy sports contest operators.

¹⁸ A.R.S. §5-1310.

¹⁹ A.R.S. §§5-1302(G)(2)(3) and AAC R19-4-109.

²⁰ A.R.S. §5-1315(B)(C) requires the Department to prescribe the categories and types of wagers that may be offered in the State.

²¹ AAC R19-4-122.

²² A.R.S. §5-1202.

²³ A.R.S. §5-1203(B),(C).

► **Investigating customer complaints against event wagering and fantasy sports contest operators**

According to statute and rule, the Department is responsible for receiving complaints against event wagering and fantasy sports contest operators and has the authority to investigate complaints involving event wagering and fantasy sports contest operators, such as disputes related to withheld or missing payments for winning bets.²⁴ The Department reported it conducts investigations after the person filing the complaint has exhausted all remedies, such as by contacting the event wagering or fantasy sports contest operator. In fiscal year 2024, the Department received 358 complaints against event wagering and fantasy sports contest operators and conducted 11 investigations. See Finding 2, pages 20 through 23, for more information regarding the Department's processes for handling complaints.

► **Collecting event wagering and fantasy sports contest privilege fee payments**

A.R.S. §§5-1318 and 5-1211 require the Department to establish a privilege fee for event wagering and fantasy sports contest operators of no more than 10 percent of the operator's adjusted gross wagering receipts or fantasy sports contest revenue.^{25,26} Event wagering and fantasy sports contest operators are statutorily required to pay privilege fees monthly to the Department.²⁷

The Department requires operators to provide a privilege fee report and documentation to support their adjusted gross wagering receipts or fantasy sports contest revenue, including any free or promotional bet deductions taken from the operator's privilege fee amount (see textbox for more information on free bet and promotional credit deductions). The Department's policies and procedures require Department staff to reconcile the event

Free bet and promotional credits for event wagering operators

Event wagering operators can provide promotions and bonuses to customers, including credit that allows them to place free bets. Event wagering operators are statutorily allowed to claim deductions based on the value of free bets or promotional credits redeemed by their customers. In fiscal year 2024, event wagering operators in the State claimed more than \$221 million in free bet or promotional credits. The ability for operators to claim deductions for free bets and promotional credits expires in December 2026.

Source: Auditor General staff review and summary of A.R.S. §§5-1301(1) and AAC R19-4-136 and monthly event wagering revenue reports.

²⁴ A.R.S. §5-1302(A); AAC R19-4-148(B).

²⁵ AAC R19-4-112(A) establishes a privilege fee of 8% of adjusted gross event wagering receipts for retail event wagering operators and 10% of adjusted gross event wagering receipts for mobile event wagering operators. AAC R19-4-208(A) establishes a privilege fee of 5% of adjusted revenues for fantasy sports contest operators.

²⁶ According to A.R.S. §5-1201(7), adjusted fantasy sports contest revenue is calculated by subtracting the total dollar amount of all prizes the event operator has awarded in any state from the operator's total fantasy sports contest entry fee revenues collected in any state, and multiplying by the percentage of the operator's entry fee revenues that comes from consumers in the Arizona. According to A.R.S. §5-1301(1), adjusted gross wagering receipts is calculated by subtracting the dollar amount of all voided bets, winnings paid to participants, and federal excise taxes from the event wagering operator's total event wagering revenue.

²⁷ A.R.S. §§5-1211 and 5-1318.

wagering and fantasy sports contest adjusted revenue and privilege fee report information against supporting documentation provided by the operator to determine whether the operator paid the correct amount in privilege fees (see Finding 1, pages 16 through 19, and Sunset Factor 2, pages 44 through 47, for more information on issues we identified with the Department's event wagering and fantasy sports contest privilege fee review and reconciliation process).

Additionally, event wagering and fantasy sports contest operators are statutorily required to be audited annually by a CPA firm—an independent third party—and the Department reported it reviews the third-party audit reports to ensure operators paid the correct amount in privilege fees (see Finding 1, pages 16 through 19, for more information).²⁸ In fiscal year 2024, the Department collected more than \$39 million in privilege fees from event wagering operators and more than \$1 million in privilege fees from fantasy sports contest operators.

Department is responsible for regulating horse racing

The Department is statutorily responsible for regulating live horse racing, harness racing, and pari-mutuel wagering in the State (see textbox for definitions of key terms related to horse racing).^{29,30} The Department's horse racing regulatory responsibilities include:

► Licensing individuals involved in horse racing

According to statute, the Department is responsible for licensing individuals involved in horse racing, including jockeys, horse trainers, and owners.³¹ According to the Department's fiscal year 2024 annual report, the Department issued 1,121 racing licenses in fiscal year 2024. See Sunset Factor 2, pages 48 through 49, for information on problems we identified with the Department's horse racing licensing process.

Horse racing key terms

- **Horseracing Integrity and Safety Authority (HISA):** A private regulatory organization overseen by the Federal Trade Commission responsible for establishing and enforcing a set of national integrity and safety rules that apply to all thoroughbred racing participants and racetrack facilities in the U.S.
- **Pari-mutuel wagering:** A system of betting where monies are distributed to the winning patrons after deductions are taken by the State.
- **Covered horse:** Any thoroughbred horse that participates in horseraces under the jurisdiction of HISA from the time of its first timed and reported workout until it retires from racing.

Source: Auditor General staff review of A.R.S. §5-101 and General provisions, 88 Fed. Reg. 17 (January 26, 2023), pp. 5084–5091.

²⁸ A.R.S. §§5-1204 and 5-1319.

²⁹ A.R.S. §5-101 et seq.

³⁰ According to A.R.S. §5-101, horse racing involves races where horses are mounted and ridden by jockeys, and harness racing involves races where horses are harnessed to a carriage and driven by a driver.

³¹ A.R.S. §5-107.01(A).

► Inspecting horse racing tracks and facilities

The Department is statutorily required to inspect horse racing tracks and facilities in the State.³² Additionally, the Department has entered an agreement with HISA requiring the Department to inspect horse racing tracks and facilities to ensure they comply with the health and safety standards established by HISA.^{33,34} For example, the Department is required to inspect and approve racetrack emergency warning systems.³⁵

► Investigating complaints involving horse racing licensees

According to statute, the Department is responsible for investigating complaints against horse racing licensees.³⁶ The Department is also required by its agreement with HISA to forward some complaints to HISA for investigation, such as complaints related to horse doping. See Finding 2, pages 20 through 23, for more information on issues we identified with the Department's horse racing complaint-handling process.

Department is responsible for supporting education, prevention, and treatment efforts aimed at reducing problem gambling

The Department is statutorily required to fund programs aimed at reducing problem gambling through education, prevention, and treatment efforts.³⁷ To meet this requirement, the Department contracts with private vendors that provide problem gambling treatment services and resources. For example, the Department contracts with a national provider for a 24/7 confidential helpline related to problem gambling.

The Department also provides training and other resources to problem gambling treatment providers and the public. For example, the Department provides training to clinical treatment providers on problem gambling treatment, including information on workplace assistance strategies and relapse prevention. Additionally, the Department's website includes information for treatment providers and the public, including resources for help with problem gambling, a problem gambling screening tool for providers, and information on how to self-exclude from gaming.³⁸ See Sunset Factor 2, pages 42 through 43, for more information on the Department's problem gambling efforts.

³² A.R.S. §5-104(B)(E).

³³ The federal Horse Racing Integrity and Safety Act permits HISA to enter into agreements with state racing regulators to carry out enforcement of some HISA horse racing rules and regulations. The Department first entered an agreement with HISA in 2024 and is required to perform investigations into track safety matters and anti-doping-related testing on behalf of HISA.

³⁴ As of June 2025, there was 1 operating horse racing track in Arizona, Turf Paradise located in Phoenix.

³⁵ Racetrack emergency warning systems consist of flashing lights and sirens around the racetrack to communicate with race participants and track safety personnel when an emergency situation occurs during training or races.

³⁶ A.R.S. §5-104(E).

³⁷ A.R.S. §5-601.02(H)(3)(ii) requires 2 percent of the Arizona Benefits Fund to be used by the Department to fund State and local programs related to the education, prevention, and treatment of problem gambling.

³⁸ Pursuant to A.R.S. §§5-1320(B) and 5-1206(B)(1) and the Compact, the Department is required to establish and maintain lists of individuals who voluntarily seek to exclude themselves from casinos, event wagering, or fantasy sports contests in the State. Casinos and event wagering and fantasy sports contest operators are required to prohibit individuals included on the list from gaming.

Department is responsible for providing staff support to the Racing Commission and the Boxing and MMA Commission

The Department is also statutorily responsible for providing staff support to the Racing Commission and the Boxing and MMA Commission.³⁹ For example, Department staff are responsible for assisting the Racing Commission with the commercial racetrack permit application process. Additionally, Department staff assist the Boxing and MMA Commission by licensing individuals involved in boxing and MMA, such as promoters, combatants, and referees.

Department organization and staffing

According to the Department, as of May 2025, it had 115 filled full-time equivalent positions (FTEs) and 21 vacancies, and is organized into the following 7 divisions:⁴⁰

▶ **Boxing and MMA (2.5 FTEs, 0 vacancies)**

Responsible for licensing unarmed combat sport participants, enforcing unarmed combat sport rules and statutes, supervising events, and ensuring proper revenues are paid to the State.

▶ **Certification and Licensing (23 FTEs, 4 vacancies)**

Responsible for certifying gaming employees and vendors, and licensing event wagering and fantasy sports contest operators, suppliers, employees, and other industry participants.

▶ **Compliance (27 FTEs, 10 vacancies)**

Responsible for auditing, investigating, and inspecting casinos and event wagering facilities and systems, including conducting CCRs and inspecting casinos, certifying and inspecting gaming devices, and providing training.

▶ **Intelligence (8 FTEs, 3 vacancies)**

Responsible for enforcing gaming-related laws on nontribal land, including investigating illegal gambling operations.

▶ **Operations (33 FTEs, 3 vacancies)**

Responsible for providing administrative support to the Department regarding finances, human resources, information technology, communications, business services, legal guidance, and continuous improvement and strategic planning.

▶ **Problem Gambling (5 FTEs, 1 vacancy)**

Responsible for offering problem gambling treatment, education, and prevention programs and managing self-exclusion lists for problem gamblers.

³⁹ A.R.S. §§5-101.01, 5-104(B), 5-108(A), and 5-224(A).

⁴⁰ The total number of filled and vacant FTEs includes 3 filled positions—the director, the deputy director of operations, and the deputy director of regulation—who are not reflected in the FTE numbers for the Department's divisions.

► **Racing (13.5 FTEs, 0 vacancies)**

Responsible for licensing individuals involved in horse racing, enforcing rules and statute, and regulating race meets to ensure safety and compliance.

Arizona Racing Commission responsibilities and membership

The Racing Commission was established in 1949 to regulate and supervise horse racing and pari-mutuel wagering in the State. The Racing Commission is statutorily responsible for issuing racing dates; preparing and adopting rules to govern racing and pari-mutuel wagering; and conducting hearings and other legal procedures on matters relating to racing licensees and the racing industry.⁴¹

Additionally, statute requires the Racing Commission to establish rules for the commercial racetrack permit application process and hold hearings to approve racetrack permits.^{42,43} See the Racing Commission Sunset Factors, pages 60 through 62, for more information on our review of the Racing Commission's commercial racetrack permitting process.

According to statute, the Racing Commission is required to consist of 5 Governor-appointed members, including 2 members who have a financial interest or substantial experience in the horse or harness racing industry.⁴⁴ Racing Commission members serve 5-year terms. As of May 2025, all 5 Racing Commission member positions were filled.

Arizona State Boxing and Mixed Martial Arts Commission responsibilities and membership

The Boxing and MMA Commission was established in 1958.⁴⁵ The Boxing and MMA Commission is responsible for regulating and supervising all boxing, kickboxing, tough man, and mixed martial arts events in Arizona, including issuing licenses to participants and event permits to licensed promoters to hold boxing and MMA events. See the Boxing and MMA Commission Sunset Factors, pages 67 through 68, for more information on issues we identified with the Boxing and MMA Commission's licensing process.

According to statute, the Boxing and MMA Commission is required to consist of 3 Governor-appointed members who serve 3-year terms.⁴⁶ As of May 2025, all 3 Boxing and MMA Commission member positions were filled.

⁴¹ A.R.S. §5-104(A)(1) through (3).

⁴² A.R.S. §§5-107 and 5-104(A)(3).

⁴³ AAC R19-2-103(F)(2) authorizes the Department to provide the Racing Commission with a recommendation on whether an applicant meets all permit requirements.

⁴⁴ A.R.S. §§5-102 and 5-103(E).

⁴⁵ The Boxing and MMA Commission was originally named the Arizona State Athletic Commission. In 1982, the Legislature changed the name to the Arizona State Boxing Commission. In 2010, the Legislature updated the name to the Arizona State Boxing and Mixed Martial Arts Commission.

⁴⁶ A.R.S. §5-223.

Department’s revenues and expenditures

As shown in Table 2, the Department receives revenues from various sources, including tribal contributions; State General Fund appropriations; various fees, including licensing and permitting fees; other charges for services; and interest income. The Department’s revenues totaled more than \$188 million for fiscal year 2024 and are estimated to be more than \$199 million in fiscal year 2025. For fiscal year 2024, the Department’s expenditures totaled more than \$29.6 million and are estimated to total approximately \$31.7 million for fiscal year 2025. The Department’s expenditures include payroll and related benefits, professional and outside services, and aid to other organizations and individuals.

The Department is also responsible for administering the Arizona Benefits Fund, which comprises tribal contribution payment monies, including distributing Arizona Benefits Fund monies to other funds used by State agencies, such as the Instructional Improvement Fund and the Arizona Wildlife Conservation Fund (see Department Sunset Factors, pages 39 through 41, for more information on the Department’s distribution of monies from the Arizona Benefits Fund in fiscal year 2024).⁴⁷ In fiscal year 2024, the Department distributed more than \$141 million from the Arizona Benefits Fund and estimated it will distribute approximately \$143 million in fiscal year 2025.

Table 2
Schedule of revenues, expenditures, and changes in fund balances
Fiscal years 2023 through 2025
(Unaudited)

	2023 (Actual)	2024 (Actual)	2025 (Estimate)
Beginning fund balance	\$37,718,291	\$29,053,533	\$39,817,667
Revenues			
State General Fund appropriations ^{1,2}	\$17,053,670	\$13,051,575	\$11,704,500
Tribal contributions to Arizona Benefits Fund ³	153,855,891	158,072,447	160,184,164
Licenses, fees, and permits ⁴	39,044,103	45,715,996	49,479,905
Compact Trust Fund collections ⁵	6,500,000	6,500,000	11,656,250
Federal pandemic aid ⁶	11,238,591	-	-
Charges for services	2,734,805	2,873,354	2,671,703
State Lottery Fund ⁷	300,000	300,000	300,000
Taxes	307,728	180,132	266,723
Interest Income ⁸	682,980	1,223,194	1,434,750

⁴⁷ Pursuant to A.R.S. §5-601.02(H)(3)(4), tribes are required to distribute 12% of their tribal gaming contributions to cities, town, and counties, and the remaining 88% of tribal contributions is deposited in the Arizona Benefits Fund.

Table 2 continued

Fines, forfeits, and penalties	97,288	99,116	62,680
Other revenues	167,161	40,255	25,000
Remittances to the State General Fund ⁹	(52,182,004)	(39,992,984)	(38,077,044)
Total net revenues	\$179,800,213	\$188,063,085	\$199,708,631
Expenditures and transfers			
Expenditures			
Payroll and related benefits	\$10,797,316	\$11,287,693	\$11,215,565
Professional and outside services ¹⁰	1,337,629	1,107,580	1,800,000
Travel	425,960	355,849	674,210
Aid to organizations and individuals ¹¹	26,810,554	10,799,295	10,208,086
Other operating ¹²	3,617,404	3,842,585	5,282,102
Furniture, equipment, and software ¹³	1,949,814	2,217,673	2,560,778
Total expenditures	\$44,938,677	\$29,610,675	\$31,740,741
Transfers			
Transfers to the County Fairs Livestock and Agricultural Promotion Fund ¹⁴	\$6,029,500	\$6,029,500	\$6,029,500
Tribal contributions distributed ¹⁵	137,395,991	141,462,447	143,574,164
Transfers to other agencies ¹⁶	100,803	196,329	302,180
Total transfers	\$143,526,294	\$147,688,276	\$149,905,844
Total expenditures and transfers	\$188,464,971	\$177,298,951	\$181,646,585
Ending fund balance	\$29,053,533	\$39,817,667	\$57,879,713
Net change in fund balance (Difference between revenues and expenditures and transfers)	- \$8,664,758	+ \$10,764,134	+ \$18,062,046

¹ In fiscal years 2023 and 2024, the Legislature appropriated the Department more than \$10 million and \$6 million, respectively, from the State General Fund for various purposes related to horse racing, including racetrack maintenance and veterinary services to assist with prerace inspections and to help reduce horse fatalities.

² In fiscal year 2024, the Legislature appropriated the Department \$600,000 to issue refunds to 6 tribes for event wagering operator license application fees.

³ Tribal contributions to the Arizona Benefits Fund consist of a portion of gaming revenues paid by tribes to the State, as required by the Compact. A.R.S. §5-601.02(H) authorizes the Department to use the greater of 9% or \$8 million of these revenues for administrative and regulatory expenses, and 2% for problem gambling prevention, treatment, and education. The Department is required to distribute or transfer the remaining monies to various other funds (see Sunset Factor 2, pages 39 through 41, for more information on the Arizona Benefits Fund and the distribution of monies).

Table 2 continued

- ⁴ In fiscal years 2023 and 2024, the Department collected more than \$36 million and \$44 million in event wagering fees, respectively, including licensing and privilege fees for event wagering operators. Event wagering fees are deposited in the Event Wagering Fund pursuant to A.R.S. §5-1318, and the Department is required to remit 90% of the previous month's fund revenue, including interest, to the State General Fund. The Department has the authority to spend up to 10% of the revenues from the Event Wagering Fund on regulatory and enforcement costs related to event wagering. Although the Department did not spend all available monies for regulatory and enforcement costs in fiscal years 2023 and 2024, the Department reported it plans to spend most of the monies available from the Event Wagering Fund in fiscal year 2025 to implement a new event wagering licensing and compliance system and to hire additional staff.
- ⁵ Compact Trust Fund collections consist of payments to the 2021 Compact Trust Fund from 3 contributing tribes—the Gila River Indian Community, the Salt-River Pima-Maricopa Indian Community, and the Tohono O'odham Nation—as required by A.R.S. §5-605 and the Compact. The Gila River Indian Community was required to contribute \$1 million in both fiscal years 2023 and 2024, and \$3,875,000 in fiscal year 2025. The Salt River Pima-Maricopa Indian Community and the Tohono O'odham Nation were required to contribute \$2,750,000 in both fiscal years 2023 and 2024, and \$4,750,000 in fiscal year 2025. See Questions and Answers, pages 36 through 38, for more information on the 2021 Compact Trust Fund.
- ⁶ The Department received federal pandemic aid revenues in response to the COVID-19 pandemic in fiscal year 2023. According to the Department, these revenues comprised monies from the Coronavirus State and Local Fiscal Recovery Funds passed through the Governor's Office to support horse racing in the State, including racetrack maintenance and operations.
- ⁷ The Department is appropriated \$300,000 each year from the State Lottery Fund for problem gambling prevention. The State Lottery Fund comprises various revenues, including lottery fees and sales. In its fiscal year 2026 budget request, the Department requested an additional \$1 million each year from the State Lottery Fund for its problem gambling program.
- ⁸ Interest income revenues consist of interest earned by Department funds, such as the 2021 Compact Trust Fund.
- ⁹ As previously mentioned, the Department is required to remit 90% of the previous month's Event Wagering Fund revenue, including interest, to the State General Fund. In fiscal years 2023 and 2024, the Department transferred approximately \$49 and \$36 million, respectively. The Department reported it estimates it will transfer \$40 million in event wagering fees and interest from the Event Wagering Fund to the State General Fund in fiscal year 2025.
- ¹⁰ According to the Department, the increase in expenses from fiscal year 2024 to fiscal year 2025 is largely attributable to the HISA assessment being paid from the Racing Regulation Fund in fiscal year 2025, which was previously paid from the State General Fund. The Department paid approximately \$688,000 for the HISA assessment in fiscal year 2025.
- ¹¹ The fiscal year 2023 expenditures for aid to other organizations and individuals primarily consisted of distributing federal pandemic aid and also included payments to tribes and problem gambling service providers.
- ¹² Other operating expenditures comprised various items, such as rent, background checks, and IT system development.
- ¹³ Furniture, equipment, and software expenditures consists of capital and noncapital equipment, such as expenditures related to development costs for the Department's event wagering software.
- ¹⁴ In fiscal years 2023 through 2025, approximately \$6 million of the Department's State General Fund appropriations monies were required to be transferred annually to the County Fairs Livestock and Agriculture Promotion Fund administered by the Governor's Office to promote Arizona's livestock and agricultural resources and to conduct an annual livestock fair.
- ¹⁵ Pursuant to A.R.S. §5-601.02(H)(3) and the Compact, the Department is required to distribute or transfer the gaming revenues paid by tribes to various other funds (see Sunset Factor 2, pages 39 through 41, for more information on the Arizona Benefits Fund and the distribution of monies).
- ¹⁶ Transfers to other agencies include transfers to the State General Fund for any revenues collected in excess of the appropriated amount for the Fantasy Sports Contest Fund, which is established by A.R.S. §5-1212 and consists of fantasy sports contest privilege fees, and transfers to the Arizona Department of Administration for tenant improvements to the Department's suite.

Source: Auditor General staff analysis of the Arizona Financial Information System/AZ360 *Accounting Event Transaction File* and the State's annual financial reports for fiscal years 2023 and 2024, and Department-prepared estimates for fiscal year 2025.

Department did not consistently obtain and review event wagering and fantasy sports contest operators' third-party audit reports to ensure the accuracy of privilege fee payments, increasing the risk of lost State revenues and negative impacts on operators that erroneously make overpayments

Department did not consistently obtain and review event wagering and fantasy sports contest operators' audit reports to ensure the accuracy of their reported revenues and associated privilege fees

Department policy requires Department staff to compare information from independent audit reports to event wagering and fantasy sports contest operators' self-reported revenues to determine whether the operators paid all required fees (see Introduction, pages 8 through 9, for more information on the Department's process for reviewing and reconciling event wagering and fantasy sports contest operators' revenues and privilege fees).^{1,2}

However, our review found that in calendar year 2023, the Department did not review independent audit reports to confirm that:

- ▶ Event wagering operators paid the correct privilege fee amounts for 15 of 17 licensed event wagering operators.
- ▶ Fantasy sports contest operators paid the correct privilege fee amounts for any of the 10 licensed fantasy sports contest operators.

Rather than reviewing the independent audit reports to assess whether the operators paid the correct privilege fee amounts, the Department relied on monthly reports provided by the operators, which lack any independent review that ensures their accuracy.

¹ Pursuant to A.R.S. §§5-1204 and 5-1319, each event wagering and fantasy sports contest operator is required to annually obtain a financial audit conducted by a licensed CPA firm and provide the audit report to the Department. Additionally, AAC R19-4-111(E) and R19-4-221(1) require these audit reports to include or be supplemented with an attestation from the independent CPA firm that the operator's adjusted gross event wagering receipts or fantasy sports contest adjusted revenues are accurately reported (see Introduction, pages 8 through 9, for more information on adjusted gross event wagering receipts and fantasy sports contest adjusted revenues).

² According to AAC R19-4-112(B)(2) and R19-4-208(C)(2), any privilege fee underpayments are required to be paid to the Department within 30 days of the Department receiving the operator's annual audit report, and any overpayments are to be credited toward the operator's next monthly privilege fee payment.

Department's failure to review independent audit reports increases the risk of lost State revenues and/or negative impacts on operators that erroneously overpay privilege fees

The Department's failure to review event wagering and fantasy sports contest operators' independent audit reports to verify that they paid the correct privilege fee amounts increases its risk of not identifying underpayments, which are lost State revenues.³ For example, our review of a sample of 3 monthly fantasy sports contest privilege fee reports the Department received in fiscal year 2024 identified a fantasy sports contest operator that reported paying more than \$13 million in awards in December 2023, such as payouts to fantasy sports contest winners, resulting in the operator paying no privilege fees during that month. However, the operator's independent audit reported the operator paid only \$10 million in total awards for all of calendar year 2023—\$3 million less than the operator self-reported to the Department that it paid out for just 1 month of the year. Although this discrepancy indicates the operator may have underpaid its privilege fee amount, because the Department did not review this operator's audit report, it did not identify, further investigate, or take action to correct this discrepancy.

Additionally, absent a review of event wagering and fantasy sports contest operators' independent audit reports, the Department is at risk of not identifying when operators pay more than required, which could negatively impact the operators' revenues and profits. In contrast, when the Department received and reviewed the audit reports for the 2 licensed event wagering operators previously mentioned, it was able to determine the specific amounts the operators had overpaid. Specifically, the Department reported that it became aware that both operators had overpaid privilege fees when reviewing the operators' monthly privilege fee reports and that it used the third-party audit reports to determine the specific overpayment amounts in calendar year 2023—1 operator had overpaid more than \$460,000, and the other had overpaid more than \$9,200.⁴

Department lacks accountability mechanisms for ensuring it obtains and reviews information required for ensuring operators pay correct privilege fee amounts

The Department lacks accountability mechanisms for ensuring that event wagering and fantasy sports contest operators comply with statutory and rule requirements for providing independent audits that include the required attestation, for assessing the accuracy of their revenues and associated privilege fee payments, and for taking actions to address any deficiencies it identifies as part of its review.

³ As discussed in the Introduction (see page 9), in fiscal year 2024, the Department collected more than \$39 million in event wagering privilege fees, which are deposited into the Event Wagering Fund. The Department is required to remit 90% of the previous month's fund revenue, including interest, to the State General Fund.

⁴ According to Department documentation, the Department credited the overpayments to both operators because they requested refunds from the Department.

Specifically:

► **Department was aware of but did not address event wagering operators' noncompliance with independent audit requirements**

According to the Department's tracking spreadsheets for event wagering and fantasy sports contest audit reports that were required to be submitted to it for calendar year 2023, 12 of 17 licensed event wagering operators and 5 of 10 licensed fantasy sports contest operators provided an audit report that did not comply with the rule requirement to include an attestation that the adjusted gross wagering receipts or fantasy sports contest adjusted revenues were accurately reported. Absent these attestations, the Department reported it did not believe it could use the audit reports to assess the accuracy of these operators' revenues and associated privilege fee payments. Additionally, 3 of 17 licensed event wagering operators and 5 of 10 licensed fantasy sports contest operators did not submit their third-party audit reports to the Department, as required by statute. Although the Department tracks whether it received the required audits and attestations and reviews the audits to determine whether they comply with statutory and rule requirements, the Department did not consistently follow up with the operators to ensure they submitted the reports and associated attestations, nor was it able to provide an explanation for why it failed to do so.⁵

► **Department lacked policies and procedures to track and review independent audit reports**

Prior to our review, the Department lacked written policies and procedures for its staff to track the receipt of and review independent audit reports to determine compliance with statutory and rule requirements, and to follow up with noncompliant operators, which likely contributed to the issues mentioned previously.

During the audit in November 2024, the Department developed policies and procedures for reviewing independent audit reports to determine compliance with statutory and rule requirements. However, these policies and procedures lack accountability mechanisms for ensuring independent audit reports comply with statutory and rule requirements. Specifically, the Department's policies and procedures lack requirements and guidance for:

- Following up with operators or their independent auditors that fail to provide an audit report and/or required audit attestation.
- Taking disciplinary action, such as issuing fines, to operators that fail to comply with the statutory and rule requirements.⁶

⁵ The Department followed up with 1 fantasy sports contest operator during the audit in April 2025 to request the missing audit attestation. However, the Department originally received the audit report in April 2024.

⁶ A.R.S. §5-1306(A) gives the Department the authority to revoke or suspend event wagering operator licenses, and AAC R19-4-146 gives the Department the authority to issue fines or other sanctions against event wagering operators. Additionally, A.R.S. §5-1210(E) gives the Department the authority to issue civil penalties up to \$10,000 to fantasy sports contest operators, and A.R.S. §5-1209(A) gives the Department the authority to revoke or suspend fantasy sports contest operator licenses.

Recommendations to the Department

1. Ensure that event wagering and fantasy sports contest operators comply with statutory and rule requirements to submit independent audit reports that include an attestation from the CPA firm that the operator accurately reported the adjusted gross event wagering receipts or fantasy sports contest adjusted revenues.
2. Review event wagering and fantasy sports contest operators' independent audit reports to determine if the operators paid the correct privilege fee amounts during the audited year and take actions to address any overpayments and underpayments as required by rule.
3. Conduct a review of event wagering and fantasy sports contest operators' independent audit reports since 2021, and determine which operators did not provide an audit report that complied with statutory and rule requirements, such as providing an attestation. Based on this review, the Department should follow up with all operators who did not provide an audit report that met statutory and rule requirements.
4. In conjunction with Recommendation 3, review event wagering and fantasy sports contest operators' independent audit reports since 2021 to determine if the operators paid the correct privilege fee amounts and take actions to address any overpayments and underpayments, as required by rule.
5. Revise and implement its policies and procedures for reviewing independent audit reports that include requirements and steps for following up with event wagering and fantasy sports contest operators or their auditors that fail to provide an audit report and/or required audit attestation.
6. Revise and implement its policies and procedures to include steps to take disciplinary actions, if necessary, against event wagering and fantasy sports contest operators who fail to provide an independent audit report that complies with statutory and rule requirements.

Department response: As outlined in its [response](#), the Department agrees with the finding and will implement the recommendations.

Although Department timely investigated and resolved some complaints we reviewed, we were unable to determine and the Department was unable to demonstrate if it timely and appropriately investigated and resolved most complaints it received because it lacks comprehensive complaint-handling processes, increasing risk to public welfare and safety

Department investigated and resolved some horse racing complaints we reviewed within 28 days; however, we could not determine and the Department could not demonstrate whether it timely and appropriately investigated and resolved most complaints it receives

As discussed in the Introduction, the Department is responsible for handling various types of complaints from the public, including complaints against horse racing licensees (see textbox for information on the types of complaints the Department is responsible for handling). We reviewed the Department’s complaint documentation for a random sample of 5 of 13 horse racing complaints that the Department received in calendar year 2024 and found that the Department resolved all 5 complaints within 28 days.¹ Additionally, we reviewed complaint documentation for a random sample of 2 of 16 horse racing complaints that were outside the Department’s jurisdiction and received in calendar year 2024, and found that the Department forwarded the 2 complaints to HISA, as required by its agreement with HISA.² Although we were able to review individual complaint documentation to assess the timeliness for a limited sample of horse racing complaints, the Department did not have data for us to comprehensively review its handling of all horse racing complaints.

Examples of the types of complaints the Department is responsible for handling

- Complaints related to Compact noncompliance, such as a casino not posting proper problem gambling signage.¹
- Complaints against event wagering and fantasy sports contest operators, such as complaints related to withheld payments.
- Complaints against horse racing licensees.

¹ The Compact requires casinos to display problem gambling signage.

Source: Auditor General staff review of the Compact; A.R.S. §§5-104, 5-1202(D), and 5-1302; AAC R19-4-148(B); and AAC R19-2-121(D).

¹ Statute, rule, and the Department’s policies do not establish a specific time frame for resolving horse racing complaints.

² As discussed in the Introduction, page 10, the Department has entered into an agreement with HISA that requires the Department to forward certain complaints related to horse safety, such as horse doping, to HISA.

Additionally, we were not able to determine whether the Department timely investigated and resolved other complaints within its jurisdiction.³ For example, the Department is required by the Compact to notify TGOs within 48 hours of receiving a complaint that alleges Compact noncompliance. For event wagering and fantasy sports contest complaints, the Department is required by rule to send a written response to the operator and the complainant detailing the results of a complaint investigation within 5 days of the Department completing its investigation.^{4,5} However, the Department did not have sufficient data or documentation for us to assess these requirements.

Department lacks comprehensive processes for documenting, tracking, and monitoring complaint investigation and resolution and did not prioritize their development

According to the National State Auditors Association, agencies with regulatory responsibilities, such as the Department, should establish systematic processes for handling complaints, including processes for tracking and monitoring the receipt and resolution of complaints, and should make complaint-handling information available to the public, such as posting the information on a publicly accessible website (see textbox for examples of NSAA's recommended practices).⁶ However, we were unable to determine whether the Department timely investigated

NSAA recommends regulatory agencies establish complaint-handling processes

According to the National State Auditors Association, agencies with regulatory responsibilities, such as the Department, should establish systematic processes for handling complaints that include:

- Procedures for receiving and screening complaints.
- Guidelines/requirements for which complaints need action and how quickly complaints should be handled.
- Procedures for tracking and overseeing complaints to ensure that they are being addressed appropriately and timely.
- Procedures for maintaining a record of complaints received, investigation steps and results, investigation and resolution time frames, and any actions taken.

Source: National State Auditors Association, 2004.

³ The sunset review process outlined in A.R.S. §41-2954(D) requires an assessment of the extent to which an agency timely investigated and resolved complaints within its jurisdiction.

⁴ AAC R19-4-148(B) and AAC R19-4-224(B).

⁵ The Department received 932 event wagering and fantasy sports complaints from September 2021 through February 2025.

⁶ National State Auditors Association (NSAA). (2004). *Carrying out a state regulatory program: A National State Auditors Association best practices document*. Retrieved 3/11/2025 from https://www.nasact.org/files/News_and_Publications/White_Papers_Reports/NSAA%20Best%20Practices%20Documents/2004_Carrying_Out_a_State_Regulatory_Program.pdf

and resolved complaints because it lacks systematic and comprehensive processes for tracking, investigating, documenting, and resolving all the complaints it receives, inconsistent with recommended practices. For example, the Department lacks a method and policies and procedures for tracking complaints related to Compact noncompliance, including whether Department staff notified TGOs within 48 hours of receiving a complaint. Similarly, the Department had not developed policies and procedures for investigating and tracking complaints against event wagering and fantasy sports contest operators.⁷ Finally, the Department has not developed specific policies and procedures for receiving, forwarding, investigating, and resolving horse racing complaints.

The Department reported it did not prioritize the development of a comprehensive and systematic complaint-handling system because it regulates a variety of industries and it believed that some of these industries do not receive many complaints. However, as noted previously on page 21, our review found the Department received more than 900 event wagering and fantasy sport complaints from September 2021 to February 2025. Additionally, the Arizona Ombudsman–Citizens’ Aide (State Ombudsman) identified specific areas where the Department needed to develop policies and procedures to improve its complaint handling.⁸ Specifically, in calendar year 2024, the State Ombudsman received 2 complaints regarding the Department’s handling of event wagering and fantasy sports complaints.⁹ After it investigated these 2 complaints, the State Ombudsman recommended that the Department develop and implement policies and procedures for timely contacting complainants to inform them of the status of their complaint investigations and responding to licensees that either refuse or ignore corrective actions recommended by the Department.

During our audit, the Department began to develop draft policies and procedures for tracking, investigating, and resolving event wagering and fantasy sports complaints, as well as to address the State Ombudsman’s recommendations. Additionally, the Department reported it plans to develop comprehensive policies and procedures to handle the other types of complaints it is responsible for by the end of calendar year 2025.

Department’s lack of systematic complaint-handling processes limits its ability to ensure it has investigated and responded to complaints timely, increasing risk to public welfare and safety

Without systematic processes for handling complaints, including policies and procedures and a tracking mechanism, the Department may be putting public welfare at risk. For example, the Department received a complaint regarding a customer not being able to withdraw \$93,000 from their event wagering account. Additionally, the Department received a complaint regarding unauthorized individuals in a barn area that should be restricted to the public. Absent policies and procedures to guide staff on how to investigate complaints, these complaints may not receive

⁷ AAC R19-4-111(B)(22) requires event wagering operators to have an internal process for handling complaints; however, according to AAC R19-4-148(B), if a dispute is not resolved to a patron’s satisfaction, the patron may submit their complaint to the Department.

⁸ The State Ombudsman is responsible for investigating complaints from citizens regarding administrative actions taken by the Department and other State agencies.

⁹ The first complaint filed with the State Ombudsman alleged that the Department failed to adequately communicate with the complainant regarding the status of a separate complaint filed with the Department. The second complaint filed with the State Ombudsman alleged that the Department failed to take appropriate action to ensure that an event wagering operator implemented required corrective action.

a proper investigation, which could allow the concerns to go unresolved, further compounding the public welfare and safety risks. Further, absent a method for tracking complaints related to Compact noncompliance, we and the Department are unable to identify what complaints have been received or whether they have been resolved timely.

Recommendations to the Department

7. Develop and implement policies and procedures for receiving, investigating, forwarding if necessary, and resolving the various types of complaints it is responsible for, including complaints related to Compact noncompliance, event wagering and fantasy sports, and horse racing.
8. Develop and implement a complaint-tracking mechanism(s) or tool(s) that allows the Department to track and monitor the various types of complaints it is responsible for to ensure they are investigated and resolved in a timely manner.

As part of its efforts to implement recommendations 7 and 8, the Department should:

9. Make complaint-handling information readily available on its website, including information on how to submit a complaint.
10. Implement a process to track complaints of compact noncompliance to ensure TGOs are notified within 48 hours of the receipt or report of a complaint regarding compact noncompliance.
11. Implement a process to track event wagering and fantasy sports complaints to ensure final letters are sent to complainants within 5 days after completing the complaint investigation.
12. Implement the State Ombudsman's recommendations related to its handling of event wagering and fantasy sports complaints.

Department response: As outlined in its [response](#), the Department agrees with the finding and will implement the recommendations.

Department, Racing Commission, and Boxing and MMA Commission did not comply with some State conflict-of-interest requirements, increasing risk that employees and commission members had not disclosed substantial interests that might influence or could affect their official conduct

Statute addresses conflicts of interest for public agency employees and public officers

Arizona law requires employees of public agencies and public officers to avoid conflicts of interest that might influence or affect their official conduct. To determine whether a conflict of interest exists, employees/public officers must first evaluate whether they or a relative has a “substantial interest” in (1) any contract, sale, purchase, or service to the public agency or (2) any decision of the public agency (see textbox for key terms).

If an employee/public officer or a relative has a substantial interest, statute requires the employee/public officer to fully disclose the interest and refrain from voting upon or otherwise participating in the matter in any way as an employee/public officer.^{1,2} The interest must be disclosed in the public agency’s official records, either through a signed document or the agency’s official minutes. To help ensure compliance with these statutory requirements, the Arizona Department of Administration’s (ADOA) *State Personnel System Employee Handbook* and conflict-of-interest disclosure form (disclosure form) require State employees to disclose if they have any business or decision-making interests, secondary employment, and relatives employed

Key terms

- **Substantial interest:** Any direct or indirect monetary or ownership interest that is not hypothetical and is not defined in statute as a “remote interest.”
- **Remote interest:** Any of several specific categories of interest defined in statute that are exempt from the conflict-of-interest requirements. For example, an employee or public officer who is reimbursed for actual and necessary expenses incurred while performing official duties.

Source: Auditor General staff review of A.R.S. §38-502 and the *Arizona Agency Handbook*. Arizona Office of the Attorney General (AAG). (2018). *Arizona agency handbook*. Retrieved 1/13/2025 from <https://www.azag.gov/office/publications/agency-handbook>

¹ See A.R.S. §§38-502(3) and 38-503(A) and (B).

² A.R.S. §38-502(8) defines “public officer” as all elected or appointed officers of a public agency established by charter, ordinance, resolution, State constitution, or statute. According to the *Arizona Agency Handbook*, public officers include directors of State agencies and members of State boards, commissions, councils and committees—whether paid or unpaid. A.R.S. §38-503; AAG, 2018.

by the State at the time of initial hire and anytime there is a change.³ The ADOA disclosure form also requires State employees to attest that they do not have any of these potential conflicts, if applicable, also known as an “affirmative no.” In addition, A.R.S. §38-509 requires public agencies to maintain a special file of all documents necessary to memorialize all disclosures of substantial interest, including disclosure forms and official meeting minutes, and to make this file available for public inspection.

Additionally, various State statutes and federal laws contain specific conflict-of-interest requirements applicable to the Department, Racing Commission, and Boxing and MMA Commission. For example, A.R.S. §5-101.01 prohibits the Department’s director and staff from having financial interests in a racetrack or wagering in Arizona. Similarly, A.R.S. §5-103 prohibits members of the Racing Commission from having financial interests, either directly or indirectly, in an Arizona racetrack or a licensed wagering operation. Additionally, federal law prohibits members or employees of a boxing commission, or a person who administers/enforces state boxing laws, from contracting with or receiving any compensation from any person who sanctions, arranges, or promotes professional boxing matches or who otherwise has a financial interest in an active boxer.⁴

In response to conflict-of-interest noncompliance and violations investigated in the course of our work, such as employees and public officers failing to disclose substantial interests and participating in matters related to these interests, we have recommended several practices and actions to various school districts, State agencies, and other public entities.⁵ Our recommendations are based on recommended practices for managing conflicts of interest in government and are designed to help ensure compliance with State conflict-of-interest requirements by reminding employees and public officers of the importance of complying with the State’s conflict-of-interest laws.⁶ Specifically, conflict-of-interest recommended practices indicate that all public agency employees and public officers complete or be reminded to update a disclosure form annually. Recommended practices also indicate that the form include a field for the individual to provide an “affirmative no,” if applicable.⁷ These recommended practices also indicate that agencies develop a formal remediation process and provide periodic training to ensure that identified conflicts are appropriately addressed and help ensure conflict-of-interest requirements are met. Finally, recommended practices indicate that publicly disclosing commission members’ interest as the reason for refraining from participating in decisions is important for fully disclosing and memorializing the disclosure of interest as they relate to those decisions.

³ Arizona Department of Administration (ADOA). (2024). *State personnel system employee handbook*. Retrieved 6/14/2025 from https://drive.google.com/file/d/12uumNZLSBKfp33AaL9uHym0K9e6l9_ll/view

⁴ 15 USC 6308.

⁵ See, for example, Auditor General reports 24-211 *Concho Elementary School District*, 21-404 *Wickenburg Unified School District—Criminal indictment—Conflict of interest, fraudulent schemes, and forgery*, 19-105 *Arizona School Facilities Board—Building Renewal Grant Fund*, and 17-405 *Pine-Strawberry Water Improvement District—Theft and misuse of public monies*.

⁶ Recommended practices we reviewed included The World Bank, Organization for Economic Cooperation and Development (OECD), & United Nations Office on Drugs and Crime (UNODC). (2020). *Preventing and managing conflicts of interest in the public sector: Good practices guide*. Retrieved 6/14/2025 from <https://www.unodc.org/documents/corruption/Publications/2020/Preventing-and-Managing-Conflicts-of-Interest-in-the-Public-Sector-Good-Practices-Guide.pdf>; Ethics & Compliance Initiative (ECI). (2021). *Conflicts of interest: An ECI benchmarking group resource*. Retrieved 6/14/2025 from <https://www.ethics.org/wp-content/uploads/mdocs/2021-ECI-WP-Conflicts-of-Interest-Defining-Preventing-Identifying-Addressing.pdf>; and New York State Authorities Budget Office (NYS ABO). (n.d.). *Conflict of interest policy for public authorities*. Retrieved 6/14/2025 from <https://www.abo.ny.gov/recommendedpractices/ConflictofInterestPolicy.pdf>

⁷ As previously discussed, the ADOA disclosure includes a field for the individual to provide an “affirmative no.”

Department, Racing Commission, and Boxing and MMA Commission had not complied with some State conflict-of-interest requirements, and their conflict-of-interest processes were not fully aligned with recommended practices

The Department, Racing Commission, and Boxing and MMA Commission had not complied with some State conflict-of-interest requirements, and their conflict-of-interest processes were not fully aligned with recommended practices designed to help ensure that Department employees and commissioners comply with State requirements. Specifically:

▶ Department, Racing Commission, and Boxing and MMA Commission did not require employees and commissioners to complete a disclosure form upon hire or appointment

Our review of the Department's and both commissions' disclosure forms found that the Department did not require all employees to complete conflict-of-interest disclosure forms when hired, as required by ADOA, and inconsistent with recommended practices, the Racing Commission and Boxing and MMA Commission did not require all commissioners, who are public officers, to complete a disclosure form when appointed. Specifically, as of December 2024:

- The Department lacked a completed disclosure form for 50 of 114 Department employees. At least 20 of the 50 employees lacking disclosure forms had job responsibilities related to procurement, investigations, licensing, and similar key decision-making responsibilities. Additionally, the Department formed a committee in 2021 to allocate event wagering licenses, and 2 of 3 employees who were on the committee lacked a completed disclosure form.
- The Racing Commission lacked a completed disclosure form for 4 of 5 commissioners.
- The Boxing and MMA Commission lacked a completed disclosure form for all 3 commissioners.

▶ Racing commissioners did not fully disclose or describe the nature of conflicts in the Racing Commission's official public records

Our review of 15 Racing Commission meetings held from March 2024 through May 2025 identified 6 meetings in which at least 1 commissioner declared a conflict of interest and refrained from voting upon or participating in applicable discussions but failed to fully disclose or describe the nature of the conflict within the official record or through a signed document, as required by statute.^{8,9} For example, during a May 2025 Racing Commission meeting, 1 commissioner declared a conflict of interest and refrained from voting or participating in the commercial racetrack permit application hearing but did not fully disclose or describe the nature of the conflict on the official record or through a signed

⁸ We selected a judgmental sample based on the agendized discussion topics of 15 of 22 Racing Commission meetings held from March 2024 through May 2025.

⁹ A.R.S. §§38-502(3) and 38-503.

document, resulting in the public and other attendees being uninformed as to why the commissioner was disclosing a conflict of interest. Additionally, the commissioner did not explain why this was the first time they had declared a conflict regarding the commercial racetrack permit application hearing, despite having participated in discussions and voting on the matter in multiple Racing Commission meetings held between July 2024 and March 2025.

▶ **Department, Racing Commission, and Boxing and MMA Commission disclosure forms did not require disclosures related to entity-specific requirements**

The conflict-of-interest disclosure forms used by the Department and both commissions did not address their entity-specific conflict-of-interest requirements, such as prohibitions on Department staff having financial interests in a horse racetrack. As a result of our inquiries during the audit, the Department and both commissions developed draft disclosure forms that incorporated the conflict-of-interest requirements specific to each entity.

▶ **Department, Racing Commission, and Boxing and MMA Commission all lacked a special disclosure file required by statute**

The Department and both commissions did not establish a special disclosure file to store disclosures of substantial interests for public inspection, as required by statute.¹⁰

Finally, the Department and both commissions had not fully aligned their conflict-of-interest processes with recommended practices. Specifically, although not required by statute or the ADOA, the Department and both commissions did not require employees or commissioners to annually complete a disclosure form or annually remind them to complete a disclosure form when their circumstances change. Additionally, the Department and both commissions had not developed a remediation process for disclosed conflicts. Further, the Department and both commissions did not provide entity-specific conflict-of-interest training to employees or commissioners. However, during the audit, in March 2025, the Department developed and provided conflict-of-interest training to its staff, which included training on requirements unique to the Department and commissions, the consequences of noncompliance, how to identify conflicts, and what to do if a conflict arises. The Department also reported that it planned to provide the training to members of both commissions before the end of calendar year 2025.

Noncompliance with conflict-of-interest requirements and not fully aligning process with recommended practices increased the risk that employees and commissioners did not disclose substantial interests that might influence or affect their official conduct

The Department's, Racing Commission's, and Boxing and MMA Commission's noncompliance with State conflict-of-interest requirements and not fully aligning their conflict-of-interest processes with recommended practices increased the risk that employees and commissioners would not disclose substantial interests that might influence or affect their official conduct. For example, by not requiring employees and commissioners to complete a disclosure form that addressed

¹⁰ A.R.S. §38-509.

all statutory requirements or reminding them to update their form at least annually or as their circumstances changed, the Department and commissions could not ensure that all employees or commissioners disclosed both financial and decision-making substantial interests, refrained from participating in any manner related to these interests, or had not received compensation from someone who sanctions, arranges, or promotes professional boxing matches, or who otherwise has a financial interest in an active boxer, as required by statute or federal law.¹¹ Consequently, the Department and commissions might have been unaware of potential conflicts and the need to take action to mitigate those conflicts. For example, as previously mentioned, at least 20 of the 50 employees lacking disclosure forms held positions related to procurement, investigations, licensing, or other key decision-making responsibilities that could be affected by a substantial interest. However, as of December 2024, these 20 employees had been in their positions for between 2 months and 19 years and did not have a completed disclosure form on file.

Finally, because the Department and commissions did not store completed forms disclosing substantial interests in a special file, they lacked a method to track which and how many employees and commissioners disclosed an interest and to make this information available in response to public requests, as required by statute. In fact, as of December 2024, the Department reported it did not know which and how many employees had completed a conflict-of-interest disclosure form or had disclosed a conflict.

Lack of comprehensive conflict-of-interest policies and procedures and confusion about responsibilities contributed to the noncompliance and lack of alignment with recommended practices we identified

Our review identified 2 factors that contributed to the problems noted previously. Specifically:

- ▶ Prior to our review and inquiries, the Department and both commissions lacked comprehensive conflict-of-interest policies and procedures, which likely led to some of the issues we identified. For example, the Department lacked policies or procedures explaining all required elements of disclosure, the importance of disclosure, or the consequences of not submitting a disclosure form, which likely contributed to the high number of employees who had not submitted disclosure forms.
- ▶ Department staff supporting the Racing Commission indicated that they believed that another State entity handled conflict-of-interest disclosures for commissioners and therefore did not require the Racing commissioners to complete a conflict-of-interest disclosure form upon appointment.

During the audit, in February 2025, the Department and both commissions developed an updated conflict-of-interest policy that aligns with some State requirements and recommended practices. For example, the updated policy requires all employees and commissioners to complete a conflict-of-interest disclosure form and to update their disclosure forms when a change occurs affecting substantial interest(s). The updated policy also requires the Department to annually remind employees and commissioners to update their disclosure forms when their circumstances

¹¹ A.R.S. §38-503 and 15 USC 6308.

change. Additionally, the policy outlines a remediation process for when a conflict of interest arises. However, the updated conflict-of-interest policy does not require that commissioners complete a disclosure form at appointment or to fully describe the nature of conflicts disclosed during public meetings. Finally, the updated policy lacks a requirement for the Department and both commissions to establish a special file for storing disclosures of substantial interests, as required by State law.

Recommendations to the Department

Continue to develop and implement conflict-of-interest policies and procedures to help ensure compliance with State conflict-of-interest requirements and alignment with recommended practices, including:

13. Requiring employees to complete a conflict-of-interest disclosure form upon hire that addresses all State and Department-specific conflict-of-interest requirements, and reminding them at least annually to update their form when their circumstances or responsibilities change, such as being assigned to participate on a committee to allocate event wagering licenses, including attesting that no conflicts exist, if applicable.
14. Storing all substantial interest disclosures in a special file available for public inspection.
15. Establishing a process to review and remediate disclosed conflicts.
16. Develop and provide periodic training on its conflict-of-interest requirements, process, and disclosure form, including providing training to employees on how the State's and Department-specific conflict-of-interest requirements relate to their unique programs, functions, or responsibilities.

Department response: As outlined in its [response](#), the Department agrees with the finding and will implement the recommendations.

Recommendations to the Racing Commission

Continue to develop and implement conflict-of-interest policies and procedures to help ensure compliance with State conflict-of-interest requirements and alignment with recommended practices, including:

1. Requiring commissioners to complete a conflict-of-interest disclosure form upon appointment that addresses all State and commission-specific conflict-of-interest requirements, and reminding them at least annually to update their form when their circumstances change, including attesting that no conflicts exist, if applicable.
2. Requiring commissioners to fully disclose conflicts of interest during public meetings, such as describing the individuals and/or entities involved.

3. Storing all substantial interest disclosures in a special file available for public inspection, including disclosures made during public meetings.
4. Establishing a process to review and remediate disclosed conflicts.
5. Develop and provide periodic training on its conflict-of-interest requirements, process, and disclosure form, including providing training to commissioners on how the State's and commission-specific conflict-of-interest requirements relate to their unique programs, functions, or responsibilities.

Racing Commission response: As outlined in its [response](#), the Racing Commission agrees with the finding and will implement the recommendations.

Recommendations to the Boxing and MMA Commission

Continue to develop and implement conflict-of-interest policies and procedures to help ensure compliance with State conflict-of-interest requirements and alignment with recommended practices, including:

1. Requiring commissioners to complete a conflict-of-interest disclosure form upon appointment that addresses all State and commission-specific conflict-of-interest requirements, and reminding them at least annually to update their form when their circumstances change, including attesting that no conflicts exist, if applicable.
2. Storing all substantial interest disclosures in a special file available for public inspection, including disclosures made during public meetings.
3. Establishing a process to review and remediate disclosed conflicts.
4. Develop and provide periodic training on its conflict-of-interest requirements, process, and disclosure form, including providing training to commissioners on how the State's and commission-specific conflict-of-interest requirements relate to their unique programs, functions, or responsibilities.

Boxing and MMA Commission response: As outlined in its [response](#), the Boxing and MMA Commission agrees with the finding and will implement the recommendations.

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Questions and answers

Question 1: What is the Compact?

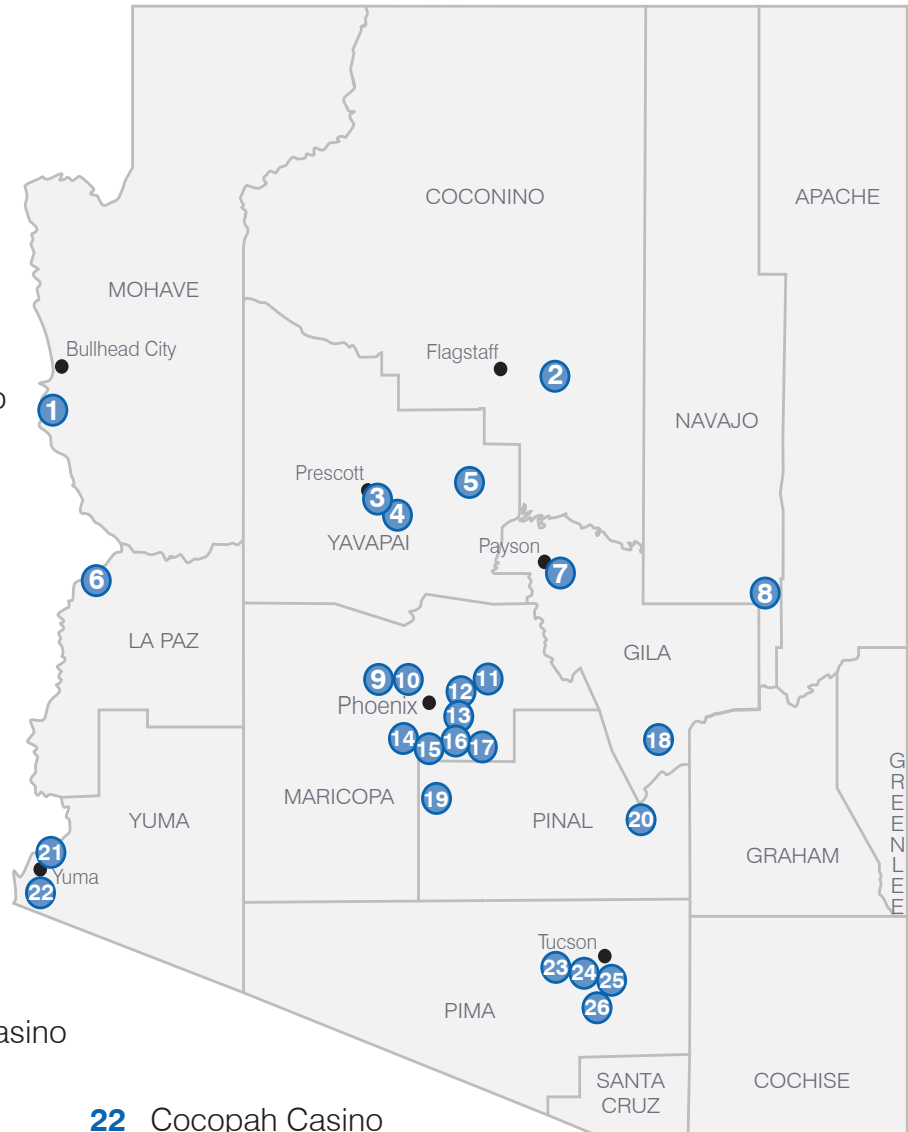
The Compact is an agreement between the State of Arizona and Arizona tribes that authorizes Class III casino gaming on tribal land in the State. The first Compact was enacted in 1992 between the Fort McDowell Mohave-Apache Indian Community and the State, under the authority of the federal Indian Gaming Regulatory Act.¹ As of 2025, all 22 federally recognized tribes in Arizona had signed a Compact agreement with the State, and 16 tribes operate 26 Class III casinos throughout the State (see Figure 2, page 32, for a map showing the locations of Class III casinos in Arizona).

¹ The Indian Gaming Regulatory Act of 1988 amended federal law to require a tribe to negotiate and enter a compact with a state to conduct Class III casino gaming on tribal lands. See 25 USC §2701-2721.

Figure 2

As of April 2025, 26 Class III tribal casinos operated in Arizona

- 1 Spirit Mountain Casino
- 2 Twin Arrows Casino
- 3 Bucky's Casino
- 4 Yavapai Casino
- 5 Cliff Castle Casino Hotel
- 6 Blue Water Resort & Casino
- 7 Mazatzal Hotel & Casino
- 8 Hon-Dah Casino
- 9 Desert Diamond Casino - White Tanks at San Lucy
- 10 Desert Diamond Casino - West Valley
- 11 We-Ko-Pa Casino
- 12 Talking Stick Resort
- 13 Casino Arizona
- 14 Vee Quiva Hotel & Casino
- 15 Wild Horse Pass Hotel & Casino
- 16 Lone Butte Casino
- 17 Santan Mountain Casino
- 18 Apache Gold Casino Resort
- 19 Harrah's Ak-Chin Casino
- 20 Apache Sky Casino
- 21 Paradise Casino



- 22 Cocopah Casino
- 23 Casino Del Sol
- 24 Casino of the Sun
- 25 Desert Diamond Casino & Hotel
- 26 Desert Diamond Casinos & Entertainment, Sahaurita

Source: Auditor General staff compilation of casino locations obtained from the Department's website.

The Compact's stated purpose is to provide a statutory basis for the operation of gaming by tribes as a means of promoting tribal economic development, self-sufficiency, and strong tribal government. Additionally, the Compact provides a regulatory framework for the operation of Class III gaming that is intended to:

- ▶ Ensure the fair and honest operation of gaming activity.
- ▶ Maintain the integrity of all activities conducted regarding gaming activity.
- ▶ Protect the public's health, welfare, and safety. For example, the Compact requires the Department to establish and maintain a list of individuals who voluntarily seek to exclude themselves from casinos in the State and requires casinos to prohibit those individuals from participating in gaming.
- ▶ Ensure that gaming in Arizona remains limited.

The Compact also includes 21 appendices that address specific or technical requirements, such as event wagering regulations, standards for self-exclusion and responsible gaming, and casino minimum internal control standards.

Question 2: How was the Compact developed?

The most recent Compact was developed through negotiations between the Arizona Office of the Governor and tribes in the State and was finalized in April 2021. Although the Department is responsible for regulating tribal gaming in the State, the Department reported it was not directly involved in the Compact negotiations. However, the Department reported it worked with the tribes to update the Compact appendices to align with the 2021 revisions to the Compact.

When the Compact was finalized in April 2021, 6 of the 21 appendices had not been updated to align with the provisions of the new Compact.² The Department reported that 5 of the remaining 6 appendices were not finalized until after the 2021 Compact was signed because the Department had prioritized updating the other 15 appendices, such as Appendices F(1) through F(9), which outline regulations for casino games, including blackjack, poker, and roulette. Additionally, the Department reported that Appendix K, which outlines event wagering regulations, was not finalized until September 2021 because the Department reported it was waiting for legislation authorizing event wagering in the State to become effective.³

² The following appendices were finalized after the Compact was signed in April 2021: Appendix C—Surveillance, Security, and Reporting requirements, Appendix H—Minimum Internal Control Standards, Appendix I—Computation and Auditing of Tribal Contributions, Appendix K—Regulations Governing Event Wagering, Appendix M—Standards for Self-Exclusion and Responsible Gaming, and Appendix N—Operational Standards and Regulations Governing Credit. Appendix N was finalized on October 25, 2021, and was the last appendix to be finalized.

³ Laws 2021, Ch. 234, §§3 and 4, legalized event wagering and fantasy sports in the State and established requirements such as licensing qualifications, licensee violations, and prohibited wagers.

Question 3: What requirements are outlined in the Compact?

The Compact outlines various requirements related to the nature and size of Class III gaming, licensing and certification of gaming employees, and State monitoring of Compact provisions (see textbox for examples of Compact requirements).

Examples of Compact requirements

- **Gaming types:** Establishes the types of games and activities that are allowed, such as blackjack, roulette, and event wagering.
- **Gaming devices:** Establishes the number of gaming devices allotted to each tribe.
- **Wager limitations:** Establishes the maximum amount players are allowed to wager on games such as blackjack, roulette, and craps.
- **Problem gambling:** Requires casino operators to maintain a self-exclusion list, post problem gambling signs throughout the casino, and provide a toll-free problem gambling crisis hotline phone number.
- **Tribal contributions:** Specifies each tribe's required revenue contribution to the State.

Source: Auditor General staff review of the 2021 Compact

The Compact also defines key responsibilities for the Department, TGOs, and Casino Operators and, as mentioned previously, includes 21 appendices that address various regulations (see Table 3 for examples of Compact responsibilities).

Table 3
Examples of Compact responsibilities

Role	Description
The Department	Authorized to conduct biennial Compact Compliance Reviews (CCR) of all 26 Class III Gaming Facilities in the State.
TGOs	Required to conduct investigations into patron disputes of at least \$500 and determine whether a payment should be made.
Casino operators	Required to post problem-gambling signage and provide a toll-free crisis hotline phone number.

Source: Auditor General staff review of 2021 Compact.

Finally, the Compact contains a clause that specifies that if the State allows any form of Class III gaming other than lawful gambling specified in A.R.S. §13-3302, the Compact restrictions

on tribal gaming would be lifted.⁴ As a result, tribes would be allowed to operate an unlimited number of Class III gaming devices and casinos, and each tribe's required contributions to the State would be reduced.

Question 4: What are some of the key changes in the Compact since it was first established?

Since the first Compact was signed in 1992, there have been 2 additional versions of the Compact—the first in 2003 and the most recent in 2021.⁵ Additionally, multiple amendments have been made to the Compact since 1992. For example, 9 amendments were made to the 2003 Compact in 2009, including increased wager amount limits, new time frames for the CCR process, and requiring tribes to make quarterly payments to the State.

Further, several key changes were made to the Compact as a result of the negotiations for the 2021 Compact, including:

- ▶ The addition of 8 new authorized Class III gaming categories, such as event wagering, fantasy sports contests, and roulette.
- ▶ Changes to the number of casinos allotted to certain tribes.⁶
- ▶ The addition of specified casino geographical constraints. Specifically, the 2003 Compact included a general statement regarding geographical requirements and a requirement for notice to be given to surrounding communities, but it did not include geographic requirements for individual tribes. In contrast, the 2021 Compact includes specific requirements for where the Tohono O'odham tribe and Ak-Chin Community may operate casinos.⁷
- ▶ An increase in the number of authorized card game tables per casino.
- ▶ Changes to tribal contributions to the State (see Table 2, pages 13 through 14, for more information on tribal contributions).
- ▶ Creation of the 2021 Compact Trust Fund (see Question 5 through Question 6 for more information on the Trust Fund).⁸

⁴ A.R.S. §13-3302 includes exclusions to unlawful gaming, such as amusement gambling, social gambling, and regulated gambling if the gambling is conducted in accordance with the statutes, rules, or orders governing the gambling.

⁵ The Hopi tribe did not sign the 2021 Amended Tribal State Gaming Compact; however, it signed and is still covered through the 2003 Compact. Its Compact agreement with the State is active until 2037 and includes an additional 3 years for negotiation of a new agreement.

⁶ The 2021 Compact allows the following tribes to operate an additional casino: Ft. Mojave Indian Tribe, Yavapai-Apache Nation, San Carlos Apache Tribe, White Mountain Apache Tribe, Ak-Chin Indian Community, Fort McDowell Yavapai Nation, Salt River Pima-Maricopa Indian Community, Gila River Indian Community, and the Pascua Yaqui Tribe.

⁷ The Compact states that the Tohono O'odham Tribe may operate a casino on West Valley Trust Land and Far West Valley Trust Land. Further, the Compact states that the Ak-Chin Indian Community may operate a casino on current trust lands and 1 casino on lands acquired in Trust after the effective date as an acquisition of land contiguous to its existing reservation boundaries.

⁸ The 2021 Compact Trust Fund was established by the Compact and Laws 2021, Ch. 234, §2.

Question 5: What is the 2021 Compact Trust Fund?

According to statute, the 2021 Compact Trust Fund was created to mitigate impacts to certain tribes from expanded gaming authorized by the 2021 Compact and to provide economic benefits to beneficiary tribes (see Table 4, page 37, for more information on beneficiary tribes).^{9,10} The 2021 Compact Trust Fund is funded by quarterly payments made to the Department by the Gila River Indian Community, the Salt River Pima-Maricopa Indian Community, and the Tohono O'odham Nation.¹¹ The Department is required to deposit these payments into the Compact Trust Fund, and the Department deposited approximately \$4.9 million, \$6.7 million, and \$7 million into the Compact Trust Fund in fiscal years 2022, 2023, and 2024, respectively.

Additionally, the Department is required to distribute monies from the Compact Trust Fund to beneficiary tribes. Beneficiary tribes that receive monies from the Compact Trust Fund are separated into 3 categories—Categories 1, 2, and 3—and the amount each tribe receives from the Trust Fund depends on the tribe's category (see Table 4, page 37, for more information). According to the Department's annual reports, the Department made payments of \$2.5 million to Category 2 tribes in both fiscal years 2023 and 2024. However, as of May 2025, the Department has not yet made payments to the Category 3 tribes because of ongoing negotiations between the tribes regarding the formula for calculating baseline revenue (see Sunset Factor 2, pages 50 through 52, for more information on why the Department has not distributed monies to Category 3 tribes and recommendations we made to the Department regarding the Compact Trust Fund distributions).¹² Additionally, the Department has not made payments to the single Category 1 tribe because the tribe did not sign the 2021 Compact. As of June 2025, the Department reported there was more than \$23.3 million in the Compact Trust Fund, with more than \$20 million reserved for Category 3 tribes.

⁹ Statute and the Compact do not provide more information on what impacts are mitigated by the 2021 Compact Trust Fund.

¹⁰ A beneficiary tribe is defined as a tribe that does not contribute to the Compact Trust Fund, has signed the 2021 Compact, and meets the criteria of a Category 1, Category 2, or Category 3 tribe.

¹¹ The Compact defines the Gila River Indian Community, the Salt River Pima-Maricopa Indian Community, and the Tohono O'odham nation as contributing tribes in relation to the Compact Trust Fund.

¹² A tribe's baseline revenue is used to determine the amount it will receive from the 2021 Compact Trust Fund.

Table 4

Payments vary based on each beneficiary tribe's category

	Category 1	Category 2	Category 3
Description	Does not conduct gaming operation in a given year and does not have a transfer agreement in effect in the same year. ¹	Does not conduct gaming operations in a given year but has a transfer agreement in effect in the same year.	Conducts gaming operations, and the Department determines it is eligible to receive a payment from the 2021 Compact Trust Fund in accordance with procedures set forth in the Compact.
Payment amount	\$2 million per year	\$500,000 per year	Yearly amount varies ³
Tribes	<p>▶ Hopi tribe²</p>	<p>▶ Kaibab Band of Paiute Indians</p> <p>▶ Zuni Tribe</p> <p>▶ Havasupai Tribe</p> <p>▶ San Juan Southern Paiute Tribe</p> <p>▶ Hualapai Tribe</p>	<p>Priority 1, Category 3</p> <p>▶ Fort McDowell Yavapai Nation</p> <p>▶ Yavapai-Apache Nation</p> <p>▶ Ak Chin Indian Community</p> <p>▶ San Carlos Apache Tribe</p> <p>▶ Tonto Apache Tribe</p> <p>▶ All other tribes that have a casino located within 150 driving miles of any casino located in the Phoenix Metropolitan Area.</p> <p>Priority 2, Category 3⁴</p> <p>▶ All other tribes that have a casino located more than 150 driving miles of any casino located in the Phoenix Metropolitan Area.</p>

¹ The Compact authorizes tribes to operate a certain number of gaming tables and devices. Per the Compact, tribes are authorized to enter into agreements, referred to as transfer agreements, with other tribes to transfer the number of gaming devices they are authorized to use.

² The Hopi Tribe is designated as a Category 1 tribe. However, because the Hopi Tribe has not signed the 2021 Compact, it does not receive monies from the Compact Trust Fund.

³ The amount of monies received is determined by a tribe's annual gaming revenue and a tribe's gaming revenue for the year before the 2021 Compact became effective.

⁴ According to the Compact, Priority 2 Category 3 tribes will only receive payments if there are monies remaining in the Compact Trust Fund after the Department distributes all Priority 1 Category 3 tribe payments.

Source: Auditor General staff review of the Compact.

Question 6: What are the Department's responsibilities for administering the 2021 Compact Trust Fund?

According to the Compact, the Department is responsible for administering the 2021 Compact Trust Fund, including depositing and distributing monies.

Specifically, the Department is required to:

- ▶ Promptly deposit all received monies into the Compact Trust Fund.
- ▶ Ensure all required payments from contributing tribes are timely made.¹³
- ▶ Issue an annual report by September 30 of each year, disclosing all monies deposited in and disbursed from the Compact Trust Fund during the prior fiscal year.¹⁴
- ▶ Send all beneficiary tribes an annual written notice providing the tribes an opportunity to state their eligibility for Compact Trust Fund distributions in the event their circumstances change.
- ▶ Provide an annual determination of each tribe eligible for distributions from the Compact Trust Fund.
- ▶ Annually calculate distributions from the Compact Trust Fund to each Category 3 tribe.¹⁵
- ▶ Make payments to beneficiary tribes within 30 days after monies are available. See Sunset Factors, page 50, for information regarding the Department's untimely payments to category 2 tribes.

¹³ According to the Compact, the Department is entitled to and required to seek any remedy under the 2021 Compact to ensure all payments from contributing tribes are made.

¹⁴ According to A.R.S. §5-605(E), the report is required to be sent to the Governor, the President of the Senate, the Speaker of the House of Representatives, and each tribe that has executed a gaming compact amendment with the State that is effective after January 1, 2021. Our review found that the Department complied with this requirement.

¹⁵ As of May 2025, the Department had not yet calculated distributions for each Category 3 tribe because of ongoing tribal negotiations regarding the formula for calculating baseline revenue. See Sunset Factor 2, pages 50 through 52, for more information and recommendations we made related to this issue.

DEPARTMENT SUNSET FACTORS

Pursuant to A.R.S. §41-2954(D), the legislative committees of reference shall consider but not be limited to the following factors in determining the need for continuation or termination of the Department. The sunset factor analysis includes additional findings and recommendations not discussed earlier in the report.

Sunset factor 1: The key statutory objectives and purposes in establishing the Department.

The Department's key statutory objectives and purposes include:

- ▶ Regulating and supervising tribal gaming, event wagering, and fantasy sports in the State, including certifying tribal gaming employees and licensing event wagering and fantasy sports contest operators and their employees.
- ▶ Enforcing the State's gambling laws, including assisting tribal, State, and local law enforcement to investigate illegal gambling operations.
- ▶ Regulating horse racing in the State, including licensing horse racing participants and investigating violations of federal and State horse racing standards.
- ▶ Providing staff support to the Boxing and MMA Commission, including issuing licenses to combat sport participants and supervising combat sport events.
- ▶ Supporting prevention, education, and treatment programs for people and families affected by problem gambling.

Sunset factor 2: The Department's effectiveness and efficiency in fulfilling its key statutory objectives and purposes.

The Department has developed processes and/or taken steps to fulfill its key statutory objectives and purposes for various areas we reviewed and could improve some of its processes.

Specifically, the Department:

- ▶ **Distributed Arizona Benefits Fund monies in accordance with statutory requirements**

As previously mentioned in the Introduction (see page 13), the Department is responsible for distributing Arizona Benefits Fund monies to various other funds and programs in the State.¹ Specifically, 12% of tribal gaming contributions are statutorily required to be

¹ A.R.S. §5-601.02(H) establishes the Arizona Benefits Fund, which consists of contribution payments from tribes that offer Class III gaming in the State.

distributed by tribes to cities, towns, and counties, with the remaining 88% being required to be deposited in the Arizona Benefits Fund. Of the amount deposited in the Arizona Benefits Fund, A.R.S. §5-601.02(H)(3) allocates the greater of 9% or \$8 million to the Department for tribal gaming regulation and 2% for problem gambling programs. After monies in the Arizona Benefits Fund are allocated to the Department for gaming regulation and problem gambling, the Department is required to distribute the remaining monies in the Arizona Benefits Fund to the Instructional Improvement Fund (56%), the Trauma and Emergency Services Fund (28%), the Tourism Fund (8%), and the Arizona Wildlife Conservation Fund (8%).

As shown in Table 5, the Department distributed more than \$158 million from the Arizona Benefits Fund in fiscal year 2024, and our review found that the Department distributed monies in accordance with statutory requirements. See Figure 3, page 41, for more information on the Arizona Benefits Fund’s statutory allocations and distributions.

Table 5

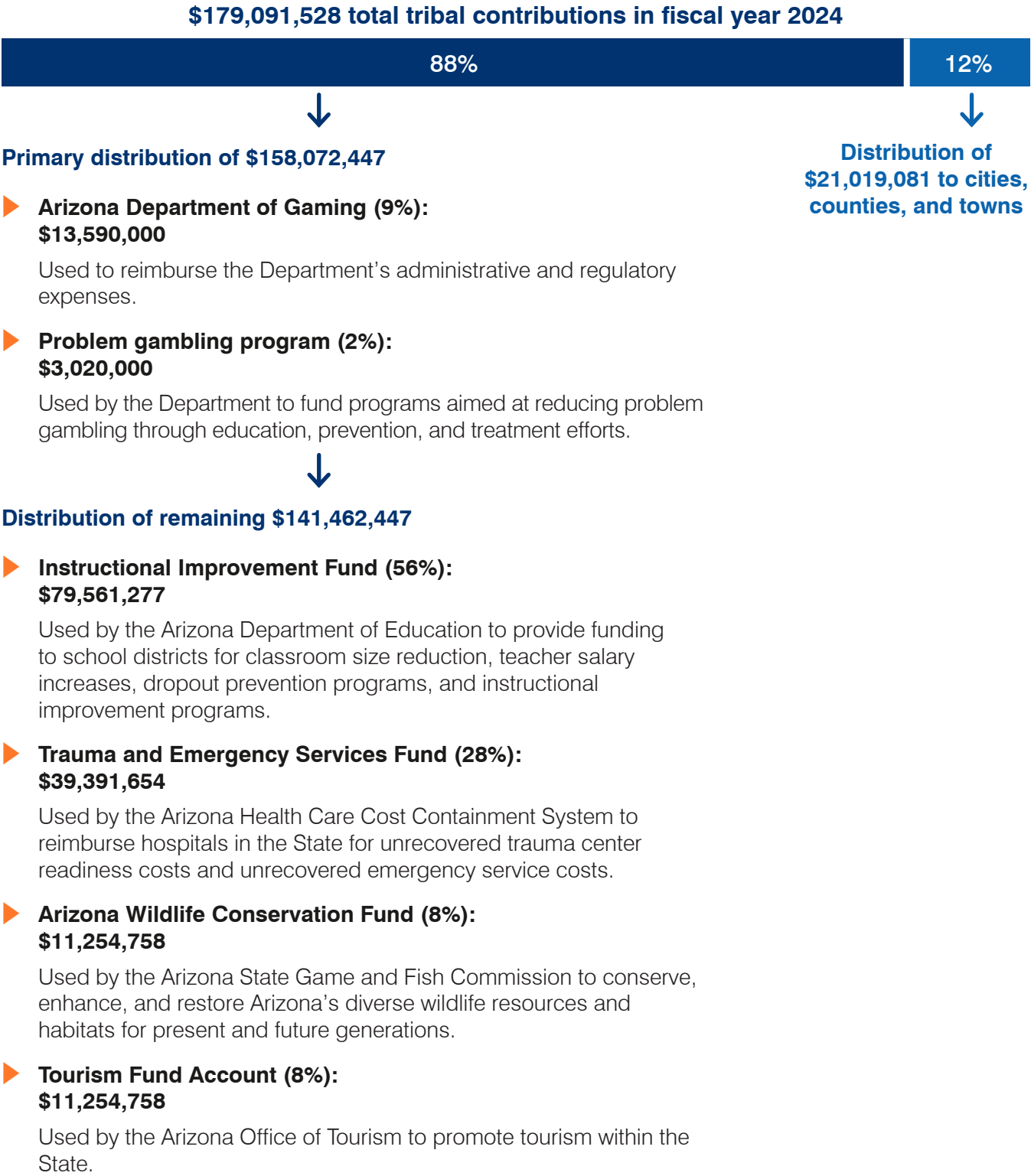
Department distributed more than \$158 million from the Arizona Benefits Fund in fiscal year 2024, as required by statute

Fund/Program	Amount distributed from the Arizona Benefits Fund in fiscal year 2024
Arizona Department of Gaming	\$13,590,000
Problem Gambling program	3,020,000
Instructional Improvement Fund	79,561,277
Trauma and Emergency Services Fund	39,391,654
Arizona Wildlife Conservation Fund	11,254,758
Tourism Fund Account	11,254,758
Total	\$158,072,447

Source: Auditor General staff review of AZ360, the Department’s website, and A.R.S. §§5-601.02(H), 36-2903.07, 41-2306, and 17-299.

Figure 3

Department is responsible for distributing 88% of tribal contributions deposited in the Arizona Benefits Fund, and tribes are responsible for distributing 12% of tribal contributions to cities, counties, and towns¹



¹ The Department is responsible for ensuring tribes contribute 12% of their total tribal contribution to cities, counties, and towns.

Source: Auditor General staff review of AZ360, the Department’s fiscal year 2024 annual report, and A.R.S. §§5-601.02(H), 36-2903.07, 41-2306, 17-299, and 15-979.

▶ **Issued event wagering operator licenses to qualified applicants**

Our review of a random and judgmental sample of 3 of 18 event wagering operators licensed as of August 2024 found that the Department issued licenses to qualified applicants.² For example, the Department ensured that all 3 applicants:

- Underwent a Department background check, as required by statute.³
- Provided evidence of a cash reserve, as required by rule.⁴
- Had an independent laboratory test their wagering systems, as required by rule.^{5,6}

▶ **Has taken some steps to address and/or plan for implementing recommendations from 2023 evaluation of its problem gambling program**

The 2021 Compact required the Department to complete an evaluation of its problem gambling program to ensure that it is operating effectively. In calendar year 2023, the Department contracted for an independent evaluation of the effectiveness of its problem gambling program, including its problem gambling public awareness and prevention, gambling treatment, and voluntary self-exclusion efforts. The evaluation found that the need for problem gambling services in the State is growing and suggested various recommendations to the Department, such as:

- Taking steps to ensure its gambling treatment program can meet future community needs by implementing incentives to increase the gambling treatment workforce and developing a peer support program to supplement gambling treatment services and increase system capacity.

The Department reported it plans to implement a gambling addiction peer support program at the beginning of fiscal year 2026.

- Developing a strategic plan to improve its problem gambling prevention and public awareness program, including a plan to expand its social media outreach efforts to better reach younger populations.

The Department developed a strategic plan goal to establish social media accounts for its problem gambling program by the end of fiscal year 2026.

- Increasing resources for problem gambling primary prevention. Specifically, the evaluation found that the State's per capita investment in problem gambling services is below the national average for states with dedicated problem gambling services funding.

² We selected a random sample of 2 event wagering operators actively licensed as of August 3, 2024, and judgmentally selected 1 event wagering operator who is no longer operating in the State.

³ A.R.S. §5-1302(E).

⁴ AAC R19-4-113 requires event wagering operators to maintain a cash reserve of either \$500,000 or an amount necessary to cover all outstanding event wagering liability.

⁵ AAC R19-4-120(A).

⁶ The independent laboratory is required to ensure that the wagering system complies with technical standards, including geofencing requirements to ensure wagers can only be placed by individuals located in the State.

To address this recommendation, in its fiscal year 2026 budget request, the Department requested additional funding from the State Lottery Fund to enhance its outreach efforts for problem gambling. In fiscal years 2020 through 2024, the Department reported it received a total of between \$2.2 million and \$3.3 million annually from the Arizona Benefits Fund and State Lottery Fund for the problem gambling program. In fiscal year 2024, the Department’s problem gambling program received approximately \$3.3 million and spent approximately \$2.7 million.⁷

Although the Department has taken some steps to address and/or plan for implementing some of the recommendations from the contracted evaluation, the Department reported that it is still in the process of evaluating which recommendations it will implement and establishing a time frame for doing so.

▶ **Has developed and implemented Compact Compliance Review (CCR) policies and procedures to assess compliance with most Compact requirements but lacks procedures for reviewing some problem gambling requirements and selecting gaming machines and tables for review**

The Department’s policies and procedures requires Department staff to conduct biennial CCRs of all 26 Class III gaming casinos in the State to assess casino operations, casino facilities, and the gaming activity of the casino operator to ensure compliance with the Compact (see textbox for examples of requirements reviewed during the Compact compliance review). Our review and observation of a Department CCR conducted in October 2024 for 1 of 26 casinos in the State found that Department staff assessed the casino’s compliance with most Compact requirements.⁸ For example, we observed Department staff review whether event wagering kiosks in the casino contained house rules and problem gambling signage.

However, we found that Department staff did not assess whether the casino complied with the following Compact requirements:

Examples of key requirements assessed during a CCR

- Ensuring event wagering kiosks contain house rules, problem gambling signage, etc.
- Reviewing tribal revenue reports.
- Ensuring all gaming employees and vendors are appropriately licensed.
- Ensuring the casino has the correct amount of gaming tables.
- Ensuring cage standards are followed.
- Ensuring drop and count standards are followed.
- Ensuring proper surveillance coverage for table games

Source: Auditor General staff review of the Compact, its appendices, and associated checklists provided by the Department.

⁷ The Department reported it did not spend all its problem gambling monies in fiscal year 2024 because of staff vacancies and the resulting outreach limitations. However, the Department reported that staffing increases and ongoing demand for treatment services have resulted in increased spending for fiscal year 2025.

⁸ We judgmentally selected to observe 1 CCR initiated in October 2024 based on the timing of our audit.

- The casino's website includes required problem gambling information.
- Casino staff who interact with patrons receive problem gambling training.
- Educational problem gambling materials are available in conspicuous locations throughout the casino.

Although Department staff used standardized CCR checklists and an audit plan to conduct the CCR we reviewed, these documents did not include steps to assess these 3 requirements.

Additionally, the Department's policies, procedures, and CCR documents also lacked guidance for:

- Selecting a sample of gaming machines and tables to review during the CCR, such as ensuring Department staff review gaming machines manufactured by different vendors. Although our review found that Department staff selected different types of gaming machines and tables to review, the Department lacks guidance for selecting gaming machines and tables to review, which could lead to inconsistencies in what types of and how many games are reviewed.
- How to observe table games, such as whether Department staff should review game play in person or via security footage. Our review found that some Department staff observed game play in person, and other Department staff observed security footage of game play, which could lead to inconsistencies in what aspects of game play are reviewed.

During the audit in March 2025, the Department revised its CCR checklists and audit plan to include an assessment of the 3 missing Compact requirements, developed guidance for staff on how to observe table games, and began drafting policies and procedures for selecting a sample of machines and tables for review.

▶ **Although the Department took steps to ensure free bets were accurately calculated for those we reviewed, it lacks policies and procedures for ensuring event wagering operators consistently include free bets redeemed in their adjusted gross wagering receipts**

As previously mentioned in the Introduction, page 8, event wagering operators can deduct the amount in free bets consumers redeemed from their total adjusted gross wagering receipts, which allows the event wagering operator to pay less in privilege fees.⁹ The Department developed written instructions and a privilege fee form that event wagering operators are required by rule to follow when submitting monthly privilege fees to the Department, which includes a requirement that operators provide documentation from their wagering system that supports the total value of free bets or promotional credits redeemed by consumers.

⁹ To calculate the operators' free bet deduction, operators are required to add the total free bets it is claiming to its gross wagering receipts and then deduct those free bets when calculating its adjusted gross wagering receipts.

Although our review of 9 event wagering privilege fee reports found that all operators submitted supporting documentation on the total value of free bets or promotional credits redeemed by consumers, some operators' supporting documentation did not indicate whether free bets were included in their calculations of gross wagering receipts. Specifically, our review found that 3 of the 9 event wagering privilege fee reports we reviewed did not include information or documentation clearly indicating whether free bets were included in the calculation of gross wagering receipts. Specifically, the operators provided financial reports from their wagering system that did not include fields indicating that both paid and free bets were included. We found that:

- For 2 of the privilege fee reports we reviewed, the Department relied on the operator's independent laboratory certification to provide assurance that the operator had accurately accounted for free bets in their gross wagering receipt calculation.¹⁰
- For 1 of the privilege fee reports we reviewed, the Department previously followed up with the operator to confirm that free bets were included in its calculation of its gross wagering receipts.

Although the Department previously took steps to ensure free bets were accurately calculated, these steps are not outlined in the Department's policies and procedures. Additionally, there was no evidence in the privilege fee files we reviewed that this information was considered during the Department's monthly review and reconciliation process. Finally, although the Department's instructions for operators require them to submit documentation supporting the total value of free bets or promotional credits redeemed by consumers, they do not include instructions for operators on how these free bet and promotional credits should be accounted for when calculating their adjusted gross wagering receipts. Without policies and procedures and clear instructions for operators, the Department cannot consistently ensure that free bets are accurately being calculated.

► **Lacks consistent policies and procedures regarding its secondary review of tribal contribution payments**

The Compact requires tribes to submit monthly and quarterly Class III net win reports to the Department. The Department's policies require staff to review and reconcile these reports against the tribal contribution amounts to ensure that tribal payments are accurate.¹¹ Although our review of the Department's review and reconciliation process for 3 tribes' monthly and quarterly reports did not identify any instances where Department staff failed to identify a discrepancy in tribe's monthly and quarterly Class III net win reports, we found that a secondary review was not always conducted.¹²

The Department's inconsistency in conducting secondary reviews may be partly attributable to the Department's policies and procedures providing contradictory guidance

¹⁰ AAC R19-4-120 requires an independent laboratory to test event wagering systems to ensure it complies with technical standards outlined in statute and rule, and AAC R19-4-126(A) requires the event wagering systems to be retested every 15 months.

¹¹ Class III net wins are defined as the gross gaming revenue, which is the difference between gaming wins and losses, before deducting costs and expenses. The Compact requires tribes to submit reports on their total Class III net wins to the Department.

¹² We observed the Department's review and reconciliation process of monthly and quarterly reports submitted to the Department in fiscal year 2025 for 3 of 16 tribes in the State who offer gaming.

on whether a secondary review of the tribes' Class III net win reports and contributions is required or optional. Specifically, the Department's policies and procedures require 2 Department staff members to be involved in the review and reconciliation process, with 1 staff member responsible for conducting a secondary review. However, the Department's policies also state that the secondary review is optional based on staffing. This lack of consistent guidance on whether a secondary review is required could lead to inconsistencies in its review and reconciliation process, and increases the risk of not identifying overpayments or underpayments.

In addition to identifying improvements in Department processes as described previously, our review also identified various deficiencies in Department processes.

Specifically, the Department:

► **Developed a process for reviewing and reconciling event wagering and fantasy sports privilege fees but did not verify the accuracy of some privilege fees we reviewed**

The Department's policies and procedures require Department staff to review and reconcile an operator's event wagering and fantasy sports contest adjusted revenue and privilege fee reports against supporting documentation provided by the operator.¹³ If Department staff discover any discrepancies or areas of concern as part of the review, the Department's policies and procedures require staff to follow up with their supervisor and the operator.

We reviewed a sample of 12 monthly privilege fee reports submitted to and reviewed by the Department in fiscal year 2024—9 submitted by event wagering operators and 3 submitted by fantasy sports contest operators.^{14,15} Our review found that the Department:

● **Reviewed and approved a privilege fee report for 1 fantasy sports contest operator we reviewed without verifying the accuracy of the report**

Our review of 3 monthly fantasy sports contest privilege fee reports found that 1 fantasy sports contest operator reported a negative adjusted revenue, meaning the operator would not be required to pay a privilege fee for the month.¹⁶ However, the operator failed to submit supporting documentation to verify the accuracy of the financial information in its privilege fee report, as required by rule.¹⁷ Additionally, instead of following up with the operator and inquiring about this higher-risk reporting, Department staff noted that they had reviewed the information and approved the privilege fee report as accurate despite the lack of supporting documentation.

¹³ AAC R19-4-112(B) and R19-4-208(C) requires the operators to report their adjusted revenue or adjusted event wagering receipts to the Department and provide supporting documentation to verify that the reported amounts are accurate.

¹⁴ Our sample of event wagering operator privilege fee reports included 9 of 206 reports submitted to the Department in fiscal year 2024 consisting of 3 of 17 privilege fee reports we judgmentally selected from the event wagering operators that paid the lowest dollar amount of privilege fees in November 2023, the month with the lowest amount of privilege fees paid by event wagering operators in fiscal year 2024, and a random selection of 6 of 189 privilege fee reports submitted to the Department during the remaining 11 months of fiscal year 2024.

¹⁵ We randomly selected 3 of 114 fantasy sports contest operator privilege fee reports submitted to the Department in fiscal year 2024.

¹⁶ According to Department reports, the operator paid a privilege fee of approximately \$1,347 for 1 month in fiscal year 2024 but did not pay any other privilege fees that fiscal year.

¹⁷ AAC R19-4-208(C).

- **Did not identify or follow up on an inconsistency between reported amounts and supporting documentation**

Our review found that for 1 of the 9 monthly event wagering privilege fee reports we reviewed, the operator incorrectly calculated the federal excise tax deduction amount, resulting in the operator underreporting their federal tax deduction by approximately \$655.¹⁸ However, Department staff did not identify this error or follow up with the operator to correct the calculation.

Additionally, the Department did not conduct a secondary review of the privilege fee reports, which could have helped to identify inconsistencies and errors, such as an operator that fails to submit supporting documentation. The Department's policies also require 2 staff members to be involved in the review process, if staffing permits. However, the Department reported that it did not conduct a secondary review or include a second staff member in the reviews because of insufficient staffing.

During the audit in March 2025, the Department developed draft policies and procedures that require a secondary review for 25% of privilege fee reports of all event wagering operators and reported it is in the process of hiring an additional staff member who will be responsible for conducting these reviews.

- ▶ **Lacks policies and procedures for some information technology (IT) security requirements and did not conduct a risk assessment of its IT systems**

The Arizona Department of Homeland Security's (AZDOHS) State-wide policies require State agencies to develop IT security-specific procedures.¹⁹ AZDOHS' policies are intended to help State agencies implement recommended IT security procedures and to protect the State's IT infrastructure and the data contained therein. Although we found the Department had developed IT security procedures in some areas required by AZDOHS, it lacked written procedures in several areas. For example, the Department has developed Criminal Justice Information Services (CJIS) procedures for protecting criminal justice information but lacks procedures for all its non-CJIS information systems, which include systems used to maintain financial information for tribes and licensees.²⁰ Specifically, the Department lacked written procedures for:

- **Incident response planning**

AZDOHS requires State agencies to develop IT incident response-planning policies and procedures to rapidly detect incidents, minimize any loss due to destruction, mitigate the weaknesses that were exploited, and restore computing services. However, the Department lacks procedures for responding to incidents affecting non-CJIS information systems.

¹⁸ The operator did not pay a privilege fee during this month because the dollar value of its free bet credits was more than its adjusted gross wagering receipts. However, if the operator had not claimed any free bet credit deductions during the month, the operator would have been required to pay a privilege fee of \$4,533, and the underreporting of the federal tax deduction would have erroneously increased its privilege fee to \$5,188.

¹⁹ Effective September 24, 2022, Laws 2022, Ch. 50, §10, transferred the responsibility for State agency IT and data security oversight from ADOA's Arizona Strategic Enterprise Technology Office to AZDOHS.

²⁰ CJIS is a division of the Federal Bureau of Investigation that provides tools, databases, and services to law enforcement agencies. CJIS requires agencies using its databases and systems to take steps to protect criminal justice information, such as criminal history information.

- **IT security awareness and education**

AZDOHS requires State agencies to develop policies and procedures to ensure compliance with security awareness training and education requirements outlined in AZDOHS' State-wide policies, including ensuring individuals with access to information systems are appropriately trained on their information security responsibilities. However, the Department lacks policies and procedures consistent with these requirements. Additionally, the Department lacks comprehensive training that covers all IT security requirements recommended by credible industry standards.

- **IT risk assessment**

AZDOHS requires State agencies to conduct a risk assessment of the security and privacy risks to its information systems, including identifying any system vulnerabilities and threats to its systems. However, as of February 2025, the Department had not conducted an IT risk assessment and does not have policies and procedures related to an IT risk assessment, including taking steps to remedy any issues identified by the assessment.

- ▶ **Lacked documentation to demonstrate horse racing licensing applicants were qualified**

We reviewed the Department's horse racing licensing process and found that the Department lacked documentation to demonstrate that it had reviewed a national database, as required by rule.²¹ Specifically, we reviewed a stratified random sample of 6 horse racing license applications, including 2 jockeys, 2 veterinarians, 1 tote employee, and 1 exercise rider, that the Department approved in calendar years 2023 and 2024.²² We found that 4 of the 6 application files lacked documentation indicating whether Department staff had reviewed a national database for any violations by applicants (see textbox for examples of horse racing licensing requirements). Without ensuring staff review a national database for violations by license applicants, the Department risks issuing licenses to individuals who have been suspended or banned in other states and therefore may not be qualified for licensure.

Examples of horse racing licensing requirements we reviewed

Statute and rule require applicants to meet various licensing requirements, including having:

- No convictions of a crime involving moral turpitude.¹
- Not intentionally provided false information to any governmental agency concerning the applicant's criminal history background.
- Paid all applicable licensing fees.

¹ A.R.S. §1-215 defines moral turpitude as an offense, whether a misdemeanor or felony, that is related to extortion, burglary, larceny, bribery, embezzlement, robbery, racketeering, money laundering, forgery, fraud, murder, voluntary manslaughter, or a sexual offense that requires the individual to register pursuant to A.R.S. §13-3821.

Source: Auditor General staff review and summary of A.R.S. §5-108 and AAC R19-2-106.

²¹ AAC R19-2-106(D)(5).

²² We reviewed a stratified random sample of 2 of 124 jockey license applications; 2 of 15 veterinarian license applications; 2 of 246 license applications in a group consisting of jockey apprentices, exercise riders, tote employees, and security personnel approved in 2023 and 2024.

The Department reported that insufficient training for Department staff may have contributed to licensing steps not being properly documented. During the audit, the Department developed a checklist outlining the requirements in its licensing policy; however, the checklist did not include requirements for staff to document specific steps taken during its review, including documenting its review of the national database.

► **Determined a commercial racetrack permit application was administratively complete despite it lacking some required application information**

The Department is required by rule to conduct an administrative completeness review of commercial racetrack permit renewal applications within 30 days of receiving an application to ensure that applications contain all required information and are ready for review by the Racing Commission.^{23,24} We reviewed the Department's administrative completeness review process for the 1 commercial racetrack permit renewal application it received in 2024 and found that the Department determined the application to be administratively complete despite the application lacking required information.²⁵ Specifically, the Department received the application on May 29, 2024, and issued a letter indicating that the application was administratively complete on June 7, 2024; however, the letter noted that the application lacked a statutorily required audited financial statement to determine the applicant's financial standing. In fact, the Department did not receive the required audited financial statement until July 10, 2024, 33 days after it determined the application to be complete.

In cases where an application does not meet administrative completeness requirements, rule requires the Department to inform applicants in writing of any deficiency.²⁶ Once notified, the applicant has up to 180 days to provide all required information or the Department will declare the application withdrawn. Although the Department reported that the June 2024 letter was intended to be a notice of deficiency, the letter itself indicates that the application was determined to be administratively complete. Additionally, on June 20, 2024, the Department's Racing Division Director reported in a public Racing Commission meeting that the Department issued a notice that the application was administratively complete on June 7, 2024. Further, the Department's internal tracking log indicates that the administrative completeness letter was issued on June 7, 2024.

However, by not ensuring or clearly communicating that all required application information is provided prior to determining an application is administratively complete, the Department risks delaying the Racing Commission's substantive review because the Racing Commission may not receive the necessary application information required to begin or complete its substantive review.

► **Has not developed a process to regularly evaluate the appropriateness of its horse racing license and permit fees**

Statute authorizes the Department to establish fees for horse racing licenses and

²³ AAC R19-2-103(F)(1) through (4) contains the administrative completeness review requirements.

²⁴ A.R.S. §5-107 and AAC R19-2-103(A)-(D) contain the permit application requirements.

²⁵ In 2024, Turf Paradise, was the only applicant for a commercial racetrack permit to conduct thoroughbred and quarter horse races. Turf Paradise is located in Phoenix.

²⁶ AAC R19-2-103(F)(1)(b).

permits, and the Department's fees are established in rule.^{27,28,29} Government fee-setting standards and guidance state that fees should be based on the costs of providing a service and reviewed periodically to ensure fees are based on these costs.³⁰ Additionally, these fee-setting standards recommend that government entities should determine the direct and indirect costs of providing a service for which they charge fees. However, the Department had not developed a process to regularly evaluate its horse racing licensing and permitting fees, nor has it regularly assessed the costs of its horse racing regulatory activities.³¹ Without cost-of-service information, such as the costs associated with staff issuing licenses or permits, the Department cannot ensure that its fees are appropriately set, which puts it at risk for collecting more or less revenue than it needs.

Additionally, the Department lacked fee-setting policies and procedures to help ensure its horse racing license and permit fees are commensurate with the costs of its regulatory activities, such as licensing, permitting, and investigating racing violations. Although the Department developed policies and procedures during the audit that require its staff to evaluate fees on an annual basis and assess whether the fees are sufficient to cover the regulatory costs, they lack guidance for determining regulatory costs, such as the amount of time staff spend on issuing a license or permit.

► **Untimely distributed funds to Category 2 tribes from the Compact Trust Fund**

The Department is responsible for administering the Compact Trust Fund, including distributing monies to beneficiary tribes. The Compact requires the Department to distribute monies annually to Category 2 tribes within 30 days after receiving all quarterly payments from contributing tribes (see Questions and Answers, pages 36 through 38, for more information on the Compact Trust Fund).³² However, our review found that the Department was 10 days late in distributing monies to all Category 2 tribes in fiscal year 2023. Additionally, the Department was more than 5 months late in distributing monies to 2 of the 5 Category 2 tribes in fiscal year 2024. According to the Department, the payments that were made more than 5 months late are largely attributable to issues with missing physical checks that were mailed to the tribes.³³ However, 1 of the 2 tribes contacted the Department about a missing check, but the Department did not reissue the check until 3 months later.³⁴

²⁷ A.R.S. §5-104(F).

²⁸ AAC R19-2-202.

²⁹ The Racing Commission does not have statutory responsibilities related to fees.

³⁰ We reviewed the following fee-setting best practices: Arizona State Agency Fee Commission. (2012). *Arizona State Agency Fee Commission report*. U.S. Government Accountability Office. (2008). *Federal user fees: A design guide*. Retrieved 5/2/2025 from <https://www.gao.gov/assets/gao-08-386sp.pdf>; Michel, R.G. (2004). *Cost analysis and activity-based costing for government*. Government Finance Officers Association; and U.S. Office of Management and Budget. (1993). *OMB Circular No. A 25*, revised. Retrieved 5/2/2025 from <https://www.whitehouse.gov/wp-content/uploads/2017/11/Circular-025.pdf>

³¹ The Department last updated its racing licensing and permit fee amounts in 2013.

³² In fiscal year 2023, the last quarterly payment from contributing tribes was due on July 31, 2022, and the Department was required to distribute funds to Category 2 tribes by August 30, 2022. In fiscal year 2024, the last quarterly payment from contributing tribes was due on October 31, 2023, and the Department was required to distribute funds to Category 2 tribes by November 30, 2023.

³³ The Department originally sent out the checks timely to the 2 tribes. However, when the tribes went to pick up the checks from the address provided by the Department, they were unable to locate the checks. The Department verified that the checks were not cashed and reissued the checks 5 months after the initial payment due date.

³⁴ For the 1 tribe that contacted the Department, the Department reported it took multiple months to reissue the check because Department staff incorrectly believed that the check would be automatically reissued when canceling the original check.

► **Has not distributed all required monies from the Compact Trust Fund to Category 3 tribes**

According to the Compact, the Department is required to annually distribute monies from the Compact Trust Fund to beneficiary tribes (see Questions and Answers, pages 36 through 37, for more information on beneficiary tribe categories and required distributions).^{35,36} However, the Department has not yet distributed monies to Category 3 tribes because of ongoing negotiations between the tribes regarding the required formula for calculating the tribes' baseline revenue, which excludes any days during which the tribe's casinos was closed due to the coronavirus pandemic.³⁷ Specifically, the Department reported that some casinos were closed for different durations of time during the pandemic, which has complicated negotiations.³⁸ As of June 2025, the Department reported there was more than \$23.3 million in the Compact Trust fund, with \$20 million to be distributed to Category 3 tribes.³⁹

Recommendations to the Department

17. Develop and implement a documented plan and time frames to implement the suggested recommendations from the contracted evaluation of the Department's problem gambling programs. If the Department determines not to implement some of the suggested recommendations, it should include its rationale for not doing so in the documented plan.
18. Implement its revised CCR policies and procedures to ensure compliance with all problem gambling requirements in the Compact.
19. Develop and implement policies and procedures for selecting gaming machines and tables to review during the CCR, including guidance on the number and types of gaming machines and tables to review.
20. Implement its revised CCR policies and procedures for observing table games during the CCR.
21. Revise and implement instructions for operators on calculating and preparing free bet and promotional credits to clarify how free bet and promotional credit deductions should be calculated and require operators to submit documentation supporting these calculations.

³⁵ The Yavapai-Prescott Indian Tribe did not sign the Compact until May 2022, and the Compact did not go into effect until July 2022. Therefore, the Yavapai-Prescott Indian Tribe's first Payment year would have been July 2023.

³⁶ Category 3 tribes are required to be paid annually based on the effective date of the tribe's Compact agreement, which is after the Compact is approved by the Secretary of the Interior and signed and executed by the State and each tribe.

³⁷ The Baseline Revenue is defined by the Compact as the total Class III Net Win that each tribe generated from its Class III Gaming pursuant to the 2003 Compact in the 12-month period ending with the last full month preceding the effective date of the 2021 Compact, excluding any days during which the Tribe's Gaming Facility was closed due to the coronavirus pandemic, as increased annually by the prior year's growth in the Total Gross Domestic Product, plus any payments received by such tribe from any transfer agreements it had in effect during the same period.

³⁸ According to the Department records, all 13 Category 3 tribes had casinos closed between 57 and 483 days during the pandemic. Five of the 13 Category 3 tribes had casinos closed for more than 100 days.

³⁹ The Compact Trust Fund has accumulated more than \$1.1 million in interest. The Department reported that it has been tracking the amount of interest and reported it will distribute all interest monies to Category 3 tribes when negotiations conclude.

22. Revise and implement policies and procedures that outline steps for Department staff to review free bet information to ensure free bets are accurately reported.
23. Revise its policies and procedures for reviewing and reconciling tribes' monthly and quarterly Class III net win reports to clarify if a secondary review is required.
24. Ensure it receives and reviews all supporting documentation to ensure privilege fee payments it receives are accurate, including following up with operators to ensure all supporting documentation is provided.
25. Continue to develop and implement a secondary review process to ensure that privilege fee payments are accurate.
26. Develop and implement a written action plan for developing and implementing State-required IT security procedures in line with AZDOHS requirements and credible industry standards, focusing on the IT security areas with the highest security risk first. The action plan should include specific tasks, the status of those tasks, and their estimated completion dates, as well as a process for regularly reviewing and updating the plan based on its progress.
27. Ensure Department staff review a national infractions database for violations by horse racing license applicants.
28. Revise and implement the Department's checklist to ensure all licensing steps are completed and documented.
29. Provide periodic training to licensing staff on processes to ensure all required steps are completed and properly documented.
30. Ensure that commercial racetrack permit applications contain all required documentation prior to issuing administrative completeness determinations, as required by rule.
31. Further revise and implement its policies and procedures for periodically evaluating all horse racing regulatory costs and fee amounts, including developing and implementing a cost methodology to provide information on its regulatory costs.
32. Timely distribute monies from the Compact Trust Fund to Category 2 tribes, in accordance with Compact requirements.
33. Work with various stakeholders, including but not limited to working with the tribes, the Governor, and the Legislature as necessary, to help ensure it can meet its responsibility to distribute monies to Category 3 tribes from the Compact Trust Fund.

Department response: As outlined in its [response](#), the Department agrees with all of the findings, and will implement the recommendations.

Sunset factor 3: The extent to which the Department’s key statutory objectives and purposes duplicate the objectives and purposes of other governmental agencies or private enterprises.

Our review did not identify other governmental or private entities that duplicate the Department’s key statutory objectives. However, the Department coordinates with other governmental agencies and private entities in fulfilling some of its responsibilities. For example, the Department coordinates with TGOs and law enforcement agencies to enforce the State’s gambling laws, such as investigating illegal gambling operations. Additionally, the Department coordinates with the Arizona Department of Agriculture by reporting livestock disease outbreaks so that the Arizona Department of Agriculture can enforce quarantines on affected tracks in the State. Finally, the Department coordinates with HISA to help ensure horse racing tracks comply with HISA anti-doping and racetrack safety regulations. For example, the Department and HISA entered into an agreement in 2024 that provided the Department the authority and responsibility for enforcing some HISA regulations, such as testing for restricted and banned substances.

Sunset factor 4: The extent to which rules adopted by the Department are consistent with the legislative mandate.

Our review of the Department’s statutes and rules found that the Department has not developed rules required by A.R.S. §§5-1207(5) and 5-226(B). Specifically:

- ▶ A.R.S. §5-1207(5) requires the Department to adopt rules requiring an applicant for a fantasy sports contest operator license to designate at least 1 key employee as a condition of obtaining a license.⁴⁰ According to the Department, it plans to initiate a rulemaking for event wagering and fantasy sports in 2025, and will include rule changes to address the requirements in A.R.S. §5-1207(5) in its proposed changes.
- ▶ A.R.S. §5-226(B) requires the Department to adopt rules requiring licensed promoters to select a certified public accountant to conduct financial audits of event gross receipts. The Department reported that requiring licensed promoters to select a certified public accountant to audit event gross receipts is likely unnecessary and that it plans to assess the need for such a rule. If necessary, the Department reported it plans to pursue legislation in the 2026 legislative session to remove this requirement.

Recommendations to the Department

- 34.** Adopt rules as required by A.R.S. §5-1207(5).

⁴⁰ A.R.S. §5-1201(15) defines a “key employee” as an employee of a fantasy sports contest operator who has the power to exercise significant influence over decisions concerning the fantasy sports contest operator.

- 35.** Conduct and document an assessment of the need for rules related to A.R.S. §5-226(B). Based on this assessment, the Department should adopt the required rules or work with the Legislature to revise statute to remove the requirements to adopt rules.

Department response: As outlined in its [response](#), the Department agrees with the finding and will implement the recommendations.

Sunset factor 5: The extent to which the Department has provided appropriate public access to records, meetings, and rulemakings, including soliciting public input in making rules and decisions.

The Department has not initiated rulemakings since 2019 that required it to provide public access to or solicit public input for rulemakings.⁴¹ Additionally, we did not assess whether the Department complied with open meeting law because the Department does not have any public bodies subject to open meeting law.⁴²

Our review of the Department's handling of public records requests found that the Department complied with public records laws for the requests we reviewed but could better align its policies with recommended practices.^{43,44} Specifically, we reviewed a sample of 3 of 45 closed public records requests the Department received in calendar years 2023 and 2024 and found that the Department took between 39 and 357 days to fulfill or resolve the 3 requests.⁴⁵ Additionally, the Department provided requestors with a written notice that their public records requests were received and an initial estimate indicating that their requests would be fulfilled within 30 days. Although the Department provided a subsequent written notice of the delays to all 3 requestors indicating that their requests were put on hold, it did not provide the reason(s) for the delay for 2 of the 3 requests, as recommended by the *Arizona Agency Handbook*.⁴⁶ Additionally, the Department's policies did not require staff to provide requestors with an explanation of any delays.

⁴¹ Although the Department initiated a rulemaking in 2021 related to event wagering, the rulemaking was exempt from requirements to solicit public input; therefore, we did not review the Department's compliance with rulemaking requirements for soliciting public input.

⁴² A.R.S. §§38-431 through 38-431.09 contains the State's open meeting laws.

⁴³ A.R.S. §§39-101 through 39-171 contains the State's public records laws.

⁴⁴ Arizona Ombudsman-Citizens' Aide. (2023). *Arizona public records law*. Retrieved 2/12/2024 from <https://www.azoca.gov/wp-content/uploads/Public-Records-Law-Booklet-2023.pdf>; Arizona Office of the Attorney General. (2018). *Arizona agency handbook*. Retrieved 2/12/2024 from <https://www.azag.gov/outreach/publications/agency-handbook>

⁴⁵ We randomly selected 1 public records request and judgmentally selected 2 requests with lengthy resolution times from the 45 closed public records requests the Department received in calendar years 2023 and 2024.

⁴⁶ The request that took 357 days to resolve was withdrawn by the requestor. The Department provided the requestor a written explanation that the request was put on a "legal hold" because of an ongoing investigation.

Recommendation to the Department

- 36.** Update and implement its policies and procedures to require staff to provide a written notice explaining to requestors the reason(s) for any delay(s) in fulfilling a public records request.

Department response: As outlined in its [response](#), the Department agrees with the finding and will implement the recommendation.

Sunset factor 6: The extent to which the Department timely investigated and resolved complaints that are within its jurisdiction.

As indicated in Finding 2, pages 20 through 23, the Department does not have a systematic complaint-handling process to ensure it timely investigates and resolves the various types of complaints it receives. Therefore, we recommended that the Department establish complaint-handling policies and procedures outlining various processes to help ensure it receives, tracks, and investigates the complaints it receives in a timely manner.

Sunset factor 7: The extent to which the level of regulation exercised by the Department is appropriate as compared to other states or best practices, or both.

The level of regulation the Department exercises related to tribal gaming and horse racing is generally similar to other states, with some minor differences, but the level of regulation related to event wagering varies from state to state.

Specifically:

▶ **Arizona has an agreement with tribes to regulate tribal gaming, similar to 28 other states**

As of December 2024, Arizona and 28 other states offer tribal gaming and have entered into compact agreements with tribes to regulate tribal gaming. According to federal law, any tribe that has jurisdiction over the lands where Class III gaming activity occurs must enter into a compact that governs the conduct of gaming activity that may include provisions related to the allocation of criminal and civil jurisdiction between the state and the tribe and standards for the operation and maintenance of a casino on tribal land.⁴⁷

▶ **Arizona licenses individuals involved in horse racing, similar to other states we reviewed, but license durations vary by state**

We compared Arizona's licensing requirements with those in Arkansas, New Mexico, and

⁴⁷ 25 USC 2710 (d)(3)(A) and (C).

Kentucky and found that all 4 states require individuals involved in horse racing to be licensed, such as jockeys, veterinarians, and trainers.⁴⁸ Additionally, all 4 states require licensing applicants to submit fingerprints for a criminal history background check. However, the duration for which the licenses are valid varies in each state. For example, Kentucky licenses are valid for up to 1 year, Arizona licenses are valid for up to 2 years, and licenses in Arkansas and New Mexico are valid for up to 3 years, depending on the type of license.⁴⁹

► **Arizona has legalized and regulated event wagering, similar to 38 other states, but the level of regulation and related fees vary from state to state**

According to the American Gaming Association, as of November 2024, event wagering had been legalized in 39 states.⁵⁰ Similar to Arizona, Nevada licenses event wagering operators to operate mobile wagering platforms, such as sports betting applications on smartphones. However, in other states, such as Delaware and Oregon, the state lottery partners directly with event wagering operators to operate an event wagering system. Additionally, in Montana, the state lottery manages its own event wagering system. Further, as shown in Table 6, page 57, the privilege fee rate, also known as the tax rate, for event wagering varies from state to state, ranging from 6.75% to 51%, with the median rate being 14.25%.^{51,52}

⁴⁸ We judgmentally selected these states because Arkansas has only 1 operational racetrack, similar to Arizona; Kentucky has a well-developed horse racing circuit; and New Mexico is a western state.

⁴⁹ Arizona licenses are valid for 1 or 2 years, depending on the type of license. In Arkansas and New Mexico, licenses are valid for 1 to 3 years, depending on the type of license.

⁵⁰ American Gaming Association. (2024). *State of play map*. Retrieved 11/27/2024 from <https://www.americangaming.org/research/state-of-play-map/>

⁵¹ As shown in Table 6, page 57, 6 states, including Arizona, charge different tax rates for retail event wagering and mobile event wagering.

⁵² As of May 2025, event wagering in Florida, New Mexico, Washington, and Wisconsin is only offered on tribal lands, and we were unable to identify the exact event wagering tax rates for these states.

Table 6**Event wagering tax rates vary greatly from state to state**As of March 2025¹

State	Tax Rate	State	Tax Rate
Arizona	8% (retail); 10% (mobile)	Montana	No tax rate ⁵
Arkansas	Between 13 and 20% ²	Nebraska	20%
Colorado	10%	Nevada	6.75%
Connecticut	13.75%	New Hampshire	50% (retail); 51% (mobile)
Delaware	50%	New Jersey	9.75% (retail); 14.25% (mobile)
Illinois	Between 20 and 40% ³	New York	51%
Indiana	9.5%	Ohio	20%
Iowa	6.75%	Oregon	No tax rate ⁶
Kansas	10%	Pennsylvania	36%
Kentucky	9.75% (retail); 14.25% (mobile)	Rhode Island	51%
Louisiana	10% (retail); 15% (mobile)	South Dakota	9%
Maine	10%	Tennessee	20%
Maryland	15%	Vermont	Between 31 and 33% ⁷
Massachusetts	15% (retail); 20% (mobile)	Virginia	15%
Michigan	8.4%	Washington D.C.	10%
Mississippi	8% state tax and 3 to 4% local tax	West Virginia	10%
Missouri	10% ⁴	Wyoming	10%

¹ The event wagering tax rate for Montana is as of May 2025.

² Arkansas has a tax rate of 13% for the first \$150 million in event wagering revenue and a tax rate of 20% for event wagering revenue above \$150 million.

³ Illinois has a tax rate of 20% for up to \$30 million in event wagering revenue; a tax rate of 25% for event wagering revenue between \$30 million and \$50 million; a tax rate of 30% for event wagering revenue between \$50 million and \$100 million; a tax rate of 25% on event wagering revenue between \$100 million and \$200 million; and a tax rate of 40% on revenue more than \$200 million.

⁴ Event wagering was legalized in Missouri in November 2024 with a 10% tax rate. However, as of April 2025, event wagering was not yet operational.

⁵ Event wagering in Montana is managed by the state lottery, and all event wagering revenue is collected by the state after operating expenses are paid.

⁶ Oregon has no state tax on event wagering. Instead, Oregon contracts with an event wagering operator to manage the state's event wagering platform and Oregon receives a percentage of the operator's revenue.

⁷ In Vermont, DraftKings and Fanatics are required to pay a 31% tax rate, and FanDuel is required to pay a 33% tax rate.

Source: Auditor General staff review of the American Gaming Association's website and National Conference of State Legislatures. (2025). *7 years of sports betting: Did states get it right?* Retrieved 3/30/2025 from <https://www.ncsl.org/fiscal/seven-years-of-sports-betting-did-states-get-it-right>

Sunset factor 8: The extent to which the Department has established safeguards against possible conflicts of interest.

We assessed whether the Department established safeguards against possible conflicts of interest by reviewing its conflict-of-interest practices. The State's conflict-of-interest requirements exist to remove or limit the possibility of personal influence from impacting a decision of a public agency employee or public officer. However, the Department did not comply with some State conflict-of-interest requirements and had not fully aligned its conflict-of-interest process with recommended practices, including using disclosure forms that did not address all statutorily required disclosures and lacking a special disclosure file to store substantial interest disclosures. See Finding 3, pages 24 through 30, for additional information and recommendations.

Sunset factor 9: The extent to which changes are necessary for the Department to more efficiently and effectively fulfill its key statutory objectives and purposes or to eliminate statutory responsibilities that are no longer necessary.

We did not identify needed changes to the Department's statutes. However, the Department reported that various statutory changes are needed to help it more efficiently and effectively fulfill its key statutory objectives and purposes. Specifically:

- ▶ The Department reported that although statute broadly requires event wagering and fantasy sports license applicants to submit fingerprints to the Department for a State and federal criminal history records check, statute does not identify the specific types of applicants subject to this requirement.⁵³ As a result, the Department reported that the Arizona Department of Public Safety and the Federal Bureau of Investigation are unable to process event wagering and fantasy sports contest license applicants' fingerprints that the Department has collected for the purposes of conducting a State and federal criminal history records check.⁵⁴ The Department reported it plans to work with the Legislature in the 2026 legislative session to specify in statute the specific types of event wagering and fantasy sports applicants for which the Department has authority to receive State and federal criminal history records.
- ▶ The Department reported that the Regulatory Wagering Assessment rate is inadequate to meet its operational needs for regulating horse racing.⁵⁵ The Department performed an analysis of its Racing Division's operational costs and revenues and determined that its costs would begin exceeding revenues in fiscal year 2026. The Department reported it

⁵³ A.R.S. §§5-1202 and 5-1302.

⁵⁴ Although A.R.S. 5-1302(E) requires the Department to conduct background checks for some specific types of event wagering licenses, this requirement does not include a State and federal criminal history records check processed through the Arizona Department of Public Safety and the Federal Bureau of Investigation.

⁵⁵ The Regulatory Wagering Assessment is a regulatory assessment from each commercial racing permittee. The Regulatory Wagering Assessment rate was set by Laws 2017, Ch. 312, §7, at 0.5% on the amounts wagered on live and simulcast races from in-state and out-of-state wagering handled by a commercial racing permittee.

plans to work with the Legislature in the 2026 legislative session to grant the Department authority to establish a higher Regulatory Wagering Assessment rate.

Sunset factor 10: The extent to which the termination of the Department would significantly affect the public health, safety, or welfare.

Terminating the Department could affect the public's health, safety, and welfare if its statutory responsibilities were not transferred to another entity. For example, the Department is responsible for monitoring compliance with the Compact, which includes provisions intended to help protect public health, safety, and welfare related to gaming, such as requirements for casinos to provide access to adequate medical transportation, comply with fire code, and ensure casino games are fair. Additionally, the Department is responsible for regulating event wagering and fantasy sports, including investigating unresolved patron disputes against event wagering and fantasy sports contest operators in the State, which can help protect consumers. The Department is also responsible for providing and supporting prevention, treatment, and education programs for people and families affected by problem gambling, which can impact public welfare. According to its fiscal year 2024 Annual Report, the Department spent more than \$1.3 million on problem gambling treatment and treated 992 individuals in fiscal year 2024. Further, the Department works with law enforcement agencies to investigate illegal gambling operations in the State. According to the Department, illegal gambling operations can impact the economy and undermine safeguards that protect consumers. Finally, the Department is responsible for providing staff support to the Racing Commission and Boxing and MMA Commission, including investigating horse racing violations and licensing boxing participants, which help ensure the safety and integrity of those industries. If the Department were terminated, the Racing Commission and Boxing and MMA Commission would lose staff support necessary to help fulfill their statutory objectives and purpose.

RACING COMMISSION SUNSET FACTORS

Pursuant to A.R.S. §41-2954(D), the legislative committees of reference shall consider but not be limited to the following factors in determining the need for continuation or termination of the Racing Commission. The sunset factor analysis includes additional findings and recommendations not discussed earlier in the report.

Sunset factor 1: The key statutory objectives and purposes in establishing the Racing Commission.

The Racing Commission's key statutory objectives and purposes include:

- ▶ Establishing rules for racing in Arizona to protect the welfare of race horses and protect and promote public health, safety, and the proper conduct of racing and pari-mutuel wagering in Arizona.
- ▶ Conducting hearings on and approving or denying permits, and setting race dates.¹

Sunset factor 2: The Racing Commission's effectiveness and efficiency in fulfilling its key statutory objectives and purposes.

Our review found that the Racing Commission conducted hearings related to and approved an application for renewal of a commercial racetrack permit consistent with its statutory objectives, purposes, and authority. Rule requires the Racing Commission to determine through a substantive review whether an applicant for an initial or renewal commercial racetrack permit meets statutory and rule requirements and to grant or deny the permit.^{2,3} To complete its substantive review, the Racing Commission is responsible for reviewing the commercial racetrack application and associated documentation to ensure that the applicant meets all permit requirements, including demonstrating financial responsibility.^{4,5}

The Racing Commission held its first hearing on the permit application on July 11, 2024, and did not grant the permit application because:

- ▶ An independent certified public accountant (CPA) firm had not completed its review of the applicant's financial information.⁶

¹ The Racing Commission is responsible for issuing different types of permits related to horse racing and pari-mutuel wagering, including permits for commercial racetracks and county fairs.

² AAC R19-2-103(F)(2) requires the Racing Commission to determine whether the applicant meets all permit requirements and issue a written notice granting or denying the commercial racetrack permit.

³ A.R.S. §§5-107.01 through 5-107.03, 5-108 through 5-108.01, and 5-109.01; and AAC R19-2-103 and AAC R19-2-104.

⁴ A.R.S. §5-108(A)(1)(a)(2)(a).

⁵ A.R.S. §§5-107(B)(4) and (6), and 5-108(A)(1)(g) and (2)(a).

⁶ The Department contracted with the independent CPA firm to conduct a review of the permit applicant's financial information as part of its responsibility to provide the Racing Commission with a recommendation on whether the applicant meets all permit requirements. The independent CPA firm's review was delayed for various reasons, including because the CPA firm requested additional information regarding the applicant during its review.

- ▶ The applicant needed to complete some track and facility repairs and upgrades, such as fixing inconsistent track depth and purchasing new water trucks.^{7,8}

The Racing Commission issued the applicant a conditional permit to host horse races during the racing season beginning in November 2024 contingent on it making the repairs and upgrades.⁹

Further, the Racing Commission held additional hearings regarding the permit renewal application in October 2024, December 2024, January 2025, and March 2025, and issued multiple conditional permits allowing the applicant to continue to host races, but did not approve the permit application because the permit applicant had not fully resolved some of the previously identified concerns. For example, the permit applicant had not yet completed all the required racetrack repairs. Additionally, in May 2025, the Racing Commission held another hearing regarding the permit application, determined that it could not approve the permit until the permit applicant had completed required track repairs and upgrades, and extended the permit hearing further.

Finally, the Racing Commission held an additional hearing in August 2025 and, because the applicant had made significant progress toward completing track repairs and upgrades, the Racing Commission granted the renewal permit effective until June 30, 2027, conditioned upon the applicant completing the remaining required track repairs and upgrades prior to October 1, 2025. See Table 7, page 62, for a timeline of the Racing Commission's permitting process.

Sunset factor 3: The extent to which the Racing Commission's key statutory objectives and purposes duplicate the objectives and purposes of other governmental agencies or private enterprises.

Our review did not identify other governmental entities that duplicate the Racing Commission's key statutory objectives and purposes. However, the Racing Commission shares some responsibilities for regulating thoroughbred horseracing in Arizona with HISA. Specifically, HISA establishes rules for thoroughbred horse racing regarding anti-doping and racetrack safety, such as banned substances for horses, whereas the Racing Commission establishes rules for licensing, racetrack permitting, and other related requirements, such as requiring commercial racetrack permit applicants to provide audited financial statements demonstrating their financial health to qualify for a permit.

⁷ A.R.S. §5-107(B)(4) and (6), and AAC R19-2-104(R) establish the requirements for an audited financial statement from the applicant and a review by a CPA firm of the applicant's financial documentation.

⁸ On June 24, 2024, HISA and the Department issued a joint letter to the applicant containing a list of track and facility repairs and upgrades to be completed prior to the start of the racing season in November 2024. For example, HISA and the Department directed the applicant to rototill the track surface and repair water trucks.

⁹ According to the Racing Commission, it issued the conditional permit pursuant to the ruling in *Turf Paradise, Inc. v. Arizona Racing Commission*, 160 Ariz. 241 (App. 1989), which held that the Racing Commission may issue conditional permits in certain circumstances.

Table 7

The Racing Commission received a commercial racetrack permit renewal application in July 2024 and approved the permit renewal in August 2025

Date	Permitting process
2024	
May 29	Department receives a commercial racetrack permit application.
June 7	Department issues letter of administrative completeness, despite the application lacking the required audited financial statement.
June 28	Deadline for the Department to determine if the application is administratively complete.
July 10	Department sends the permit application and associated documentation to the Racing Commission.
July 11	Commission holds hearing, issues a conditional permit, and provides an indefinite extension to allow a CPA firm to review the applicant's financials and the applicant to complete track repairs and upgrades.
Oct. 28	Commission holds another hearing and issues a 45-day conditional permit due to incomplete financial review and outstanding track repairs and upgrades.
Oct. 30	HISA recommends halting training and racing until track repairs and upgrades are complete.
Nov. 1	Commission and applicant agree to delay the racing season until the track is determined to be safe for racing.
Nov. 7	HISA informs the applicant that track conditions have improved enough for racing, although some repairs and upgrades remain incomplete.
Nov. 11	Racing season begins at applicant's track.
Dec. 11	Commission issues another 45-day conditional permit. The required financial review and track repairs and upgrades remain incomplete.
2025	
Jan. 24	Commission issues another 45-day conditional permit. The required financial review and track repairs and upgrades remain incomplete.
Mar. 7	Commission issues a 75-day conditional permit. The required financial review and track repairs and upgrades remain incomplete.
Apr. 7	CPA firm submits review of applicant's financial information to the Commission.
May 3	Racing season ends at the applicant's track.
May 20	Commission issues a conditional permit. Track repairs and upgrades remain unfinished.
Aug. 7	Commission grants renewal permit conditioned upon applicant completing track repairs and upgrades before October 1, 2025.



Key deadlines



Racing Commission actions

Source: Auditor General staff review of A.R.S. §5-104 et seq. and AAC R19-2-103, permitting documentation, and Racing Commission meetings.

Sunset factor 4: The extent to which rules adopted by the Racing Commission are consistent with the legislative mandate.

Our review of the Racing Commission's statutes and rules found that the Racing Commission adopted rules when required to do so.

Sunset factor 5: The extent to which the Racing Commission has provided appropriate public access to records, meetings, and rulemakings, including soliciting public input in making rules and decisions.

The Racing Commission has not initiated any rulemakings since 2020 and therefore has not needed to provide public access to or solicit public input for rulemaking since that time.

Additionally, our review of the Racing Commission's compliance with open meeting law requirements for 4 Racing Commission meetings held from September 2024 to November 2024 found that the Racing Commission complied with most open meeting law requirements we reviewed.¹⁰ For example, the Racing Commission posted its meeting notices at least 24 hours in advance of the meetings, followed its noticed agendas, and made meeting recordings available for public inspection within 3 working days after the meetings. However, although the Racing Commission posted electronic and physical meeting notices and agendas and a disclosure statement that identified the electronic location where public notices and agendas are posted, its disclosure statement did not include the physical location where all public notices are posted, as required by statute.¹¹ In February 2025, the Racing Commission updated its website to include a disclosure statement that provides the physical posting location of public notices and agendas.

Finally, our review found that the Racing Commission complied with Arizona's public records law but could better align its practices with recommended practices.¹² Specifically, our review of a random sample of 3 of 55 public records requests received in calendar years 2023 through 2025 found that all 3 were fulfilled consistent with public records law and most recommended practices from the Arizona Ombudsman-Citizens' Aide Office and the *Arizona Agency Handbook*.¹³ For example, the Racing Commission provided requestors with a written notice that their public records request had been received and an estimated 30-day time frame for when the requests would be fulfilled. However, the Racing Commission did not fulfill all 3 requests within the estimated time frame, taking between 51 and 68 days to fulfill the 3 requests. Further, the Racing Commission did not provide 2 of the 3 requestors with a written notice of and reason for

¹⁰ A.R.S. §§38-431 through 38-431.09 contains the State's open meeting laws.

¹¹ A.R.S. §38-431.02.

¹² A.R.S. §§39-101 through 39-171 contains the State's public records laws.

¹³ Arizona Ombudsman-Citizens' Aide. (2023). *Arizona public records law*. Retrieved 2/12/2025 from <https://www.azoca.gov/wp-content/uploads/Public-Records-Law-Booklet-2023.pdf>; Arizona Office of the Attorney General. (2018). *Arizona agency handbook*. Retrieved 2/12/2025 from <https://www.azag.gov/outreach/publications/agency-handbook>

the delays, as recommended by the *Arizona Agency Handbook*. Finally, the Racing Commission's public records request policy lacks a requirement for staff to provide a requestor with a written notice of delay, which likely contributed to these issues.

Recommendation to the Racing Commission

6. Update and implement its policies and procedures to require staff to provide a written notice explaining to requestors the reason(s) for any delay(s) in fulfilling a public records request.

Commission response: As outlined in its [response](#), the Racing Commission agrees with the finding and will implement the recommendation.

Sunset factor 6: The extent to which the Racing Commission timely investigated and resolved complaints that are within its jurisdiction.

The Racing Commission does not have statutory authority or responsibility to investigate horse racing complaints. Instead, this authority resides with the Department. See Finding 2, pages 20 through 23, for more information on issues we identified with the Department's horse racing complaint-handling process. However, A.R.S. §5-104 authorizes the Racing Commission to conduct rehearings on licensing and regulatory decisions made by the Department.

Sunset factor 7: The extent to which the level of regulation exercised by the Racing Commission is appropriate as compared to other states or best practices, or both.

We compared Arizona's level of regulation of horse racing to 3 other states—New Mexico, Kentucky, and Arkansas—and found that the level of regulation the Racing Commission exercises is generally similar to these 3 states, with some differences.¹⁴

Specifically, the Racing Commission:

► Is under federal HISA jurisdiction

Arizona and all 3 states are under HISA's jurisdiction. The federal Horseracing Integrity and Safety Act grants HISA preemptive authority over state racing regulators regarding anti-doping and racetrack safety regulations for thoroughbred horse races.¹⁵ For example, HISA establishes bans on certain substances under the Horseracing Integrity and Safety Act.

¹⁴ We judgmentally selected these states because Arkansas has only 1 operational racetrack, similar to Arizona; Kentucky has a well-developed horse racing circuit; and New Mexico is a western state. The agencies regulating horse racing in these respective states are the Arkansas State Racing Commission, the Kentucky Horse Racing and Gaming Corporation, and the New Mexico Racing Commission.

¹⁵ 15 USC 3054.

▶ **Issues licenses or permits for racetracks**

Arizona and all 3 states require commercial racetracks to receive regulatory approval prior to holding horse races, such as a permit or license.

Additionally, applicants for a commercial racetrack permit in Arizona may be denied a permit for having a permit and/or license suspended in another jurisdiction; however, Kentucky and New Mexico strictly prohibit issuing licenses to applicants with suspended licenses and/or permits in other jurisdictions. We did not identify similar specific requirements for Arkansas.

▶ **Issues racetrack permits valid for 3 years**

Arizona can issue commercial racetrack permits for up to 3 years. In contrast, Kentucky and New Mexico require applicants to renew commercial racetrack licenses annually. Additionally, Arkansas does not outline a specific time frame for how long commercial racetrack licenses are valid for but requires applicants to apply prior to the beginning of a planned racing meet.

▶ **Requires criminal history background checks**

Arizona, New Mexico, and Kentucky require applicants for a commercial racetrack permit or license to submit fingerprints and undergo a criminal history background check. However, we did not identify similar requirements for Arkansas.

Sunset factor 8: The extent to which the Racing Commission has established safeguards against possible conflicts of interest.

We assessed whether the Racing Commission established safeguards against possible conflicts of interest by reviewing its conflict-of-interest practices. Conflict-of-interest requirements exist to remove or limit the possibility of personal influence from impacting a decision of a public agency employee or public officer. We found that the Racing Commission did not comply with some conflict-of-interest requirements and had not fully aligned its conflict-of-interest process with recommended practices, including using disclosure forms that did not address all statutorily required disclosures and not having a special disclosure file. We recommended that the Racing Commission develop and implement comprehensive conflict-of-interest policies and procedures that align with State and federal conflict-of-interest requirements and recommended practices. See Finding 3, pages 24 through 30, for additional information and recommendations.

Sunset factor 9: The extent to which changes are necessary for the Racing Commission to more efficiently and effectively fulfill its key statutory objectives and purposes or to eliminate statutory responsibilities that are no longer necessary.

We did not identify any needed changes to the Racing Commission's statutes.

Sunset factor 10: The extent to which the termination of the Racing Commission would significantly affect the public health, safety, or welfare.

Terminating the Racing Commission could affect the public's health, safety, and welfare if its regulatory responsibilities were not transferred to another entity. The Racing Commission is responsible for issuing permits to commercial racetracks and ensuring that permits issued to tracks are in the best interest of the safety, welfare, and health of the people of the State. For example, the Racing Commission can require racetracks to address safety concerns before issuing a permit. Additionally, the Racing Commission is responsible for creating rules designed to promote the health and safety of horses and the public. For example, the Racing Commission established rules requiring permittees to provide a horse ambulance for transporting injured horses.

BOXING AND MMA COMMISSION SUNSET FACTORS

Pursuant to A.R.S. §41-2954(D), the legislative committees of reference shall consider but not be limited to the following factors in determining the need for continuation or termination of the Boxing and MMA Commission. The sunset factor analysis includes additional findings and recommendations not discussed earlier in the report.

Sunset factor 1: The key statutory objectives and purposes in establishing the Boxing and MMA Commission.

The Boxing and MMA Commission's key statutory objectives and purposes include:

- ▶ Regulating boxing contests, tough man contests, and mixed martial arts contests held in the State, including supervising weigh-ins and assigning referees.
- ▶ Granting licenses for all boxing, tough man, and mixed martial arts contests held in the State, including fighters/participants, referees, judges, inspectors, and physicians.

Sunset factor 2: The Boxing and MMA Commission's effectiveness and efficiency in fulfilling its key statutory objectives and purposes.

We identified 2 areas where the Boxing and MMA Commission could better meet its statutory objectives and purposes.

Specifically, the Boxing and MMA Commission:

- ▶ **Issued licenses to some applicants who did not demonstrate they met all requirements but revised its processes to help ensure it does not do so in the future**

Our review of a stratified random sample of 3 initial and 5 renewal license applications the Boxing and MMA Commission approved in calendar years 2023 and 2024 found that it had issued or renewed licenses for applicants who did not demonstrate they met all requirements (see textbox, page 68, for examples of licensing requirements we reviewed).¹ Specifically, our review found that in calendar year 2023, the Boxing and MMA Commission approved 4 of 8 applicants we reviewed despite the 4 applicants not signing a code of conduct, as required by rule.² Additionally, in calendar year 2023, the Boxing and MMA Commission approved 1 applicant we reviewed for an initial judge license despite the applicant not submitting fingerprints to the Boxing and MMA Commission to perform a

¹ Our stratified random sample included initial and renewal applications for 2 of 16 ringside physicians, 2 of 43 referees, 2 of 68 judges, and 2 of 46 inspectors approved in calendar years 2023 and 2024.

² AAC R19-2-C601(E).

criminal history background check, as required by statute and rule.^{3,4}

The Boxing and MMA Commission reported that in calendar year 2023, it lacked a method to track whether applicants had submitted completed codes of conduct and fingerprints when required, which contributed to these issues. However, in calendar year 2024, the Boxing and MMA Commission modified its online application to require applicants to submit a signed code of conduct to complete the license application process and developed a log to track when applicants submitted fingerprints. We did not identify any issues with the calendar year 2024 applications we reviewed.

► **Had not developed a process to regularly evaluate the appropriateness of its boxing and MMA license and event permit fees**

Statute authorizes the Boxing and MMA Commission to establish fees for licenses and event permits, and it has established the specific fee and amounts in rule.^{5,6} Additionally, statute allows the Boxing and MMA Commission to consider various factors in establishing its fees for specific events, such as whether an event will be televised and/or transmitted on pay-per-view.^{7,8} Government fee-setting standards and guidance state that fees should be based on the costs of providing a service and reviewed periodically to ensure fees are based on these costs.⁹ Additionally, fee-setting best practices recommend that government entities should determine the

Examples of boxing and MMA licensing requirements we reviewed

Statute and rule require Boxing and MMA license applicants to meet various licensing requirements, including:

- Having submitted the results of a current medical examination.¹
- Having submitted fingerprints for a criminal history background check.²
- Having signed a code of conduct.³

¹ A.R.S. §5-228(F) requires applicants for a combatant or referee license to submit to the Boxing and MMA Commission the results of a current medical examination, including the results of an ophthalmological examination.

² A.R.S. §5-228(C) requires initial applicants for referee, judge, matchmaker, promoter, and manager licenses to furnish fingerprints and background information prior to licensure.

³ AAC R19-2-C601(E) requires applicants for an official's license, such as a referee or inspector, to submit a signed code of conduct to the Boxing and MMA Commission acknowledging that the applicant has read and understands the code and agrees to comply with its terms.

Source: Auditor General staff review and summary of A.R.S. §5-228 and AAC R19-2-C601.

³ A.R.S. §5-228(C) and AAC R19-2-C603(A).

⁴ A.R.S. §5-228(C) requires judges to submit fingerprints for use in a criminal history background check. For the 2 judge license applications we reviewed, 1 was for an initial license and the other was for a license renewal.

⁵ A.R.S. §§5-225(D) and 5-230(A).

⁶ AAC R19-2-C603, AAC R19-2-C609(A)(3), and AAC R19-2-D607(B).

⁷ A.R.S. §5-225(D).

⁸ The event permit fee for a nonlive televised event at a venue seating no more than 5,000 is \$750, and the fee for a live pay-per-view event on cable or satellite television is \$4,000.

⁹ We reviewed the following fee-setting best practices: Arizona State Agency Fee Commission. (2012). *Arizona State Agency Fee Commission report*. U.S. Government Accountability Office. (2008). *Federal user fees: A design guide*. Retrieved 5/2/2025 from <https://www.gao.gov/assets/gao-08-386sp.pdf>; Michel, R.G. (2004). *Cost analysis and activity-based costing for government*. Government Finance Officers Association; and U.S. Office of Management and Budget. (1993). *OMB Circular No. A 25*, revised. Retrieved 5/2/2025 from <https://www.whitehouse.gov/wp-content/uploads/2017/11/Circular-025.pdf>

costs of providing a service, including direct and indirect costs. However, the Boxing and MMA Commission had not developed a process to regularly evaluate its licensing and permit fees, nor has it regularly assessed the costs of its regulatory activities.¹⁰ Without this information, the Boxing and MMA Commission cannot ensure that its fees are based on the costs of carrying out its regulatory activities, which puts it at risk for collecting more or less revenue than it needs to pay for these activities.

Additionally, the Boxing and MMA Commission lacks fee-setting policies and procedures to help ensure its fees are commensurate with the costs of its regulatory activities. As discussed in the Department's Sunset Factors (see Sunset Factor 2, page 50), the Department developed budgeting and financial planning policies and procedures during the audit that also apply to the Boxing and MMA Commission. Although these policies and procedures include requirements to evaluate fees on an annual basis and assess whether the fees are sufficient to cover regulatory costs, they lack guidance for determining all regulatory costs, such as the amount of time staff spend on issuing a license or permit.

Recommendations to the Boxing and MMA Commission

5. Ensure that boxing and MMA licensing applicants meet all initial and renewal licensing requirements, including signing a code of conduct and submitting fingerprints for a criminal history background check.
6. Conduct a review of licensing applicants approved in calendar year 2025 to determine whether any other approved applicants failed to meet all licensing requirements, and based on this review, take steps to address any deficiencies identified, such as requiring the licensees to undergo a criminal history background check.
7. Continue to implement changes to require applicable licensing applicants to submit a signed code of conduct to complete the license application process and to track when applicable licensing applicants submit fingerprints.
8. Further revise and implement its policies and procedures for periodically evaluating all regulatory costs and fee amounts, including developing and implementing a cost methodology to provide information on its regulatory costs.

Commission response: As outlined in its [response](#), the Boxing and MMA Commission agrees with all of the findings, and will implement the recommendations.

¹⁰ The Boxing and MMA Commission last updated its fee amounts in 2018.

Sunset factor 3: The extent to which the Boxing and MMA Commission's key statutory objectives and purposes duplicate the objectives and purposes of other governmental agencies or private enterprises.

Our review did not identify other governmental or private entities that duplicate the Boxing and MMA Commission's key statutory objectives and purposes. However, we found 1 area where the Boxing and MMA Commission coordinates with a nonprofit organization. Specifically, the Boxing and MMA Commission is required by the federal Muhammad Ali Boxing Reform Act to enter boxing match results and suspensions in a national registry certified by the Association of Boxing Commissions and Combative Sports after the conclusion of a professional boxing match.^{11,12} Additionally, the Boxing and MMA Commission uses the national boxing registry in its licensing process to help it determine applicants' suitability for licensure, such as whether license applicants have been suspended in other states for medical or other reasons.

Sunset factor 4: The extent to which rules adopted by the Boxing and MMA Commission are consistent with the legislative mandate.

Our review of the Boxing and MMA Commission's statutes and rules found that the Boxing and MMA Commission had adopted rules when required to do so.

Sunset factor 5: The extent to which the Boxing and MMA Commission has provided appropriate public access to records, meetings, and rulemakings, including soliciting public input in making rules and decisions.

The Boxing and MMA Commission had not initiated any rulemaking since 2020 and therefore has not needed to provide public access to or solicit public input for rulemaking since that time.

Additionally, our review of the Boxing and MMA Commission's compliance with open meeting law requirements for 3 commission meetings held from September 2024 to November 2024 found that the Boxing and MMA Commission complied with most open meeting law requirements we reviewed.¹³ For example, the Boxing and MMA Commission posted its meeting notices at least 24 hours in advance of the meeting time, followed its noticed agenda, and made recordings available for public inspection 3 working days after the meeting. However, although the Boxing

¹¹ The Association of Boxing Commissions and Combative Sports is a nonprofit governmental entity of professional boxing and mixed martial arts organization formed in the 1980s that provides a framework for undertaking boxing and mixed martial arts bouts and record keeping.

¹² The purpose of the federal Muhammad Ali Boxing Reform Act was to improve and expand the system of safety precautions that protects the welfare of professional boxers and to assist State boxing Commissions to provide more effective oversight for the professional boxing industry.

¹³ A.R.S. §§38-431 through 38-431.09 contains the State's open meeting laws.

and MMA Commission posted electronic and physical meeting notices and agendas and had posted a disclosure statement that identified the electronic location where public notices and agendas were to be posted, its disclosure statement did not include the physical location where all public notices are to be posted, as required by statute.¹⁴ In February 2025, the Boxing and MMA Commission updated its website to include a disclosure statement that provides the physical posting location of public notices and agendas.

Finally, our review of the Boxing and MMA Commission’s compliance with the State’s public records laws found that it complied with public records law and recommended practices from the Arizona Ombudsman-Citizens’ Aide Office and the *Arizona Agency Handbook*.^{15,16} Specifically, our review of a random sample of 2 of 21 public records requests the Commission received in calendar years 2023 and 2024 found that it fulfilled the requests and complied with public records law and recommended practices. For example, for the 2 sampled requests, the Boxing and MMA Commission provided requestors with a receipt indicating their records request had been received and an estimated time frame for when the requests would be fulfilled. Additionally, the Boxing and MMA Commission fulfilled both requests in 1 day.

Sunset factor 6: The extent to which the Boxing and MMA Commission timely investigated and resolved complaints that are within its jurisdiction.

According to statute and rule, the Boxing and MMA Commission has the authority to handle complaints related to Boxing and MMA licensees.¹⁷ Additionally, according to the National State Auditors Association, agencies with regulatory responsibilities, such as the Boxing and MMA Commission, should have systematic processes for handling complaints, such as processes for tracking and monitoring the receipt and resolution of complaints.¹⁸ However, we found that the Boxing and MMA Commission has not developed systematic processes for handling, documenting, and resolving the complaints it receives.

For example, the Commission:

- ▶ Has not developed complaint documentation requirements, such as retaining complaint forms, correspondence with all parties and investigative documents, final investigative reports, and dates associated with investigative steps and Boxing and MMA Commission decisions.

¹⁴ A.R.S. §38-431.02.

¹⁵ A.R.S. §§39-101 through 39-171.

¹⁶ Arizona Ombudsman-Citizens’ Aide. (2023). *Arizona public records law*. Retrieved 2/12/2024 from <https://www.azoca.gov/wp-content/uploads/Public-Records-Law-Booklet-2023.pdf>; Arizona Office of the Attorney General. (2018). *Arizona agency handbook*. Retrieved 2/12/2024 from <https://www.azag.gov/outreach/publications/agency-handbook>

¹⁷ A.R.S. §5-227(A)(1) and AAC R19-2-C605.

¹⁸ National State Auditors Association (NSAA). (2004). *Carrying out a state regulatory program: A National State Auditors Association best practices document*. Retrieved 3/11/2025 from https://www.nasact.org/files/News_and_Publications/White_Papers_Reports/NSAA%20Best%20Practices%20Documents/2004_Carrying_Out_a_State_Regulatory_Program.pdf

- ▶ Does not include information on its website explaining complaint-handling processes or how a member of the public can submit a complaint to the Boxing and MMA Commission.
- ▶ Has not developed processes or standards for tracking, investigating, and overseeing the complaints it receives to ensure that they are resolved appropriately and timely.

The Boxing and MMA Commission reported that it does not have a process for handling complaints because it has never received complaints. However, absent a process to inform the public of how they can submit complaints and the associated complaint-handling processes, the Boxing and MMA Commission cannot ensure that it receives and thus can investigate and resolve complaints from the public, which could result in violations not being addressed and potentially putting boxing and MMA participants' safety at risk.

Recommendations to the Boxing and MMA Commission

9. Establish a method for submitting complaints through its website or by other easily accessible means.

Develop and implement written policies and procedures for complaint-handling that include:

10. Minimum documentation standards, such as retaining complaint forms, correspondence with all parties and other investigative documents, final investigative reports, Commission decisions, and dates associated with investigative steps and Commission decisions.
11. Time frames for completing key complaint-handling steps.
12. Notification requirements for parties involved, such as when a complaint is being opened or resolved, or when a complaint falls outside of the Commission's jurisdiction.
13. Tracking and monitoring all complaints it receives to help ensure that complaints are being resolved in a timely manner.

Commission response: As outlined in its [response](#), the Boxing and MMA Commission agrees with the finding and will implement the recommendations.

Sunset factor 7: The extent to which the level of regulation exercised by the Boxing and MMA Commission is appropriate as compared to other states or best practices, or both.

We compared Arizona's level of regulation of Boxing and MMA to 3 other states we judgmentally selected—Nevada, New Mexico, and Texas—and found that the level of regulation the Boxing and MMA Commission exercises as compared to other states is generally similar, with some differences.¹⁹

Specifically, the Boxing and MMA Commission:

- ▶ **Is a member of a national governing body**

Arizona and the 3 other states are members of the Association of Boxing Commissions, which promotes uniform health and safety standards for boxing and mixed martial arts; establishes minimum contract provisions for bout agreements and boxing contracts; and maintains contest and suspension records.

- ▶ **Requires participants and officials to be licensed**

Arizona and the other 3 states require boxing and MMA participants and officials, such as combatants, promoters, and referees, to be licensed. In contrast to Arizona, New Mexico is also authorized to issue sports entertainment wrestler licenses.

- ▶ **Requires annual renewal of licenses**

All boxing and MMA licenses in Arizona and Texas are valid for 1 year, whereas licenses in New Mexico and Nevada are valid for up to a year from the date of issuance but expire at the end of the calendar year in which they were issued.²⁰

- ▶ **Requires background checks for some license applicants**

Arizona and Texas require criminal history background checks for some license applicants, such as promoters and managers. Similarly, Nevada is authorized to require some license applicants, such as ringside official applicants, to undergo a criminal history background check. However, we did not identify similar requirements for New Mexico.

- ▶ **Requires medical exams for combatants**

Arizona and all 3 other states require medical testing for combatants, such as eye exams and blood tests. Additionally, Arizona requires annual concussion testing; however, Nevada, New Mexico, and Texas do not have such a requirement.

¹⁹ We judgmentally selected these states because, similar to Arizona, they have well-developed boxing and MMA industries and are western or southwestern states. The agencies for these states include the Nevada Athletic Commission, New Mexico Athletic Commission, and Texas Combative Sports Program.

²⁰ Licenses in New Mexico and Nevada expire annually on December 31.

Sunset factor 8: The extent to which the Boxing and MMA Commission has established safeguards against possible conflicts of interest.

We assessed whether the Boxing and MMA Commission established safeguards against possible conflicts of interest by reviewing its conflict-of-interest practices. Conflict-of-interest requirements exist to remove or limit the possibility of personal influence from impacting a decision of a public agency employee or public officer. However, the Boxing and MMA Commission did not comply with some conflict-of-interest requirements and had not fully aligned its conflict-of-interest process with recommended practices, including using disclosure forms that did not address all statutorily required disclosures. We recommended that the Boxing and MMA Commission develop and implement comprehensive conflict-of-interest policies and procedures that align with State and federal conflict-of-interest requirements and recommended practices. See Finding 3, pages 24 through 30, for additional information and recommendations.

Sunset factor 9: The extent to which changes are necessary for the Boxing and MMA Commission to more efficiently and effectively fulfill its key statutory objectives and purposes or to eliminate statutory responsibilities that are no longer necessary.

We did not identify any needed changes to the Boxing and MMA Commission's statutes.

Sunset factor 10: The extent to which the termination of the Boxing and MMA Commission would significantly affect the public health, safety, or welfare.

Terminating the Boxing and MMA Commission could affect the health, safety, and welfare of boxing and MMA participants if its regulatory responsibilities were not transferred to another entity. The Boxing and MMA Commission is responsible for regulating and supervising boxing and mixed martial arts contests in the State, including issuing licenses to participants. According to the Department's fiscal year 2024 Annual Report, the Boxing and MMA Commission licensed 1,169 individuals and supervised 32 events. The combination of these functions helps to protect participants' health, safety, and welfare. For example, as mentioned in Sunset Factor 3, page 70, federal law requires boxing commissions to report medical and other suspensions in a registry that is used to ensure that boxers applying for licensure are not suspended in other states for medical or other reasons. Additionally, the Boxing and MMA Commission ensures combatants receive pre- and post-fight physical examinations to ensure combatants are fit for combat and to determine if a fighter should be medically suspended after a fight, as required by statute.²¹

²¹ A.R.S. §5-233(A).

The Arizona Auditor General makes 36 recommendations to the Department, 6 recommendations to the Racing Commission, and 13 recommendations to the Boxing and MMA Commission

Click on a finding, recommendation, or its page number to the right to go directly to that finding or recommendation in the report.

Recommendations to the Department

FINDING 1	16
1. Ensure that event wagering and fantasy sports contest operators comply with statutory and rule requirements to submit independent audit reports that include an attestation from the CPA firm that the operator accurately reported the adjusted gross event wagering receipts or fantasy sports contest adjusted revenues.	19
2. Review event wagering and fantasy sports contest operators' independent audit reports to determine if the operators paid the correct privilege fee amounts during the audited year and take actions to address any overpayments and underpayments as required by rule.	19
3. Conduct a review of event wagering and fantasy sports contest operators' independent audit reports since 2021, and determine which operators did not provide an audit report that complied with statutory and rule requirements, such as providing an attestation. Based on this review, the Department should follow up with all operators who did not provide an audit report that met statutory and rule requirements.	19
4. In conjunction with Recommendation 3, review event wagering and fantasy sports contest operators' independent audit reports since 2021 to determine if the operators paid the correct privilege fee amounts and take actions to address any overpayments and underpayments, as required by rule.	19
5. Revise and implement its policies and procedures for reviewing independent audit reports that include requirements and steps for following up with event wagering and fantasy sports contest operators or their auditors that fail to provide an audit report and/or required audit attestation.	19

6. Revise and implement its policies and procedures to include steps to take disciplinary actions, if necessary, against event wagering and fantasy sports contest operators who fail to provide an independent audit report that complies with statutory and rule requirements. 19

FINDING 2 20

7. Develop and implement policies and procedures for receiving, investigating, forwarding if necessary, and resolving the various types of complaints it is responsible for, including complaints related to Compact noncompliance, event wagering and fantasy sports, and horse racing. 23
8. Develop and implement a complaint-tracking mechanism(s) or tool(s) that allows the Department to track and monitor the various types of complaints it is responsible for to ensure they are investigated and resolved in a timely manner. 23

As part of its efforts to implement recommendations 7 and 8, the Department should:

9. Make complaint-handling information readily available on its website, including information on how to submit a complaint. 23
10. Implement a process to track complaints of compact noncompliance to ensure TGOs are notified within 48 hours of the receipt or report of a complaint regarding compact noncompliance. 23
11. Implement a process to track event wagering and fantasy sports complaints to ensure final letters are sent to complainants within 5 days after completing the complaint investigation. 23
12. Implement the State Ombudsman's recommendations related to its handling of event wagering and fantasy sports complaints. 23

FINDING 3 24

Continue to develop and implement conflict-of-interest policies and procedures to help ensure compliance with State conflict-of-interest requirements and alignment with recommended practices, including:

13. Requiring employees to complete a conflict-of-interest disclosure form upon hire that addresses all State and Department-specific conflict-of-interest requirements, and reminding them at least annually to update their form when their circumstances or responsibilities change, such as being assigned to participate on a committee to allocate event wagering licenses, including attesting that no conflicts exist, if applicable. 29
14. Storing all substantial interest disclosures in a special file available for public inspection. 29

15. Establishing a process to review and remediate disclosed conflicts. 29
16. Develop and provide periodic training on its conflict-of-interest requirements, process, and disclosure form, including providing training to employees on how the State's and Department-specific conflict-of-interest requirements relate to their unique programs, functions, or responsibilities. 29

DEPARTMENT SUNSET FACTORS 39

17. Develop and implement a documented plan and time frames to implement the suggested recommendations from the contracted evaluation of the Department's problem gambling programs. If the Department determines not to implement some of the suggested recommendations, it should include its rationale for not doing so in the documented plan. 51
18. Implement its revised CCR policies and procedures to ensure compliance with all problem gambling requirements in the Compact. 51
19. Develop and implement policies and procedures for selecting gaming machines and tables to review during the CCR, including guidance on the number and types of gaming machines and tables to review. 51
20. Implement its revised CCR policies and procedures for observing table games during the CCR. 51
21. Revise and implement instructions for operators on calculating and preparing free bet and promotional credits to clarify how free bet and promotional credit deductions should be calculated and require operators to submit documentation supporting these calculations. 51
22. Revise and implement policies and procedures that outline steps for Department staff to review free bet information to ensure free bets are accurately reported. 52
23. Revise its policies and procedures for reviewing and reconciling tribes' monthly and quarterly Class III net win reports to clarify if a secondary review is required. 52
24. Ensure it receives and reviews all supporting documentation to ensure privilege fee payments it receives are accurate, including following up with operators to ensure all supporting documentation is provided. 52
25. Continue to develop and implement a secondary review process to ensure that privilege fee payments are accurate. 52
26. Develop and implement a written action plan for developing and implementing State-required IT security procedures in line with AZDOHS requirements and credible industry standards, focusing on the IT security areas with the highest

security risk first. The action plan should include specific tasks, the status of those tasks, and their estimated completion dates, as well as a process for regularly reviewing and updating the plan based on its progress.

52

27. Ensure Department staff review a national infractions database for violations by horse racing license applicants.

52

28. Revise and implement the Department's checklist to ensure all licensing steps are completed and documented.

52

29. Provide periodic training to licensing staff on processes to ensure all required steps are completed and properly documented.

52

30. Ensure that commercial racetrack permit applications contain all required documentation prior to issuing administrative completeness determinations, as required by rule.

52

31. Further revise and implement its policies and procedures for periodically evaluating all horse racing regulatory costs and fee amounts, including developing and implementing a cost methodology to provide information on its regulatory costs.

52

32. Timely distribute monies from the Compact Trust Fund to Category 2 tribes, in accordance with Compact requirements.

52

33. Work with various stakeholders, including but not limited to working with the tribes, the Governor, and the Legislature as necessary, to help ensure it can meet its responsibility to distribute monies to Category 3 tribes from the Compact Trust Fund.

52

34. Adopt rules as required by A.R.S. §5-1207(5).

53

35. Conduct and document an assessment of the need for rules related to A.R.S. §5-226(B). Based on this assessment, the Department should adopt the required rules or work with the Legislature to revise statute to remove the requirements to adopt rules.

54

36. Update and implement its policies and procedures to require staff to provide a written notice explaining to requestors the reason(s) for any delay(s) in fulfilling a public records request.

55

Recommendations to the Racing Commission

FINDING 3

24

- Continue to develop and implement conflict-of-interest policies and procedures to help ensure compliance with State conflict-of-interest requirements and alignment with recommended practices, including:
1.

Requiring commissioners to complete a conflict-of-interest disclosure form upon appointment that addresses all State and commission-specific conflict-of-interest requirements, and reminding them at least annually to update their form when their circumstances change, including attesting that no conflicts exist, if applicable.

29

2.

Requiring commissioners to fully disclose conflicts of interest during public meetings, such as describing the individuals and/or entities involved.

29

3.

Storing all substantial interest disclosures in a special file available for public inspection, including disclosures made during public meetings.

30

4.

Establishing a process to review and remediate disclosed conflicts.

30

5.

Develop and provide periodic training on its conflict-of-interest requirements, process, and disclosure form, including providing training to commissioners on how the State’s and commission-specific conflict-of-interest requirements relate to their unique programs, functions, or responsibilities.

30

RACING COMMISSION SUNSET FACTORS

60

6.

Update and implement its policies and procedures to require staff to provide a written notice explaining to requestors the reason(s) for any delay(s) in fulfilling a public records request.

64

Recommendations to the Boxing and MMA Commission

FINDING 3

24

- Continue to develop and implement conflict-of-interest policies and procedures to help ensure compliance with State conflict-of-interest requirements and alignment with recommended practices, including:
1.

Requiring commissioners to complete a conflict-of-interest disclosure form upon appointment that addresses all State and commission-specific conflict-of-interest requirements, and reminding them at least annually to update their form when their circumstances change, including attesting that no conflicts exist, if applicable.

30

2. Storing all substantial interest disclosures in a special file available for public inspection, including disclosures made during public meetings. 30
3. Establishing a process to review and remediate disclosed conflicts. 30
4. Develop and provide periodic training on its conflict-of-interest requirements, process, and disclosure form, including providing training to commissioners on how the State's and commission-specific conflict-of-interest requirements relate to their unique programs, functions, or responsibilities. 30

BOXING AND MMA COMMISSION SUNSET FACTORS 67

5. Ensure that boxing and MMA licensing applicants meet all initial and renewal licensing requirements, including signing a code of conduct and submitting fingerprints for a criminal history background check. 69
6. Conduct a review of licensing applicants approved in calendar year 2025 to determine whether any other approved applicants failed to meet all licensing requirements, and based on this review, take steps to address any deficiencies identified, such as requiring the licensees to undergo a criminal history background check. 69
7. Continue to implement changes to require applicable licensing applicants to submit a signed code of conduct to complete the license application process and to track when applicable licensing applicants submit fingerprints. 69
8. Further revise and implement its policies and procedures for periodically evaluating all regulatory costs and fee amounts, including developing and implementing a cost methodology to provide information on its regulatory costs. 69
9. Establish a method for submitting complaints through its website or by other easily accessible means. 72

Develop and implement written policies and procedures for complaint-handling that include:

10. Minimum documentation standards, such as retaining complaint forms, correspondence with all parties and other investigative documents, final investigative reports, Commission decisions, and dates associated with investigative steps and Commission decisions. 72
11. Time frames for completing key complaint-handling steps. 72
12. Notification requirements for parties involved, such as when a complaint is being opened or resolved, or when a complaint falls outside of the Commission's jurisdiction. 72
13. Tracking and monitoring all complaints it receives to help ensure that complaints are being resolved in a timely manner. 72

Scope and methodology

The Arizona Auditor General has conducted a performance audit and sunset review of the Department, the Racing Commission, and the Boxing and MMA Commission pursuant to a September 18, 2024, resolution of the Joint Legislative Audit Committee. This audit was conducted as part of the sunset review processes prescribed in A.R.S. §41-2951 et seq.

We used various methods to address the audit's objectives. These methods included interviewing Department staff and reviewing federal statutes and regulations; State statutes, administrative rules, and the Compact; and the Department's website, policies and procedures, budget requests, legislative appropriations, and other Department-provided documentation. We also used the following specific methods to meet the audit objectives:

- ▶ To evaluate the Department's process for reviewing event wagering and fantasy sports contest operators' third-party audit reports, we reviewed the Department's spreadsheets documenting its review of third-party audit reports for 17 event wagering operators' and 10 fantasy sports contest operators' calendar year 2023 financial activity. We also reviewed third-party audit reports and other related documentation for event wagering operators and fantasy sports contest operators that submitted either a third-party audit report or other financial information to the Department for their calendar year 2023 operations.
- ▶ To evaluate the Department's complaint-handling processes, we reviewed the Department's complaint documentation from a stratified random sample of 7 horse racing complaints the Department received in calendar year 2024, consisting of:
 - 5 of 13 complaints the Department determined were within its jurisdiction.
 - 2 of 16 complaints the Department determined were outside its jurisdiction.

Additionally, we reviewed the Department's event wagering and fantasy sports complaint spreadsheet for September 2021 through January 2025, and reviewed a log of Department complaints received by the Arizona Ombudsman between January 2021 and September 2024.¹ We also compared the Department's complaint-handling process to recommended practices.²

- ▶ To evaluate the Department's and commissions' compliance with conflict-of-interest requirements and alignment of their conflict-of-interest processes with recommended practices, we reviewed State and federal requirements, recommended practices, the Department's and commissions' conflict-of-interest policies, and the Department's and

¹ We reviewed complaint data for these complaints and determined the Department was not tracking necessary information related to these complaints; therefore, we did not select a sample for further review.

² National State Auditors Association (NSAA). (2004). *Carrying out a state regulatory program: A National State Auditors Association best practices document*. Retrieved 5/2/2025 from https://www.nasact.org/files/News_and_Publications/White_Papers_Reports/NSAA%20Best%20Practices%20Documents/2004_Carrying_Out_a_State_Regulatory_Program.pdf

commissions' conflict-of-interest disclosure forms.^{3,4,5} We also reviewed a judgmental sample of 15 of 22 Racing Commission meetings held between March 2024 and May 2025. We selected the meetings based on the agendaized discussion topics. Additionally, we reviewed all completed conflict-of-interest disclosure forms for Department staff, Racing Commission members, and Boxing and MMA Commission members, as of December 2024.

- ▶ To obtain information for the Questions and Answers, we reviewed the 1992 Compact between the State and the Fort McDowell Mohave-Apache Indian Community, the 2003 Compact, the 2021 Compact, and the Department's fiscal year 2024 annual report.
- ▶ To evaluate whether the Department distributed Arizona Benefits Fund monies in accordance with statutory and Compact requirements, we reviewed information from AZ360 for fiscal year 2024.
- ▶ To evaluate whether the Department issued event wagering operator licenses to qualified applicants, we reviewed licensing files and related documentation, including applications, laboratory certification reports, and financial reports for a random and judgmental sample of 3 event wagering operators from the 18 event wagering operators that were licensed as of August 3, 2024.⁶
- ▶ To evaluate whether the Department has addressed recommendations from the 2023 evaluation of its problem gambling division, we reviewed the 2023 contracted evaluation of the Department's problem gambling programs, Department contracts, and the Division of Problem Gambling's fiscal years 2023-2027 strategic plan.
- ▶ To assess the Department's CCR process, we observed Department staff conducting a CCR of a casino in October 2024, including counting table games, reviewing event wagering kiosks, and reviewing card storage areas to ensure compliance with Compact requirements.⁷ Additionally, we reviewed the Department's CCR audit plans, checklists, and other related documentation provided by the Department.
- ▶ To assess the Department's process for reviewing and reconciling tribal contribution

³ AAG. (2018). Arizona agency handbook. Retrieved 1/13/2025 from <http://www.azag.gov/office/publications/agency-handbook>

⁴ Recommended practices we reviewed included Organization for Economic Cooperation and Development (OECD), & United Nations Office on Drugs and Crime (UNODC). (2020). Preventing and managing conflicts of interest in the public sector: Good practices guide. Retrieved 6/14/2025 from <https://www.unodc.org/documents/corruption/Publications/2020/Preventing-and-Managing-Conflicts-of-Interest-in-the-Public-Sector-Good-Practices-Guide.pdf>; Ethics & Compliance Initiative (ECI). (2021). Conflicts of interest: An ECI benchmarking group resource. Retrieved 6/14/2025 from <https://www.ethics.org/wp-content/uploads/mdocs/2021-ECI-WP-Conflicts-of-Interest-Defining-Preventing-Identifying-Addressing.pdf>; and New York State Authorities Budget Office (NYS ABO). (n.d.). Conflict of interest policy for public authorities. Retrieved 6/14/2025 from <https://www.abo.ny.gov/recommendedpractices/ConflictofInterestPolicy.pdf>

⁵ In response to conflict-of-interest noncompliance and violations investigated in the course of our work, we have recommended several practices and actions to various school districts, State agencies, and other public entities. Our recommendations are based on recommended practices for managing conflicts of interest in government and are designed to help ensure compliance with State conflict-of-interest requirements. See, for example, Auditor General reports 24-211 *Concho Elementary School District*, 21-404 *Wickenburg Unified School District—Criminal indictment—Conflict of interest, fraudulent schemes, and forgery*, 19-505 *Arizona School Facilities Board—Building Renewal Grant Fund*, and 17-405 *Pine-Strawberry Water Improvement District—Theft and misuse of public monies*.

⁶ We selected a random sample of 2 event wagering operators licensed as of August 3, 2024, and judgmentally selected 1 event wagering operator because the operator was no longer operating in the State.

⁷ We judgmentally selected to observe 1 CCR initiated in October 2024 based on the timing of our audit.

payments, we observed the Department's monthly review and reconciliation process for 3 tribes in January 2025 and February 2025, including its review of annual independent audits for tribal casinos. We also reviewed the Department's tribal contribution review and reconciliation templates and procedures.

- ▶ To evaluate whether the Department ensured that event wagering and fantasy sports contest operators paid required privilege fees to the Department in fiscal year 2024, we reviewed a random and judgmental sample of 9 event wagering operator privilege fee reports and a random sample of 3 fantasy sports privilege fee reports, including supporting documentation the operators submitted to the Department.^{8,9} We also reviewed event wagering and fantasy sports contest operators' third-party audit reports, the Department's third-party audit tracking spreadsheet, and the Department's monthly event wagering revenue reports for fiscal year 2024.
- ▶ To evaluate whether the Department's IT security policies and procedures are consistent with the Arizona Department of Homeland Security's State-wide policies, we reviewed and compared the Department's IT-related policies and procedures to the Arizona Department of Homeland Security's State-wide policies.¹⁰
- ▶ To evaluate whether the Department licensed only qualified horse racing applicants, we observed the Department's licensing process in October 2024 at its track office located at Turf Paradise in Phoenix. We also reviewed a stratified random sample of 6 licenses the Department approved in calendar years 2023 and 2024 consisting of:
 - A random sample of 2 of 124 jockey license applications.
 - A random sample of 2 of 15 veterinarian license applications.
 - A random sample of 2 of 246 license applications from a combined group of jockey apprentices, exercise riders, tote employees, and security personnel.
- ▶ To assess the Department's and Boxing and MMA Commission's processes for regularly evaluating the appropriateness of their respective licensing and permit fees, we reviewed fee-setting standards and guidance developed by government and professional organizations.¹¹

⁸ We selected a sample of 9 event wagering privilege fee reports from the 206 reports received by the Department in fiscal year 2024. Specifically, we judgmentally selected 3 of 17 privilege fee reports from event wagering operators who paid the lowest amount in privilege fees in November 2023, which was the month with the lowest amount of privilege fees paid in fiscal year 2024. We also randomly selected 6 of 189 privilege fee reports from the remaining 11 months in fiscal year 2024.

⁹ We randomly selected 3 of 114 fantasy sports contest operator privilege fee reports submitted to the Department in fiscal year 2024.

¹⁰ We compared the Department's IT-related policies and procedures to the 17 policy areas required by the Arizona Department of Homeland Security.

¹¹ We reviewed the following fee-setting recommended practices: Arizona State Agency Fee Commission. (2012). *Arizona State Agency Fee Commission report*.; U.S. Government Accountability Office. (2008). *Federal user fees: A design guide*. Retrieved 5/2/2025 from <https://www.gao.gov/assets/gao-08-386sp.pdf>; Michel, R.G. (2004). *Cost analysis and activity-based costing for government*. Government Finance Officers Association.; and U.S. Office of Management and Budget. (n.d.). *Circular No. A 25 revised*. Retrieved 5/2/2025 from <https://www.whitehouse.gov/wp-content/uploads/2017/11/Circular-025.pdf>

- ▶ To evaluate the Racing Commission’s commercial racetrack permitting process, including the Department’s administrative completeness review and the Racing Commission’s substantive review process, we reviewed Department and Racing Commission application documentation and Racing Commission public meetings. Specifically, we reviewed and/or observed 13 Racing Commission meetings held from June 2024 through August 2025.
- ▶ To assess the Boxing and MMA Commission’s licensing process, we reviewed NSAA licensing best practices and the Boxing and MMA Commission’s database information for a stratified random sample of 8 licenses approved in 2023 and 2024.¹² Specifically, we reviewed:
 - A random sample of 2 of 16 ringside physician license applications.
 - A random sample of 2 of 43 referee license applications.
 - A random sample of 2 of 68 judge license applications.
 - A random sample of 2 of 46 inspector license applications.
- ▶ To determine whether the Department distributed payments from the 2021 Compact Trust Fund, we reviewed information from the Arizona Financial Information System/AZ360 for fiscal years 2023 and 2024, and reviewed documentation provided by the Department regarding payments sent to beneficiary tribes.
- ▶ To assess the Department’s and commissions’ compliance with the State’s public records laws, we reviewed statute, recommended practices from the Arizona Ombudsman-Citizens’ Aide Office and the Arizona Office of the Attorney General’s *Arizona Agency Handbook*, the Department’s and commissions’ public records policies and procedures, and the Department’s and commissions’ websites.¹³ Further, we selected and reviewed a random and judgmental sample of public records requests received by the Department and commissions. Specifically, we reviewed:
 - 1 randomly selected and 2 judgmentally selected requests out of 45 public record requests received by the Department in calendar years 2023 and 2024. We judgmentally selected the 2 public records requests because they had lengthy resolution times, taking 200 and 357 days to be resolved.
 - 3 randomly selected public records requests out of 55 requests received by the Racing Commission during calendar years 2023 and 2024.
 - 2 randomly selected public records request out of 21 requests received by the Boxing and Mixed Martial Arts Commission during calendar years 2023 and 2024.

¹² NSAA, 2004.

¹³ Arizona Ombudsman-Citizens’ Aide. (2023). *Arizona public records law*. Retrieved 12/16/2024 from <https://www.azoca.gov/wp-content/uploads/Public-Records-Law-Booklet-2023.pdf>; AAG. (2018). *Arizona agency handbook*. Retrieved 2/12/2024 from <https://www.azag.gov/outreach/publications/agency-handbook>

- ▶ To evaluate whether the Racing Commission and the Boxing and MMA Commission complied with the State’s open meeting law requirements, we reviewed recommended practices from the Arizona Ombudsman-Citizens’ Aide Office and the Arizona Office of the Attorney General’s *Arizona Agency Handbook*.¹⁴ Additionally, we observed 5 public meetings of the Racing Commission held from September 2024 through November 2024, and we observed 3 Boxing and MMA Commission public meetings held from September 2024 through November 2024.
- ▶ To evaluate the Boxing and MMA Commission’s complaint-handling processes, we reviewed NSAA best practices.¹⁵
- ▶ To obtain additional information for the Department’s and commissions’ Sunset Factors, we reviewed information from HISA related to its powers and jurisdiction over racing in the United States, information from the Association of Boxing Commissions related to the level of boxing and MMA regulation in other states, information from the American Gaming Association, and a report from the National Conference of State Legislatures related to sports betting.¹⁶ We also identified the Department’s and commissions’ statutes that require rules and reviewed the Department’s and commissions’ corresponding rules. Additionally, we reviewed the State of Arizona Master List of Government Programs and the Arizona Administrative Register.¹⁷
- ▶ To obtain information for the Introduction, we reviewed the Department’s fiscal year 2024 annual report, documentation related to the Department’s allocation and licensing of event wagering operator licenses, and Department-prepared information regarding staffing and vacancies. In addition, we compiled and analyzed unaudited information from the Arizona Financial Information System/*AZ360 Accounting Event Transaction File* and the State of Arizona Annual Financial Report for fiscal years 2023 and 2024, and Department-prepared estimates for fiscal year 2025.

Our work on internal controls, including information system controls, included, where applicable, reviewing the Department’s policies and procedures and testing Department compliance with these policies and procedures, and assessing compliance with statutes and federal regulations. We reported our conclusions on applicable internal controls in Findings 1, 2, and 3 and Department Sunset Factors 2, 5, and 6.

We selected our audit samples to provide sufficient evidence to support our findings, conclusions, and recommendations. Unless otherwise noted, the results of our testing using these samples were not intended to be projected to the entire population.

¹⁴ Arizona Ombudsman Citizens’ Aide. (2023). *Open Meeting Law 101 – Arizona’s open meeting law in a nutshell*. Retrieved 11/27/2023 from <https://azoca.gov/wp-content/uploads/Open-Meeting-Law-101.pdf>; Arizona Office of the Attorney General. (2018). *Arizona Agency Handbook*. Retrieved 2/12/2024 from <https://www.azag.gov/outreach/publications/agency-handbook>

¹⁵ NSAA, 2004.

¹⁶ National Conference of State Legislatures. (2025). *7 years of Sports Betting: Did States Get it Right?*. Retrieved 3/30/25 from <https://www.ncsl.org/fiscal/seven-years-of-sports-betting-did-states-get-it-right>

¹⁷ State of Arizona. (2024). *Master List of State Government Programs State Agencies’ Five-Year Strategic Plans*. Retrieved 1/8/2025 from <https://www.azospb.gov/documents/2023/FY%202024%20Master%20List.pdf>

When relying on Department-provided data to support our findings and conclusions, we performed certain tests to ensure the data was sufficiently valid, reliable, and complete to meet the audit objectives. Unless otherwise noted, we determined the Department-provided data was sufficiently valid, reliable, and complete for audit purposes.

We conducted this performance audit and sunset review in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audits to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We express our appreciation to Director Johnson, Department staff, the Racing Commission, and the Boxing and MMA Commission for their cooperation and assistance throughout the audit.

DEPARTMENT RESPONSE

The subsequent pages were written by the Department to provide a response to each of the findings and to indicate its intention regarding implementation of each of the recommendations resulting from the audit conducted by the Arizona Auditor General.



GOVERNOR KATIE HOBBS



DIRECTOR JACKIE JOHNSON

September 3, 2025

SENT VIA EMAIL

Ms. Lindsey Perry, Auditor General
State of Arizona Office of the Auditor General
2910 N. 44th Street, Suite 410
Phoenix AZ 85018

Re: Response to the 2025 Performance Audit and Sunset Review of the Arizona Department of Gaming

Dear Ms. Perry:

The Arizona Department of Gaming ("Department") appreciates the opportunity to respond to the recommendations and findings of the performance audit and sunset review performed by the Office of the Auditor General. Below, please find the Department's response to the audit findings.

The Department appreciates the input and recommendations provided by the Office of the Auditor General and is committed to implementing them in a timely and effective manner. As the agency responsible for regulating one of the most diverse gaming markets in the United States, the Department is confident that this audit will help improve operations and strengthen regulatory oversight to protect the public and maintain the integrity of gaming in Arizona. On behalf of the Department, thank you and your staff for your diligence and thoroughness in conducting this review.

Sincerely,

DocuSigned by:

A blue ink handwritten signature that reads "Jackie Johnson".

E435B71BFBB9486...

Jackie Johnson

Director, Arizona Department of Gaming

Enclosure

Recommendations to the Department

Finding 1: Department did not consistently obtain and review event wagering and fantasy sports contest operators' third-party audit reports to ensure the accuracy of privilege fee payments, increasing the risk of lost State revenues and negative impacts on operators that erroneously make overpayments

Department response: The Auditor General's finding is agreed to.

Response explanation: The Department will revise and implement updated policies and procedures that outline steps for Department staff to consistently obtain and review event wagering and fantasy sports contest operators' third-party audit reports to ensure the accuracy of privilege fee payments. Staff will be trained on the new or revised procedures to ensure effective implementation. The Department will continue to monitor compliance and will refine its processes, policies, and procedures as needed, including re-educating staff to maintain consistency and accountability.

Recommendation 1: Ensure that event wagering and fantasy sports contest operators comply with statutory and rule requirements to submit independent audit reports that include an attestation from the CPA firm that the operator accurately reported the adjusted gross event wagering receipts or fantasy sports contest adjusted revenues.

Department response: The audit recommendation will be implemented.

Response explanation: The Department has begun implementation of the recommendation through the implementation of a new system (Salesforce) to modernize and streamline the audit report process. In addition, the Department will issue updated guidance to operators, require resubmission of noncompliant reports with the appropriate CPA attestation, and enhance internal review procedures through a verification process and/or checklist.

Recommendation 2: Review event wagering and fantasy sports contest operators' independent audit reports to determine if the operators paid the correct privilege fee amounts during the audited year and take actions to address any overpayments and underpayments as required by rule.

Department response: The audit recommendation will be implemented.

Response explanation: The Department has begun implementation of the recommendation. The Department has initiated a comprehensive historical review of all submitted independent audit reports to verify that operators have accurately paid the required privilege fees during the audited year. In cases where overpayments or underpayments are identified, the Department will take corrective action. Applicable policies and procedures will be developed or revised and updated. Staff will be trained to ensure effective implementation.

Recommendation 3: Conduct a review of event wagering and fantasy sports contest operators' independent audit reports since 2021, and determine which operators did not provide an audit report that complied with statutory and rule requirements, such as providing

an attestation. Based on this review, the Department should follow up with all operators who did not provide an audit report that met statutory and rule requirements.

Department response: The audit recommendation will be implemented.

Response explanation: The Department has begun implementation of the recommendation. The Department has initiated a comprehensive historical review of all independent audit reports submitted by event wagering and fantasy sports contest operators since 2021 to identify reports that do not meet statutory and rule requirements, including the absence of a required CPA attestation. The Department will notify all noncompliant operators and require them to submit amended reports that meet the applicable requirements. Applicable policies and procedures will be developed or revised and updated. Staff will be trained to ensure effective implementation.

Recommendation 4: In conjunction with Recommendation 3, review event wagering and fantasy sports contest operators' independent audit reports since 2021 to determine if the operators paid the correct privilege fee amounts and take actions to address any overpayments and underpayments, as required by rule.

Department response: The audit recommendation will be implemented.

Response explanation: The Department has begun implementation of the recommendation. The Department has initiated a comprehensive review of all independent audit reports submitted by event wagering and fantasy sports contest operators since 2021. This review will verify whether operators paid the correct privilege fee amounts. Any identified overpayments or underpayments will be addressed with the operator, in accordance with rule. Agency staff will be trained to ensure effective implementation.

Recommendation 5: Revise and implement its policies and procedures for reviewing independent audit reports that include requirements and steps for following up with event wagering and fantasy sports contest operators or their auditors that fail to provide an audit report and/or required audit attestation.

Department response: The audit recommendation will be implemented.

Response explanation: The Department has begun implementation of the recommendation. The Department has initiated a review of applicable policies and procedures to determine additions, updates, or revisions necessary to clearly define the steps for reviewing independent audit reports and outline specific follow-up actions for instances where operators or their auditors fail to submit an audit report or attestation. The revised policies will be communicated to all licensed operators and agency staff will be trained to ensure effective implementation.

Recommendation 6: Revise and implement its policies and procedures to include steps to take disciplinary actions, if necessary, against event wagering and fantasy sports contest operators who fail to provide an independent audit report that complies with statutory and rule requirements.

Department response: The audit recommendation will be implemented.

Response explanation: The Department has begun implementation of the recommendation. The Department has initiated a review of applicable policies and procedures to determine additions, updates or revisions including clear steps for initiating disciplinary actions against event wagering and fantasy sports contest operators who fail to submit an independent audit report that meets statutory and rule requirements. The revised policies will be communicated to all licensed operators and agency staff will be trained to ensure effective implementation.

Finding 2: Although Department timely investigated and resolved some complaints we reviewed, we were unable to determine and the Department was unable to demonstrate if it timely and appropriately investigated and resolved most complaints it received because it lacks comprehensive complaint-handling processes, increasing risk to public welfare and safety

Department response: The Auditor General's finding is agreed to.

Response explanation: While the Department is responsive to inquiries and complaints from the public, the Department currently lacks agency-wide complaint handling policies, procedures, and tools to track the completion and timeliness of resolution. The Department has added this to its FY26 Strategic Plan as a breakthrough objective making it a high-priority improvement project.

Recommendation 7: Develop and implement policies and procedures for receiving, investigating, forwarding if necessary, and resolving the various types of complaints it is responsible for, including complaints related to Compact noncompliance, event wagering and fantasy sports, and horse racing.

Department response: The audit recommendation will be implemented.

Response explanation: The Department has begun implementation of the recommendation. The Department has identified constituent inquiry and complaint handling processes as a breakthrough project in its strategic plan. This project will include the development and implementation of policies and procedures for receiving, investigating, forwarding, and resolving all agency and commission public inquiries and complaints for which it's responsible. Staff will be trained on the new or revised procedures to ensure effective implementation.

Recommendation 8: Develop and implement a complaint-tracking mechanism(s) or tool(s) that allows the Department to track and monitor the various types of complaints it is responsible for to ensure they are investigated and resolved in a timely manner.

Department response: The audit recommendation will be implemented.

Response explanation: The Department has begun implementation of the recommendation. The Department has identified constituent inquiry and complaint handling processes as a breakthrough project in its strategic plan. This project will include a complaint-tracking mechanism(s) or tool(s) that allows the Department to track and monitor the various types of complaints it is responsible for to ensure they are investigated and resolved in a timely manner. In the interim, the Department has developed an internal tracker and will develop, implement, and train staff on policies and

procedures for complaint-handling while it works towards the full implementation of these improvements.

As part of its efforts to implement recommendations 7 and 8, the Department should:

Recommendation 9: Make complaint-handling information readily available on its website, including information on how to submit a complaint.

Department response: The audit recommendation will be implemented.

Response explanation: The Department's constituent inquiries and complaint handling breakthrough project will ensure that complaint-handling information is readily available on its website, including information on how to submit a complaint.

Recommendation 10: Implement a process to track complaints of compact noncompliance to ensure TGOs are notified within 48 hours of the receipt or report of a complaint regarding compact noncompliance.

Department response: The audit recommendation will be implemented.

Response explanation: The Department has begun implementation of the recommendation. The Department has identified constituent inquiry and complaint handling processes as a breakthrough project in its strategic plan. The revisions to the constituent inquiry and complaint tracker will now include a 48-hour notification requirement to the TGOs upon the receipt or report of a complaint regarding Compact noncompliance.

Recommendation 11: Implement a process to track event wagering and fantasy sports complaints to ensure final letters are sent to complainants within 5 days after completing the complaint investigation.

Department response: The audit recommendation will be implemented.

Response explanation: The Department has implemented a process to track event wagering and fantasy sports patron complaints to ensure final letters are sent to complainants within five days after completing the investigation, for those that warranted an investigation by the Department. The Department has updated its electronic tracking system to monitor each complaint's status and timeline. Additionally, staff have been trained on the updated procedures to support consistent and timely communication with complainants.

Recommendation 12: Implement the State Ombudsman's recommendations related to its handling of event wagering and fantasy sports complaints.

Department response: The audit recommendation will be implemented.

Response explanation: The Department did comply with one of the Ombudsmen's requests to add additional language to its emails with patrons. The Department is in the process of developing policies and procedures for timely contacting complainants to inform them of the status of their complaint investigations and responding to

licensees that either refuse or ignore corrective actions recommended by the Department.

Finding 3: Department, Racing Commission, and Boxing and MMA Commission did not comply with some State conflict-of-interest requirements, increasing risk that employees and commission members had not disclosed substantial interests that might influence or could affect their official conduct

Department response: The Auditor General's finding is agreed to.

Response explanation: The Department agrees with the auditors' findings that some of the state's requirements related to conflicts-of-interest were not fully complied with and has already taken actions to remedy as detailed in the below recommendation responses.

Continue to develop and implement conflict-of-interest policies and procedures to help ensure compliance with State conflict-of-interest requirements and alignment with recommended practices, including:

Recommendation 13: Requiring employees to complete a conflict-of-interest disclosure form upon hire that addresses all State and Department-specific conflict-of-interest requirements, and reminding them at least annually to update their form when their circumstances or responsibilities change, such as being assigned to participate on a committee to allocate event wagering licenses, including attesting that no conflicts exist, if applicable.

Department response: The audit recommendation will be implemented.

Response explanation: As of July 2025, the Department has a draft Conflict of Interest Policy and an Employee Conflicts Disclosure form, modeled after the Arizona Department of Administration's policy. The Department has also drafted Commission-specific disclosure forms for the Boxing & MMA and Racing Commissions which contain specific disclosures required by the statutes and rules governing those specific divisions of the Department. These forms will soon be finalized and distributed to staff and Commissioners to complete. Conflict-of-interest disclosure forms will be updated by staff and Commissioners annually, upon hire or appointment, when circumstances change, and when forms and policies are revised. Additionally, the Department conducted a Department-wide Conflicts of Interest Training on March 14, 2025, which was recorded and sent via email to all agency employees. On June 11, 2025, the Department held another training for all Department employees covering Procurement Ethics and required Conflict of Interest disclosures. Training will be provided on an annual basis, and employees and Commissioners will be required to sign an attestation form confirming that they have attended or reviewed the Conflict of Interest training.

Recommendation 14: Storing all substantial interest disclosures in a special file available for public inspection.

Department response: The audit recommendation will be implemented.

Response explanation: The Department had all employees complete the ADOA Disclosure Form earlier this year and is requiring new employees to complete the ADOA Disclosure form when they are hired. These forms are collected by Human Resources and stored in a separate conflicts of interest file. The Department will follow this system with the newly created Department specific disclosure form and the Commission specific disclosure forms, except Commission specific disclosure forms will be held by the respective Division associated with each Commission in a separate conflicts of interest file.

Recommendation 15: Establishing a process to review and remediate disclosed conflicts.

Department response: The audit recommendation will be implemented.

Response explanation: The Department has already established a process to review and remediate disclosed conflicts. Upon review of the disclosure form, Human Resources will escalate any conflicts to the Legal Team for review. The Legal Team will then advise the employee, their supervisor, and necessary executive level staff on how to best manage the conflict including procedures for walling the employee off from the conflict if necessary.

Recommendation 16: Develop and provide periodic training on its conflict-of-interest requirements, process, and disclosure form, including providing training to employees on how the State's and Department-specific conflict-of-interest requirements relate to their unique programs, functions, or responsibilities.

Department response: The audit recommendation will be implemented.

Response explanation: The Department has developed and conducted the Department-wide conflicts of interest training on March 14, 2025 and will continue to conduct this training annually. The Department also conducted a procurement ethics training on June 11, 2025 which reinforced the general state-wide conflicts of interest statutes as well as focusing on specific conflicts issues in the area of procurement. Training will be provided on an annual basis, and employees and Commissioners will be required to acknowledge receiving training.

Sunset factor 2: The Department's effectiveness and efficiency in fulfilling its key statutory objectives and purposes.

Department has taken some steps to address and/or plan for implementing recommendations from 2023 evaluation of its problem gambling program

Department response: The Auditor General's finding is agreed to.

Response explanation: The Department has taken steps to implement recommendations from the 2023 evaluation of its problem gambling program. However, its ability to fully implement certain recommendations is constrained by budget limitations and the increasing demand for problem gambling services, which will require additional resources to address effectively.

Recommendation 17: Develop and implement a documented plan and time frames to implement the suggested recommendations from the contracted evaluation of the Department's problem gambling programs. If the Department determines not to implement some of the suggested recommendations, it should include its rationale for not doing so in the documented plan.

Department response: The audit recommendation will be implemented.

Response explanation: The Department has begun implementation and has incorporated some of the recommendations in the Department's recent Strategic Plan, however, the Division of Problem Gambling will also create a comprehensive plan that lists all recommendations and the Division's intent or ability to implement them.

Department has developed and implemented Compact Compliance Review (CCR) policies and procedures to assess compliance with most Compact requirements but lacks procedures for reviewing some problem gambling requirements and selecting gaming machines and tables for review

Department response: The Auditor General's finding is agreed to.

Response explanation: The Department agrees with the recommendations and has updated its policies and procedures related to Compact Compliance Reviews and has provided clear guidance on reviewing problem gambling requirements and the selection of gaming machines and table games to review.

Recommendation 18: Implement its revised CCR policies and procedures to ensure compliance with all problem gambling requirements in the Compact.

Department response: The audit recommendation will be implemented.

Response explanation: The Department has implemented the recommendation and has revised CCR procedures to ensure compliance with all problem gambling requirements outlined in Appendix M of the compact. The updated procedures provide clear guidance for verifying and documenting adherence to problem gambling provisions during CCR reviews. Staff have been trained on the new guidelines and the Department will continue to monitor compliance and refine the process, policies and procedures or re-educate staff as needed.

Recommendation 19: Develop and implement policies and procedures for selecting gaming machines and tables to review during the CCR, including guidance on the number and types of gaming machines and tables to review.

Department response: The audit recommendation will be implemented.

Response explanation: The Department has implemented the recommendation. Procedures have been developed and implemented to guide the selection of gaming machines and table games for review during the CCR process. These procedures include specific criteria for determining the number and types of gaming machines and

tables to be reviewed. Staff have been trained on the new guidelines and the Department will continue to monitor and refine the process, policies and procedures or re-educate staff as needed.

Recommendation 20: Implement its revised CCR policies and procedures for observing table games during the CCR.

Department response: The audit recommendation will be implemented.

Response explanation: Revised CCR procedures for observing table games during the CCR have been implemented. The updated procedures provide clear guidance on how and when table games are to be observed (in-person or surveillance). Staff have been trained on these procedures and the Department will continue to monitor the effectiveness of the process and make adjustments as necessary.

Although the Department took steps to ensure free bets were accurately calculated for those we reviewed, it lacks policies and procedures for ensuring event wagering operators consistently include free bets redeemed in their adjusted gross wagering receipts

Department response: The Auditor General's finding is agreed to.

Response explanation: The Department agrees and will revise its policies and procedures to ensure event wagering operators consistently include free bets redeemed in their adjusted gross wagering receipts.

Recommendation 21: Revise and implement instructions for operators on calculating and preparing free bet and promotional credits to clarify how free bet and promotional credit deductions should be calculated and require operators to submit documentation supporting these calculations.

Department response: The audit recommendation will be implemented.

Response explanation: The Department has begun to implement the recommendation and is revising and updating the instructions for calculating and reporting free bet and promotional credits. The revised instructions will clarify the calculation methodology and require operators to submit documentation that supports their calculations. Staff will receive instruction on the updated procedures, and monitoring will be conducted to ensure compliance.

Recommendation 22: Revise and implement policies and procedures that outline steps for Department staff to review free bet information to ensure free bets are accurately reported.

Department response: The audit recommendation will be implemented.

Response explanation: The Department has begun to implement the recommendation and is revising and updating policies and procedures that outline steps for Department staff to review free bet information to ensure free bets are accurately reported. Staff will

receive instruction on the updated procedures, and monitoring will be conducted to ensure compliance.

Department lacks consistent policies and procedures regarding its secondary review of tribal contribution payments

Department response: The Auditor General's finding is agreed to.

Response explanation: The Department agrees to the finding and has updated its policies and procedures regarding secondary reviews of tribal contribution payments.

Recommendation 23: Revise its policies and procedures for reviewing and reconciling tribes' monthly and quarterly Class III net win reports to clarify if a secondary review is required.

Department response: The audit recommendation will be implemented.

Response explanation: As of March 6, 2025, the Department has updated and implemented its policies and procedures for reviewing and reconciling tribes' monthly and quarterly Class III net win report with a specification when a secondary review is required. Staff have received training on these updated procedures, and regular monitoring will be conducted to ensure compliance.

Department developed a process for reviewing and reconciling event wagering and fantasy sports privilege fees but did not verify the accuracy of some privilege fees we reviewed

Department response: The Auditor General's finding is agreed to.

Response explanation: The Department agrees to the finding and will update its policies and procedures to ensure all event wagering and fantasy sports privilege fees are verified to be accurate, that all supporting documentation is provided by the operators, and that secondary reviews are conducted at a standardized cadence.

Recommendation 24: Ensure it receives and reviews all supporting documentation to ensure privilege fee payments it receives are accurate, including following up with operators to ensure all supporting documentation is provided.

Department response: The audit recommendation will be implemented.

Response explanation: The Department has begun to implement the recommendation and is revising policies and procedures that include outlining steps for Department staff to review and ensure privilege fee payments received are accurate. The updated policies and procedures will require supporting documentation and require staff to follow up with operators when documentation is incomplete. Staff will be instructed on the updated policies and procedures and monitoring will be conducted.

Recommendation 25: Continue to develop and implement a secondary review process to ensure that privilege fee payments are accurate.

Department response: The audit recommendation will be implemented.

Response explanation: As of March 6, 2025, the Department has updated and implemented its policies and procedures for reviewing and reconciling operators' monthly revenue reports with a specification when a secondary review is required. Staff have received training on these updated procedures, and regular monitoring will be conducted to ensure compliance.

Department lacks policies and procedures for some IT security requirements and did not conduct a risk assessment of its IT systems

Department response: The Auditor General's finding is agreed to.

Response explanation: The Department agrees to the recommendations and takes IT security very seriously. The Department has several processes and tests that help prevent and assess threats. The Department will address any shortfalls in ensuring the Department's IT systems are secure including creating all required policies and procedures.

Recommendation 26: Develop and implement a written action plan for developing and implementing State-required IT security procedures in line with AZDOHS requirements and credible industry standards, focusing on the IT security areas with the highest security risk first. The action plan should include specific tasks, the status of those tasks, and their estimated completion dates, as well as a process for regularly reviewing and updating the plan based on its progress.

Department response: The audit recommendation will be implemented.

Response explanation: The Department has begun to implement the recommendation and is actively developing and implementing a written action plan aligned with AZDOHS requirements and credible industry standards. The plan includes prioritized tasks based on identified IT security risks, along with current status updates and estimated completion dates. It will also include procedures for regular review and updates. The Department has already begun adopting AZDOHS policy templates for incident response, IT security awareness, and data protection, and continues to implement staff training, system monitoring, and risk mitigation efforts in alignment with State standards. The Department will continue to work with the Arizona National Guard Cyber Command for PIN testing.

Department lacked documentation to demonstrate horse racing licensing applicants were qualified

Department response: The Auditor General's finding is agreed to.

Response explanation: The Department agrees and will improve its policies and procedures and train staff to ensure the proper documentation of all due diligence steps conducted to ensure horse racing licensing applicants are qualified.

Recommendation 27: Ensure Department staff review a national infractions database for violations by horse racing license applicants.

Department response: The audit recommendation will be implemented.

Response explanation: The Department has implemented the recommendation. A review by the Department's Licensing Techs is now conducted at the time the applicant submits their application. The applicant's name is entered into the National Database maintained by the Association of Racing Commissioners International (ARCI). All applicants are reviewed for potential past violations, including any outstanding or unpaid fines, suspensions, or infractions from other jurisdictions. Completed background checks are copied and digitally stored along with the applicants' license applications. Staff have received instruction on the updated procedures, and monitoring will be conducted to ensure compliance and effective implementation.

Recommendation 28: Revise and implement the Department's checklist to ensure all licensing steps are completed and documented.

Department response: The audit recommendation will be implemented.

Response explanation: The Department has implemented the recommendation. A closeout checklist procedure was developed and implemented on May 28, 2025, to guide Licensing Techs during the licensing process. The checklist includes verification of application completeness, third-party background checks—including checks of the National Database and racing IDs from other jurisdictions. Each item on the checklist is verified and signed by the staff member who completes the process. Completed checklists are copied and digitally stored along with applicants' licenses and background check documentation. Staff have received instruction on the updated procedures, and monitoring will be conducted to ensure compliance and effective implementation.

Recommendation 29: Provide periodic training to licensing staff on processes to ensure all required steps are completed and properly documented.

Department response: The audit recommendation will be implemented.

Response explanation: The Department has implemented the recommendation. Staff have been trained on the new guidelines, and the Department will continue to monitor and refine its processes, policies, and procedures, providing additional training as needed.

Department determined a commercial racetrack permit application was administratively complete despite it lacking some required application information

Department response: The Auditor General's finding is agreed to.

Response explanation: The Department agrees with the finding and will update its policies and procedures to ensure greater clarity and consistency in the application review process. Although the Department's communication regarding administrative completeness may have been unclear, the Department did require submission of the missing documentation by the applicant and received the missing documentation before the application was forwarded to the Commission. Moving forward, the Department will ensure that all required information is obtained and verified prior to issuing any administrative completeness determinations.

Recommendation 30: Ensure that commercial racetrack permit applications contain all required documentation prior to issuing administrative completeness determinations, as required by rule.

Department response: The audit recommendation will be implemented.

Response explanation: The Department has begun to implement the recommendation and will ensure that all required documentation has been submitted and reviewed prior to issuing a determination of administrative completeness. A standardized checklist is in place for this purpose, and Department staff involved in the racetrack permit process will be trained regarding the checklist and understand the significance of its thorough completion.

Department has not developed a process to regularly evaluate the appropriateness of its horse racing license and permit fees

Department response: The Auditor General's finding is agreed to.

Response explanation: Though some analysis related to the Department's various fee types has been conducted periodically, the Department agrees to the recommendation and will develop a standard process to regularly evaluate the appropriateness of its horse racing license and permit fees.

Recommendation 31: Further revise and implement its policies and procedures for periodically evaluating all horse racing regulatory costs and fee amounts, including developing and implementing a cost methodology to provide information on its regulatory costs.

Department response: The audit recommendation will be implemented.

Response explanation: The Department has begun implementation of the recommendation and is reviewing its policies and procedures for budgeting and financial planning and analysis. Policies and procedures for evaluating horse racing regulatory costs will be enhanced to include guidance on how to evaluate the appropriateness of fees using specific cost methodologies.

Department untimely distributed funds to Category 2 tribes from the Compact Trust Fund

Department response: The Auditor General's finding is agreed to.

Response explanation: The Department acknowledges the importance of ensuring these distributions are made promptly and agrees with the recommendation to update the procedures to provide clear guidance on when Compact Trust Fund payments are due to the Category Two Tribes.

Recommendation 32: Timely distribute monies from the Compact Trust Fund to Category 2 tribes, in accordance with Compact requirements.

Department response: The audit recommendation will be implemented.

Response explanation: The Department has implemented the recommendation and has updated the procedures to provide clear guidance on when Compact Trust Fund payments are due to the Category Two Tribes. The Department distributed the 2024-2025 Category Two Compact Trust Fund payments on August 8, 2025, August 12, 2025, and August 14, 2025, all prior to or on the due date.

Department has not distributed all required monies from the Compact Trust Fund to Category 3 tribes

Department response: The Auditor General's finding is agreed to.

Response explanation: The Department agrees with the finding that these funds have not been distributed; however, the Department is fully meeting its Compact Trust Fund responsibilities. The Compact language for distributions to the Category Three Tribes is unclear and the Tribes are working to resolve the problem. Until they do, the Compact Trust Fund for the Category Three Tribes is being preserved with earned interest. Upon the agreement of Category Three Tribes, funds will be distributed timely.

Recommendation 33: Work with various stakeholders, including but not limited to working with the tribes, the Governor, and the Legislature as necessary, to help ensure it can meet its responsibility to distribute monies to Category 3 tribes from the Compact Trust Fund.

Department response: The audit recommendation will be implemented in a different manner.

Response explanation: The Department has been and will continue to meet with the Tribes to assist with a resolution of the matter. The Department has notified the Governor's Office of the status of the Compact Trust Fund. The Department believes it has sufficient statutory authority to distribute funds once an agreement is reached.

Sunset factor 4: The extent to which rules adopted by the Department are consistent with the legislative mandate.

Department has not developed rules required by A.R.S. §§5-1207(5) and 5-226(B)

Department response: The Auditor General's finding is agreed to.

Response explanation: The Department has begun its internal review of the Fantasy Sports rules and will include rule changes to address the requirements in A.R.S. § 5-1207(5) and 5-226(B) to the extent necessary.

Recommendation 34: Adopt rules as required by A.R.S. §5-1207(5).

Department response: The audit recommendation will be implemented.

Response explanation: The Department has begun its internal review of the Fantasy Sports rules and will include rule changes to address the requirements in A.R.S. § 5-1207(5) to the extent necessary.

Recommendation 35: Conduct and document an assessment of the need for rules related to A.R.S. §5-226(B). Based on this assessment, the Department should adopt the required rules or work with the Legislature to revise statute to remove the requirements to adopt rules.

Department response: The audit recommendation will be implemented.

Response explanation: The Department has begun its internal review of the Boxing & MMA rules and will perform the requested assessment and rule changes to address the requirements in A.R.S. § 5-226(B) to the extent necessary.

Sunset factor 5: The extent to which the Department has provided appropriate public access to records, meetings, and rulemakings, including soliciting public input in making rules and decisions.

Department complied with public records laws for the requests we reviewed, but could better align its policies with recommended practices

Department response: The Auditor General's finding is agreed to.

Response explanation: The Department agrees and will improve its public records requests policies and procedures.

Recommendation 36: Update and implement its policies and procedures to require staff to provide a written notice explaining to requestors the reason(s) for any delay(s) in fulfilling a public records request.

Department response: The audit recommendation will be implemented.

Response explanation: The Department has implemented the recommendation and has updated its public records policies and procedures to require staff to provide a written notice explaining to requestors the reason for any delay in fulfilling a public records request. If a request is anticipated to take longer than 30 days, written notices will be sent to requestors within the initial 30-day period, explaining the reason for the delay (e.g., requested material contained confidential information requiring redaction) and the anticipated timeframe for completion.

The subsequent pages were written by the Racing Commission to provide a response to each of the findings and to indicate its intention regarding implementation of each of the recommendations resulting from the audit conducted by the Arizona Auditor General.



GOVERNOR **KATIE HOBBS**

DIRECTOR **JACKIE JOHNSON**
RACING DIVISION DIRECTOR **JACKIE JOHNSON**

September 3, 2025

SENT VIA EMAIL

Ms. Lindsey Perry, Auditor General
State of Arizona Office of the Auditor General
2910 N. 44th Street, Suite 410
Phoenix AZ 85018


Re: Response to the 2025 Performance Audit and Sunset Review of the Arizona Racing Commission

Dear Ms. Perry:

The Arizona Department of Gaming ("Department") and Arizona Racing Commission ("Commission") appreciate the opportunity to respond to the recommendations and findings of the performance audit and sunset review performed by the Office of the Auditor General. Below, please find the Department's response to the audit findings.

The Department and Commission appreciate the input and recommendations provided by the Office of the Auditor General and are committed to implementing them in a timely and effective manner. As the body responsible for regulating horse racing in Arizona, the Commission is confident that this audit will help strengthen oversight to ensure the safety of all human and equine participants, the integrity of racing, and public trust in the industry. On behalf of the Department, thank you and your staff for your diligence and thoroughness in conducting this review.

Sincerely,

DocuSigned by:

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Jackie Johnson
Director, Arizona Department of Gaming
Director, Division of Racing

Enclosure

Recommendations to the Racing Commission

Finding 3: Department, Racing Commission, and Boxing and MMA Commission did not comply with some State conflict-of-interest requirements, increasing risk that employees and commission members had not disclosed substantial interests that might influence or could affect their official conduct

Racing Commission response: The Auditor General's finding is agreed to.

Response explanation: The Department agrees with the auditors' findings that some of the state's requirements related to conflicts-of-interest were not fully complied with and has already taken actions to remedy as detailed in the below recommendation responses.

Continue to develop and implement conflict-of-interest policies and procedures to help ensure compliance with State conflict-of-interest requirements and alignment with recommended practices, including:

Recommendation 1: Requiring commissioners to complete a conflict-of-interest disclosure form upon appointment that addresses all State and commission-specific conflict-of-interest requirements, and reminding them at least annually to update their form when their circumstances change, including attesting that no conflicts exist, if applicable.

Racing Commission response: The audit recommendation will be implemented.

Response explanation: As of July 2025, the Department has a draft Conflict of Interest Policy and an Employee Conflicts Disclosure form, modeled after the Arizona Department of Administration's policy. The Department has also drafted Commission-specific disclosure forms for the Boxing & MMA and Racing Commissions, which contain specific disclosures required by the statutes and rules governing those specific divisions of the Department. These forms will soon be finalized and distributed to staff and Commissioners to complete. Conflict-of-interest disclosure forms will be updated by staff and Commissioners annually, upon hire or appointment, when circumstances change, and when forms and policies are revised. Additionally, the Department conducted a Department-wide Conflicts of Interest Training on March 14, 2025, which was recorded and sent via email to all agency employees. On June 11, 2025, the Department held another training for all Department employees covering Procurement Ethics and required Conflict of Interest disclosures. Training will be provided on an annual basis, and employees and Commissioners will be required to sign an attestation form confirming that they have attended or reviewed the Conflict of Interest training.

Recommendation 2: Requiring commissioners to fully disclose conflicts-of-interest during public meetings, such as describing the individuals and/or entities involved.

Racing Commission response: The audit recommendation will be implemented.

Response explanation: As part of the Conflicts of Interest training, Commissioners will be reminded annually of the requirement to fully disclose conflicts of interest

during public meetings and describing the individuals/entities involved. To the extent that Commissioners are able to disclose specifics about their conflict of interest they will; however, where disclosure of the specific individuals, entity, or subject matter is prohibited by law, the Commissioners will provide general descriptions.

Recommendation 3: Storing all substantial interest disclosures in a special file available for public inspection, including disclosures made during public meetings.

Racing Commission response: The audit recommendation will be implemented.

Response explanation: The Department had all employees complete the ADOA Disclosure Form earlier this year and is requiring new employees to complete the ADOA Disclosure form when they are hired. These forms are collected by Human Resources and stored in a separate conflicts of interest file. The Department plans on following this same system with the newly created Department-specific disclosure form and the Commission-specific disclosure forms, except Commission-specific disclosure forms will be held by the respective Division associated with each Commission in a separate conflicts of interest file.

Recommendation 4: Establishing a process to review and remediate disclosed conflicts.

Racing Commission response: The audit recommendation will be implemented.

Response explanation: The Department has already established a process to review and remediate disclosed conflicts. Upon review of the disclosure form, Human Resources will escalate any conflicts to the Legal Team for review. The Legal Team will then advise the employee, their supervisor, and necessary executive-level staff on how to best manage the conflict, including procedures for walling the employee off from the conflict if necessary.

Recommendation 5: Develop and provide periodic training on its conflict-of-interest requirements, process, and disclosure form, including providing training to commissioners on how the State's and commission-specific conflict-of-interest requirements relate to their unique programs, functions, or responsibilities.

Racing Commission response: The audit recommendation will be implemented.

Response explanation: The Department has developed and conducted the Department-wide conflicts of interest training on March 14, 2025 and will continue to conduct this training annually. The Department also conducted a procurement ethics training on June 11, 2025 which reinforced the general state-wide conflicts of interest statutes, as well as focusing on specific conflicts issues in the area of procurement. Training will be provided on an annual basis, and employees and Commissioners will be required to acknowledge receiving training.

Sunset factor 5: The extent to which the Racing Commission has provided appropriate public access to records, meetings, and rulemakings, including soliciting public input in making rules and decisions.

Racing Commission complied with Arizona's public records law but could better align its practices with recommended practices.

Racing Commission response: The Auditor General's finding is agreed to.

Response explanation: The Department agrees with the auditors' findings and the Racing Commission will better align its practices with recommended practices with regard to public access.

Recommendation 6: Update and implement its policies and procedures to require staff to provide a written notice explaining to requestors the reason(s) for any delay(s) in fulfilling a public records request.

Racing Commission response: The audit recommendation will be implemented.

Response explanation: The Department has implemented the recommendation and has updated its public records policies and procedures to require staff to provide a written notice explaining to requestors the reason for any delay in fulfilling a public records request. If a request is anticipated to take longer than 30 days, written notices will be sent to requestors within the initial 30-day period, explaining the reason for the delay (e.g., requested material contained confidential information requiring redaction) and the anticipated timeframe for completion.

The subsequent pages were written by the Boxing and MMA Commission to provide a response to each of the findings and to indicate its intention regarding implementation of each of the recommendations resulting from the audit conducted by the Arizona Auditor General.



GOVERNOR KATIE HOBBS



DIRECTOR JACKIE JOHNSON
EXECUTIVE DIRECTOR DANNY A. VELLA

September 3, 2025

SENT VIA EMAIL

Ms. Lindsey Perry, Auditor General
State of Arizona Office of the Auditor General
2910 N. 44th Street, Suite 410
Phoenix AZ 85018

Re: Response to the 2025 Performance Audit and Sunset Review of the Arizona Boxing and Mixed Martial Arts Commission

Dear Ms. Perry:

The Arizona Department of Gaming ("Department") and Boxing and Mixed Martial Arts Commission ("Commission") appreciate the opportunity to respond to the recommendations and findings of the performance audit and sunset review performed by the Office of the Auditor General. Below, please find the Department's response to the audit findings.

The Department and Commission appreciate the input and recommendations provided by the Office of the Auditor General and are committed to implementing them in a timely and effective manner. As the body responsible for regulating professional boxing, mixed martial arts, and other unarmed combat sports in Arizona, the Commission is confident that this audit will help improve operations and strengthen oversight to ensure the safety of athletes and the fairness and integrity of contests held in the state. On behalf of the Commission, thank you and your staff for your diligence and thoroughness in conducting this review.

Sincerely,

DocuSigned by:

A blue ink handwritten signature that reads "Jackie Johnson".

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Jackie Johnson

Director, Arizona Department of Gaming

Enclosure

Recommendations to the Boxing and MMA Commission

Finding 3: Department, Racing Commission, and Boxing and MMA Commission did not comply with some State conflict-of-interest requirements, increasing risk that employees and commission members had not disclosed substantial interests that might influence or could affect their official conduct

Boxing and MMA Commission response: The Auditor General's finding is agreed to.

Response explanation: The Department agrees with the auditors' findings that some of the state's requirements related to conflicts-of-interest were not fully complied with and has already taken actions to remedy as detailed in the below recommendation responses.

Continue to develop and implement conflict-of-interest policies and procedures to help ensure compliance with State conflict-of-interest requirements and alignment with recommended practices, including:

Recommendation 1: Requiring commissioners to complete a conflict-of-interest disclosure form upon appointment that addresses all State and commission-specific conflict-of-interest requirements, and reminding them at least annually to update their form when their circumstances change, including attesting that no conflicts exist, if applicable.

Boxing and MMA Commission response: The audit recommendation will be implemented.

Response explanation: As of July 2025, the Department has a draft Conflict of Interest Policy and an Employee Conflicts Disclosure form, modeled after the Arizona Department of Administration's policy. The Department has also drafted Commission-specific disclosure forms for the Boxing & MMA and Racing Commissions which contain specific disclosures required by the statutes and rules governing those specific divisions of the Department. These forms will soon be finalized and distributed to staff and Commissioners to complete. Conflict-of-interest disclosure forms will be updated by staff and Commissioners annually, upon hire or appointment, when circumstances change, and when forms and policies are revised. Additionally, the Department conducted a Department-wide Conflicts of Interest Training on March 14, 2025, which was recorded and sent via email to all agency employees. On June 11, 2025, the Department held another training for all Department employees covering Procurement Ethics and required Conflict of Interest disclosures. Training will be provided on an annual basis, and employees and Commissioners will be required to sign an attestation form confirming that they have attended or reviewed the Conflict of Interest training.

Recommendation 2: Storing all substantial interest disclosures in a special file available for public inspection, including disclosures made during public meetings.

Boxing and MMA Commission response: The audit recommendation will be implemented.

Response explanation: The Department had all employees complete the ADOA Disclosure Form earlier this year and is requiring new employees to complete the ADOA Disclosure form when they are hired. These forms are collected by Human Resources and stored in a separate conflicts of interest file. The Department plans on following this same system with the newly created Department-specific disclosure form and the Commission-specific disclosure forms, except Commission-specific disclosure forms will be held by the respective Division associated with each Commission in a separate conflicts of interest file.

Recommendation 3: Establishing a process to review and remediate disclosed conflicts.

Boxing and MMA Commission response: The audit recommendation will be implemented.

Response explanation: The Department has already established a process to review and remediate disclosed conflicts. Upon review of the disclosure form, Human Resources will escalate any conflicts to the Legal Team for review. The Legal Team will then advise the employee, their supervisor, and necessary executive-level staff on how to best manage the conflict, including procedures for walling the employee off from the conflict if necessary.

Recommendation 4: Develop and provide periodic training on its conflict-of-interest requirements, process, and disclosure form, including providing training to commissioners on how the State's and commission-specific conflict-of-interest requirements relate to their unique programs, functions, or responsibilities.

Boxing and MMA Commission response: The audit recommendation will be implemented.

Response explanation: The Department has developed and conducted the Department-wide conflicts of interest training on March 14, 2025 and will continue to conduct this training annually. The Department also conducted a procurement ethics training on June 11, 2025 which reinforced the general state-wide conflicts of interest statutes, as well as focusing on specific conflicts issues in the area of procurement. Training will be provided on an annual basis, and employees and Commissioners will be required to acknowledge receiving training.

Sunset factor 2: The Boxing and MMA Commission's effectiveness and efficiency in fulfilling its key statutory objectives and purposes.

Boxing and MMA Commission issued licenses to some applicants who did not demonstrate they met all requirements but revised its processes to help ensure it does not do so in the future

Boxing and MMA Commission response: The Auditor General's finding is agreed to.

Response explanation: The licenses issued without all of the requirements fulfilled took place in 2023. The Department implemented policies and procedures that prevented this from happening again.

Recommendation 5: Ensure that boxing and MMA licensing applicants meet all initial and renewal licensing requirements, including signing a code of conduct and submitting fingerprints for a criminal history background check.

Boxing and MMA Commission response: The audit recommendation will be implemented.

Response explanation: These isolated incidents have been resolved with the new standardized processes and this implementation will continue to ensure that applications aren't processed without all statutory and regulatory requirements being met.

Recommendation 6: Conduct a review of licensing applicants approved in calendar year 2025 to determine whether any other approved applicants failed to meet all licensing requirements, and based on this review, take steps to address any deficiencies identified, such as requiring the licensees to undergo a criminal history background check.

Boxing and MMA Commission response: The audit recommendation will be implemented.

Response explanation: The Department staff will implement the recommendation and will conduct a review of licensing applicants approved in calendar year 2025 to determine whether any other approved applicants failed to meet all licensing requirements, and based on this review, take steps to address any deficiencies identified, such as requiring the licensees to undergo a criminal history background check.

Recommendation 7: Continue to implement changes to require applicable licensing applicants to submit a signed code of conduct to complete the license application process and to track when applicable licensing applicants submit fingerprints.

Boxing and MMA Commission response: The audit recommendation will be implemented.

Response explanation: The Department staff will implement this recommendation and will continue to implement changes to require applicable licensing applicants to submit a signed code of conduct to complete the license application process and to track when applicable licensing applicants submit fingerprints.

Boxing and MMA Commission had not developed a process to regularly evaluate the appropriateness of its boxing and MMA license and event permit fees

Recommendation 8: Further revise and implement its policies and procedures for periodically evaluating all regulatory costs and fee amounts, including developing and implementing a cost methodology to provide information on its regulatory costs.

Boxing and MMA Commission response: The audit recommendation will be implemented.

Response explanation: The Department has begun implementation of the recommendation and is reviewing its policies and procedures for budgeting and financial planning and analysis. Policies and procedures for evaluating unarmed combat sports regulatory costs will be enhanced to include guidance on how to evaluate the appropriateness of fees using specific cost methodologies.

Sunset factor 6: The extent to which the Boxing and MMA Commission timely investigated and resolved complaints that are within its jurisdiction.

Boxing and MMA Commission has not developed systematic processes for handling, documenting, and resolving the complaints it receives

Boxing and MMA Commission response: The Auditor General's finding is agreed to.

Response explanation: While the Department is responsive to inquiries and complaints from the public, the Department currently lacks agency-wide complaint handling policies, procedures, and tools to track the completion and timeliness of resolution. The Department has added this to its FY26 Strategic Plan as a breakthrough objective, making it a high-priority improvement project.

Recommendation 9: Establish a method for submitting complaints through its website or by other easily accessible means.

Boxing and MMA Commission response: The audit recommendation will be implemented.

Response explanation: The Department has begun implementation of the recommendation. The Department has included this recommendation in its constituent inquiry and complaint handling breakthrough project. In the interim, the Department will develop, implement, and train staff on policies and procedures for complaint-handling while it works towards the full implementation of these improvements.

Develop and implement written policies and procedures for complaint-handling that include:

Recommendation 10: Minimum documentation standards, such as retaining complaint forms, correspondence with all parties and other investigative documents, final investigative reports, Commission decisions, and dates associated with investigative steps and Commission decisions.

Boxing and MMA Commission response: The audit recommendation will be implemented.

Response explanation: The Department has begun implementation of the recommendation. The Department has included this recommendation in its constituent inquiry and complaint handling breakthrough project. In the interim, the Department will develop, implement, and train staff on policies and procedures for complaint-handling while it works towards the full implementation of these

improvements. In the interim, the Department will develop, implement, and train staff on policies and procedures for complaint-handling while it works towards the full implementation of these improvements.

Recommendation 11: Time frames for completing key complaint-handling steps.

Boxing and MMA Commission response: The audit recommendation will be implemented.

Response explanation: The Department has begun implementation of the recommendation. The Department has included this recommendation in its constituent inquiry and complaint handling breakthrough project. In the interim, the Department will develop, implement, and train staff on policies and procedures for complaint-handling while it works towards the full implementation of these improvements.

Recommendation 12: Notification requirements for parties involved, such as when a complaint is being opened or resolved, or when a complaint falls outside of the Commission's jurisdiction.

Boxing and MMA Commission response: The audit recommendation will be implemented.

Response explanation: The Department has begun implementation of the recommendation. The Department has included this recommendation in its constituent inquiry and complaint handling breakthrough project. In the interim, the Department will develop, implement, and train staff on policies and procedures for complaint-handling while it works towards the full implementation of these improvements.

Recommendation 13: Tracking and monitoring all complaints it receives to help ensure that complaints are being resolved in a timely manner.

Boxing and MMA Commission response: The audit recommendation will be implemented.

Response explanation: The Department has begun implementation of the recommendation. The Department has included this recommendation in its constituent inquiry and complaint handling breakthrough project. In the interim, the Department has developed an internal tracker and will develop, implement, and train staff on policies and procedures for complaint-handling while it works towards the full implementation of these improvements.