ARIZONA BOARD OF REGENTS
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August 7, 2026

Lindsey A. Perry, CPA, CFE
Auditor General
Arizona Auditor General
2910 N. 44th Street, Suite 410
Phoenix, AZ 85018

Re: Arizona Board of Regents — Sunset Review

Dear Auditor General Perry:

On behalf of the Arizona Board of Regents, I am pleased to submit our response to the final draft audit report. We appreciate the professionalism and collaborative approach taken by your audit team throughout this process.

ABOR agrees with the spirit of all the findings and is committed to strengthening each of the practices identified. The recommendations will be implemented – in some cases, through alternative approaches that better reflect ABOR's governance and practices while still achieving the desired outcomes.

We look forward to demonstrating progress prior to the Committee of Reference meeting — many of the improvements identified in this review are already underway or completed.

Sincerely,

Chad Sampson
Executive Director
Arizona Board of Regents
2700 N. Central Ave., Suite 400
Phoenix, AZ 85004-1159

Enclosure: ABOR Final Response to Final Draft Report

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

ABOR has not consistently or fully implemented its quarterly financial status update policy, limiting insight into university financial health and increasing risk of not timely detecting potential financial issues

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

Response explanation: ABOR agrees that the implementation of its updated financial status policy included choices that did not strictly align with the adopted policy language. ABOR has adjusted both the practices and the policies to ensure alignment and usefulness.

Recommendation 1: Continue to revise its financial oversight policy to align with its current practices, such as receiving universities' projections of year-end cash on hand.

Board response: The audit recommendation will be implemented.

Response explanation: The Board reviewed proposed policy revisions at its June 2026 meeting and final approval is scheduled for the October 2026 Board meeting.

Recommendation 2: If the Board adopts revisions to its financial oversight policy to receive universities' projections of year-end cash on hand, establish requirements for the universities to demonstrate that the projections they provide are consistent, valid, and reliable.

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

Response explanation: ABOR will require universities to document their projection methodology and key assumptions with each quarterly submission, starting with the first quarter of FY27. ABOR staff will review projections for internal consistency and reasonableness, with follow-up to the university CFO for any anomalous changes, noting that ABOR's role is oversight rather than independent audit and that projections cannot be fully validated against a fixed external standard, given the annual, proprietary changes in Moody's calculations.

Recommendation 3: Develop written guidance for the universities to determine what should be considered a significant fluctuation in operating cash balances that should be included in the universities' quarterly financial status update reports including guidance on types of explanations included regarding the fluctuation(s) within the quarterly financial status update reports.

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

Response explanation: Rather than establishing a fixed materiality threshold, ABOR will require universities to include commentary on changes in their cash projection and projected expenditure base — the elements of the days cash on hand ratio — with each quarterly submission, starting with the first quarter of FY27, ensuring fluctuations are explained as a matter of routine rather than by exception.

Recommendation 4: Implement its financial oversight policies, including ensuring quarterly financial status updates and associated information, are provided to the Board timely and in accordance with its policies.

Board response: The audit recommendation will be implemented.

Response explanation: ABOR will distribute quarterly financial summaries to the Board in a timely manner, independent of when those updates are scheduled to be presented to the Board in a public meeting.

ABOR conducted its first annual business process review, but its review did not follow some policy requirements, limiting the Board's insight into any identified university financial risks and steps being taken to mitigate these risks

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

Response explanation: ABOR agrees that the 2026 business process review, as an initial pilot, has opportunities to be refined to maximize university improvement efforts. ABOR maintains that the review provided a detailed review of university business processes and was an effective exercise to share high-impact practices, compare tools and approaches, and to sharpen universities' plans and resources for improvement – directly responding to the stated purpose of this exercise in policy. While ABOR believes this effort addressed each of the policy requirements, it is clear that the process did not generate sufficient written artifacts for the auditors to be confident in that fact, as the review was conducted near the end of the audit. ABOR will review this pilot with the university teams before November 2026 to evaluate the tools, make improvements, and/or recommend changes to the board before the 2027 review cycle.

Recommendation 5: Conduct its annual business process review in accordance with its policy, including ensuring the review team conducts interviews and obtains additional documents to validate university business processes and ensuing the final report contains specific areas of university improvement and practical solutions.

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

Response explanation: ABOR will continue to conduct its business process review in accordance with policy. The process will continue to focus on the subject university's documentation and reflection related to the current state of key business processes, including illustrative examples and live demonstrations of tools as appropriate. The peer team will be encouraged to seek any additional details and clarifications that would be useful to a full understanding and discussion – before and during the review meeting – and will be given adequate time with the materials and in dialogue to fully discuss those areas that would add the most value. As a collaborative improvement effort, ABOR anticipates continuing to position this process as a practitioner workshop and will report high level outcomes to the board, ensuring confidence that the universities are collaborating on shared risks and common business office challenges.

Recommendation 6: Using the results of its first annual business process review, review its annual business process review guidance to determine whether additional changes are necessary and incorporate those changes into its review process.

<u>Board response:</u> The audit recommendation will be implemented.

<u>Response explanation:</u> ABOR will convene the tri-university finance council to review and refine the business process review framework before November 2026 in preparation for the spring 2027 review cycle.

ABOR had more than $2.7 million of defaulted Arizona Teachers Academy tuition repayments, but did not have a process to identify which defaulted repayments should be escalated to outside collection agencies or the Arizona Attorney General's Office

<u>Board response:</u> The Auditor General's finding is agreed to.

<u>Response explanation:</u> ABOR agrees that, while defaulted accounts were actively managed, it had not developed a process to escalate aging defaults for external collections. ABOR has since developed a collection escalation process and it is being actively applied.

Recommendation 7: Implement the collection process it developed in May 2026 for identifying the defaulted Arizona Teachers Academy scholarship repayments that will be escalated to the Arizona Attorney General's Office for collections, and escalate those defaulted payments by submitting the referral package to the Arizona Attorney General's Office.

<u>Board response:</u> The audit recommendation will be implemented.

<u>Response explanation:</u> ABOR developed a collection escalation process during the audit, as well as additional outreach practices to ensure participants are documenting relevant teaching service. The new process began implementation in August 2026, with collections packages transmitted to the Arizona Attorney General's Office as defaults are validated.

ABOR did not include some statutorily required Arizona Teachers Academy program metrics in its report to the Governor, Legislature, and Secretary of State, including number of scholarship recipients who failed to fulfill their obligations and/or defaulted on repayments, hindering visibility into program performance

<u>Board response:</u> The Auditor General's finding is agreed to.

Response explanation: ABOR agrees that its ATA annual report did not include some statutorily required metrics. ABOR moved quickly during the audit to amend the FY25 report to address the gap and has updated the template to ensure completeness in the future.

Recommendation 8: Ensure Arizona Teachers Academy annual report submitted to the Governor, Legislature, and Secretary of State contains all information required by A.R.S. §15-1655(H).

Board response: The audit recommendation will be implemented.

Response explanation: ABOR updated its ATA annual report template to include all metrics required by statute and submitted a revised FY25 report during the audit. ABOR updated the FY26 ATA annual report template to include these metrics and to improve clarity.

Recommendation 9: Revise the Arizona Teachers Academy annual report template to include all information required by A.R.S. §15-1655(H).

Board response: The audit recommendation will be implemented.

Response explanation: ABOR updated the FY26 ATA annual report template to include these metrics and to improve clarity, according to the Auditor's recommendation. This report will be published in August 2026.

ABOR lacked a formal, documented process to determine that TRIF, Arizona Teachers Academy Fund, and Arizona Promise Program Fund monies it retained in fiscal year 2025 were commensurate with its costs for administering these programs

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

Response explanation: ABOR agrees that it did not formally document the assumptions behind its administrative cost allocations to the Arizona Teachers Academy Fund, and the Arizona Promise Program Fund, and TRIF. ABOR did not fully charge these funds for recoverable expenses and agrees to develop a clear cost allocation plan to implement for FY27.

Recommendation 10: Develop and implement a documented process, such as a cost allocation plan, that reasonably approximates its direct and indirect costs related to TRIF, the Arizona Teachers Academy Fund, and the Arizona Promise Program to determine the amount of monies it will retain from these funds to pay for ABOR staff salaries and benefits and other administrative costs.

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

Response explanation: The Arizona Promise Program and the Arizona Teachers Academy program statutes allow ABOR to charge the indirect costs of program administration to the funds. ABOR has not sought recovery of the full amount authorized by statute, instead only recovering a small percentage of the allowable expenses to maximize the funding available to the programs. ABOR will develop a documented procedure to more fully recover costs and will document the basis for estimates and the cost allocation methodology in FY27. Separately, ABOR establishes a budget for TRIF that sets a target for ABOR-managed activities, which includes ABOR-led, TRIF-aligned work and the indirect costs of administering TRIF. ABOR will clearly document the alignment of direct costs allocated to TRIF in FY27 and will follow the documented procedure mentioned above to more fully allocate indirect costs to the fund.

Recommendation 11: Using the process developed in recommendation 10, review TRIF, Arizona Teachers Academy Fund, and Arizona Promise Program Fund monies used to pay for administrative costs, including ABOR staff salaries from prior fiscal years going back to fiscal year 2026 to determine if the monies it spent on salaries and related benefits reasonably approximated its costs for administering the programs, and if it determines that it retained monies in excess of its costs, repay monies to the applicable fund(s).

Board response: The audit recommendation will be implemented.

Response explanation: After documenting a more complete allocation approach, ABOR will compare that to FY26 charges. Based on preliminary reviews of allocatable costs, ABOR is not fully charging the funds for allowable expenses based on the work performed.

ABOR did not include some statutorily required TRIF information in its report to the Governor, the President of the Senate, and the Speaker of the House of Representatives, including a description of the amount, duration, purpose, and goals of each new TRIF award

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

Response explanation: ABOR agrees that its FY25 TRIF annual report did not include some statutorily required information for a subset of award categories and has updated its reporting portal and template to include all required fields for the August 2026 TRIF report.

Recommendation 12: Revise its procedures to help ensure compliance with A.R.S. §15-1648(D) reporting requirements, including requiring its annual TRIF report to include the amount, duration, purpose, and goals of each new TRIF award distributed, and detailed performance measures for each TRIF award.

Board response: The audit recommendation will be implemented.

Response explanation: ABOR has revised its reporting process and template to include the amount, duration, purpose, goals, and performance measures for the remaining categories of TRIF awards, which will appear in the August 2026 TRIF report.

Recommendation 13: Use detailed performance measures to determine the effectiveness of all TRIF awards in accordance with A.R.S. §15-1648(D).

Board response: The audit recommendation will be implemented.

Response explanation: ABOR will include detailed performance measures for the subset of awards that were not previously detailed in the annual TRIF report. This information will be included in the August 2026 TRIF report, providing Board members with the information needed to evaluate program effectiveness.

ABOR did not conduct its 2022 university cost study in accordance with statute

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

Response explanation: ABOR acknowledges that its 2022 cost study did not fully align with the details for two of the items in statute since it requested data that the university does not ordinarily track and that would require building new reporting infrastructure. ABOR made a good-faith effort to address the intent of each statutory element with the existing operational and student data.

Recommendation 14: Conduct its university cost study analysis in accordance with A.R.S. §15-1650.03 and if it believes that the statutory requirements to report administrative costs and marginal cost for educating a full-time student need to be revised, work with the Legislature to revise A.R.S. §15-1650.03.

Board response: The audit recommendation will be implemented.

Response explanation: The details included in two of the statutory requirements are incompatible with current cost reporting practices and would require significant reporting infrastructure changes to execute literally, therefore ABOR will initiate dialogue with the Legislature to consider refinements to statute before the next cost study in 2027.

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

ABOR could better align its process for responding to public records requests with recommended practices to help demonstrate compliance with public records law

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

Response explanation: ABOR complied with all public records law throughout the review period and agreed to adopt additional recommended practices that exceed statutory requirements, revising its written public records request procedures and establishing a second written notification practice during the audit.

Recommendation 15: Implement its revised procedures for fulfilling public records requests within its internal time frames, including notifying requestors in writing of any delays in fulfilling public records requests, consistent with recommended practices.

Board response: The audit recommendation will be implemented.

Response explanation: ABOR implemented revised written procedures during the audit to meet the Auditor's recommendations, including internal time frame benchmarks and a 5-business-day written notification practice.