September 4, 2026

Members of the Arizona State Legislature

The Honorable Katie Hobbs, Governor

Director Eigenheer
Arizona Office of Administrative Hearings

Transmitted herewith is the report *A Performance Audit and Sunset Review of the Arizona Office of Administrative Hearings*. This audit was conducted by the independent firm Sikich CPA LLC under contract with the Arizona Auditor General and was in response to an October 7, 2025, resolution of the Joint Legislative Audit Committee. The performance audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq. I am also transmitting within this report a copy of the Report Highlights to provide a quick summary for your convenience.

As outlined in its response, the Arizona Office of Administrative Hearings (Office) agrees with all the findings and plans to implement all the recommendations. My Office has contracted with Sikich CPA LLC to follow up with the Office in 6 months to assess its progress in implementing the recommendations. I express my appreciation to Director Eigenheer and Office staff 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

SIKICH®

Arizona Auditor General

Performance Audit and Sunset Review of the
Arizona Office of Administrative Hearings

August 24, 2026

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

August 24, 2026

Dear Ms. Perry,

Sikich CPA LLC (Sikich) is pleased to submit the attached report detailing the results of our performance audit and sunset review of the Arizona Office of Administrative Hearings (Office), conducted under contract with the Arizona Auditor General pursuant to an October 7, 2025, resolution of the Joint Legislative Audit Committee and Arizona Revised Statutes § 41-2951 et seq.

The objectives of this performance audit were to provide information on the Office's processes to ensure that the public receives fair and independent hearings, to determine whether the Office complied with the State's conflict-of-interest requirements, and to respond to the 10 statutory sunset factors.

We conducted the audit fieldwork in Alexandria, Virginia; Phoenix, Arizona; Springfield, Illinois; and remotely from October 2025 through July 2026. We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards*, as issued by the Comptroller General of the United States (2018 Revision, Technical Update April 2021). Those standards require that we plan and perform the audit 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 describe our objectives, scope, and methodology further in Appendix C: Objectives, Scope, and Methodology.

As outlined in its response, the Office agrees with the findings and plans to implement the recommendations. We will follow up with the Office in 6 months to assess its progress in implementing the recommendations.

We would like to thank all the personnel with whom we met, or who provided information, throughout the course of this audit for their cooperation and assistance. We also thank you for the opportunity to serve the public interest on behalf of the Arizona Auditor General.

Sincerely,

Sikich CPA LLC

Report highlights

Arizona Office of Administrative Hearings

Performance audit and sunset review

The Arizona Office of Administrative Hearings (Office) generally met its required timeframes for providing administrative hearings for State agencies; however, it did not comply with some State conflict-of-interest requirements and made calculation errors in its year-end reconciliation process that resulted in inequitable charges between agencies.

Audit purpose

To determine whether the Office met its statutory objective and purpose to provide administrative hearings for State agencies and whether it complied with State conflict-of-interest requirements, as well as to respond to the 10 statutory sunset factors.[1]

Key findings

- The Office generally met its statutorily required timeframes for providing administrative hearings for State agencies.
- The Office did not comply with some State conflict-of-interest requirements or follow some recommended practices, increasing the risk that its employees had not disclosed interests that might influence their official conduct.
- The Office implemented a year-end reconciliation process to ensure it charges the same rates to all agencies that contract for its services, but it made calculation errors that resulted in inequitable charges between agencies.
- The Office lacks policies and procedures for its training program and does not retain training documentation, increasing the risk that administrative law judges (ALJs) and agencies do not receive required training.
- The Office failed to comply with its internal policy for cash and check-handling, which increases the risk of fraud and theft.

Key recommendations to the Office

- Develop and implement comprehensive conflict-of-interest policies and procedures to help ensure compliance with State requirements and recommended practices.
- Develop and implement detailed procedures for its billing process, including adequate segregation of duties, and cross-train employees to be able to review the accuracy of calculations performed to recover expenditures for services provided to agencies.
- Develop and implement policies and procedures related to ALJ and agency training to help ensure fair and independent hearings and demonstrate compliance with its statutory requirements.
- Implement existing cash and check-handling processes, including steps to ensure segregation of duties. If necessary, utilize external resources to provide staff training on the required financial processes.

[1] Sikich conducted this performance audit and sunset review of the Arizona Office of Administrative Hearings pursuant to an October 7, 2025, 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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Performance Audit and Sunset Review Report
Introduction

On behalf of the Arizona Auditor General, Sikich CPA LLC (Sikich) has completed a performance audit and sunset review of the Arizona Office of Administrative Hearings (Office).[2] This performance audit and sunset review determined whether the Office complied with State conflict-of-interest requirements and aligned its conflict-of-interest processes with recommended practices. This report also includes responses to the 10 statutory sunset factors.

This report includes 21 recommendations to the Office in Finding 1 (see pages 6 through 9) and the sunset factors (see pages 10 through 21).

The Office was established in 1995 to ensure that the public receives fair and independent hearings

The Office was established in 1995 to ensure that the public receives fair and independent administrative hearings.[3] The Office's mission is to contribute to the quality of life in the State of Arizona by fairly and impartially hearing the contested matters of citizens arising out of state regulation. Before the Office commenced operation on January 1, 1996, state agencies, boards, and commissions conducted administrative hearings in their own offices, which implied a "home field advantage" for the agency, board, or commission. The Office is responsible for conducting administrative hearings for appealable agency actions and contested cases (see text box for definitions of key terms).

Key Terms

- **Appealable agency action—** An action an agency can take without first holding an administrative hearing to determine a party's legal rights, duties, or privileges. For example, a state regulatory board denying licensure is an appealable agency action that the regulatory board can take without an administrative hearing.
- **Contested case**—An action an agency can take, but only after an opportunity for an administrative hearing to determine a party's legal rights, duties, or privileges. For example, a state regulatory board revoking or suspending licensure is an action that the regulatory board can take only after an opportunity for administrative hearing.

Source: A.R.S. §§ 41-1001.6 and 41-1092.4.

Statute generally requires state agencies to use the Office for administrative hearings unless statute specifically exempts it.[4] The Arizona Registrar of Contractors and most state agencies receiving monies from the State General Fund are required to use the Office's personnel and services for administrative hearings.[5] Most other state agencies, boards, and commissions (agencies) are required to contract with the Office for administrative hearing services. Between fiscal years 2023 and 2025, the Office received a total of 22,057 requests for hearings from 46 different agencies. More than 19,000 requests (approximately 89%) were from the 3 agencies identified in Table 1.

[2] This performance audit and sunset review of the Office was performed pursuant to an October 7, 2025, resolution of the Joint Legislative Audit Committee.
[3] Arizona Revised Statutes (A.R.S.) § 41-1092.
[4] Statute exempts some agencies from this requirement, including the Arizona Department of Transportation; Arizona Department of Corrections, Rehabilitation and Reentry; Arizona Board of Executive Clemency; and Arizona State Personnel Board. Additionally, any agency director, board, or commission that directly conducts hearings as an administrative law judge is also not required to use the Office's services.
[5] A.R.S. § 41-1092.02 provides exemptions for agencies such as the Arizona Department of Corrections, Rehabilitation and Reentry; Arizona State Personnel Board; and Arizona Department of Transportation.

Table 1. The Office received more than 22,000 hearing requests in fiscal years 2023 through 2025, and more than 89% of the Office's hearing requests were from 3 agencies

Agency	FY 2023	FY 2024	FY 2025	Total
Arizona Health Care Cost Containment System	3,559	6,555	5,852	15,966
Arizona Registrar of Contractors	832	848	891	2,571
Arizona Department of Health Services	322	454	400	1,176
Subtotal for top 3 agencies	**4,713**	**7,857**	**7,143**	**19,713**
All other agencies, boards, and commissions	646	753	945	2,344
Total	**5,359**	**8,610**	**8,088**	**22,057**

Source: Sikich analysis of hearing request data for fiscal years 2023 through 2025.

Hearings conducted by the Office are guided by statutory requirements and rules adopted to carry out its duties and powers

The Office's hearing process is outlined in state statutes and in administrative rules adopted through Arizona's Administrative Code (A.A.C.). Agencies must formally request administrative hearings from the Office, and if the parties do not settle the matter before the hearing date, an administrative law judge (ALJ) employed by the Office is required to conduct the hearing and write a decision after the hearing concludes. State statutes and the Office's rules include the following requirements and processes related to the Office's hearings:

- The Office must assign an ALJ to a hearing within 7 days of receiving a formal request for hearing from an agency and provide the agency with the date and time of the hearing and the name of the assigned ALJ.
- The Office must hold a hearing within 60 days of an appeal being filed for an appealable agency action or a hearing requested for a contested case. The agency requesting the hearing is required to serve a notice of hearing to all parties to an appeal or contested case at least 30 days prior to the hearing date.
- The party that requested the hearing for an appealable agency action or the party against whom a contested case is filed by an agency can request an informal settlement conference by submitting a written request to the agency. The agency is required to hold an informal settlement conference within 15 days after receiving such a request and inform the Office of the outcome of the informal settlement conference.
- The ALJ assigned to the hearing must issue a written decision within 20 days after the conclusion of the hearing and serve a copy of the decision to all parties to the appealable agency action or contested case, including to the head of the agency that requested the hearing.
- The head of the agency that requested the hearing has 30 days to review the ALJ's decision and either accept, reject, or modify the decision.[6] If the head of the agency does not do so, the Office must certify the ALJ's decision as the final administrative decision.

Table 2 provides a breakdown of agency acceptance, rejection, or modification of ALJ decisions between fiscal years 2023 and 2025.

[6] Boards and commissions whose Board meeting is held more than 30 days after the ALJ decision is issued have 5 days after the Board meeting to accept, reject, or modify the decision.

Table 2. Agencies accepted most ALJ decisions without modification between fiscal years 2023 and 2025

ALJ Decisions	FY 2023	FY 2024	FY 2025	Total
Accepted without Modification	916	1,717	1,337	3,970
Rejected	10	5	9	24
Amended Order	34	71	86	191
Amended Findings/Conclusions of Law	52	75	174	301
Total	**1,012**	**1,868**	**1,606**	**4,486**

Source: Sikich compilation of data reported in Office annual reports for fiscal years 2023 through 2025.

In most cases, parties can request a re-hearing. Additionally, most cases can be appealed to superior courts.[7]

As of fiscal year 2025, the Office employed 7 ALJs and 5 administrative support staff

The Office is led by a governor-appointed director. As of March 2026, the Office had 12 full-time equivalent staff positions consisting of the Director, an Office Manager, 7 ALJs, and 3 support staff. As of March 2026, the Office had 1 vacant ALJ position and 1 vacant support staff position.[8]

The Office's revenues are from the State General Fund and service charges to agencies for administrative hearings, and its expenditures are primarily employee-related

The Office's revenues consist of State General Fund appropriations that are intended to cover its costs for providing administrative hearing services to agencies that receive State General Fund monies and service charges to agencies that contract with the Office for administrative hearing services. For certain agencies that contract with the Office for services, including the Arizona Health Care Cost Containment System and the Arizona Department of Health Services, the Office's State General Fund appropriations are intended to cover a portion of the costs of Office services.[9] The Office's total expenditures for each fiscal year are reflected by the sum of its State General Fund Appropriation and the amount billed to agencies for administrative hearings. Under statutory requirements, the Office can only recover its actual costs.[10] Therefore, the revenue generated by the Office equals its expenditure, and the Office does not carry a fund balance.

To ensure that its revenue equals its expenditure and to maintain cash flow for its operations, the Office bills agencies that contract for its services for 3 fees on a monthly basis: (1) an ALJ cost fee, (2) a case filing fee, and (3) direct costs.[11] The rates the Office charges agencies each month for each of these categories depend on ALJ hours incurred and the number of hearing

[7] The Office reported a total of 172 appeals to superior courts between fiscal years 2023 and 2025. According to its annual reports, 61 appeals were filed in 2023, 54 in fiscal year 2024, and 57 in fiscal year 2025.
[8] The ALJ position has been vacant since an ALJ resigned effective February 27, 2026.
[9] The Office's State General Fund appropriation is intended to cover 50% of costs for the Arizona Health Care Cost Containment System's Title XIX cases, 18% of costs for the Arizona Department of Health Services' licensing cases, and 15% of costs for the Arizona Department of Health Services' non-licensing and non-marijuana cases.
[10] A.R.S. § 41-1092.01(K).
[11] Direct costs represent costs incurred specifically for cases filed by an agency and include costs such as travel, consultants, and interpreters. The Office bills direct costs to agencies during the month they are incurred.

requests filed in a particular month. Specifically, the Office determines the hourly ALJ cost rate by pooling the monthly costs for ALJ salaries and benefits and dividing it by the number of ALJ hours spent on hearings during the month to determine the hourly cost rate. Each agency's monthly fee reflects the number of ALJ hours billed to the agency's cases multiplied by the hourly rate. The monthly case filing fee amount is determined by dividing the Office's total monthly overhead costs by the number of cases agencies filed during the month.[12] Each agency is then charged a filing fee for each case filed during a given month. Because the number of ALJ hours billed and the number of cases filed varies each month, the Office's billing fee amounts fluctuate throughout the fiscal year.

In response to an Auditor General's Office 2014 audit finding related to its billing rates and in an effort to ensure that agencies pay the same rates for services provided throughout the fiscal year, the Office implemented a year-end billing reconciliation process through which it recalculates each agency's amount due for services by averaging the monthly ALJ hourly rates and case filing fees to obtain overall yearly rates.[13] The reconciliation process also involves determining if its State General Fund appropriated monies were more than or less than the amount needed to pay for the agency hearing services the appropriated monies are intended to pay for and then allocating the amount of any State General Fund deficit or surplus to the agencies that it bills for services based on the number of ALJ hours and hearings they received during the year. The Office then calculates the difference between the final amount due and the total amount of payments made by each contracted agency throughout the fiscal year and either refunds or bills the difference to each agency. Our findings related to the Office's billing process are discussed further in Sunset Factor 2 (pages 10 to 17).

Table 3 provides an overview of the Office's actual revenues and expenditures for fiscal years 2024 and 2025 and estimated revenues and expenditures for fiscal year 2026.

[12] Overhead costs include operating costs for the Office, such as rent, software licenses, and information technology services. They also include salaries for administrative support staff and an allocation for vacation and training hours for ALJs.
[13] The Arizona Auditor General's 2014 performance audit and sunset review of the Office found that its rate-setting method, which was designed to provide sufficient cash for its operations on a month-to-month basis, resulted in inequitable charges for agencies that used its services.

Table 3. Schedule of revenues and expenditures, fiscal years 2024 through 2026 (unaudited)

Description	2024 (Actual)	2025 (Actual)	2026 (Estimate)
Revenues			
State General Fund Appropriations[a]	$990,000	$970,000	$985,200
Service Charges to Agencies			
Arizona Health Care Cost Containment System[b]	527,643	441,672	557,063
Arizona Registrar of Contractors[c]	353,720	384,758	423,590
Arizona Department of Health Services[d]	-	72,306	81,784
Other Agencies	135,704	148,577	122,163
Total Revenues	**$2,007,067**	**$2,017,313**	**$2,169,800**
Expenditures			
Personal Services and Employee-Related Expenditures	$1,585,900	$1,544,103	$1,707,900
Office Building Rent	196,200	196,200	196,200
Other Operating Expenditures[e]	142,974	161,647	164,900
Professional & Outside Services	55,569	50,060	50,000
Purchased or Licensed Software	24,358	64,541	50,000
Travel Out of State	2,066	762	800
Total Expenditures	**$2,007,067**	**$2,017,313**	**$2,169,800**

Source: Sikich review of Office revenues and expenditures for fiscal years 2024 through 2026.

[a] The Office's State General Fund Appropriation is intended to cover expenditures for agencies supported by the State's General Fund, such as the Arizona Department of Child Safety, Arizona Department of Economic Security, and Arizona Department of Real Estate.

[b] The Office conducts hearings for the Arizona Health Care Cost Containment System's Title XIX and Title XXI cases. As previously discussed, the Office's State General Fund appropriation is intended to cover 50% of the Office's costs for the Title XIX cases. The Office charges the remaining 50% for the Title XIX cases and 100% of its costs for Title XXI cases directly to the Arizona Health Care Cost Containment System.

[c] A.R.S. § 41-1092.01. E. requires the Arizona Registrar of Contractors to use the Office for its administrative hearings.

[d] Prior to fiscal year 2025, all Office costs for Arizona Department of Health Services hearings were covered by the Office's State General Fund appropriation because, before March 2025, the Office was not aware that the Arizona Department of Health Services could be charged directly for its use of the Office's personnel and services. This occurred because the Office has one employee responsible for billing. According to this employee, they had not been previously informed of how the agency was funded. Effective March 5, 2025, an interagency service agreement between the Office and the Arizona Department of Health Services specified the percentages of expenditures charged directly to the Arizona Department of Health Services, consisting of 100% of costs for cases related to marijuana, 82% for cases related to licensing, and 85% for non-marijuana and non-licensing cases.

[e] Other operating expenditures include costs such as external information technology services, shared services provided by the Arizona Department of Administration, and reimbursement paid to ALJs for training events.

Finding 1: The Office did not comply with some State conflict-of-interest requirements or align its conflict-of-interest process with recommended practices, increasing risk that its employees had not disclosed substantial interests that might influence or could affect their official conduct

Arizona statutes address 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 text box 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.[14, 15] 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 (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, or relatives employed by the State at the time of initial hire and any time there is a change.[16] 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.

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: Sikich 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 December 17, 2025, from https://www.azag.gov/sites/default/files/2025-05/agency_handbook_chapter_8.pdf.

In response to past conflict-of-interest noncompliance and violations investigated for other organizations, such as employees/public officers failing to disclose substantial interests and

[14] See A.R.S. §§38-502 and 38-503(A) and (B).

[15] 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.

[16] ADOA. (2025). *State Personnel System Employee Handbook*. Retrieved December 17, 2025, from https://hr.az.gov/resources/employee-handbook.

participating in matters related to these interests, the Arizona Auditor General has recommended several practices and actions to various school districts, State agencies, and other public entities.[17] These 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/public officers of the importance of complying with the State's conflict-of-interest laws.[18] 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.[19] 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.

The Office did not comply with some State conflict-of-interest requirements, and its conflict-of-interest process was not fully aligned with recommended practices

The Office did not comply with some State conflict-of-interest requirements, and its conflict-of-interest process was not fully aligned with recommended practices designed to help ensure that employees comply with State requirements. Specifically:

- **The Office did not ensure all employees completed a disclosure form upon hire or when their circumstances changed, as required by ADOA—**According to the ADOA disclosure form, State employees are required to complete a disclosure form when hired and a new disclosure form any time there is a change. However, in December 2025, the Office did not have a disclosure form on file for any of the 14 employees it employed during the scope of the audit. In January 2026, the Office obtained and provided the ADOA disclosure forms completed by 13 of its 14 employees at the time they were initially hired as State employees; however, it was unable to locate a completed disclosure form for 1 employee. Additionally, 3 employees did not complete a new conflict-of-interest disclosure form when they transferred to the Office from another State agency. Because each State agency has distinct responsibilities, functions, and areas of regulation or involvement, completing a new disclosure form specific to the employee's new role is important to help ensure any potential or actual conflicts related to their new job responsibilities are disclosed.
- **The disclosure form some Office employees completed did not address all statutorily required disclosures—**The ADOA disclosure form that 9 of 13 Office

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[17] 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*.

[18] 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 February 8, 2026, from https://www.unodc.org/documents/corruption/Publications/2020/Preventing-and-Managing-Conflicts-of-Interest-in-the-Public-Sector-Good-Practices-Guide.pdf; and New York State Authorities Budget Office (NYS ABO). (n.d.). *Conflict of interest policy for public authorities.* Retrieved February 5, 2026, from https://abo.ny.gov/system/files/documents/2025/05/conflictofinterestpolicy.pdf.

[19] As previously discussed, the ADOA disclosure includes a field for the individual to provide an "affirmative no."

employees completed was during new employee onboarding prior to June 2020. Although these disclosure forms required employees to disclose any substantial financial interest, they did not require disclosure of substantial interest in Office decisions, as required by statute.[20, 21, 22] In June 2020, ADOA updated its conflict-of-interest disclosure form to include decision-making disclosures and to require an affirmative statement indicating whether or not a conflict exists.

- **The Office lacked a special disclosure file as required by statute—**The Office did not maintain disclosure forms for any of its employees and thus it also lacked a special disclosure file to store disclosures of substantial interest for public inspection, as required by statute.

Finally, the Office had not fully aligned its conflict-of-interest process with recommended practices. Specifically, although not required by statute or ADOA, the Office did not require its employees to annually complete a disclosure form and/or annually remind them to complete a disclosure form when their circumstances change. Additionally, the Office had not developed and implemented a remediation process for disclosed conflicts or periodic training for its employees related to their unique programs, functions, or responsibilities.

The Office's noncompliance with State conflict-of-interest requirements increased risk that employees did not disclose substantial interests that might influence or affect their official conduct

The Office's noncompliance with State conflict-of-interest requirements and failure to align its conflict-of-interest process with recommended practices increased the risk that employees would not disclose substantial interests that might influence or affect their official conduct. For example, the Office's 7 ALJs regularly oversee and make decisions on hearings involving disputes over government agency decisions related to parties' legal rights, duties, or privileges, which could be influenced by conflicts of interest.

In addition, because the Office did not store completed forms disclosing substantial interests in a special file or have a listing of employees who completed disclosure forms, it lacked a method to track which and how many employees disclosed an interest in order to mitigate the disclosed conflicts and to make this information available in response to public requests, as required by statute.

The Office lacked a comprehensive conflict-of-interest policy

The Office had not developed comprehensive conflict-of-interest policies and procedures that align with State requirements and recommended practices, which likely contributed to the previously discussed issues. Instead, the Office reported it only uses the ALJ Code of Ethics as its conflict-of-interest policy; however, that policy does not address conflict-of-interest statutory requirements and recommended practices. Specifically:

- The ALJ Code of Ethics does not provide comprehensive safeguards against possible conflicts of interest because the purpose of the document is to provide guidance on judicial standards and personal conduct, rather than providing policies and procedures

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[20] A.R.S. §38-503.

[21] Three of the 9 employees signed a disclosure form that did include decision-making disclosures; however, the forms were signed when they were employed by a different State agency.

[22] We did not obtain and review a new hire disclosure form for 1 employee because ADOA was unable to locate their new hire form.

aimed at identifying potential statutory conflicts of interest. Further, the ALJ Code of Ethics is not applicable to administrative support staff and only addresses ALJs who are empowered to preside over statutory or regulatory fact-finding or administrative hearings held before the Office.

Additionally, the Office indicated that it believed that ADOA handled conflict-of-interest disclosures for State employees and that it was not aware it was the Office's responsibility to do so.

Recommendations to the Office:

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 employees to complete a conflict-of-interest disclosure form upon hire/appointment and reminding them at least annually to update their form when their circumstances change, including attesting that no conflicts exist, if applicable.
2. Using a conflict-of-interest disclosure form that addresses both financial and decision-making conflicts of interest.
3. Storing all substantial interest disclosures, including disclosure forms, in a special file available for public inspection.
4. Reviewing and remediating disclosed conflicts.

5. Develop and provide periodic training on conflict-of-interest requirements, processes, and disclosure forms.

Office's response

As outlined in its response, the Office agrees with the finding and will implement the recommendations.

Sunset factors

Sunset Factor 1: The key statutory objectives and purposes in establishing the Office

The Office was established in 1995 to ensure that the public receives fair and independent administrative hearings, in accordance with A.R.S. § 41-1092. The Office is responsible for presiding over all appealable agency actions and contested cases for the Arizona Registrar of Contractors and all agencies funded by the State General Fund, unless exempt by statute.

Sunset Factor 2: The Office's effectiveness and efficiency in fulfilling its key statutory objectives and purposes

The Office generally met statutory requirements we reviewed related to its required timeframes for providing administrative hearings for state agencies; however, we identified several opportunities for improvement and deficiencies in the Office's processes. Specifically, between fiscal years 2023 and 2025, the Office provided approximately 22,000 administrative hearings overseen by ALJs employed by the Office and not by the agencies whose actions were in question. We selected a sample of 48 cases filed by 11 different agencies in fiscal years 2023 through 2025 and found the Office generally provided these hearings within the timelines established through statutes and rules for the average number of days between (1) requests for hearings and scheduling of hearings (within 7 days), (2) scheduling of hearings and first hearing date (within 60 days), (3) conclusion of hearings and ALJ decisions (within 20 days), and (4) certifying ALJ decisions and agency action (within 30 days, as applicable). [23] The Office also improved its technological capabilities by automating clerical tasks such as filing documents in its docketing system and providing notice of filing of such documents to parties.

We identified two opportunities for the Office to improve its operations. First, although almost all ALJ decisions and Office certifications in the sampled cases were completed within statutorily required timeframes, we found:

- 1 case where the hearing was not scheduled within the 60 days required by statute. [24, 25]
- 2 cases where the ALJ did not make a decision within the 20 days required by statute. [26, 27]

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[23] The sample we selected included 19 cases that we judgmentally selected based on stakeholder feedback, 5 cases that we judgmentally selected for their use of the Office's voluntary mediation program, 12 cases that we randomly selected from the 3 agencies (4 each) responsible for 89% of the hearing requests received by the Office between fiscal years 2023 and 2025, and 12 cases that we randomly selected from the remaining agencies that submitted hearing requests between fiscal years 2023 and 2025. Twenty-three of the 48 sample cases were requested by the Arizona Health Care Cost Containment System. Compared with other agencies, the period between the request for hearing and the hearing date for the Arizona Health Care Cost Containment System cases we sampled generally exceeded the 60-day timeframe. However, we did not identify this as an issue for the Office because the Arizona Health Care Cost Containment System is exempt from the Office's statutorily required timeframes, per A.R.S. § 36-2903.01.B.4. We also did not identify a statutory requirement for the Arizona Health Care Cost Containment System to schedule a hearing with the Office within a specified period.
[24] A.R.S. § 41-1092.05.A.
[25] The case was judgmentally selected because it used the Office's voluntary mediation program, and the hearing was scheduled 61 days after the request was submitted.
[26] A.R.S. § 41-1092.08.A.
[27] We selected both cases randomly. In 1 case, the ALJ issued the final decision after 21 days; in the other case, the ALJ issued the decision in 23 days.

- 2 cases where the Office did not certify an ALJ's decision within the 30 days required by statute.[28, 29]

In each of these cases, the statutorily required timeframe included holidays, which are not factored into the requirements or the automated system notifications.

Similarly, we identified opportunities to improve the quality and compliance of the Office's annual reports. As shown in Table 4, the hearing request numbers included in the Office's annual reports from fiscal years 2023 through 2025 contained minor errors.

Table 4. The Office's annual reports contain incorrect hearing request numbers, fiscal years 2023 through 2025

Description	2023	2024	2025
Hearing Requests in Annual Report	5,352	8,617	8,099
Hearing Requests in Underlying Data	5,360	8,617	8,099
Less Duplicates in Underlying Data	1	7	11
Actual Hearing Requests	**5,359**	**8,610**	**8,088**
Difference Between Annual Report and Underlying Data	-7	7	11

Source: Sikich analysis of Office data.

In addition, although the annual reports contained the content required by statute, the Office did not submit the reports to the Secretary of State, as required. [30] Furthermore, the Office prepares and submits a single annual report instead of the two reports required by statute and, as a result, did not meet one of the two deadlines included in statute. [31]

We also identified 4 deficiencies in the Office's processes related to (1) billing agencies for services, (2) training ALJs, (3) cash and check-handling, and (4) ALJ evaluations.

Issue 1. The Office implemented a year-end reconciliation process intended to ensure it charges the same rates to all agencies that contract for its services, but it made calculation errors in fiscal year 2025 that resulted in inequitable charges between agencies

We reviewed the Office's year-end billing reconciliation process for fiscal year 2025 and found that the process contained errors that resulted in it not fully ensuring equitable charges to all agencies that contract for its services, as intended.[32] Specifically, we found that the Office's year-end reconciliation process contained the following 2 errors:

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[28] A.R.S. § 41-1092.08.D.

[29] We selected both cases randomly, and in both cases, the Office did not certify the ALJ decision until 34 days after sending a copy of the final decision to the agency head.

[30] A.R.S. § 42-1092.01.C.5 and 42-1092.01.C.9.

[31] A.R.S. § 42-1092.01.C.5 requires the Office to submit its annual report describing the activities and accomplishments of the Office by November 1 each year, and A.R.S. § 42-1092.01.C.9 requires the Office to submit an annual report with certain metrics, such as the number of ALJ decisions rejected or modified by agency heads, by December 1 each year. According to the Director, to meet these requirements, the Office has issued a single annual report between the 2 dates for more than 2 decades.

[32] See Introduction, pages 3 through 5, for more information on the Office's charges for service, which fluctuate from month to month.

- **Office staff miscalculated its allocation of its fiscal year 2025 State General Fund appropriation surplus to 2 agencies, erroneously shifting nearly $160,000 in additional costs to other billed agencies.**
  As discussed in the Introduction, pages 3 to 5, the Arizona Registrar of Contractors and agencies receiving monies from the State General Fund are required to use the Office's services for administrative hearings. Most other state agencies are required to contract with the Office for administrative hearings. The Office's contracts with the Arizona Health Care Cost Containment System and Arizona Department of Health Services required that the costs for the Office's services be split between the agency and the Office's State General Fund appropriated monies.[33] Because these 2 agencies pay the Office for a portion of their service costs, pursuant to the Office's year-end reconciliation process, they also receive a share of or pay a share of any year-end surplus or shortfall in the Office's State General Fund appropriated monies.[34] The allocation of any year-end surplus or shortfall in the Office's State General Fund appropriated monies should exclude ALJ hours and requested cases that were used to determine the Office's State General Fund year-end surplus or shortfall.

  However, during its year-end reconciliation process for fiscal year 2025, instead of removing ALJ hours and requested cases that were already charged to its State General Fund appropriation, the Office staff erroneously included all of these 2 agencies' ALJ hours and requested cases in its calculation for allocating its State General Fund surplus to billed agencies, instead of only ones that had not already been charged to its State General Fund appropriation. Additionally, the Office's year-end reconciliation process for fiscal year 2025 also included ALJ hours and requested cases for the Arizona Registrar of Contractors; however, the Office's calculation did not allocate any of its fiscal year 2025 State General Fund surplus to the agency.[35] These errors incorrectly reduced the Arizona Health Care Cost Containment System's year-end total amount due by $147,375 and the Arizona Department of Health Services' year-end total amount due by $13,149. As a result, all the other contracted agencies the Office bills for services paid a share of the nearly $160,000 that should have been billed to these 2 agencies.[36] Although our review focuses only on the Office's fiscal year 2025 billing calculations,

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[33] We did not identify any other agencies that split the costs of using the Office's services between the agency and the Office's State General Fund appropriated monies.

[34] As discussed in the Introduction (see pages 3 through 5), the Office's year-end reconciliation process involves determining if its State General Fund appropriated monies were more than or less than the amount needed to pay for the agency hearing services the appropriated monies are intended to pay for and then allocating the amount of any shortfall or surplus to the agencies that it bills for services proportional to the number of ALJ hours and hearings they were billed for during the year. The Office then recalculates each agency's total amount due for services they received during the fiscal year by adding or subtracting a proportional share of any surplus or shortfall to calculate a final total amount due for the year.

[35] According to Office representatives, it made the determination to exclude Arizona Registrar of Contractors from the allocation of its State General Fund surplus or shortfall because costs for the Arizona Registrar of Contractors' administrative hearings are covered by monies from a sub-program within the special line item in the Arizona Registrar of Contractors' budget.

[36] During fiscal year 2025, there were 20 other agencies that paid a share of the nearly $160,000 that should have been billed to the Arizona Health Care Cost Containment System and Arizona Department of Health Services, such as the Arizona State Board of Accountancy, Arizona State Board of Nursing, Arizona State Real Estate Department, Arizona Department of Public Safety, and Industrial Commission of Arizona.

these issues have likely impacted billings for the last 9 fiscal years because the Office has used the same methodology since at least December 2016.

- **Office staff miscalculated annual ALJ rates and case filing fees and incorrectly adjusted agencies' total amounts due, rather than identifying and correcting the erroneous billing rates.** As discussed in the Introduction (see pages 3 to 5), the Office's year-end reconciliation process is intended to ensure that all agencies it bills for services pay the same per-hour ALJ cost fee and per-case filing fee for all services they received during the year while also ensuring that the Office's total revenues equal its total expenditures, consistent with statute. However, our review of the Office's year-end reconciliation process for fiscal year 2025 found that it incorrectly calculated its year-end ALJ cost fee and year-end case filing fee in amounts that would have resulted in the Office collecting nearly $41,000 more in total revenues than its actual expenditures for the year (see Appendix B, pages 26 to 27).[37] Additionally, although this error was apparent in the Office's billing records because the total revenues and expenditures did not reconcile, rather than investigating the cause of the reconciliation error and correcting it, Office staff erroneously made manual adjustments to agency fees until the total revenues and expenditures reconciled.

  The error the Office made was calculating the year-end fees by using the average of the monthly ALJ rates and case filing fees it used to bill agencies throughout the fiscal year. Because the monthly rates charged during the year were based on costs, ALJ hours, and hearing requests during a particular month, using the monthly ALJ rates and case filing fees to create a yearly average does not reflect the Office's actual total costs, ALJ hours, and hearing requests for the year (see Appendix B, pages 26 through 27).[38, 39] The errors in the Office's calculation of average year-end billing rates impact the Office's billings for all agencies. For instance, if the Office used billing rates based on yearly totals for its inputs, the Office would owe the Arizona Registrar of Contractors a credit of $129,546, instead of the $124,026 it provided to the Arizona Registrar of Contractors for fiscal year 2025 (see Table 5).

[37] The Office utilized the same billing process in fiscal years 2023 and 2024, so therefore we focused our detailed analysis on fiscal year 2025 to provide the most recent impacts of the billing process.
[38] According to U.S. General Accountability Office. (2008). *Federal user fees: a design guide* (GAO-08-386SP), using average costs to determine fees may be more efficient than determining actual costs.
[39] As shown in Appendix B (pages 26 to 27), the inputs used to calculate the two billing rates fluctuate each month, but the Office's process does not utilize a weighted average to account for these fluctuations. Expenses such as travel and interpreters incurred for hearings are charged directly to agencies and are not included in the calculation of year-end average billing rates.

Table 5. Year-end reconciliation for Arizona Registrar of Contractors using correct year-end rates

Cost Description	Unit	Corrected Billing Rate	Corrected Amount Owed	Office Billing Rate	Office Amount Owed	Difference
ALJ Costs	3,299 hours	$77.05	$254,188	$77.55	$255,837	$1,649
Case Filing Costs	896 cases	132.24	118,487	136.56	122,358	3,871
Direct Expenses			6,579		6,579	-
Total Costs			**$379,254**		**$384,774**	**$5,520**
Payments			**$(508,800)**		**$(508,800)**	**-**
Payment/(Credit)			**$(129,546)**		**$(124,026)**	**$5,520**

Source: Sikich analysis of the Office's billing calculations for fiscal year 2025.

These issues occurred because the Office's billing process was created and has been managed by the same employee since the Office's last performance audit and sunset review in 2014, without any supervisory review, secondary verification, or documented policies or procedures. For example, the employee responsible for the billing process calculates the billing rates and charges for agencies manually in a set of spreadsheets, including manually entering the data necessary to calculate billing rates into the billing spreadsheets. However, none of these processes are documented in written policies or procedures, and, according to the employee responsible for managing this billing process, there is no one else in the Office who can complete the calculations, prepare the agency billings, or provide a secondary review of these processes. Although we found that the Office's total revenues, including charges to agencies for services, ultimately aligned with the Office's actual expenditures, as required by statute, without a documented policy, procedure, or secondary review, the process cannot be replicated or validated. This is because the numbers in the spreadsheet were manually adjusted by the responsible employee to ensure they matched, rather than correcting underlying errors that were evident based on our review, and could likely have been identified by a secondary reviewer as well.

Further, according to the State of Arizona Accounting Manual (SAAM), each agency is required to establish a system of checks and balances to ensure that no one person has control over all parts of a financial transaction. Without adequate segregation of duties, there is an increased risk of fraud. In addition, the SAAM states that agency management is responsible for ensuring policies and procedures are codified, published, appropriately distributed, and enforced for all operations that require or may benefit from them. Without other employees involved or trained in the process, and without documented policy and procedures, the Office is at significant risk of losing institutional knowledge critical to its operations if the experienced employee responsible for the billing process leaves. Despite these requirements and associated risks, Office management has not prioritized its internal control responsibilities necessary to ensure operational continuity.

Issue 2. The Office does not have any policies and procedures for its training program and does not retain training documentation, increasing the risk that ALJs and agencies do not receive training related to ensuring fair and independent hearings

Statute requires the Office Director to develop, implement, and maintain a program for the continuing education of ALJs and agencies.[40] Additionally, the Arizona Auditor General's 2014 performance audit and sunset review of the Office recommended that it develop and implement a formal training program for judges and agencies, including topics related to ensuring fair and independent hearings, and the 24-month followup to that review found that the recommendations had been implemented. However, during this audit, we found that the Office has not sustained implementation of the previous recommendations. According to Office representatives, following recommendations from the Arizona Auditor General's 2014 performance audit and sunset review, the Office began sending all new ALJs to a 3- to 5-day National Association of ALJs workshop and sending ALJs to the State Bar Convention. To meet its statutory requirement to provide training to agencies, the previous Office Director contacted agencies to offer training. However, the Office stopped sending ALJs to the National Association of ALJs workshop because of COVID-19-related travel restrictions and did not resume the program due to budget constraints. Office representatives also noted that agency training declined over time under the previous Director because agencies provided limited responses.

Office leadership in place during this audit did not provide information in support of a formal training program that was actively being implemented. Instead, according to Office leadership, in lieu of a training program, it provides reimbursement to ALJs to attend Arizona's Annual Bar Convention, which offers a course on administrative law. The Office also reported it encourages ALJs who specialize in special education hearings to attend local and national training held by the Arizona Department of Education. However, the Office does not have any processes, including written policies or procedures, that detail what type of training is required for ALJs to meet their statutory responsibilities or to maintain documentation for training completed by ALJs to assess the subject matter of, and amount of, training they complete. Finally, the Office currently does not have procedures for administering a training program for agencies and does not provide such trainings, as required by statute. As a result, the Office is at risk that ALJs and agencies do not receive needed training that can help ensure fair and independent hearings and is unable to demonstrate compliance with its statutory requirements.

Issue 3. The Office failed to comply with its internal policy for cash and check-handling, which increases the risk of fraud and theft

From fiscal years 2023 through 2025, the Office collected an average of approximately $30,000 annually in cash or checks. However, we found the Office did not implement its existing policies and procedures for cash and check-handling, increasing the risk of fraud and theft of state monies, which were established in response to recommendations made in the Arizona Auditor General's 2014 performance audit and sunset review of the Office.[41] Specifically, the policy requires the Office to record transactions in a receipt logbook, conduct audits of transactions, and require a second person to review transactions. The policy developed by the Office followed the SAAM, which requires each agency to establish a system of checks and balances to ensure

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[40] A.R.S. § 41-1092.01.C.7. states that the Office shall develop, implement, and maintain a program for the continuing training and education of ALJs and agencies in regard to their responsibilities under this article. The program shall require that an ALJ receive training in the technical and subject matter areas of the sections to which the ALJ is assigned.

[41] The 2014 audit found that the Office lacked adequate policies and procedures for separating cash-handling, disbursement, and procurement responsibilities and associated recordkeeping responsibilities so that no one person had the ability to initiate and complete a transaction without independent review.

that no one person has control over all parts of a financial transaction.[42] However, in contradiction of this policy, the Office does not maintain a receipt logbook or conduct audits of transactions, and the Office's financial transactions are handled by a single employee without supervisory review, as previously discussed (see pages 13 to 14). According to Office personnel, they did not have sufficient resources to train other employees in the new financial processes established by the policies and were therefore unable to implement the policies and procedures the Office developed that require segregation of duties.

Issue 4. The Office has not incorporated public feedback into ALJ evaluations, as required by statute

A.R.S. § 41-1092.01(C)(8) requires the Director to develop, implement, and maintain a program to evaluate ALJs, and the evaluation must include comments received from the public. Although the Office has developed and implemented an ALJ performance evaluation program, our review of its calendar year 2024 evaluations found that they did not incorporate comments received from the public, as required by statute. The Office's Director reported the evaluations did not include public comment because they used the same evaluation process that was in place under the previous Director, and those evaluations did not incorporate public input.

Recommendations to the Office:

6. Establish a mechanism or update its automated system notifications to alert ALJs when upcoming holidays may impact compliance with statutorily required timeframes.
7. Reconcile case data to the annual reports and issue corrected annual reports, as necessary.
8. Ensure that the required annual reports are submitted by the statutorily required deadlines.
9. Update the year-end billing process to ensure that the average year-end billing rates reflect actual expenditures and that expenditures are distributed equally to all agencies.
10. Develop and implement detailed procedures for its billing process, including adequate segregation of duties, and cross-train employees to be able to review the accuracy of calculations performed to recover expenditures for services provided to agencies.
11. Develop and implement policies and procedures for documenting ALJ training, consistent with state and Office requirements.
12. Develop and implement a training program for agencies, as required by statute.
13. Implement existing cash and check-handling policies and procedures, including steps to ensure segregation of duties. If necessary, utilize external resources to provide staff training on the required financial processes.
14. Periodically review cash and check-handing processes to ensure that employees document segregation of duties in the receipt log, as required by Office policies and procedures.
15. Modify the ALJ evaluation process to incorporate public feedback.

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[42] ADOA. General Accounting Office (2019). *SAAM: Topic 05 Internal Controls, Section 05 General Internal Controls*. Retrieved March 4, 2026, from https://gao.az.gov/sites/default/files/2022-05/0505%2520General%2520Internal%2520Controls%2520190311.pdf

Office's response
As outlined in its response, the Office agrees with the findings and will implement the recommendations.

Sunset Factor 3: The extent to which the Office's key statutory objectives and purposes duplicate the objectives and purposes of other governmental agencies or private enterprises

We identified that other State agencies are authorized to fulfill the Office's key statutory objective and purpose of holding administrative hearings, but our review found that the scope and nature of the Office's hearings do not appear to duplicate those of hearings held by other governmental agencies. Specifically, the Office is the State's main venue for administrative hearings; however, statutory requirements exempt certain agencies from using the Office's personnel and services for administrative hearings.[43] For instance, the statutes exempt the Arizona State Personnel Board, Arizona Board of Executive Clemency, and Arizona Department of Transportation, and such agencies conduct their own administrative hearings using their own ALJs. Additionally, agencies that do not receive monies from the State General Fund are not required to use the Office's personnel and services for administrative hearings. However, the scope of administrative hearings conducted by these agencies is limited to their own agencies' actions.

Sunset Factor 4: The extent to which rules adopted by the Office are consistent with the legislative mandate

We found that the Office has established and adopted rules when required by statute to do so. A.R.S. § 41-1092 requires the Director to make rules necessary to carry out the Uniform Administrative Hearing Procedures prescribed under A.R.S. § 41-1092 through A.R.S. § 41-1092.12, and our review of the Arizona Administrative Code found that it has adopted rules outlining uniform hearing procedures.

The Office is also required to review its rules and submit a report to the Governor's Regulatory Review Council every 5 years summarizing its findings as to whether any of its rules should be amended or repealed with any proposed course of action.[44] Specifically, the report must include an analysis of whether the rules are authorized by, and consistent with, statute. The Office's 5-Year Review Report dated November 17, 2023, proposed an amendment for electronic filing of documents and anticipated the proposed changes would be completed by March 15, 2024. The proposed changes were finalized on July 5, 2024, and effective as of August 11, 2024.

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

The Office complied with statutory rulemaking requirements
The Office provided public access to rulemakings, including soliciting public input when making rules, for rulemaking statutory requirements we reviewed.

[43] A.R.S. § 41-1092.02.A.
[44] A.R.S. § 41-1056.

Specifically, our review of the Office's most recent rulemaking finalized in July 2024 found that the Office:

- Informed the public of its recent rulemaking and provided the opportunity for public input.[45]
- Informed the public of the rulemaking in the Arizona Administrative Register and provided contact information for the Office staff who could receive public input about the proposed rulemaking.[46]
- Allowed the public to submit written comments on proposed rule changes for at least 30 calendar days after it published the first notice of proposed rulemaking for the proposed rulemaking.[47, 48]

The Office responded to our public request consistent with statute, but it does not track public records requests and responses and therefore cannot demonstrate compliance with statutory requirements

The Office's website includes directions and a form to submit public records requests, and the Office responded to our anonymously submitted public records request the same day, consistent with statutory requirements, which require agencies to send an acknowledgement of the receipt of the request within 5 business days. However, the Office does not have any written policies and/or procedures for receiving and responding to public record requests to ensure compliance with statutory requirements and State guidelines. Additionally, the Office does not maintain a log or any other mechanism to track public records requests or its response to requests; therefore. it could not demonstrate its compliance with statutory requirements and State guidelines for public record requests, such as:

- Sending an acknowledgement of receipt of the request within 5 business days.[49]
- Identifying when a public record request may contain confidential information.[50]
- Irreversibly redacting confidential or restricted information from records before providing the records.[51]
- Documenting within the Office's records which materials were redacted or released.[52]
- Maintaining an index of records or categories of records that were withheld and the reason(s) why.[53]

Specifically, the Office could not demonstrate its compliance with statutory requirements for public records requests because, after it has fulfilled a public records request received through its website or email, it deletes the request, according to the Office.

[45] A.R.S. § 41-1022.D.
[46] A.R.S. § 41-1021.B.
[47] A.R.S. § 41-1023.
[48] The Office did not receive any public comments on the notice of proposed rulemaking. Therefore, we did not assess the Office's response to public comments.
[49] A.R.S. § 39-171.B.
[50] *Arizona Agency Handbook*, Chapter 6.4.1. Records Confidential by Statute. AAG, 2018. Retrieved on January 21, 2026.
[51] *Arizona Agency Handbook*, Chapter 6.5.3. Duty to Redact. AAG, 2018. Retrieved on January 21, 2026.
[52] *Arizona Agency Handbook*, Chapter 6.5.3. Duty to Redact. AAG, 2018. Retrieved on January 21, 2026.
[53] A.R.S. § 39-121.01.D.2.

Recommendations to the Office:

16. Immediately begin retaining all public records requests and responses.
17. Develop and implement a tracking mechanism for receiving and responding to public records requests to ensure compliance with statutory requirements.
18. Develop and implement comprehensive policies and procedures for public records requests to ensure compliance with statutory requirements to acknowledge requests within 5 business days of receipt and maintain an index of records or categories of records that were withheld and the reason why. The comprehensive policies and procedures should incorporate State guidelines to develop and implement processes for identifying when a public record request may contain confidential information, irreversibly redacting confidential or restricted information from records before providing the records, and documenting within the Office's records which materials were redacted or released.

Office's response
As outlined in its response, the Office agrees with the findings and will implement the recommendations.

Sunset Factor 6: The extent to which the Office timely investigated and resolved complaints that are within its jurisdiction

The Office does not have a mechanism to track complaints and did not consistently follow its process for handling and resolving complaints

Although the Office does not have an explicit statutory requirement to investigate complaints, statute allows case parties to file motions with the Office to (1) request the Director to disqualify an ALJ from conducting a hearing for bias, prejudice, personal interest, or lack of technical competence, and (2) request re-hearings.[54, 55] Additionally, the Office's website states that the public can submit complaints separately from or in conjunction with a motion for change of ALJ or a motion for re-hearing. The Office's website identifies the relevant statutes for motions to disqualify an ALJ and for re-hearings and provides an overview of the motion/complaint submission, investigation, and resolution process.[56] The Office's website notes:

- All complaints should be submitted in writing and will be reviewed by the Director.
- All parties to a complaint will be provided with a copy of the complaint.
- No action will be taken without the opportunity for the ALJ to comment on the complaint.
- All complaints are dealt with as promptly as possible, and the Director will notify the complainant and the parties of the outcome of the review and what actions, if any, have been, or will be, taken.

Office staff reported that the Office strives to complete its investigations within 15 business days and that, in an effort to ensure the outcomes of cases are not influenced by the complaint or associated investigation, it does not investigate complaints related to ongoing cases, which make up the majority of complaints received by the Office; it instead requests the complainant submit a complaint once the case has been resolved. However, the Office has not developed written policies and procedures to explain how the process is implemented, and Office staff

[54] A.R.S. § 41-1092.07. A.
[55] A.R.S. § 41-1092.09.
[56] https://www.azoah.com/ALJComplaint.html

confirmed that the Office does not maintain a log, tracker, or any other mechanism to track and monitor timeliness of the complaint-handling process.

The Office provided documentation for 14 complaints the Office received between fiscal years 2023 and 2025; however, because the Office does not have a mechanism for tracking complaints and the resolution of complaints, we were unable to validate whether the 14 complaints represented the entire population of complaints submitted between fiscal years 2023 and 2025.

We reviewed complaint documentation provided by the Office and determined that the Office did not consistently follow the process described on its website and by its officials.[57] Specifically, we found:

- 3 of 14 complaints for which the Office did not complete its investigation within 15 business days. The time to complete the investigation for these 3 complaints ranged from 17 to 89 days.
- None of the complaint responses included ALJ comments or documentation indicating that the ALJ had been provided an opportunity to comment prior to a decision being made.

Recommendations to the Office:

19. Develop written policies and procedures for complaint handling that outline each step of the complaint-handling process. This should include timeframes for notification, investigation and resolution.
20. Develop mechanisms to track and monitor timeliness of the complaint-handling process.
21. Update the process on its website to clarify that, in order to maintain impartiality, the Office will not investigate complaints for ongoing cases until the case is finalized.

Office's response

As outlined in its response, the Office agrees with the finding and will implement the recommendations.

Sunset Factor 7: The extent to which the level of regulation exercised by the Office is appropriate compared to other states, best practices, or both

This factor does not apply because the Office is not a regulatory agency.

Sunset Factor 8: The extent to which the Office has established safeguards against possible conflicts of interest

The State's conflict-of-interest requirements exist to remove or limit the possibility of personal influence impacting a decision of a public agency employee or public officer. However, the Office did not comply with some State conflict-of-interest requirements and had not fully aligned its conflict-of-interest process with recommended practices, such as developing conflict-of-interest policies and procedures, requiring employees to complete conflict-of-interest disclosure forms, and maintaining a special file for substantial interest disclosures. See Finding 1 for more information on our review of the Office's conflict-of-interest processes.

[57] We reviewed the documents containing the initial complaint submission and the Office's responses.

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

This performance audit and sunset review did not identify any statutory changes that are necessary to help the Office more efficiently and effectively fulfill its key statutory objectives and purposes or to eliminate statutory responsibilities.

Sunset Factor 10: The extent to which the termination of the Office would significantly affect public health, safety, or welfare

Terminating the Office would likely not significantly affect public health, safety, or welfare because its key objectives and purposes are not related to ensuring the public's health, safety, or welfare. However, if the Office were terminated and its statutory responsibilities were not transferred to another entity, there would not be an independent entity to provide administrative hearings. Instead, hearing officers who are either employees or contractors of the agencies whose actions at issue would likely oversee administrative hearings, as was the case before the Office was created. Having agency employees or contractors oversee hearings can create a sense of "home court advantage" in the agency, thus undermining public confidence in the fairness of the administrative hearing process. In addition, terminating the Office would result in losing any efficiencies gained through having a centralized hearing agency.

Summary of recommendations

Sikich makes 21 recommendations to the Office

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 employees to complete a conflict-of-interest disclosure form upon hire/appointment and reminding them at least annually to update their form when their circumstances change, including attesting that no conflicts exist, if applicable.
2. Using a conflict-of-interest disclosure form that addresses both financial and decision-making conflicts of interest.
3. Storing all substantial interest disclosures, including disclosure forms, in a special file available for public inspection.
4. Reviewing and remediating disclosed conflicts.

5. Develop and provide periodic training on conflict-of-interest requirements, processes, and disclosure forms.
6. Establish a mechanism or update its automated system notifications to alert ALJs when upcoming holidays may impact compliance with statutorily required timeframes.
7. Reconcile case data to the annual reports and issue corrected annual reports, as necessary.
8. Ensure that the required annual reports are submitted by the statutorily required deadlines.
9. Update the year-end billing process to ensure that the average year-end billing rates reflect actual expenditures and that expenditures are distributed equally to all agencies.
10. Develop and implement detailed procedures for its billing process, including adequate segregation of duties, and cross-train employees to be able to review the accuracy of calculations performed to recover expenditures for services provided to agencies.
11. Develop and implement policies and procedures for documenting ALJ training, consistent with state and Office requirements.
12. Develop and implement a training program for agencies, as required by statute.
13. Implement existing cash and check-handling policies and procedures, including steps to ensure segregation of duties. If necessary, utilize external resources to provide staff training on the required financial processes.
14. Periodically review cash and check-handing processes to ensure that employees document segregation of duties in the receipt log, as required by Office policies and procedures.
15. Modify the ALJ evaluation process to incorporate public feedback.
16. Immediately begin retaining all public records requests and responses.
17. Develop and implement a tracking mechanism for receiving and responding to public records requests to ensure compliance with statutory requirements.
18. Develop and implement comprehensive policies and procedures for public records requests to ensure compliance with statutory requirements to acknowledge requests within 5 business days of receipt and maintain an index of records or categories of records that were withheld and the reason why. The comprehensive policies and procedures should

incorporate State guidelines to develop and implement processes for identifying when a public record request may contain confidential information, irreversibly redacting confidential or restricted information from records before providing the records, and documenting within the Office's records which materials were redacted or released.

19. Develop written policies and procedures for complaint handling that outline each step of the complaint-handling process. This should include timeframes for notification, investigation, and resolution.
20. Develop mechanisms to track and monitor timeliness of the complaint-handling process.
21. Update the process on its website to clarify that, in order to maintain impartiality, the Office will not investigate complaints for ongoing cases until the case is finalized.

Appendix A: Cases reviewed for compliance with statutory requirements

The Office received more than 22,000 requests for hearings from 46 agencies between fiscal years 2023 and 2025. To assess whether the Office implemented sufficient information system controls to carry out its statutory objectives, we selected a sample of 48 cases. Our sample selection included:

- 24 judgmentally selected cases to ensure we captured cases that involved mediation and cases that were identified as high-risk cases.[58]
- 12 randomly selected cases from 3 agencies with the highest number of requests for hearings; this included the Arizona Health Care Cost Containment System, the Arizona Registrar of Contractors, and the Arizona Department of Health Services.
- 12 randomly selected cases from the remaining agencies.

Agency	Case Identifier	Fiscal Year
Arizona Department of Revenue	202400037-S-REV	2025
Arizona Health Care Cost Containment System	25F-ELG-335174-AHC	2025
Arizona Health Care Cost Containment System	23F-291273-AHC*	2025
Arizona Health Care Cost Containment System	24F-CLM-306569-AHC	2024
Arizona Health Care Cost Containment System	24F-ELG-304374-AHC	2024
Arizona Health Care Cost Containment System	23F-291817-AHC	2023
Arizona Health Care Cost Containment System	23F-288886-AHC*	2023
Arizona Health Care Cost Containment System	23F-291225-AHC*	2023
Arizona Health Care Cost Containment System	23F-293865-AHC*	2023
Arizona Health Care Cost Containment System	23F-288941-AHC*	2023
Arizona Health Care Cost Containment System	23F-288939-AHC*	2023
Arizona Health Care Cost Containment System	23F-288950-AHC*	2023
Arizona Health Care Cost Containment System	23F-288937-AHC*	2023
Arizona Health Care Cost Containment System	23F-288942-AHC*	2023
Arizona Health Care Cost Containment System	23F-289013-AHC*	2023
Arizona Health Care Cost Containment System	23F-288921-AHC*	2023
Arizona Health Care Cost Containment System	23F-288887-AHC*	2023
Arizona Health Care Cost Containment System	23F-288936-AHC*	2023
Arizona Health Care Cost Containment System	23F-288948-AHC*	2023
Arizona Health Care Cost Containment System	23F-288906-AHC*	2023
Arizona Health Care Cost Containment System	23F-288915-AHC*	2023
Arizona Health Care Cost Containment System	23F-288943-AHC*	2023
Arizona Health Care Cost Containment System	23F-288946-AHC*	2023
Arizona Health Care Cost Containment System	23F-MCC331741-AHC*	2023
Arizona Department of Child Safety	25C-PS00265507-DCS	2025
Arizona Department of Child Safety	24C-PS00261857-DCS	2024
Arizona Department of Child Safety	24C-PS00244676-DCS	2024
Arizona Department of Child Safety	23C-PS00243350-DCS	2023
Arizona Department of Economic Security	24C-1049989-APS	2024
Arizona Department of Economic Security	24C-1074782-APS-RES	2024
Arizona Department of Education - Special Education	25C-DP-003-ADE	2025

[58] Judgmentally selected cases are identified by an asterisk at the end of their case identifier.

Agency	Case Identifier	Fiscal Year
Arizona Department of Education - Special Education	25C-DP-022-ADE	2025
Arizona Department of Education - Special Education	23C-DP-009-ADE*	2023
Arizona Department of Health Services	2025C-MED-0204-MDHS	2025
Arizona Department of Health Services	2024C-MMR-0419-DHS	2024
Arizona Department of Health Services	2023-BMFL-0039-DHS	2023
Arizona Department of Health Services	2023-MMR-0304-DHS	2023
Arizona Department of Real Estate	24F-H051-REL*	2024
Arizona Registrar of Contractors	2025A-02772-NPC-ROC*	2025
Arizona Registrar of Contractors	2024A-06062-CHC-ROC	2025
Arizona Registrar of Contractors	2023A-02393-CHC-ROC	2024
Arizona Registrar of Contractors	2023A-04796-CHC-ROC*	2024
Arizona Registrar of Contractors	2022A-05828-CHC-ROC	2023
Arizona Registrar of Contractors	2023A-04452-CHC-ROC	2023
Arizona Registrar of Contractors	2022A-00986-CHC-ROC*	2023
Arizona Secretary of State	24-002-NOT	2024
Arizona State Board of Accountancy	23A-2023.264-ACY	2023
Arizona State Board of Education	24C-ESA-080-SBE	2025

Source: Sikich sample selection.

Appendix B: Monthly average billing rates

The Office calculates billing rates monthly based on the Office's costs for that month, which is reflected in the monthly cost pool columns in Table 6 below. To determine the rates agencies are charged in a given month, the Office develops (1) an ALJ hourly rate by dividing the monthly hourly rate cost pool by ALJ hours for the month, and (2) a case filing fee by dividing the case filing fee cost pool by the number of hearing requests received during the month.

Table 6. The average billing rates vary by month because of variation in the Office's costs, number of ALJ hours used, and number of cases filed; in addition, annual rates used by the Office are incorrect

Month	ALJ Hourly Rate Cost Pool	ALJ Hours	ALJ Hourly Rate	Case Filing Fee Cost Pool	Hearing Requests	Case Filing Fee
July	$76,028	1,056	$72.00	$86,942	987	$88.09
August	76,028	1,182	64.32	85,558	739	115.78
September	72,556	966	75.11	85,878	540	159.03
October	68,653	1,009	68.04	87,531	458	191.12
November	77,956	860	90.65	88,924	627	141.82
December	85,527	961	89.00	94,303	673	140.12
January	78,406	1,035	75.75	89,645	781	114.78
February	78,377	1,009	77.68	87,450	649	134.75
March	78,377	1,023	76.61	86,172	630	136.78
April	78,377	1,029	76.17	87,894	728	120.73
May	77,521	941	82.38	106,767	706	151.23
June	73,958	892	82.91	83,663	579	144.50
Year Total	**$921,764**	**11,963**		**$1,070,727**	**8,097**	
Office Rates (Average of ALJ Rate and Case Filing Fee)			**$77.55**			**$136.56**
Sikich Calculated Corrected Annual Rates (Annual cost divided by annual hours/cases)			**$77.05**			**$132.24**

Source: Sikich review of billing calculations for fiscal year 2025.

The results of these discrepancies are summarized in Table 7.

Table 7. The Office's year-end calculations used inaccurate average rates, fiscal year 2025

Description	Rate	Unit	Total
Office Calculation			
ALJs	$77.55	11,963	$927,731
Case Filing Fee	136.56	8,097	1,105,726
Direct Expenses	N/A	N/A	24,825
Total Expenditure			**$2,058,282**
Sikich Calculation			
ALJs	$77.05	11,963	$921,749
Case Filing Fee	132.24	8,097	1,070,747
Direct Expenses	N/A	N/A	24,825
Total Expenditure[59]			**$2,017,321**
Difference			**$40,961**

Source: Sikich review of billing calculations for fiscal year 2025.

[59] The expenditures calculated in Table 7 are $8 higher than the expenditures identified in Table 3 because we used rounded values in Table 7.

Appendix C: Scope and methodology

Sikich was engaged by the Arizona Auditor General to conduct a performance audit and sunset review of the Office pursuant to an October 7, 2025, resolution of the Joint Legislative Audit Committee. The audit was conducted as part of the sunset review process prescribed in A.R.S. § 41-2951 et seq. We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards*, as issued by the Comptroller General of the United States (2018 Revision, Technical Update April 2021). Those standards require that we plan and perform the audit 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.

Scope

The scope of this performance audit and sunset review was to determine whether the Office fulfilled its statutory objectives for administrative hearings conducted between fiscal years 2023 and 2025.

Methodology

We used various methods to address the objectives of this performance audit and sunset review. These methods included reviewing applicable State statutes and rules; federal laws and regulations; and the Office's website, policies, procedures, guides, and annual reports, as well as interviewing Office staff. In addition, we used the following specific methods to meet the audit objectives:

- To assess the Office's compliance with State conflict-of-interest requirements and alignment with recommended practices, we reviewed statute and State requirements, recommended practices, and the Office's Code of ALJ Ethics it used in lieu of a stand-alone conflict-of-interest policy. We obtained and reviewed the disclosure forms the Office's employees completed for ADOA when they were first hired as State employees.
- To assess whether the Office's rate-setting and billing practices ensured that agencies paid the same rate for services, we reviewed the Office's rate calculations for fiscal year 2025. We obtained ALJ labor hours and hearing requests recorded in the Office's case management software. We reconciled these records to the Office's billing spreadsheets used to determine bills for agencies. We also obtained expenditures recorded in Arizona's financial management system and reconciled them to the expenditures in the Office's billing spreadsheets. We recalculated the Office's year-end rates to determine the accuracy of the Office's rate-setting process used to ensure that all agencies are treated equitably.
- To assess whether the Office implemented sufficient information system controls to carry out its statutory objectives, we reviewed statutes and rules adopted by the Office to identify the timeframes established for administrative hearings. We interviewed Office personnel to obtain an understanding of the case management system it relies on to ensure it meets the established timeframes. We selected a sample of 48 cases. We retrieved data for case events and case documentation from the Office's case management system to determine whether the Office was in compliance with statutory requirements and the rules for administrative hearings. We also reviewed case documentation to determine whether it supported the case data.
- To determine whether the Office established a training program for ALJs and agencies, we interviewed Office personnel to obtain an understanding of policies and procedures

for its training program. We obtained documentation to determine whether ALJs met training requirements under the State Bar of Arizona.

- To assess whether the Office developed, implemented and maintained a program for the evaluation of ALJs, we interviewed the Director. We reviewed the Office's most recent evaluations to determine whether the evaluations incorporated public feedback, as required by statutes.
- To determine whether the Office's annual reports submitted to the Governor, the President of the Senate, and the Speaker of the House complied with statutory requirements, we reviewed the Office's annual reports between fiscal years 2023 and 2025. We interviewed Office personnel to obtain an understanding of its process for preparing annual reports. We also reviewed the underlying data used to prepare statistics included in the reports.
- To assess whether the Office provided public access to rulemakings, including soliciting public input when making rules, we reviewed the Arizona Administrative Register and the process for the Office's most recent rulemaking, finalized in July 2024.

We also reviewed the Office's previous performance audit and sunset review issued in 2014 and the 24-month followup of the 2014 performance audit and sunset review, which identified issues related to controls for ensuring fair, independent, and timely hearings and for the Office's rate-setting method.

Our work on internal controls, including information system controls, included, where applicable, reviewing the Office's policies and procedures, testing the Office's compliance with these policies and procedures, and assessing compliance with State statutes. We reported on our conclusions on applicable internal controls in Finding 1 and Sunset Factors 2 and 6.

We selected our audit sample 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.

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

Appendix D: Office's response

The subsequent pages were written by the Office to provide a response to each of the findings and to indicate its intention regarding implementation of each of the recommendations resulting from the performance audit and sunset review conducted by Sikich.

Office of Administrative Hearings
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Telephone (602)-542-9826 FAX (602)-542-9827

Katie Hobbs
Governor

Tammy L. Eigenheer
Director

August 20, 2026

Elizabeth Kowalewski, Principal
Sikich
333 John Carlyle Street, Suite 500
Alexandria, VA 22314

RE: Office of Administrative Hearings – Sunset Review Response

Dear Ms. Kowalewski:

The Office of Administrative Hearings ("OAH") has reviewed and provided responses to the Performance Audit and Sunset Review performed on behalf of the Arizona Auditor General's Office. We appreciate the feedback provided and have already begun addressing and implementing the recommendations from the audit.

On behalf of the OAH, we want to offer our thanks to the Sikich team for their professionalism and courtesy during the review. We believe this contributed to our positive working relationship throughout the process.

Thank you again for the opportunity to respond to the Performance Audit report.

Respectfully,

Tammy L. Eigenheer

Tammy L. Eigenheer
Director

Enclosure: OAH's Response

cc: Jeffery Sanchez, Office Manager

Finding 1: The Office did not comply with some State conflict-of-interest requirements or align its conflict-of-interest process with recommended practices, increasing risk that its employees had not disclosed substantial interests that might influence or could affect their official conduct

Office response: The finding is agreed to.

Response explanation: The Office erroneously relied on ADOA to provide the Conflict of Interest forms at hire.

Recommendation 1: 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 requiring employees to complete a conflict-of-interest disclosure form upon hire/appointment and reminding them at least annually to update their form when their circumstances change, including attesting that no conflicts exist, if applicable.

Office response: The audit recommendation will be implemented.

Response explanation: The Office is working on developing a policy/procedure for this. In the interim, all employees have completed a COI form in 2026 and now have a reminder on their calendar to complete a new COI form every January.

Recommendation 2: 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 using a conflict-of-interest disclosure form that addresses both financial and decision-making conflicts of interest.

Office response: The audit recommendation will be implemented.

Response explanation: The current ADOA COI form has been provided to and completed by all employees and is available on a shared drive for use.

Recommendation 3: 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 storing all substantial interest disclosures, including disclosure forms, in a special file available for public inspection.

Office response: The audit recommendation will be implemented.

Response explanation: The Office Manager has created a specific file of all COI forms completed by employees.

Recommendation 4: 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 reviewing and remediating disclosed conflicts.

Office response: The audit recommendation will be implemented.

Response explanation: No conflicts were disclosed on the 2026 updated COI forms, but the annual resubmissions will be reviewed for such conflicts.

Recommendation 5: Develop and provide periodic training on conflict-of-interest requirements, processes, and disclosure forms.

Office response: The audit recommendation will be implemented.

Response explanation: The COI requirements, processes, and disclosure forms will be addressed through the policy, at office trainings, and through email especially around the time of the annual resubmission.

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

We identified two opportunities for the Office to improve its operations.

Office response: The finding is agreed to.

Recommendation 6: Establish a mechanism or update its automated system notifications to alert ALJs when upcoming holidays may impact compliance with statutorily required timeframes.

Office response: The audit recommendation will be implemented.

Response explanation: Emails will be sent in advance of holidays detailing the effect of the holiday on deadlines.

Recommendation 7: Reconcile case data to the annual reports, and reissue corrected annual reports, as necessary.

Office response: The audit recommendation will be implemented.

Response explanation: The Office Manager will review the annual reports, and correct and reissue them, as necessary

Recommendation 8: Ensure that the required annual reports are submitted by the statutorily-required deadlines.

Office response: The audit recommendation will be implemented.

Response explanation: The Office Manager will submit the two annual reports on the earlier deadline to ensure compliance with both statutory requirements.

The Office implemented a year-end reconciliation process intended to ensure it charges the same rates to all agencies that contract for its services but it made calculation errors in fiscal year 2025 that resulted in inequitable charges between agencies

Office response: The finding is agreed to.

Response explanation: Upon explanation, the error in the methodology was understood by the Office.

Recommendation 9: Update the year-end billing process to ensure that the average year-end billing rates reflect actual expenditures and that expenditures are distributed equally to all agencies.

Office response: The audit recommendation will be implemented.

Response explanation: Spreadsheets were updated during the reconciliation period or year-end billing process of FY2026. This has already been implemented.

Recommendation 10: Develop and implement detailed procedures for its billing process, including adequate segregation of duties, and cross-train employees to be able to review the accuracy of calculations performed to recover expenditures for services provided to agencies.

Office response: The audit recommendation will be implemented.

Response explanation: Procedures will be written, developed and updated over time for the billing process. The Office will look into cross-training employees where practical as well as the establishing segregation of duties as resources permit.

The Office does not have any policies and procedures for its training program and does not retain training documentation, increasing the risk that ALJs and agencies do not receive training related to ensuring fair and independent hearings

Office response: The finding is agreed to.

Recommendation 11: Develop and implement policies and procedures for documenting ALJ training consistent with state and Office requirements.

Office response: The audit recommendation will be implemented.

Response explanation: The Office will require ALJs to submit annual reports detailing any training they attend outside of the Office. Further, bi-monthly meetings have been scheduled to provide training in the Office with topics planned including hearing procedures, case management issues, and any concerns the ALJs may have.

Recommendation 12: Develop and implement a training program for agencies as required by statute.

Office response: The audit recommendation will be implemented.

Response explanation: The Director is currently developing a specific training and will reach out to offer it to the agencies upon completion.

The Office failed to comply with its internal policy for cash and check handling, which increases the risk of fraud and theft

Office response: The finding is agreed to.

Response explanation: The Office will periodically review the internal policy for cash and check handling and implement it based on practicality and establish a segregation of duties as resources permit.

Recommendation 13: Implement existing cash and check-handling policies and procedures, including steps to ensure segregation of duties. If necessary, utilize external resources to provide staff training on the required financial processes.

Office response: The audit recommendation will be implemented.

Response explanation: The Office will implement and periodically review the cash and check-handling policies and procedures based on practicality and establish a segregation of duties as resources permit.

Recommendation 14: Periodically review cash and check-handing processes to ensure that employees document segregation of duties in the receipt log, as required by its policies and procedures.

Office response: The audit recommendation will be implemented.

Response explanation: The Office will develop and periodically review the cash and check-handling processes and adjust based on practicality and establish a segregation of duties as resources permit.

The Office has not incorporated public feedback into ALJ evaluations as required by statute

Office response: The finding is agreed to.

Response explanation: This has not historically been done.

Recommendation 15: Modify the ALJ evaluation process to incorporate public feedback.

Office response: The audit recommendation will be implemented.

Response explanation: Public feedback will be documented in annual ALJ evaluations.

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

The Office responded to our public request consistent with statute, but it does not track public records requests and responses, and therefore cannot demonstrate compliance with statutory requirements

Office response: The finding is agreed to.

Response explanation: The Office did not maintain documentation of prior public records requests.

Recommendation 16: Immediately begin retaining all public records requests and responses.

Office response: The audit recommendation will be implemented.

Response explanation: The Office has created an entry in its case management system to document all public records requests and the Office's response to them.

Recommendation 17: Develop and implement a tracking mechanism for receiving and responding to public records requests to ensure compliance with statutory requirements.

Office response: The audit recommendation will be implemented.

Response explanation: The Office has created an entry in its case management system to document all public records requests and the Office's response to them.

Recommendation 18: Develop and implement comprehensive policies and procedures for public records requests to ensure compliance with statutory requirements to acknowledge requests within 5 business days of receipt and maintain an index of record or categories of records that were withheld and the reason why. The comprehensive policies and procedures should incorporate State guidelines to develop and implement processes for identifying when a public record request may contain confidential information, irreversibly redacting confidential or restricted information from records before providing the records and documenting within the Office's records which materials were redacted or released.

Office response: The audit recommendation will be implemented.

Response explanation: The Office is developing policies and procedures to address this.

Sunset Factor 6: The extent to which the Office has provided appropriate public access to records, meetings, and rulemakings, including soliciting public input in making rules and decisions.

The Office does not have a mechanism to track complaints and did not consistently follow its process for handling and resolving complaints

Office response: The finding is agreed to.

Recommendation 19: Develop written policies and procedures for complaint-handling that outline each step of the complaint handling process. This should include timeframes for notification, investigation and resolution.

Office response: The audit recommendation will be implemented.

Response explanation: The Office is developing policies and procedures to address the complaint-handling process.

Recommendation 20: Develop mechanisms to track and monitor timeliness of the complaint-handling process.

Office response: The audit recommendation will be implemented.

Response explanation: The Office is developing a mechanism to track and monitor the timeliness of the complaint-handling process.

Recommendation 21: Update the process on its website to clarify that in order to maintain impartiality, the Office will not investigate complaints for ongoing cases until the case is finalized.

Office response: The audit recommendation will be implemented.

Response explanation: The website will be updated to provide this information.

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Katie Hobbs
Governor

Tammy L. Eigenheer
Director

August 20, 2026

Elizabeth Kowalewski, Principal
Sikich
333 John Carlyle Street, Suite 500
Alexandria, VA 22314

RE: Office of Administrative Hearings – Sunset Review Response

Dear Ms. Kowalewski:

The Office of Administrative Hearings ("OAH") has reviewed and provided responses to the Performance Audit and Sunset Review performed on behalf of the Arizona Auditor General's Office. We appreciate the feedback provided and have already begun addressing and implementing the recommendations from the audit.

On behalf of the OAH, we want to offer our thanks to the Sikich team for their professionalism and courtesy during the review. We believe this contributed to our positive working relationship throughout the process.

Thank you again for the opportunity to respond to the Performance Audit report.

Respectfully,

Tammy L. Eigenheer

Tammy L. Eigenheer
Director

Enclosure: OAH's Response

cc: Jeffery Sanchez, Office Manager

Mission Statement: We will contribute to the quality of life in the State of Arizona by fairly and impartially hearing the contested matters of our fellow citizens arising out of State regulation.

Finding 1: The Office did not comply with some State conflict-of-interest requirements or align its conflict-of-interest process with recommended practices, increasing risk that its employees had not disclosed substantial interests that might influence or could affect their official conduct

Office response: The finding is agreed to.

Response explanation: The Office erroneously relied on ADOA to provide the Conflict of Interest forms at hire.

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Office response: The audit recommendation will be implemented.

Response explanation: The Office is developing policies and procedures to address this.

Sunset Factor 6: The extent to which the Office has provided appropriate public access to records, meetings, and rulemakings, including soliciting public input in making rules and decisions.

The Office does not have a mechanism to track complaints and did not consistently follow its process for handling and resolving complaints

Office response: The finding is agreed to.

Recommendation 19: Develop written policies and procedures for complaint-handling that outline each step of the complaint handling process. This should include timeframes for notification, investigation and resolution.

Office response: The audit recommendation will be implemented.

Response explanation: The Office is developing policies and procedures to address the complaint-handling process.

Recommendation 20: Develop mechanisms to track and monitor timeliness of the complaint-handling process.

Office response: The audit recommendation will be implemented.

Response explanation: The Office is developing a mechanism to track and monitor the timeliness of the complaint-handling process.

Recommendation 21: Update the process on its website to clarify that in order to maintain impartiality, the Office will not investigate complaints for ongoing cases until the case is finalized.

Office response: The audit recommendation will be implemented.

Response explanation: The website will be updated to provide this information.