

Our Mission

We provide information, assistance, and recommendations to improve Arizona government for its citizens.

Our Vision

To make a positive difference by promoting better government.

Our Authority

The Arizona Office of the Auditor General is a legislative agency under the direction of the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. We provide independent and impartial information, assistance, and recommendations to improve state and local government operations.



2015

Year Ended June 30, 2015

Office makes a positive difference for Arizona citizens

We are committed to making a positive difference in the way our State and its local governments operate, and we focus on helping Arizona government improve accountability and effectively use public monies. We accomplish this through our audit and oversight activities by providing independent and impartial information and recommendations in our reports, at briefings and hearings, and by providing technical assistance to government officials who manage operations. The Auditor General is assisted by a Deputy Auditor General and approximately 190 professionals in fulfilling these responsibilities.

Office provides effective information and recommendations—As the State's independent auditor, our oversight responsibilities focus on conducting audits and issuing effective reports. Our reports focus on various ways that Arizona government can improve. During fiscal year 2015, we issued 200 reports that covered various matters regarding state agencies, universities, school districts, counties, and community colleges (see the table on page 2). These reports can be broadly categorized into three main types described in the textbox below. In addition, the Legislature requires us to prescribe standards and procedures for uniform accounting and budgeting systems for school districts and other local governments.

Special audits requested by the Legislature—The Legislature relies on our Office to provide useful information to help legislative members make better decisions in governing our State. This year we issued special reports on:

- School district spending, which provided details about school districts' classroom and non-classroom spending, and operational trends across time.
- The Arizona Department of Child Safety's congregate care placements, which recommended methods to reduce congregate care use.
- Arizona's number of child abuse or neglect reports, substantiation rate, and investigative approach compared to other states, which included recommendations to improve collaboration between caseworkers, investigators, and law enforcement.

Three main report types

Performance and special audits—Reports focus on how effectively, efficiently, and economically state agencies and school districts conduct business and include special studies the Legislature requests.

Financial and federal compliance audits—Reports are about the accuracy of annual financial statements and on internal control and compliance over financial and federal grant regulations.

Procedural and compliance reviews and investigations—Reports show whether entities have fully complied with expenditure limitations, whether school districts have fully complied with certain standards over financial operations, or results of special fraud investigations.

For fiscal years 2016 and 2017, the Legislature directed our Office to conduct three more special reviews of the Arizona Department of Child Safety. Our first report, issued September 2015, focused on child safety, removal, and risk assessment practices. Our

Office reports issued by report type and government Fiscal year 2015

Report type	State agencies	Universities	School districts	Counties	Community colleges	Total reports
Performance and special audits						
Performance audit	9		12			21
Audit follow-up letter	18		34	1		53
Special legislative requests	2		1			3
Financial and federal compliance audits						
Financial statement	6	3		9	10	28
Internal control	3	3		9	10	25
Federal compliance	1			9	9	19
Procedural and compliance reviews and investigations						
Special investigation			3			3
Procedural review	2					2
Compliance review			13	1	1	15
Agreed-upon procedures		1		9	3	13
Expenditure limitation				9	9	18
Total reports	<u>41</u>	<u>7</u>	<u>63</u>	<u>47</u>	<u>42</u>	<u>200</u>

second report, due in March 2016, will address the use of a differential response system and case screening. Finally, our third report, due in September 2016, will examine permanency practices for children in out-of-home care. All three reports will consider best practices in other states and recommend improvements.

State agency performance audits—Our performance audits and sunset reviews covered state agencies and boards that provide a variety of services to Arizona citizens. These reports included many recommendations to help state leaders and agencies provide services more effectively and efficiently and had wide-ranging impacts for Arizona citizens. Some examples of our reports that directly affect Arizona citizens include:

- Boards that regulate medical, dental, and naturopathic physician professionals—We recommended that these boards better protect the public by ensuring that healthcare professionals meet established licensing and certification requirements.
- Arizona Department of Transportation, Motor Vehicle Division (MVD)—We made recommendations for improving customer service at MVD’s field offices, which handle millions of transactions each year for Arizona drivers and vehicle owners.
- Arizona Department of Revenue—We recommended that this department better protect sensitive taxpayer information by improving information technology security, including recommendations for developing a security program and enhancing physical security.

In addition, we issued the following three audits with impacts across many government agencies:

- Arizona Department of Administration—We made recommendations to improve management over the State’s procurement system, which sets standards for and supervises all state agencies’ purchases of goods and services. Our recommendations will help ensure all state agencies consistently apply procurement laws and regulations.
- State Purchasing Cooperative Program—This program allows Arizona political subdivisions, nonprofit organizations, and tribal nations to purchase goods and services from state-wide contracts, and we recommended changes to better align fees with program costs and to better protect and account for fee revenue payments from cooperative members.
- Office of Administrative Hearings—This office is responsible for fairly and impartially hearing contested matters arising out of state regulation, and we recommended that it enhance its policies and procedures for ensuring fair and independent hearings, better comply with statutory hearing time frame requirements, and develop consistent rates for all agencies.

School district performance audits—In our school district performance audits, we identified issues that affect the accountability for and effective use of public monies. For example, we highlighted best practices at efficiently operated districts such as properly overseeing operational areas, using available programs to obtain solar power systems at no cost or to reduce electricity costs through rebates, and closing unneeded schools

and buildings to reduce costs. In addition, our reports included various recommendations for improvement at some districts that:

- Overstaffed operational areas, making them more costly than necessary.
- Lacked adequate controls to minimize the risks of errors and fraud allowing inappropriate and fraudulent activities such as vendor overpayments and unusual or improper credit card purchases to occur without timely detection.
- Over-reported student ridership or mileage resulting in the overfunding of student transportation.
- Failed to ensure that bus driver certification requirements were met or that bus maintenance was performed, creating a potential student and public safety risk.
- Had large amounts of excess square footage, resulting in increased plant operations costs.
- Entered into poorly designed solar power contracts, resulting in the sale of excess generated power at a loss.
- Poorly managed the food service program, resulting in the need for a large program subsidy, overpayments to vendors, improper sale of surplus food to employees, and increased program losses because of food sales to community members.
- Had excessive travel costs for governing board members and noninstructional staff.

Making a positive difference

- State agencies, school districts, and other local governments have consistently implemented more than 95 percent of our performance audit recommendations within 2 years.
- Federal compliance audits of the State's agencies, universities, community colleges, and counties verify appropriate spending of federal monies. In our audits covering fiscal year 2014, these entities spent over \$13.6 billion in federal monies to provide services such as healthcare and education programs to Arizona citizens.
- Technical assistance we regularly provide to the State's agencies and local governments helps to improve state government effectiveness, efficiency, and accountability.

Financial and federal compliance audits—These audits focused on the accuracy of state and local government financial statements along with evaluating the effectiveness of internal controls and compliance with required accounting practices and state and federal laws and regulations. We provided the State's agencies, universities, counties, and community colleges with various recommendations to help them report financial information accurately, keep their electronic data safely protected, and ensure they will continue to receive federal grant monies that help to provide services such as healthcare and education to Arizona citizens. Included in these reports is our annual state-wide report, which addresses the State's controls over financial reporting and federal compliance.

Special investigations—Special fraud investigations result in individuals being held responsible for their unlawful and inappropriate use of public monies. We issued three reports during fiscal year 2015. Our investigations revealed that a Glendale Union High School District bookstore manager embezzled and misused more than \$70,000 of district monies. On June 10, 2015, as part of a plea agreement, she pled guilty to felony theft and fraudulent schemes, was sentenced to 1 year in prison and 7 years of probation, and was ordered to pay full restitution. In addition, our investigations revealed that a Tolleson Union High School District principal's administrative assistant embezzled and misused more than \$10,500 of district monies. On April 23, 2015, as part of a plea agreement, she pled guilty to felony theft, was sentenced to 2 years of probation, and paid full restitution. Finally, our investigations revealed that a Yucca Elementary School District business manager embezzled and misused more than \$4,000. On June 15, 2015, as part of a plea agreement, she pled guilty to felony theft, was sentenced to 3 years of probation and 80 hours of community service, and paid full restitution.

Audit followup—After audits are completed, we follow up on state agency, local government, and school district efforts to implement our recommendations. We report on the status of these efforts to legislative members and governing bodies. Specifically, following the release of state agency performance audits and/or sunset reviews, we conduct followups at 6 and 18 months; in fiscal year 2015, more than 95 percent of our recommendations were implemented. We also conducted follow-up visits at school districts to determine their status in implementing our audit recommendations. Cumulatively, districts reported saving millions of dollars by implementing audit recommendations such as consolidating bus routes; eliminating payments for unproductive time; reducing excess building space; rebidding poor contracts; recovering overpayments made to vendors; and reducing overstaffing in noninstructional areas. Finally, our annual financial and federal compliance audits allow us to provide ongoing assistance that helps ensure state and local governments implement our recommendations.

Office provides helpful technical assistance—Our Office impacts governments through ongoing technical assistance that we provide through webinars, budget preparation packages, alerts and informational memorandums, annual financial reporting guideline packages and report templates, and meetings.

For example, we have continued our effort to help school districts lower their training costs. We conducted free regional school district workshops throughout Arizona. Some of these workshops were designed to help school districts with fewer than 1,500 students strengthen their internal controls and improve financial management practices; however, others were geared towards all districts. The response to the workshops has been highly favorable. We also continue to provide webinars and video responses to frequently asked questions.

We also provided the State, local governments, and government auditors with technical assistance as they implemented new and complex governmental accounting and financial reporting standards over pensions. Governmental Accounting Standards Board (GASB) Statement No. 68 prescribed these new and complex requirements that are effective for fiscal year 2015 government financial reports. Because of the complexities, we have coordinated with the State's retirement systems and provided assistance through presentations, sample financial statement disclosures and journal entries, and a questions-and-answers document. Our assistance has helped ensure that local governments will readily have the information they need to understand and implement these new pension standards.

Further, our continual presence while auditing state agencies and local governments places our professionals in a unique position to provide ongoing useful and consistent technical assistance that helps Arizona government improve effectiveness, efficiency, and accountability. We have also worked closely with the State and local governments in our financial statement and federal compliance audits to help improve the timeliness and accuracy of financial statements and federally mandated compliance reports.

Office professionals have excellent reputation in government auditing

Office is recognized for high-quality work—One formal recognition of our work quality and national reputation is our National State Auditors Association (NSAA) External Peer Review. This review represents an independent “audit” of our Office. Specifically, the review measured our compliance with professional standards when we performed our audit work and issued our reports. After reviewing our fiscal year 2013 audit activities, the NSAA review team issued a report indicating that our Office has an appropriately designed quality control system to ensure that we follow required *Government Auditing Standards*. Our External Peer Review results give us the highest mark a state audit organization can receive in such a review.

Another recognition of our high-quality work is the National Legislative Program Evaluation Society (NLPES) Certificate of Impact for our Patagonia Elementary and Union High School Districts performance audit. Based on the audit report's impact from both the legislative and public perspectives, the NLPES presented us with this award for providing information to our Legislature and the public regarding impactful improvements that can result from implementing our recommendations.

Office professionals participate in professional organizations—Our Office professionals participate in national, state, and local professional organizations. Our professionals demonstrate their expertise, energy, and enthusiasm as leaders in the government-auditing field and give presentations and participate in discussions that help with standard-setting, oversight and monitoring, best practices sharing, and training in many technical areas, such as accounting principles and government auditing standards. During the fiscal year, our Office gave more than 53 presentations to professional organizations or government officials.