Joint Legislative Audit Committee

September 19, 2018—10:00 a.m.
House Hearing Room 1

Lindsey Perry
Auditor General

ARIZONA Auditor General
Making a Positive Difference

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ARIZONA STATE LEGISLATURE

INTERIM MEETING NOTICE
OPEN TO THE PUBLIC

JOINT LEGISLATIVE AUDIT COMMITTEE

Date: **Wednesday, September 19, 2018**

Time: **10:00 A.M.**

Place: **HHR 1**

AGENDA

Call to order - opening remarks
1. Update on Auditor General's Office additional staffing authorized by Legislature
2. Consideration and approval of additions to 2018-2019 sunset review schedule
3. Consideration and approval of additions/changes to 2019 Committees of Reference assignments
4. Consideration and approval of 2020-2021 proposed performance audit and sunset review schedule
5. Consideration and approval of 2020-2021 Committees of Reference assignments
6. Fiscal years 2018 and 2019 financial and compliance audit schedule and consideration of approval to bill entities for audit work
7. Presentation of 2020-2021 school district performance audit schedule
8. Public testimony

Adjourn

Members:

Senator Bob Worsley, Vice Chair
Senator Sean Bowie
Senator Judy Burges
Senator Lupe Contreras
Senator John Kavanagh
Senator Steve Yarbrough, Ex-officio

Representative Anthony T. Kern, Chair
Representative John M. Allen
Representative Russell Bowers
Speaker Javan D. Mesnard, Ex-officio
Representative Rebecca Rios
Representative Athena Salman

~~9/17/18 RCA~~
9/17/18

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STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

LINDSEY PERRY, CPA, CFE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

DATE: September 19, 2018

TO: Representative Anthony Kern, Chair
Members, Joint Legislative Audit Committee

FROM: Lindsey Perry, Auditor General

SUBJECT: Update on Auditor General's Office additional staffing authorized by the Legislature

Background

In both fiscal years 2018 and 2019, the Legislature authorized additional full-time equivalent staff (FTE) to the Office of the Auditor General (Office) to increase our investigative and performance audit staffing levels. Specifically:

- Financial investigations—We received funding to increase our staffing by six FTE over 2 fiscal years—four FTE in fiscal year 2018 and two FTE in fiscal year 2019.
- Performance audits and sunset reviews—We received funding to increase our staffing by ten FTE over 2 fiscal years—five FTE in fiscal year 2019 and five FTE in fiscal year 2020.

Below is a summary of our responsibilities for financial investigations and for performance audits and sunset reviews, and information regarding how we have used and plan to further use these staffing increases to make a positive difference.

Financial investigations

The Office conducts investigations of allegations relating to the misuse of public monies and other illegal acts affecting these monies. These financial investigations are conducted of the State of Arizona and its political subdivisions including counties, school districts, universities, community colleges, and special taxing districts. Allegations are received from various sources including the Office's audit teams, concerned citizens, public employees, prosecuting agencies, and law enforcement officials. The Office's investigators are credentialed as Certified Public Accountants and Certified Fraud Examiners and receive fraud training throughout the year. The investigators also have varying backgrounds in law enforcement and financial accounting.

If the investigation uncovers potential criminal violations, including evidence to support violations of theft, misuse of public monies, forgery, fraudulent schemes, money laundering, computer tampering, and conflict of interest, the Office submits its findings to a prosecuting

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agency for an independent review. The Office issues its public findings after the prosecuting agency files a criminal indictment or complaint against the alleged wrongdoers.

In addition to conducting investigations, the investigators work collaboratively with Office auditors when conducting their financial and performance audits.

For fiscal year 2018, the Legislature authorized four additional FTE to our Office to increase our investigative staffing—two additional investigator positions and two IT data analysts to perform specific data analytics to identify fraud and abuse. For fiscal year 2019, the Legislature authorized two additional FTE to our Office to further increase the investigator staffing.

We filled all four positions from the fiscal year 2018 funding and one of the two positions from the fiscal year 2019 funding. With the five additional investigative staff our Office hired, we have increased our capacity to investigate criminal allegations involving public monies and conduct fraud prevention and detection trainings for Office employees and governmental entities we audit.

As discussed in the attached financial investigations highlights report for the year ended December 31, 2017, we issued six financial investigations reports that led to prosecuting agencies obtaining 86 criminal charges against six individuals for losses totaling $805,121. These charges related to theft, misuse of public monies, fraudulent schemes, money laundering, computer tampering, forgery, theft of a credit card, and preparing a false tax document. Further, in 2017 five individuals previously charged as a result of our financial investigations reports pleaded guilty to charges of misuse of public monies, theft, fraudulent schemes, and conspiracy. These individuals were sentenced to nearly 16 years of incarceration and ordered to pay $2,335,448 in restitution. Finally, for calendar year 2018 to date, we have already completed five financial investigations that led to prosecuting agencies obtaining 37 criminal charges against six individuals for losses totaling $1,057,259.

Performance audits and sunset reviews

The Office helps provide legislative oversight and public accountability by performing many responsibilities, including conducting performance audits and sunset reviews. Our performance audits and sunset reviews assess the performance of state agencies, boards, and commissions that provide a variety of services to Arizona citizens. These reports include many recommendations to help state leaders and agencies provide services more effectively and efficiently, provide information to help policymakers make important decisions, and have wide-ranging impacts for Arizona citizens. In addition, sunset reviews, which include a performance audit when conducted by our Office, answer specific statutory questions to help the Legislature determine whether an agency should be continued, modified, or terminated.

Our Office conducts performance audits through statutory mandate, at the direction of the Joint Legislative Audit Committee (JLAC), or under the provision of various laws, including Arizona's Sunset Law, which mandates scheduled periodic review of state agencies. Arizona's Sunset Law was established by Laws 1978, Ch. 210, and provides a systematic process for reviewing an agency to determine if the agency should be continued, continued with modifications, or terminated. Each Committee of Reference (COR) must then hold at least one public hearing or one public hearing jointly on the performance audit/sunset review and evaluate and recommend whether the agency should be continued, modified, or terminated. If the agency is continued, the CORs also recommend the length of time an agency should be continued. When the sunset laws were initially established, agencies were placed on a 10-year review schedule requiring them to have a sunset review at least once every 10 years. However, in many cases, CORs have been recommending agencies be reviewed more frequently than every 10 years. Increasingly, the Legislature has been continuing agencies for 8 years rather than 10 years, and in some cases, agencies have been extended just a few years before their next sunset review is due.

To allow our Office to continue to conduct the sunset reviews of a commensurate number of agencies based on a more frequent sunset review cycle of 8 years rather than 10 years, the Legislature provided funding to increase our staffing by ten FTE over 2 fiscal years—five FTE in in fiscal year 2019 and five FTE in fiscal year 2020. We have filled one of the first five of these positions and are continuing to actively recruit and hire to fill the remaining positions.

The proposed 2020-2021 performance audit and sunset review schedule under Tab 4 reflects the increased ten FTE and the commensurate increase in number of sunset reviews we are recommending be assigned to our Office rather than be assigned to CORs. Specifically, we are recommending that over half (21 of the 34, or 62 percent) of the sunset reviews be assigned to our Office, whereas in the past, with our lower staffing levels, more than half of the sunset reviews were assigned to CORs. Further, with the additional audit capacity this additional staffing brings, we are able to recommend our Office conduct the sunset reviews of some agencies that we have not reviewed in a couple of decades or more, such as the Board of Barbers and the Automobile Theft Authority.

Action required

None. Presented for JLAC's information only.

ARIZONA Auditor General
Making a Positive Difference

REPORT TO THE LEGISLATURE

Financial Investigations Highlights
Year Ended December 31, 2017

In 2017, the Office of the Auditor General (Office) received 65 fraud-related allegations concerning school districts, counties, cities and towns, special taxing districts, state agencies, and community college districts. The Office evaluated all allegations to determine sufficiency of evidentiary documentation and whether the issue would best be resolved through a financial investigation or further review by other Office inquiries, separate regulatory agencies, or independent auditors.

Financial investigations

Reports issued

As summarized below, in 2017 the Office issued 6 financial investigations that led to prosecuting agencies obtaining 86 criminal charges against 6 individuals. These charges related to theft, misuse of public monies, fraudulent schemes, money laundering, computer tampering, forgery, theft of a credit card, and preparing a false tax document.

$805,121
TOTAL LOSSES

6
GOVERNMENT ENTITIES

86
CRIMINAL CHARGES

- A **Pine-Strawberry Water Improvement District** accounting manager allegedly embezzled $524,686 of public monies from the District and $316,370 from a private business by issuing unauthorized payments to herself and three businesses for which she managed the bank accounts.
- A **Topock Elementary School District** business manager allegedly misused $236,548 of public monies for the benefit of herself, her daughter, and one of her associates who did business with the District.
- An **Eloy Elementary School District** payroll clerk allegedly embezzled $23,504 of public monies when she paid herself for unauthorized overtime.
- A **Phoenix Union High School District** controller allegedly orchestrated a fraud scheme to falsely reduce her and her sister's (also a district employee) income taxes. During the scheme, she caused district software to generate unauthorized electronic deposits of $4,400 and $4,000 to her and her sister's respective bank accounts.
- A **Santa Cruz County** landfill supervisor allegedly embezzled $8,233 of public monies by keeping cash receipts for his personal use.
- An **East Valley Institute of Technology** teacher allegedly embezzled $3,750 of public monies when he deposited EVIT monies in his personal business bank account and used the money for his personal expenses.

ARIZONA TYPICAL LOSS
HIGHER THAN TYPICAL GLOBAL LOSS
FOR STATE/PROVINCIAL GOVERNMENTS

ARIZONA **$134,187**[1]

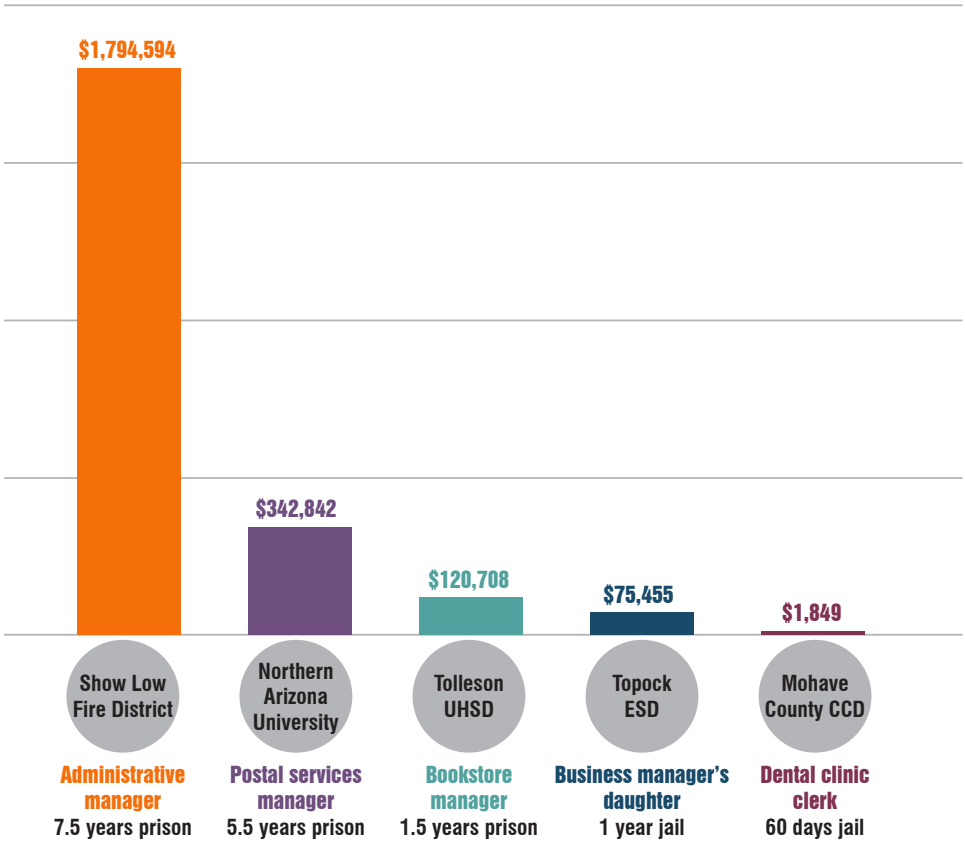
GLOBAL **$110,000**[2]

[1] 2017 Office of the Auditor General financial investigations total losses of $805,121 at six government entities.
[2] Association of Certified Fraud Examiners, Inc., *Report to the Nations on Occupational Fraud and Abuse*, 2018.

Prosecutorial outcomes

In 2017, five individuals previously charged as a result of our financial investigations pleaded guilty to charges of misuse of public monies, theft, fraudulent schemes, and conspiracy. As shown in the chart, these individuals were sentenced to nearly 16 years of incarceration and ordered to pay $2,335,448 in restitution.

2017 offender plea agreements: restitution orders and incarceration sentences



Fraud prevention and detection

We provided victim government entities with 13 recommendations to improve internal controls over their specific circumstances of loss to help them protect public monies from future misuse.

13
LOSS PREVENTION RECOMMENDATIONS

6
FRAUD DETECTION TRAININGS

1
FRAUD PREVENTION ALERT

Our financial investigators conducted trainings for fellow Office employees regarding how fraud, waste, and abuse impact the governmental entities we audit and assist. Employees were introduced to Arizona Revised Statutes applicable to fraud in governmental entities and shown different fraud schemes and specific fraud indicators to consider and be watchful of during the course of their work. Financial investigators also presented information about investigating governmental fraud to university and community college students.

We issued the first of a four-part **Fraud Prevention Alert** series related to using data analytics to help prevent and detect fraud. This will be followed with three Fraud Prevention Alerts that provide public officials with practical applications for using techniques from three data analysis categories: basic, statistical, and advanced.

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LINDSEY PERRY, CPA, CFE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

DATE: September 19, 2018

TO: Representative Anthony Kern, Chair
Members, Joint Legislative Audit Committee

THROUGH: Lindsey Perry, Auditor General

FROM: Dale Chapman, Director, Performance Audit Division

SUBJECT: Consideration and approval of additions to 2018-2019 sunset review schedule

Background

Laws 1978, Ch. 210, established the sunset review process, which requires most state agencies to receive a systematic evaluation at least once every 10 years to determine whether they should be continued or terminated. A.R.S. §41-2953(B) directs the Auditor General to provide the Joint Legislative Audit Committee (JLAC) a list of agencies scheduled for termination in the next sunset schedule. The Office of the Auditor General (Office) does not have sufficient resources to conduct all sunset reviews; therefore, JLAC determines which agencies the Office will review and which agencies the Committees of Reference (CORs) will review.[1]

JLAC previously approved the 2018-2019 performance audit and sunset review schedule and assigned the sunset reviews on that schedule to either the Office or to CORs.[2] However, additional changes to the schedule are needed, as detailed below.

Additions to 2019 sunset review schedule

Legislation passed in the 2017 session placed two additional sunset reviews on the 2019 schedule, giving these agencies 3-year continuations.

- Governor's Archeology Advisory Commission (Laws 2017, Ch. 68)
- Arizona Outdoor Recreation Coordinating Commission (Laws 2017, Ch. 131)

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[1] The essential difference between sunset reviews the Office and the CORs perform is the depth and scope of the work performed. When our Office performs an agency's sunset review, it conducts a performance audit of the agency to identify ways the agency can operate more efficiently and effectively.

[2] JLAC approved the 2018-2019 audit schedule at its September 14, 2016, meeting.

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The Office proposes these agencies be assigned to CORs for their sunset reviews for several reasons. First, during the 2018 legislative session, the Office was assigned an in-depth special audit of the School Facilities Board that is in process. Second, we are currently working on completing several audits on the 2019 audit schedule. Finally, as shown in agenda item 4, we have proposed an ambitious performance audit and sunset review schedule for 2020-2021, and it would be important for us to start on that schedule as soon as possible.

Summary

Attached is the 2018-2019 performance audit and sunset review schedule with the proposed revisions to the sunset reviews conducted by the CORs shown at the bottom.

Action required

Per statute, JLAC is required to determine whether the Office or CORs will review these two additional agencies that have been added to the 2019 schedule.

2018-2019 Performance Audit and Sunset Review Schedule

Approved on September 14, 2016

Statutorily mandated audits

1.	Universities (A.R.S. §41-2958)
2.	Gila County Transportation Excise Tax (A.R.S. §41-1279.03)
3.	Arizona Department of Child Safety—ongoing audits (A.R.S. §41-1966)
	a. Substance Abuse Treatment Program, AZ Families F.I.R.S.T. (due March 31, 2018)

Sunset reviews to be conducted by Auditor General's Office

1.	Commission for Postsecondary Education
2.	Arizona Medical Board
3.	Board of Athletic Training
4.	Psychologist Examiners Board
5.	Department of Insurance
6.	Department of Water Resources
7.	Department of Gaming
8.	Department of Revenue
9.	Department of Health Services
10.	Psychiatric Security Review Board
11.	Department of Agriculture
12.	Department of Juvenile Corrections
13.	Followups at 6 and 18 months

Sunset reviews to be conducted by CORs

1.	Advisory Council on Aging
2.	Biomedical Research Commission
3.	Board of Investment
4.	Board of Library Examiners
5.	Commission for the Deaf and the Hard of Hearing
6.	Geographic and Historic Names Board
7.	Board of Homeopathic and Integrated Medicine Examiners
8.	Joint Legislative Budget Committee
9.	Legislative Council
10.	Library, Archives and Public Records
11.	Mining Advisory Council
12.	Office of Administrative Hearings
13.	Office of Ombudsman-Citizens' Aide
14.	Residential Utility Consumer Offfice
15.	State Auditor General

Additions to 2018-2019 Performance Audit and Sunset Review Schedule

Sunset reviews to be conducted by CORs

16.	Governor's Archaeology Advisory Commission
17.	Arizona Outdoor Recreation Coordinating Commission

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DATE: September 19, 2018

TO: Representative Anthony Kern, Chair
Members, Joint Legislative Audit Committee

THROUGH: Lindsey Perry, Auditor General

FROM: Dale Chapman, Director, Performance Audit Division

SUBJECT: Consideration and approval of additions/changes to 2019 Committees of Reference assignments

Background

The Joint Legislative Audit Committee (JLAC) is statutorily required to assign agencies subject to a sunset review to Committees of Reference (CORs), regardless of whether the Office of the Auditor General or the CORs will conduct the sunset review. JLAC is also responsible for assigning all other performance audits to CORs or other pertinent committees to ensure that each audit receives a public hearing by a legislative committee. Agencies are generally assigned to the CORs reflecting the standing committees that are most likely to be responsible for hearing any legislation affecting that particular agency and that has knowledge or expertise in that particular subject area.

JLAC previously approved the 2019 COR assignments at its September 14, 2016, meeting. However, the following three agencies' CORs need to be reassigned. They were originally assigned to the House Rules Committee, and this committee does not typically function as a COR.

- Legislative Council
- State Auditor General
- Office of Ombudsman-Citizens' Aide

In addition, the Speaker of the House has recommended reassigning the Department of Water Resources to a different House COR. It was assigned to the House Land, Agriculture & Rural Affairs Committee.

Further, as discussed in agenda item 2, the following two agencies received 3-year continuations placing them on the 2019 sunset review schedule and requiring their assignment to CORs.

- Governor's Archeology Advisory Commission
- Arizona Outdoor Recreation Coordinating Commission

Finally, Laws 2018, Ch. 285, Sec. 30, requires our Office to complete a special audit of the School Facilities Board building renewal grant fund expenditures for the period of July 1, 2016 through June 30, 2018, including a review of the building renewal grant process; vendor selection, procurement, contracting, and oversight for building renewal grant projects; and building renewal grant program details. This special audit is due by June 30, 2019. Thus, JLAC needs to assign this special audit of the School Facilities Board to CORs.

Attached are the President of the Senate's and Speaker of the House's recommendations for the additions/changes to the COR assignments for these six 2019 sunset reviews and the special audit. The CORs are responsible for holding at least one public hearing or one public hearing jointly to discuss the audit and receive testimony from agency officials and the public. These hearings should be held after the audit report is issued and when the Legislature is not in session or before the third Friday in January.

Action required

JLAC may either approve the CORs as recommended by the President of the Senate and the Speaker of the House or assign new CORs.

Updated 9/17/18

2019 PERFORMANCE AUDITS[1]
PRESIDENT AND SPEAKER RECOMMENDATIONS FOR COMMITTEES OF REFERENCE (CORs) ASSIGNMENTS

Statutory Reference	Agency and Programs Selected for Review	CORs Recommendations
A.R.S. § 41-3020.01	Department of Revenue	House: WM Senate: FIN
A.R.S. §41-3020.02	Psychologist Examiners Board	House: Health Senate: HHS
A.R.S. §41-3020.03	Advisory Council on Aging	House: Health Senate: HHS
A.R.S. §41-3020.05	Geographic and Historic Names Board	House: GOV Senate: GOV
A.R.S. §41-3020.06	Commission for the Deaf and the Hard of Hearing	House: Health Senate: HHS
A.R.S. §41-3020.07	Board of Athletic Training	House: Health Senate: HHS
A.R.S. §41-3020.08	Board of Library Examiners	House: LIA Senate: GOV
A.R.S. §41-3020.09	Mining Advisory Council	House: EENR Senate: NREW
A.R.S. § 41-3020.10	Department of Water Resources	House: EENR Senate: NREW

[1] This listing is for audits conducted under authority of the sunset law, specific legislation, or JLAC direction and due in 2019. JLAC procedures require all audits to have a hearing. JLAC approves which CORs (or successor committees) will receive the assignment in order to conduct the hearing(s) or may assign audits to JLAC for a hearing.

Updated 9/17/18

Statutory Reference	Agency and Programs Selected for Review	CORs Recommendations
A.R.S. §41-3020.11	Psychiatric Security Review Board	House: Health Senate: HHS
A.R.S. § 41-3020.12	Governor's Archaeology Advisory Commission	House: LARA Senate: NREW
A.R.S. §41-3020.13	Board of Investment	House: BI Senate: FIN
A.R.S. §41-3020.14	Joint Legislative Budget Committee	House: APPROP Senate: APPROP
A.R.S. §41-3020.15	Legislative Council	House: GOV Senate: GOV
A.R.S. §41-3020.16	Department of Gaming	House: COM Senate: COMPS
A.R.S. §41-3020.17	Department of Insurance	House: BI Senate: FIN
A.R.S. § 41-3020.18	Arizona Outdoor Recreation Coordinating Commission	House: LARA Senate: NREW
A.R.S. §41-3020.19	Department of Health Services	House: Health Senate: HHS
A.R.S. §41-3020.20	Residential Utility Consumer Office	House: EENR Senate: COMPS
A.R.S. §41-3020.21	State Auditor General	House: GOV Senate: GOV

Updated 9/17/18

Statutory Reference	Agency and Programs Selected for Review	CORs Recommendations
A.R.S. §41-3020.22	Office of Ombudsman-Citizens Aide	House: GOV Senate: GOV
A.R.S. §41-3020.24	Board of Homeopathic and Integrated Medicine Examiners	House: Health Senate: HHS
A.R.S. §41-1279.03	School Districts	House: ED Senate: ED
A.R.S. §41-1279.03	Gila County Transportation Excise Tax	House: WM Senate: GOV
A.R.S. §41-1966	Arizona Department of Child Safety	House: Health Senate: HHS
Laws 2018, Chapter 285 § 30	School Facilities Board	House: ED Senate: ED

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AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

DATE: September 19, 2018

TO: Representative Anthony Kern, Chair
Members, Joint Legislative Audit Committee

THROUGH: Lindsey Perry, Auditor General

FROM: Dale Chapman, Director, Performance Audit Division

SUBJECT: Consideration and approval of 2020-2021 proposed performance audit and sunset review schedule

Background

Laws 1978, Ch. 210, established the sunset review process, which requires most state agencies to receive a systematic evaluation at least once every 10 years to determine whether they should be continued or terminated. A.R.S. §41-2953(B) directs the Auditor General to provide the Joint Legislative Audit Committee (JLAC) a list of agencies scheduled for termination in the next sunset schedule. The Office of the Auditor General (Office) does not have sufficient resources to conduct all sunset reviews; therefore, JLAC determines which agencies the Office will review and which agencies the Committees of Reference (CORs) will review.

Before giving JLAC a proposed audit schedule, the Office obtains background information on the agencies, as well as information from legislators and other interested parties, to identify and recommend which agencies the Office should review. The Office uses the information obtained from legislators and other stakeholders, and also considers prior audits and reviews of these agencies, to prioritize the agencies our Office should review and recommends that the CORs review the remaining agencies. However, JLAC ultimately determines whether the Office or CORs will perform the sunset reviews.[1]

[1] The essential difference between sunset reviews the Office and the CORs perform is the depth and scope of the work performed. When our Office performs an agency's sunset review, it conducts a performance audit of the agency to identify ways the agency can operate more efficiently and effectively.

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The proposed audit schedule for 2020-2021 is attached. This schedule shows which agencies we propose the Office to audit and which agencies we propose the CORs to review. The schedule also identifies five agencies or programs that statute mandates the Office to audit.

Action required

Per statute, JLAC is required to determine whether the Office or a COR will perform the sunset reviews for the agencies scheduled for termination in the next sunset schedule.

2020-2021 Proposed Performance Audit and Sunset Review Schedule

Auditor General's Office statutorily mandated audits	
1.	Arizona Sports and Tourism Authority (A.R.S. §5-812)
2.	Arizona Department of Child Safety
	a. Caseloads (Laws 2018, Ch. 282, §1)
3.	Pinal County Transportation Excise Tax (A.R.S. §41-1279.03)
4.	Maricopa Association of Governments, Regional Transportation Plan (A.R.S. §28-6313)
5.	Arizona Game and Fish Commission Heritage Fund (A.R.S. §17-298.01)

Auditor General's Office sunset reviews (agencies terminate in 2021 and 2022)	
6.	Arizona Department of Agriculture[1]
7.	Arizona State Board of Examiners of Nursing Care Institution Administrators and Assisted Living Facility Managers
8.	Board of Fingerprinting
9.	Arizona Department of Veterans' Services; Arizona Veterans' Services Advisory Commission
10.	Arizona State Board of Nursing
11.	Arizona Department of Real Estate
12.	Arizona State Board of Dispensing Opticians
13.	Vehicle Emissions Inspection Program
14.	Arizona Department of Public Safety
15.	Arizona Board of Regents
16.	Arizona Office of Tourism
17.	Arizona Department of Corrections
18.	Arizona State Board of Pharmacy
19.	Automobile Theft Authority
20.	Arizona School Facilities Board
21.	Water Infrastructure Finance Authority of Arizona
22.	Arizona Department of Environmental Quality
23.	Arizona Department of Juvenile Corrections[1]
24.	Arizona Board of Funeral Directors and Embalmers
25.	Arizona State Board of Barbers
26.	Arizona Health Care Cost Containment System[2]
27.	Followups at 6 and 18 months

Committee of Reference sunset reviews (agencies terminate in 2021 and 2022)	
1.	Board of Medical Student Loans
2.	Agricultural Employment Relations Board
3.	Office of Sonora
4.	Developmental Disabilities Advisory Council
5.	Arizona State Board of Podiatry Examiners
6.	Arizona Game and Fish Department, Game and Fish Commission, and Director of the Arizona Game and Fish Department
7.	State of Arizona Board of Chiropractic Examiners
8.	Arizona Geological Survey
9.	Water Quality Appeals Board
10.	Arizona Commission on the Arts
11.	Military Affairs Commission
12.	State of Arizona Acupuncture Board of Examiners
13.	Arizona Oil and Gas Conservation Commission

[1] The Joint Legislative Audit Committee directed the Auditor General's Office to conduct the sunset reviews of the Arizona Departments of Agriculture and Juvenile Corrections at its September 14, 2016, meeting.

[2] The Arizona Health Care Cost Containment System terminates on July 1, 2023.

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DEPUTY AUDITOR GENERAL

DATE: September 19, 2018

TO: Representative Anthony Kern, Chair
Members, Joint Legislative Audit Committee

THROUGH: Lindsey Perry, Auditor General

FROM: Dale Chapman, Director, Performance Audit Division

SUBJECT: Consideration and approval of 2020-2021 Committees of Reference assignments

Background

The Joint Legislative Audit Committee (JLAC) is statutorily required to assign agencies subject to a sunset review to Committees of Reference (CORs), regardless of whether the Auditor General's Office or the CORs will conduct the sunset review. JLAC is also responsible for assigning all other performance audits to CORs or other pertinent committees to ensure that each audit receives a public hearing by a legislative committee. Agencies are generally assigned to the CORs reflecting the standing committees that are most likely to be responsible for hearing any legislation affecting that particular agency and that has knowledge or expertise in that particular subject area.

Attached are the President of the Senate's and Speaker of the House's recommendations for the 2020 and 2021 sunset reviews and performance audits. Each COR is responsible for holding at least one public hearing or one public hearing jointly to discuss the audit and receive testimony from agency officials and the public. These hearings should be held after the audit report is issued and when the Legislature is not in session or before the third Friday in January.

Attachment A details the 2020 COR recommendations. ***Attachment B*** details the 2021 COR recommendations.

Action required

JLAC may either approve the CORs as recommended by the President of the Senate and Speaker of the House or assign new CORs.

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Attachment A

2020 PERFORMANCE AUDITS[1]
PRESIDENT AND SPEAKER RECOMMENDATIONS FOR COMMITTEES OF REFERENCE (CORs) ASSIGNMENTS

Statutory Reference	Agency and Programs Selected for Review	CORs Recommendations
A.R.S. § 41-3021.01	Arizona Department of Agriculture	House: LARA Senate: NREW
A.R.S. § 41-3021.02	Board of Medical Student Loans	House: ED Senate: HHS
A.R.S. § 41-3021.03	Agricultural Employment Relations Board	House: LARA Senate: NREW
A.R.S. § 41-3021.07	Office of Sonora	House: LIA Senate: COMPS
A.R.S. § 41-3021.08	Developmental Disabilities Advisory Council	House: Health Senate: HHS
A.R.S. § 41-3021.11	Arizona State Board of Examiners of Nursing Care Institution Administrators and Assisted Living Facility Managers	House: Health Senate: HHS
A.R.S. § 41-3021.12	Board of Fingerprinting	House: JPS Senate: COMPS
A.R.S. § 41-3021.14	Arizona State Board of Podiatry Examiners	House: Health Senate: HHS

[1] This listing is for audits conducted under authority of the sunset law, specific legislation, or JLAC direction and due in 2020. JLAC procedures require all audits to have a hearing. JLAC approves which CORs (or successor committees) will receive the assignment in order to conduct the hearing(s) or may assign audits to JLAC for a hearing.

Attachment A

Statutory Reference	Agency and Programs Selected for Review	CORs Recommendations
A.R.S. § 5-812	Arizona Sports & Tourism Authority	House: COM Senate: COMPS
A.R.S. § 41-1966	Arizona Department of Child Safety (Caseloads: Laws 2018, Ch. 282, Sec. 1)	House: JPS Senate: HHS
A.R.S. § 41-1279.03	School Districts	House: ED Senate: ED

Attachment B

2021 PERFORMANCE AUDITS[1]
PRESIDENT AND SPEAKER RECOMMENDATIONS FOR COMMITTEES OF REFERENCE (CORs) ASSIGNMENTS

Statutory Reference	Agency and Programs Selected for Review	CORs Recommendations
A.R.S. § 41-3022.01	Arizona Department of Veterans' Services; Arizona Veterans' Service Advisory Commission	House: MVRA Senate: COMPS
A.R.S. § 41-3022.02	Arizona Game and Fish Department; Arizona Game and Fish Commission; and Director of the Arizona game and Fish Department	House: EENR Senate: NREW
A.R.S. § 41-3022.03	State of Arizona Board of Chiropractic Examiners	House: Health Senate: HHS
A.R.S. § 41-3022.04	Arizona State Board of Nursing	House: Health Senate: HHS
A.R.S. § 41-3022.05	Arizona Department of Real Estate	House: COM Senate: COMPS
A.R.S. § 41-3022.06	Arizona State Board of Dispensing Opticians	House: Health Senate: HHS
A.R.S. § 41-3022.07	Arizona Geological Survey	House: EENR Senate: NREW
A.R.S. § 41-3022.08	Water Quality Appeals Board	House: EENR Senate: NREW

[1] This listing is for audits conducted under authority of the sunset law, specific legislation, or JLAC direction and due in 2021. JLAC procedures require all audits to have a hearing. JLAC approves which CORs (or successor committees) will receive the assignment in order to conduct the hearing(s) or may assign audits to JLAC for a hearing.

Attachment B

Statutory Reference	Agency and Programs Selected for Review	CORs Recommendations
A.R.S. § 41-3022.09	Vehicle Emissions Inspection Program	House: TI Senate: NREW
A.R.S. § 41-3022.10	Arizona Commission on the Arts	House: COM Senate: COMPS
A.R.S. § 41-3022.11	Arizona Department of Public Safety	House: JPS Senate: COMPS
A.R.S. § 41-3022.12	Arizona Board of Regents	House: ED Senate: ED
A.R.S. § 41-3022.13	Arizona Office of Tourism	House: COM Senate: COMPS
A.R.S. § 41-3022.14	Military Affairs Commission	House: MVRA Senate: COMPS
A.R.S. § 41-3022.15	Arizona Department of Corrections	House: JPS Senate: JUD
A.R.S. § 41-3022.16	Arizona State Board of Pharmacy	House: Health Senate: HHS
A.R.S. § 41-3022.17	Automobile Theft Authority	House: JPS Senate: TransIT
A.R.S. § 41-3022.18	School Facilities Board	House: ED Senate: ED
A.R.S. § 41-3022.19	Water Infrastructure Finance Authority of Arizona	House: LARA Senate: NREW

Attachment B

Statutory Reference	Agency and Programs Selected for Review	CORs Recommendations
A.R.S. § 41-3022.20	Arizona Department of Environmental Quality	House: EENR Senate: NREW
A.R.S. § 41-3022.21	Arizona Department of Juvenile Corrections	House: JPS Senate: JUD
A.R.S. § 41-3022.22	Arizona Board of Funeral Directors and Embalmers	House: Health Senate: COMPS
A.R.S. § 41-3022.23	Arizona State Board of Barbers	House: COM Senate: COMPS
A.R.S. § 41-3022.24	Arizona Oil and Gas Conservation Commission	House: EENR Senate: NREW
A.R.S. § 41-3022.25	State of Arizona Acupuncture Board of Examiners	House: Health Senate: HHS
A.R.S. § 41-1279.03	School Districts	House: ED Senate: ED
A.R.S. § 41-1279.03	Pinal County Transportation Excise Tax	House: TI Senate: TransIT
A.R.S. § 28-6313	Maricopa Association of Governments, Regional Transportation Plan	House: TI Senate: TransIT
A.R.S. § 17-298.01	Arizona Game and Fish Commission Heritage Fund	House: EENR Senate: NREW
A.R.S. § 41-1966	Arizona Department of Child Safety	House: Health Senate: HHS

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

LINDSEY PERRY, CPA, CFE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

DATE: September 19, 2018

TO: Representative Anthony Kern, Chair
Members, Joint Legislative Audit Committee

THROUGH: Lindsey Perry, Auditor General

FROM: Donna Miller, Director, Financial Audit Division

SUBJECT: Fiscal years 2018 and 2019 financial and compliance audit schedule and consideration of approval to bill entities for audit work

Background

Under A.R.S. §§41-1279.03 and 41-1279.2, the Office of the Auditor General (Office) conducts annual financial and compliance audits of all state agencies, including the state universities; counties; and community college districts. These audits are conducted under the federally mandated single audit requirements established by the U.S. Office of Management and Budget. In addition, the Office conducts other financial audits and reviews at the Legislature's request and as mandated in statute.

Attachment A titled *Financial and Compliance Audit Schedule* provides a complete list of the Office's scheduled financial and compliance audits for fiscal years 2018 and 2019. This schedule has been included as a courtesy and does not require any action.

Under A.R.S. §41-1279.03(C), with the Joint Legislative Audit Committee's (JLAC) approval, the Office may charge auditees a reasonable fee for performing specific audit work or providing other accounting services. For example, this would include audits of federal grants the federal government requires for which auditees can ultimately recover the audit costs from the federal grantor(s). **Attachment B** titled *List of Entities to Bill for Audit Work* includes those auditees our Office plans to bill for specific audit work for fiscal years 2018 and 2019. See action required below.

Action required

JLAC needs to consider and approve the Office to bill the entities in Attachment B for specific audit work we perform.

2910 NORTH 44th STREET • SUITE 410 • PHOENIX, ARIZONA 85018 • (602) 553-0333 • FAX (602) 553-0051

Attachment A

Financial and Compliance Audit Schedule
Fiscal Years 2018 and 2019

Financial and compliance audits

State of Arizona

1.	Department of Economic Security—Arizona Long-Term Care System
2.	Office of the State Treasurer
3.	Arizona State University
4.	Northern Arizona University
5.	University of Arizona

Arizona counties

1.	Apache County
2.	Cochise County
3.	Coconino County
4.	Gila County
5.	Graham County
6.	Greenlee County
7.	La Paz County
8.	Maricopa County
9.	Mohave County
10.	Navajo County
11.	Pima County
12.	Pinal County
13.	Santa Cruz County
14.	Yavapai County
15.	Yuma County

Arizona college districts

1.	Cochise County Community College District
2.	Coconino County Community College District
3.	Gila County Community College District
4.	Graham County Community College District
5.	Maricopa County Community College District
6.	Mohave County Community College District
7.	Navajo County Community College District
8.	Pima County Community College District
9.	Pinal County Community College District
10.	Santa Cruz County Community College District
11.	Yavapai County Community College District
12.	Yuma/La Paz Counties Community College District

Other statutorily required financial audits/special reviews

1.	Arizona County Community College Districts and Colleges of Qualifying Indian Tribes—Full-Time Equivalent Student Enrollment Report
2.	Arizona University System—Full-Time Equivalent Student Enrollment Report
3.	Arizona Statement of Federal Land Payments
4.	Arizona Attorney General—Colorado River Revolving Fund[1]
5.	Arizona State Procurement Office—Compliance Review
6.	Arizona Attorney General Use of Anti-racketeering Revolving Fund Monies
7.	Arizona State Board Member Per Diem Compensation and Expense Reimbursements
8.	Diné College Funding Compact
9.	Navajo Technical University Funding Compact
10.	Tohono O'odham College Funding Compact

[1] Audit is required only when there is fund activity, which has not occurred since fiscal year 2008.

Attachment B

List of Entities to Bill for Audit Work
Fiscal Years 2018 and 2019

Pursuant to A.R.S. §41-1279.03(C), with JLAC's approval, the Office may bill the following entities for audit work

State of Arizona	
Arizona counties	
1.	Apache County
2.	Cochise County
3.	Coconino County
4.	Gila County
5.	Graham County
6.	Greenlee County
7.	La Paz County
8.	Maricopa County
9.	Mohave County
10.	Navajo County
11.	Pima County
12.	Pinal County
13.	Santa Cruz County
14.	Yavapai County
15.	Yuma County
Arizona college districts	
1.	Cochise County Community College District
2.	Coconino County Community College District
3.	Gila County Community College District
4.	Graham County Community College District
5.	Maricopa County Community College District
6.	Mohave County Community College District
7.	Navajo County Community College District
8.	Pima County Community College District
9.	Pinal County Community College District
10.	Santa Cruz County Community College District
11.	Yavapai County Community College District
12.	Yuma/La Paz Counties Community College District

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

LINDSEY PERRY, CPA, CFE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

DATE: September 19, 2018

TO: Representative Anthony Kern, Chair
Members, Joint Legislative Audit Committee

THROUGH: Lindsey Perry, Auditor General

FROM: Vicki Hanson, Division of School Audits Director

SUBJECT: Presentation of 2020-2021 school district performance audit schedule

Background

A.R.S. §41-1279.03 requires the Office of the Auditor General to conduct performance audits of randomly selected school districts and to monitor school districts to determine the percentage of every dollar spent in the classroom. The statute requires the Auditor General to determine which districts to audit each year through random selection, subject to the Joint Legislative Audit Committee's (JLAC) review.

School district performance audits

The attachment lists the new school districts randomly selected for the 2020-2021 performance audit schedule. To comply with Laws 2016, Ch. 4, §4, this schedule also includes career technical education districts.

These audits review the efficiency and effectiveness of district noninstructional operations, such as administration, student transportation, food service, and plant operations, and make recommendations for improvement and/or identify best practices. These audits also review compliance with certain requirements, such as the proper coding of accounting transactions and expenditures of sales taxes received under Proposition 301. If applicable, these audits may also provide information on the district's desegregation program. For evidence supporting the reports' information and conclusions, auditors interview district personnel; review district policies, procedures, and internal controls; examine district accounting records and other district documents; compare district costs to similar districts'; and determine compliance with certain statutory requirements. The audits result in publicly released audit reports and report highlights documents.

Other school district reports

The Office of the Auditor General is also required to monitor the percentage of every dollar spent in the classroom.[1] Our next annual *Arizona School District Spending* report will be issued in March 2019. This study analyzes state-wide spending and spending trends and outlines best practices for school district spending in noninstructional areas. There is a two-page summary for the State and two-page summaries for each school district that detail the individual districts' spending and report on student achievement and other measures. Additionally, this year, for the first time, we prepared an Excel data file that contains the numbers and other information presented in the graphics on the state and school district summary pages. This Excel file is available for download on our website, and we anticipate continuing to provide this data file next year.

Action required

None. Per statute, JLAC is to review the school districts randomly selected for performance audit but does not approve them. The audit schedule and the additional information on the *Arizona School District Spending* report are presented for JLAC's information.

[1] A.R.S. §41-1279.03(9)

2020-2021 School District Performance Audit Schedule

School district		Size[1]
1.	Buckeye Elementary	Medium-large
2.	Ganado Unified	Medium
3.	Mohave Valley Elementary	Medium
4.	Saddle Mountain Unified	Medium
5.	Bagdad Unified	Small
6.	Mayer Unified	Small
7.	Aguila Elementary	Very small
8.	Crown King Elementary	Very small
9.	Hyder Elementary	Very small
10.	Owens-Whitney Elementary	Very small
11.	Pine Strawberry Elementary	Very small
12.	Vernon Elementary	Very small
13.	Young Elementary	Very small
14.	Cobre Valley Institute of Technology	CTED[2]
15.	Coconino Association for Vocations, Industry and Technology	CTED[2]
16.	Northeast Arizona Technological Institute of Vocational Education	CTED[2]
17.	Northern Arizona Vocational Institute of Technology	CTED[2]

[1] Size is based on average daily membership using the following categories:
Very large: 20,000 or more students
Large: 8,000 to 19,999
Medium-large: 2,000 to 7,999
Medium: 600 to 1,999
Small: 200 to 599
Very small: fewer than 200

[2] **CTED:** Career Technical Education District

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