

# State Board Member Per Diem Compensation and Expense Reimbursements

Annual Reviews  
Fiscal Years 2017 and 2018

March 2019  
Report 19-302

A Report to the Arizona Legislature

Lindsey A. Perry  
Auditor General





The Arizona Office of the Auditor General's mission is to provide independent and impartial information and specific recommendations to improve the operations of State and local government entities. To this end, the Office provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, State agencies, and the programs they administer.

## The Joint Legislative Audit Committee

Senator **Rick Gray**, Chair  
Senator **Lupe Contreras**  
Senator **Andrea Dalessandro**  
Senator **David C. Farnsworth**  
Senator **David Livingston**  
Senator **Karen Fann** (ex officio)

Representative **Anthony T. Kern**, Vice Chair  
Representative **John Allen**  
Representative **Timothy M. Dunn**  
Representative **Mitzi Epstein**  
Representative **Jennifer Pawlik**  
Representative **Rusty Bowers** (ex officio)

## Audit Staff

**Donna Miller**, Director  
**Adam Tillard**, Manager and Contact Person

**Marcia Schweers**, Team Leader  
**Don Bohart**

## Contact Information

Arizona Office of the Auditor General  
2910 N. 44th St.  
Ste. 410  
Phoenix, AZ 85018  
  
(602) 553-0333  
  
[www.azauditor.gov](http://www.azauditor.gov)



**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

**ARIZONA AUDITOR GENERAL**  
**LINDSEY A. PERRY**

**JOSEPH D. MOORE**  
DEPUTY AUDITOR GENERAL

March 12, 2019

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor  
State of Arizona

Transmitted herewith is a report of the Auditor General, *State Board Member Per Diem Compensation and Expense Reimbursements*, for fiscal years 2017 and 2018. This report is in response to Arizona Revised Statutes (A.R.S) §41-1279.03(A)(10) and was conducted under the authority vested in the Auditor General by A.R.S. §41-1279.03. I am also transmitting within this report a copy of the Report Highlights for these reviews to provide a quick summary for your convenience.

We discussed the recommendations in this report with officials of the Arizona Department of Administration and they indicated that they will work with State boards, commissions, councils, and advisory committees to assist them in implementing the recommendations.

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

Sincerely,

Lindsey Perry, CPA, CFE  
Auditor General



## State Board Member Per Diem Compensation and Expense Reimbursements

**CONCLUSION:** As required by law, we conducted annual reviews of per diem compensation and expense reimbursement payments to members of State boards. In these reviews, that covered fiscal years 2017 and 2018, we followed up on the recommendations from our prior report for fiscal year 2016, Report 17-306 *State Board Member Per Diem Compensation and Expense Reimbursements*, which we issued in November 2017. We found that in response to our recommendation, the Arizona Department of Administration issued policies and procedures requiring Arizona's boards, commissions, councils, and advisory committees (collectively referred to as boards) to process per diem compensation payments and nontravel-related expense reimbursements to board members using the State's payroll system to ensure compliance with applicable tax withholding requirements. Some boards are still in the process of implementing this change. Further, we found that some boards still need to develop and implement written policies and procedures for paying per diem compensation. Finally, in these reviews that covered fiscal years 2017 and 2018, we found that not all boards were paying members in accordance with State policy.

### Some boards still need to develop written policies and procedures for paying per diem compensation

In our prior report, we recommended that all State boards develop and implement written policies and procedures. During these annual reviews, we found that 27 of the 38 boards identified in our prior report that lacked written policies and procedures for paying per diem compensation have developed and implemented written policies and procedures with the recommended elements; 11 boards have not. Also, during these reviews for fiscal years 2017 through 2018, we found 1 additional board that did not have written policies and procedures.

27 boards implemented policies and procedures



11 boards had not implemented policies and procedures

### Recommendation

All Arizona's State boards should develop and implement written policies and procedures for paying board member per diem compensation.

### Boards should pay members in accordance with State policy

State law prescribes the amount of per diem compensation board members may be eligible to receive and typically whether a member is eligible to receive expense reimbursement. In addition, State policies provide the framework for boards to follow when reimbursing expenses and planning group travel, including documentation requirements. During our fiscal years 2017 and 2018 reviews, we found that 1 board, the Arizona Game and Fish Commission (Commission), made payments to a Commission member that were insufficiently supported. Specifically, the Commission paid 1 member 23 days of per diem compensation—\$690—without requiring the member to document the activities performed in the Commission's service. In addition, we found 3 Commission members attended a conference in Vail, Colorado. Two of the Commission members flew to the conference on the same day, and each member rented a vehicle. These Commission members were reimbursed a total of \$1,610 for rental car expenses, which included \$400 for upgraded vehicles. The third Commission member was reimbursed \$747 for mileage to drive to the conference. However, the Commission was not able to provide documentation that it planned group travel to the conference that ensured the most favorable cost benefit to the State or all travel expenses were reasonable and necessary.

## Recommendation

All Arizona's State boards, including the Arizona Game and Fish Commission, should adhere to the State's policies to ensure per diem compensation and expense reimbursement payments to board members are properly supported.



# TABLE OF CONTENTS

<b>Introduction</b>	1
<b>Finding 1: Some boards still need to develop and implement written policies and procedures for paying per diem compensation</b>	3
Prior report recommended that boards develop written policies and procedures to help ensure they pay per diem compensation appropriately	
Some boards have developed written policies and procedures for paying per diem compensation	
Recommendation	
<b>Finding 2: Boards should pay members in accordance with State policy</b>	5
State laws prescribe amount of per diem compensation and govern expense reimbursement	
Some boards collected prior overpayments	
Boards paid per diem compensation for various activities	
One board reviewed made payments that were insufficiently supported in fiscal years 2017 and 2018	
Recommendation	
<b>Summary of recommendations: Auditor General makes 2 recommendations to Arizona State boards</b>	9
<b>Appendix A: Objectives, scope, and methodology</b>	a-1
<b>Figures</b>	
1 Number of days each Commission member was paid per diem compensation during fiscal years 2017 and 2018	6
2 Sample of Commission members' activities Fiscal years 2017 and 2018	7
<b>Table</b>	
1 Activities for which board members from 5 different boards received per diem compensation Fiscal years 2017 and 2018	6





## State board members may receive per diem compensation and expense reimbursements, but amounts can vary

Arizona’s boards, commissions, councils, and advisory committees (collectively referred to as boards) are primarily authorized by statute or executive order. Board statutes or executive orders generally state the board’s purpose and other general information, including whether board members are eligible for per diem compensation and/or expense reimbursements (see textbox for definitions). Members of some boards may receive per diem compensation and/or be reimbursed expenses for each day engaged in service of the board, whereas members of other boards may not be permitted to receive any compensation.

**Per diem compensation**—Compensation paid to board members for attendance at board meetings and/or for time engaged in the service of the board.

**Expense reimbursements**—Reimbursement of expenses board members incur while attending board meetings or performing board work, including mileage, meals, lodging, airfare, cell phones, etc.

Source: Auditor General staff analysis of Arizona Revised Statutes (A.R.S.) §38-611, A.R.S. Title 38, Ch. 4, Art. 2, State policy, and the specific statutes relating to the compensation for each board.

Some boards’ statutes prescribe that members are to receive compensation at a specific rate for each day engaged in the service of the board. Our review of statutes for boards that authorize per diem compensation found that per diem compensation rates range from \$30 to \$300 per day. For example, the Arizona State Board of Barbers’ statutes allow per diem compensation of \$30 per day, while the State Board of Equalization’s statutes allow per diem compensation of \$300 per day.<sup>1</sup> Frequently, a board’s statutes refer to the State’s general statute for the compensation of certain State officers and employees, which authorizes board members to receive compensation at the rate of \$30 for each day engaged in the service of the board.<sup>2</sup>



Per diem compensation rates range from \$30 to \$300 per day

The board-related activities and time board members spent performing the activities to be eligible to receive compensation also varies among boards. Some boards’ statutes define specific activities for which members can be compensated. For example, the Arizona Board of Regents’ statutes specify that members shall receive compensation for each day they attend board meetings.<sup>3</sup> However, many boards’ statutes are general when describing board-related activities that are eligible for per diem compensation. They typically state that compensation is paid for each day engaged in the board’s service or each day while performing board business but do not define the activities the board members must perform or the amount of time to be spent on them to be eligible to receive this compensation.

<sup>1</sup> Auditor General staff analysis of A.R.S. §§32-303(D) and 38-611(C) for the per diem compensation allowed to be paid by the Arizona State Board of Barbers and A.R.S. §42-16153(D) and (E) for the per diem compensation allowed to be paid by the State Board of Equalization.

<sup>2</sup> A.R.S. §38-611(C).

<sup>3</sup> A.R.S. §15-1623(B) states that appointed members of the Arizona Board of Regents shall receive compensation as determined pursuant to A.R.S. §38-611 for each day of attendance at board meetings, except no individual board member’s compensation shall exceed \$500 in any year.

Board members who are statutorily eligible for expense reimbursements while performing board activities may be reimbursed in accordance with A.R.S. Title 38, Ch. 4, Art. 2, and State policies for expense reimbursements.<sup>4</sup> Expense reimbursements may include board members' costs for mileage, meals, lodging, airfare, cell phones, and other miscellaneous costs.

Board member per diem compensation and expense reimbursement payments are part of a board's normal operating budget and are paid for using the same revenue sources used to pay for other expenses such as staff salaries, professional and outside services, and other operating costs. State law may define a board's revenue source, which could include State General Fund appropriations, licensing fees, federal grant awards, or other public revenue sources.

## **State policy directs boards to pay members' per diem compensation and reimburse expenses through the State's payroll system**

In our prior report, *State Board Member Per Diem Compensation and Expense Reimbursements*, issued in November 2017, we recommended that ADOA develop a policy and associated procedures requiring State boards to process per diem compensation payments and nontravel-related expense reimbursements to board members using the State's payroll system to ensure compliance with applicable tax withholding requirements (see Report 17-306). That report found some boards were not using the State's payroll system to process these payments, thereby not ensuring that tax withholding requirements were being met. In December 2017, in response to our recommendation, ADOA established policies and procedures in SAAM for this purpose. As of December 1, 2018, some boards were still in the process of implementing this change. We will continue to follow up on boards' implementation of this change in future reviews.

---

<sup>4</sup> State policies for expense reimbursement are included in the *State of Arizona Accounting Manual* (SAAM), published by the Arizona Department of Administration's (ADOA) General Accounting Office.



## Some boards still need to develop and implement written policies and procedures for paying per diem compensation

### Prior report recommended that boards develop written policies and procedures to help ensure they pay per diem compensation appropriately

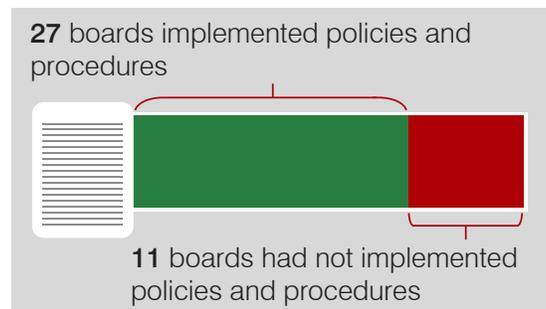
In our prior report, we found that 38 of the 41 boards reviewed lacked written policies and procedures defining the activities and amount of time members must be engaged in those activities to receive per diem compensation (see Report 17-306).<sup>5,6</sup> We recommended all State boards develop and implement written policies and procedures for paying board member per diem compensation to help ensure payments are reasonable and an appropriate use of public monies. Specifically, we recommended that these policies and procedures should comply with each board's statutory requirements and define:

- Specific board-related activities eligible for compensation;
- Amount of time spent on board-related activities that will be compensated; and
- Process for paying compensation to board members.

### Some boards have developed written policies and procedures for paying per diem compensation

As of December 2018, 27 of the 38 boards identified in our prior report that lacked written policies and procedures for paying per diem compensation had developed and implemented written policies and procedures with the recommended elements; 11 boards had not.<sup>6</sup>

During our fiscal years 2017 and 2018 reviews, we found 1 additional board not previously reviewed that lacked written policies and procedures defining the activities, the amount of time members must be engaged in those activities to receive per diem compensation, and the process for paying compensation.



<sup>5</sup> We reviewed 59 boards for the fiscal year 2016 report. Of these boards, 41 paid per diem compensation; 18 boards reimbursed expenses but did not pay per diem compensation.

<sup>6</sup> In our report, we reported 39 boards lacked written policies and procedures; however, the Biomedical Research Commission was terminated during the fiscal year 2017 legislative session (effective fiscal year 2018).

## Recommendation

1. Arizona's State boards that have not yet done so should develop and implement written policies and procedures for paying board member per diem compensation that comply with each board's statutory requirements and define the specific board-related activities eligible for compensation, the amount of time spent on board-related activities that will be compensated, and the process for paying compensation to board members.



# Boards should pay members in accordance with State policy

## State laws prescribe amount of per diem compensation and govern expense reimbursement

As discussed in the Introduction (see page 1), State law prescribes the amount of per diem compensation board members may be eligible to receive and typically whether a member is eligible to receive expense reimbursement. In addition, SAAM and some agencies' policies provide the framework for boards to follow when reimbursing expenses, including approved reimbursement rates, allowable expenses, and documentation requirements. SAAM also describes the internal control policies and procedures that all boards should follow to ensure payments are supported by adequate documentation and reviewed and approved by knowledgeable personnel.

## Some boards collected prior overpayments

As noted in our November 2017 report, *State Board Member Per Diem Compensation and Expense Reimbursements*, 10 of 59 boards we reviewed had overpaid board members per diem compensation and/or expense reimbursements totaling \$3,597 in fiscal year 2016 (see Report 17-306). We recommended that the boards should determine, along with their legal counsel, whether to pursue reimbursement from their board members for the identified overpayments. For the 10 boards that had overpayments, as of December 1, 2018, 4 boards had collected the overpayments, 5 boards had determined not to pursue reimbursement for the overpayments, and 1 board was in the process of collecting the overpayments.

## Boards paid per diem compensation for various activities

Five of the 6 boards<sup>7</sup> we reviewed for this report were statutorily allowed to pay per diem compensation. For those 5 boards, statutes do not specify the activities eligible for per diem compensation. Therefore, as shown in Table 1 (see page 6), these boards' members were compensated for a variety of activities in fiscal years 2017 and 2018.

## One board made payments that were insufficiently supported in fiscal years 2017 and 2018

Contrary to State policy, of the 6 boards reviewed, 1 board—the Arizona Game and Fish Commission (Commission)—made per diem compensation and expense reimbursement payments to its members for which it did not have sufficient documentation to support the payments' appropriateness. SAAM requires an agency to maintain sufficient documentation to support a financial transaction's reason.<sup>8</sup>

<sup>7</sup> Board of Dispensing Opticians, Early Childhood Development and Health Board, Game and Fish Commission, Lottery Commission, Pharmacy Board, and State Transportation Board.

<sup>8</sup> SAAM Section 0020 (1) General Information, Documentation, describes documentation, as any assemblage of printed, written, or computer-generated papers, forms, or files that furnishes evidence or facts for information concerning the reason for, amount of, or parties to a financial transaction, and that serves as the official record of and support for the transaction.

**Table 1**

**Activities for which board members from 5 different boards received per diem compensation Fiscal years 2017 and 2018**

Activities	Dispensing Opticians, Board of	Game and Fish Commission	Lottery Commission	Pharmacy Board	State Transportation Board
Board meetings <sup>1</sup>	✓	✓	✓	✓	✓
Preparation work <sup>2</sup>	✓	✓			✓
Conferences <sup>1</sup>		✓			✓
Constituent and other meetings <sup>1</sup>		✓			✓
Administrative duties <sup>3</sup>		✓			

<sup>1</sup> Includes payments of per diem compensation for travel days to and from meetings and conferences.

<sup>2</sup> Includes preparation for items such as meetings and conferences and setting up for licensee exams.

<sup>3</sup> Includes duties such as responding to emails and phone calls, and completing administrative documentation.

Source: Auditor General staff review of selected boards' statutes and board-provided documents.

**Some per diem payments insufficiently supported**—

The Commission is statutorily allowed to pay its members \$30 per day for attending general or specific Commission meetings or while performing official duties for the Commission. The Commission implemented policies during fiscal year 2018 that indicate members are to be compensated for each day that they spend a minimum of 1 hour performing their duties.<sup>9</sup> During fiscal years 2017 and 2018, the Commission's 5 members were paid compensation for a total of 485 and 607 days, or \$14,550 and \$18,210, respectively, with 1 member receiving payments for 169 days and 233 days, or \$5,070 and \$6,990, respectively (see Figure 1).

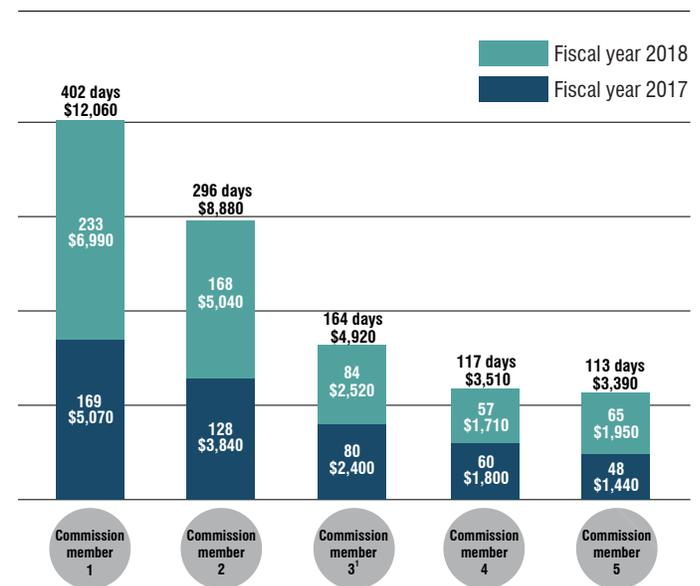
We reviewed a judgmentally selected sample of 12 payments to Commission members—which included 106 days of per diem compensation—from fiscal years 2017 and 2018 and found the Commission paid members for various activities, including:

- Preparation for, travel to and from, and attendance at commission meetings and conferences.
- Meetings with constituents.
- Administrative duties, such as responding to emails and phone calls (see Figure 2 on page 7).<sup>10</sup>

<sup>9</sup> A.R.S. §17-201(C): "Each member of the commission while attending general or specific meetings of the Commission or while performing official duties for the Commission shall receive compensation as determined pursuant to section 38-611." A.R.S. §38-611(C): "...the rate of not to exceed thirty dollars for each day engaged in the service of such board, commission, council or advisory committee."

<sup>10</sup> Each payment could include multiple per diem compensation and expense reimbursements transactions.

**Figure 1**  
Number of days each Commission member was paid per diem compensation during fiscal years 2017 and 2018



<sup>1</sup> Commission member 3 includes the per diem compensation payments to a member whose term expired during fiscal year 2018 and the member who replaced him.

Source: Auditor General staff analysis of per diem compensation payments made to Commission members during fiscal years 2017 and 2018.

However, contrary to State policy, in the 106 days of per diem compensation we examined, we found that the Commission paid one member 23 days of per diem compensation—\$690—without requiring the member to document the activities performed in the Commission’s service. According to the Commission, it requires members to complete time and travel reports monthly. These reports indicate the days the member performed Commission-related activities; however, the Commission does not always require indication of the specific Commission-related activities performed before paying per diem compensation. As a result, it cannot be determined if the per diem compensation paid to the member for the 23 days was for Commission-related activities.

**Some travel expenses not properly supported**—In addition, according to SAAM, it is the agency’s responsibility to plan group travel for meetings and conferences that:

- Results in the most favorable cost benefit for the State.
- Ensures all travel expenses are reasonable and necessary.
- Ensures the most economical method of travel is used.<sup>11</sup>

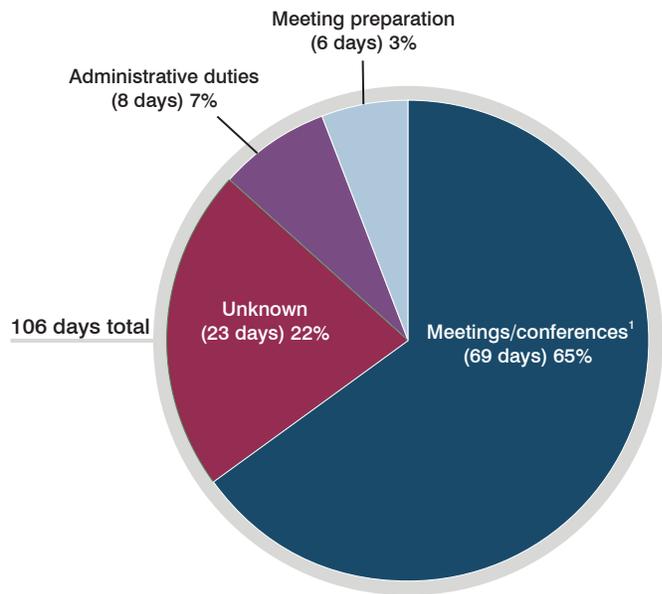
During our reviews, we found that in July 2017, 3 Commission members attended a conference in Vail, Colorado. Two of the Commission members flew to the conference on the same day, and each member rented a vehicle. These Commission members were reimbursed a total of \$1,610 for rental car expenses, which included \$400 for upgraded vehicles. The third Commission member was reimbursed \$747 for mileage to drive to the conference leaving on the same date as the other 2 Commission members and returning early morning the day after the other Commission members left the conference.

According to the Commission, travel to the conference was planned to meet the Commission members’ scheduling needs; however, the Commission was unable to provide documentation demonstrating it planned the group travel to the conference to ensure the costs for the trip were the most favorable cost benefit to the State or all travel expenses were reasonable and necessary.

**Recommendation**

2. All Arizona State boards, including the Arizona Game and Fish Commission, should adhere to the State’s internal control policies and procedures outlined in SAAM to ensure per diem and expense reimbursement payments to board members are properly supported, travel is scheduled at the most favorable cost benefit to the State, and all travel expenses are reasonable and necessary.

**Figure 2**  
**Sample of Commission members’ activities**  
**Fiscal years 2017 and 2018**



<sup>1</sup> Includes days spent traveling to and from meetings and conferences.  
 Source: Auditor General staff analysis of 12 payments of per diem compensation—which included 106 days of per diem compensation—made to Commission members during fiscal years 2017 and 2018.

<sup>11</sup> SAAM Sections 5005 and 5006 General Travel Principles and Policies and Reducing State Travel Costs.





## SUMMARY OF RECOMMENDATIONS

### **Auditor General makes 2 recommendations to Arizona State boards**

1. Arizona's State boards that have not yet done so should develop and implement written policies and procedures for paying board member per diem compensation that comply with each board's statutory requirements and define the specific board-related activities eligible for compensation, the amount of time spent on board-related activities that will be compensated, and the process for paying compensation to board members.
2. All Arizona State boards, including the Arizona Game and Fish Commission, should adhere to the State's internal control policies and procedures outlined in SAAM to ensure per diem and expense reimbursement payments to board members are properly supported, travel is scheduled at the most favorable cost benefit to the State, and all travel expenses are reasonable and necessary.





## Objectives, scope, and methodology

The Office of the Auditor General has conducted annual reviews of per diem compensation and expense reimbursement payments to members of State boards pursuant to A.R.S. §1279.03(A)(10). These reviews cover fiscal years 2017 and 2018. We issued Report 17-306 *State Board Member Per Diem Compensation and Expense Reimbursements* (prior report) in November 2017 in which we reported the results of our review of the fiscal year 2016 board member payments of per diem compensation and/or expense reimbursements. This report follows up on the recommendations from that report and examines payments of per diem compensation and/or expense reimbursements made to members of 6 boards during fiscal years 2017 and 2018.

As determined and reported in the methodology section of our prior report, board member payments for per diem compensation and expense reimbursements are processed through multiple State systems and are recorded under various expense categories (see Report 17-306). Therefore, a complete population of payments could not be identified during fiscal year 2016. Since the process for recording payments was the same during fiscal years 2017 and 2018, we were similarly unable to determine a complete population of all payments to board members.

For the fiscal years 2017 and 2018 review, we judgmentally selected a sample of 41 payments of per diem compensation and expense reimbursements to members of 6 boards that were processed through the State's payroll system.<sup>12</sup> To identify payments for review, we performed the following procedures:

- Analyzed each board that made payments of per diem compensation and expense reimbursements that were recorded in the State's payroll system for fiscal year 2017 to identify payments that appeared to not comply with statute or were large, unusual, or inconsistent with other board members' payments.
- For the boards that were identified as having unusual payments during fiscal year 2017, analyzed the payments of per diem compensation and expense reimbursements to their board members recorded in the State's payroll system for fiscal year 2018 and selected any payments that appeared to not comply with statute or were large, unusual, or inconsistent with other board members' payments.

We evaluated the samples of per diem compensation and expense reimbursements to determine their propriety. Specifically, we reviewed the State's policies and the boards' statutes and policies and interviewed board management and staff to gain an understanding of policies, procedures, and internal controls over board payments. We also reviewed the Arizona Financial Information System for fiscal years 2017 and 2018 to determine if the boards were processing payments in accordance with ADOA's new policy regarding the payment of board per diem compensation in the State's payroll system.<sup>13</sup>

We express appreciation to the staff of ADOA and the boards, commissions, councils, and advisory committees for their cooperation and assistance throughout the review.

<sup>12</sup> Each payment could include multiple per diem compensation and expense reimbursements transactions.

<sup>13</sup> SAAM policy 5565 Compensation and Expense Reimbursements Paid to Board Members.



