

State Board Member Per Diem Compensation and Expense Reimbursements

Annual Review
Fiscal Year 2016

November 2017
Report 17-306

A Report to the Arizona Legislature

Debra K. Davenport
Auditor General





The Auditor General is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she 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 **Bob Worsley**, Chair

Senator **Sean Bowie**

Senator **Judy Burges**

Senator **Lupe Contreras**

Senator **John Kavanagh**

Senator **Steve Yarbrough** (ex officio)

Representative **Anthony Kern**, Vice Chair

Representative **John Allen**

Representative **Rusty Bowers**

Representative **Rebecca Rios**

Representative **Athena Salman**

Representative **J.D. Mesnard** (ex officio)

Audit Staff

Jay Zsorey, Director 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



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

November 2, 2017

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 year 2016. This report is in response to Laws 2016, Ch. 328, §1, and was conducted under the authority vested in the Auditor General by Arizona Revised Statutes §41-1279.03. I am also transmitting within this report a copy of the Report Highlights for this audit to provide a quick summary for your convenience.

We discussed the recommendations in this report with officials of the Arizona Department of Administration (ADOA) and they indicated that they will implement the recommendations directed to the ADOA and 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,

Debbie Davenport
Auditor General

Attachment



State Board Member Per Diem Compensation and Expense Reimbursements

CONCLUSION: The Office of the Auditor General has completed a review of per diem compensation and expense reimbursement payments to members of state boards, commissions, councils, and advisory committees (collectively referred to as boards) pursuant to Laws 2016, Ch. 328, §1, for fiscal year 2016. We found that most boards auditors reviewed did not have written policies and procedures that defined the specific board-related activities eligible for compensation, the amount of time required to be spent on board-related activities that will be compensated, and the process for paying compensation to board members to ensure that board payments are an appropriate use of public monies. Further, we found that not all board members were paid per diem compensation and/or reimbursed for expenses in accordance with state law and policy. Finally, we found that some per diem compensation and expense reimbursements were processed outside of the State's payroll system, placing the State at risk of noncompliance with applicable tax withholding requirements.

Policies and procedures would help ensure boards pay per diem compensation appropriately

Boards compensate members differently for board-related activities—Most boards' statutes do not specifically define the board activities that members will be compensated for or the amount of time that constitutes a day engaged in the service of the board. In addition, most boards lacked written policies and procedures defining the activities and the amount of time members must be engaged in those activities to receive compensation, and the process for paying compensation to board members. Of the 59 boards we reviewed, 41 were statutorily allowed to pay members per diem compensation at a specific rate for each day engaged in board business. These 41 boards' members were paid daily compensation for the following activities:

- 20 boards paid members for attendance at meetings only;
- 19 boards paid members for attendance at meetings, one or two days of preparation for the meetings, attendance at annual conferences, trainings, and/or meetings of other organizations; and
- 2 boards paid members for attendance at meetings, various activities identified above, and for making phone calls and responding to emails.

Some compensation could appear to be an inappropriate use of public monies—Without specific statutes and/or policies and procedures that define board-related activities and the amount of time required to be spent performing these activities to be eligible for per diem compensation, payments to board members could appear to be an inappropriate use of public monies. For example, paying a board member the daily per diem compensation amount for reviewing and responding to emails regardless of the time spent on this task could appear to be an inappropriate use of public monies.

Boards should develop and implement written policies and procedures for paying per diem compensation—Boards should develop and implement policies and procedures regarding the payment of per diem compensation to help ensure they appropriately compensate their members and help ensure continuity for new board staff who oversee payments.

Recommendation

Boards should develop and implement written policies and procedures 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.

All board member per diem compensation and expense reimbursement payments should comply with state statutes and policy

Some board members not paid in accordance with statute or policy—Some boards we reviewed did not follow internal control policies and procedures outlined in the *State of Arizona Accounting Manual* (SAAM) or state law. We found that 13 of the 59 boards reviewed paid compensation and/or reimbursed expenses that were higher than allowed, or made payments that did not have proper supporting documentation, resulting in a total of \$4,844 in overpayments and unsupported payments out of the \$76,812 in fiscal year 2016 payments reviewed. These overpayments could be considered a gift of public monies in violation of the Arizona Constitution.

Boards should adhere to state internal control policies and procedures—To ensure members are paid in accordance with statute and policy, boards should adhere to the State's internal control policies and procedures as outlined in SAAM. These policies and procedures require boards to develop and maintain an appropriate system of internal controls to support its processes and operations, safeguard assets, and ensure compliance with laws and regulations.

Arizona Department of Administration (ADOA) should clarify policy for mileage reimbursements to board members—State policy, as outlined in SAAM, describes procedures to follow when reimbursing mileage to travelers who use their own vehicle when traveling on state business. However, these policies and procedures do not specify that they apply to state board members, and as a result, boards reimbursed members inconsistently. Therefore, the ADOA should clarify the State's mileage reimbursement policy for board members.

Recommendations

Boards should determine, along with their legal counsel, whether to pursue reimbursement from their board members for the identified overpayments. They should also adhere to the State's internal control policies and procedures outlined in SAAM. Further, the ADOA should clarify the State's policies for mileage reimbursements to board members.

Board member per diem compensation and expense reimbursement payments should be processed in State's payroll system

Certain board member payments subject to tax withholding requirements—The Internal Revenue Service classifies board members as government employees for income tax withholding purposes. Thus, the State is responsible for withholding federal and state income, social security, and Medicare taxes for applicable board payments.

State payroll system designed to ensure compliance with tax requirements, but boards not adequately directed to use it—Payments made outside of the payroll system may result in noncompliance with tax withholding requirements if the alternate payment processes are not similarly designed for tax compliance. The State lacks a policy in SAAM to direct boards to process board member payments for per diem compensation and nontravel-related expense reimbursements in the State's payroll system.

Some boards processed payments outside the payroll system, placing the State at risk for noncompliance with tax requirements—We found 14 of the 59 boards processed fiscal year 2016 payments to board members for per diem compensation and/or travel-related expense reimbursements outside of the State's payroll system, and therefore, the required taxes may not have been appropriately withheld.

State policies should direct boards to process payments through state payroll system—The ADOA should develop policies and procedures requiring boards to process per diem compensation payments and nontravel-related expense reimbursements using the State's payroll system and incorporate them into SAAM. The ADOA should then communicate these policy requirements to all state boards.

Recommendations

The ADOA should develop policies and procedures requiring boards to process compensation and nontravel-related expense reimbursements using the State's payroll system and incorporate them into SAAM, and communicate these policy requirements to all state boards.



TABLE OF CONTENTS

Introduction	1
Finding 1: Policies and procedures would help ensure boards pay per diem compensation appropriately	5
Boards compensate members differently for board-related activities	5
Some compensation could appear to be an inappropriate use of public monies	6
Boards should develop and implement written policies and procedures for paying per diem compensation	7
Recommendation	7
Finding 2: All board member per diem compensation and expense reimbursement payments should comply with state statutes and policy	9
Some board members not paid in accordance with statute or policy	9
Boards should adhere to state internal control policies and procedures	11
ADOA should clarify policy for mileage reimbursements to board members	11
Recommendations	11
Finding 3: Board member per diem compensation and expense reimbursement payments should be processed in State's payroll system	13
Certain board member payments subject to tax withholding requirements	13
State payroll system designed to ensure compliance with tax requirements, but boards not adequately directed to use it	13
Some boards processed payments outside the payroll system, placing the State at risk for noncompliance with tax requirements	14
State policies should direct boards to process payments through state payroll system	14
Recommendations	14
Appendix A: Compiled list of state boards, commissions, councils and advisory committees (collectively referred to as boards), and payments made to members for per diem compensation and expense reimbursements	a-1
Appendix B: Methodology	b-1



TABLE OF CONTENTS

Tables

1	Overpayments and unsupported payments for sampled boards Fiscal year 2016	10
2	Board payments processed outside of the State's payroll system for sampled boards Fiscal year 2016	15
3	Compiled list of state boards, commissions, councils and advisory committees (collectively referred to as boards), and payments made to members for per diem compensation and expense reimbursements Fiscal year 2016	a-1



Scope and objectives

Pursuant to Laws 2016, Ch. 328, §1, the Office of the Auditor General has conducted an annual review of per diem compensation and expense reimbursement payments (see textbox for definitions) to members of state boards, commissions, councils, and advisory committees (collectively referred to as boards). This report focuses on per diem compensation and expense reimbursement payments to board members made in fiscal year 2016 and includes three findings related to board practices regarding per diem compensation (Finding 1), overpayments and unsupported payments made by some boards (Finding 2), and per diem compensation and expense reimbursement payments processed outside of the State's payroll system by some boards (Finding 3).

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 incurred by board members 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, and the specific statutes relating to the compensation for each board.

State board overview

Arizona's boards are primarily authorized by statute; however, some boards may be authorized by a Governor's executive order. Statute or executive order will generally state the purpose of the board, the number of members, the criteria for member selection, member term lengths and compensation, the board's funding source, and other board-specific information. Boards may also create committees or councils to advise or assist the board in their duties. In addition, boards typically have a regulatory or advisory purpose and mandate. Specifically:

- Regulatory boards regulate the practice of a profession, occupation, or industry to help protect public health, safety, and welfare. These boards typically recommend and develop standards or rules, oversee licensing, investigate and resolve complaints, impose disciplinary actions when appropriate, and provide the public with information regarding licensees. For example, some of the Arizona Medical Board duties include reviewing and evaluating applicants for licensure, investigating complaints that allege unprofessional conduct or potential scope of practice violations, disciplining and rehabilitating physicians, providing information to the public regarding licensees, and adopting rules regarding the regulation and the qualifications of doctors of medicine.¹
- Advisory boards develop policy and make recommendations to public officials on how to address specific issues. For example, the Arizona Veterans' Service Advisory Commission provides policy advice to the Governor and the director of the Arizona Department of Veterans' Services regarding veterans' issues.²

The State does not maintain a comprehensive list of all boards; therefore, auditors used various methods to compile a list of 524 state boards and payments made to members for per diem compensation and expense reimbursements in fiscal year 2016 (see Appendix A, pages a-1 through a-10, for the list). However, auditors were unable to determine whether this was a complete list of all state boards and all per diem compensation and

¹ Auditor General staff analysis of A.R.S. §32-1403.

² Auditor General staff analysis of A.R.S. §41-602(E).

expense reimbursement payments to board members. See Appendix B, pages b-1 through b-2, for the methods auditors used to compile the list of state boards and payments to board members.

State board members and staff overview

The boards' statutes or the executive order creating the board specifies whether members of the state boards will be appointed by the Governor or other public officials, be elected by the public, apply or volunteer, or be selected by the board itself. According to Arizona's Office of the Governor's Boards and Commissions website, the Governor "appoints approximately 2,000 people to 220 Boards, Commissions, Councils, Committees, & Task Forces."³ The qualifications for membership, the terms of service, and other membership criteria are outlined in the specific statutes or executive order related to the board. Oftentimes, boards are comprised of public members, members who are expert in a specific subject matter, and/or members of the profession that the board serves. For example, the State Board of Chiropractic Examiners consists of three licensed chiropractors and two consumer (public) members.⁴

Typically, boards are supported by various staff who perform a variety of duties. For example, board staff process, or oversee the process, of making per diem compensation and expense reimbursement payments to board members. The boards may also contract with the Arizona Department of Administration's Central Services Bureau to perform accounting functions, including processing per diem compensation and expense reimbursement payments to board members.

Per diem compensation and expense reimbursements

Members of some boards may receive per diem compensation and/or be reimbursed expenses for each day engaged in the service of the board as indicated in statute, whereas members of other boards are not permitted to receive such compensation. Auditors determined that during fiscal year 2016 members of 131 boards were paid approximately \$757,500 in per diem compensation and \$338,000 in reimbursed expenses.⁵ Specifically:

- **Per diem compensation**—Members of some boards are eligible to receive a prescribed amount of compensation in accordance with the boards' authorizing statutes. Specifically, some boards' statutes indicate the member is to receive compensation at a specific rate for each day engaged in the service of the board or for performing board member duties. Auditors' review of boards' statutes that provide for per diem compensation found that per diem compensation rates generally range from \$30 to \$300 per day. For example, the Arizona State Board of Barbers' statutes allow per diem compensation of \$30 per day and the State Board of Equalization's statutes allow per diem compensation of \$300 per day.⁶ Frequently, a board's statutes refer to the State's general statute for the compensation of certain state officers and employees, which applies to board members (see textbox).

Compensation of certain state officers and employees—Except as otherwise provided by statute or specific legislative appropriation, members of boards, commissions, councils, or advisory committees who are authorized by law to receive compensation may receive compensation at the rate of not to exceed \$30 for each day engaged in the service of such board, commission, council, or advisory committee.

Source: A.R.S. §38-611(C).

³ Auditor General staff obtained this information as of June 15, 2017, at the following URL: <https://bc.azgovernor.gov/home>.

⁴ A.R.S. §32-901(A).

⁵ See Appendix A for a list of the boards and their payment amounts and Appendix B for the methods auditors used to determine the total payments.

⁶ 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.

Similar to the amount of daily per diem compensation varying with each board, so do the activities required to be performed for board members to be eligible to receive compensation. 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.⁷ However, many boards' statutes are more general when describing board-related activities that are eligible for per diem compensation. For example, the Arizona State Board of Pharmacy's statutes state that board members are eligible to receive \$200 in compensation for each day of actual service in the business of the board.⁸ However, this statute does not specify what activities or the amount of time spent on activities constitute each day of actual service in the board's business.

- **Reimbursed expenses**—Board members may be reimbursed expenses in accordance with A.R.S. Title 38, Ch. 4, Art. 2, which is specifically related to travel expenses, and state policies for expense reimbursements unless a board's statutes prohibit such reimbursement.⁹ These expenses may include mileage, meals, lodging, airfare, etc., while attending board meetings or while performing work on behalf of the board. In addition, some boards' statutes specify that a board member is eligible for the reimbursement of all expenses necessarily and properly incurred in discharging the board's duties. For example, the Arizona Board of Osteopathic Examiners in Medicine and Surgery's statutes state that members of the board are eligible to receive reimbursement for all expenses necessarily and properly incurred in attending meetings of the board.¹⁰ These boards may develop more specific written policies and procedures that allow for reimbursement of expenses differently than those outlined in the State's policies. However, all boards auditors reviewed stated that they followed the State's policies.

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 the revenue source for a board, which could include state appropriations, licensing fees, federal grant awards, or other public revenue sources. For example, the statutes for the Arizona State Veterinary Medical Examining Board prescribe that the board deposit 90 percent of all fees and other revenue in the Veterinary Medical Examining Board Fund.¹¹ According to board staff, monies in this fund are used to pay the board's operational expenses, including board member per diem compensation and expense reimbursement payments.

⁷ A.R.S. §15-1623(B) states that appointed members shall receive compensation as determined pursuant to A.R.S. §38-611 for each day of attendance at board meetings, except the compensation of no member of the board shall exceed \$500 in any year.

⁸ A.R.S. §32-1903(D).

⁹ Auditor General staff analysis of A.R.S. Title 38, Ch. 4, Art. 2, which contains guidance for the reimbursement of expenses specifically related to travel.

¹⁰ A.R.S. §32-1802(C).

¹¹ A.R.S. §32-2205(A) states the board shall deposit 10 percent of all fees and other revenue accruing to the board in the State General Fund and deposit the remaining 90 percent in the Veterinary Medical Examining Board Fund.



Policies and procedures would help ensure boards pay per diem compensation appropriately

Due to the State of Arizona's boards', commissions', councils', and advisory councils' (collectively referred to as boards) statutes often lacking specificity regarding the activities that are considered board-related and generally not defining the amount of time that constitutes a day engaged in the service of a board, and the boards' lacking written policies and procedures in these areas, the State's boards compensate members differently for board-related activities. However, without specific statutes or written policies and procedures, per diem compensation payments to board members may appear to be an inappropriate use of public monies. Therefore, Arizona's state boards should develop and implement written policies and procedures to formalize per diem compensation practices and help ensure that board members are properly compensated.

Boards compensate members differently for board-related activities

Arizona state boards compensate their members differently for the board activities they perform because most boards' statutes do not specifically define the board activities that members will be compensated for or the amount of time that constitutes a day engaged in the service of the board, and most of the boards auditors 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. As described in the Introduction (see page 2), each board's statutes define whether board members are eligible to receive per diem compensation and the amount of this compensation. Of the 59 boards that auditors judgmentally selected for review, 41 boards were statutorily allowed to pay members per diem compensation at a specific rate for each day engaged in board business. Seven of these 41 boards have statutes that specify compensation is only to be paid for attendance at meetings. For example, the Industrial Commission of Arizona's Special Fund Investment Committee's statute states each member is eligible to receive compensation for each day while in actual attendance at meetings of the Investment Committee.¹² However, the other 34 boards' statutes generally state that compensation is paid for each day engaged in the board's service or for each day engaged in board business without defining the activities the board members must perform to be eligible to receive this compensation.

Of the fiscal year 2016 per diem compensation transactions auditors reviewed at the 41 boards, members were paid daily compensation for the following activities:

- 20 boards paid members for attendance at meetings only;
- 19 boards paid members for attendance at meetings and some or all of the following activities:
 - one or two days of preparation for the meetings, such as reviewing meeting materials, complaints, and licensing exams or applications; and/or
 - attendance at annual conferences, trainings, or meetings of other organizations.

¹² Arizona Revised Statutes (A.R.S.) §23-1065(L)(1).

- Two boards paid members for attendance at meetings, various board activities identified above, and for making phone calls and responding to emails.

In addition, nearly all 41 of the boards' statutes do not specify the amount of time required to be spent on activities to be paid compensation. These statutes simply indicate that payment of compensation was for "each day" or "per day" engaged in the board's service, which could allow members to be paid the daily per diem compensation amount regardless of the time spent performing board-related activities. For example, the Arizona Psychiatric Security Review Board (PSRB) members are statutorily eligible to receive compensation for each day engaged in the service of the board.¹³ According to PSRB staff, meeting preparation materials are mailed to each board member 7 to 10 days prior to the board meeting and members are paid for each day from the date the materials are delivered until the date of the board meeting. Although the review of preparation materials may take 7 to 10 days to complete, the board's statutes do not specify the amount of time that board members are required to spend each day reviewing materials to be eligible for compensation. Further, only one of the 41 boards auditors reviewed had a statute that defined time as an hourly rate of service in the board's business. Specifically, the Arizona Board of Psychologist Examiners' statutes state the amount of compensation to be paid is for each cumulative 8 hours of actual service in the business of the board.¹⁴ Therefore, members of this board are paid an hourly rate of compensation based on the number of hours engaged in board business.

Further, 39 of the 41 boards auditors reviewed lacked written policies and procedures defining the board-related activities, the time requirements for compensation, and the process for paying compensation to board members. By not documenting the process to pay members, boards could process payments that are not accurate or are unsupported, such as those payments identified in Finding 2 on page 10. Written policies and procedures would help to ensure that board staff pay board members in accordance with state law and policy, receive the appropriate approvals and supporting documents for the payments, process payments accurately, and communicate the requirements and processes to incoming board members and staff. Although several boards had documented procedures for paying per diem compensation, only the Arizona State Board of Nursing and the State of Arizona Board of Chiropractic Examiners had specific written policies and procedures that defined board-related activities eligible for per diem compensation, the time required to be spent on these activities to receive per diem compensation, and the process for paying this compensation to members.

Some compensation could appear to be an inappropriate use of public monies

Without specific statutes and/or policies and procedures that define board-related activities and the amount of time required to be spent performing these activities to be eligible for per diem compensation, payments to board members could appear to be an inappropriate use of public monies. As mentioned earlier, for the 41 boards that auditors reviewed in fiscal year 2016, each board paid a per diem compensation amount to its members for attending board meetings, some paid the per diem amount for preparation time for meetings, and others paid members the per diem amount for a variety of board-related activities, such as making phone calls, responding to emails, attending meetings of other organizations, and for other board duties. In addition, some boards paid members at an hourly or prorated rate, while others paid members the full daily per diem amount without regard to the amount of time spent performing the activities. However, paying members for a variety of activities without regard to the time spent performing the activities could result in the perception that a board is inappropriately using public monies. For example, paying a board member the daily per diem compensation amount for reviewing and responding to emails regardless of the time spent performing this task could appear to be an inappropriate use of public monies.

¹³ A.R.S. §31-501(E) states that members of the Psychiatric Security Review Board are eligible to receive compensation pursuant to A.R.S. §38-611 and A.R.S. §38-611(C) states that members of boards who are authorized by law to receive compensation may receive compensation at the rate of not to exceed \$30 for each day engaged in the service of such board.

¹⁴ A.R.S. §32-2062(E).

Boards should develop and implement written policies and procedures for paying per diem compensation

The State's boards should develop and implement written policies and procedures regarding the payment of per diem compensation to help ensure they appropriately compensate their members. Such policies and procedures would also help ensure continuity for new board staff who pay or oversee payment of board member per diem compensation and ensure the continuity of the per diem amount paid to incoming board members. Specifically, the boards should develop and implement written policies and procedures for paying board member per diem compensation that complies with each board's statutes and defines:

- The specific board-related activities eligible for compensation, such as attending board meetings. This should also include evaluating the appropriateness of and defining the circumstances when it is appropriate to pay per diem compensation for other board duties, such as preparing for board meetings, reading emails, making phone calls, and other activities;
- The amount of time spent on board-related activities that will be compensated. This should include consideration of the actual amount of time needed to perform certain board-related duties, such as reading emails and answering phone calls, which may not constitute a full day in the business of the board; and
- The process for paying compensation to board members, such as the use of standard forms, proper authorization and approval of payments, and the reconciliation of accounting reports to payments.

Recommendation

1. Arizona's state boards should 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, these policies and procedures should comply with each board's statutory requirements and define the following:
 - a. The specific board-related activities eligible for compensation;
 - b. The amount of time spent on board-related activities that will be compensated; and
 - c. The process for paying compensation to board members.



All board member per diem compensation and expense reimbursement payments should comply with state statutes and policy

The State of Arizona's boards, commissions, councils, and advisory committees (collectively referred to as boards) should pay board members in accordance with state laws and policy. Some boards auditors reviewed did not make fiscal year 2016 board member per diem compensation and expense reimbursement payments in accordance with statutes or policy by making either overpayments or unsupported payments to board members. Overpayments and unsupported payments to members may represent a gift of public monies in violation of the Arizona Constitution. To ensure members are paid in accordance with statute and policy, boards should adhere to the State's internal control policies and procedures for the processing of board member per diem compensation and expense reimbursement payments. Further, the Arizona Department of Administration (ADOA) should clarify its policy for the reimbursement of mileage expenses to board members.

Some board members not paid in accordance with statute or policy

As discussed in the Introduction (see pages 2 through 3), the members of some boards may receive payments for per diem compensation and/or reimbursable expenses. State law prescribes the amount of per diem compensation members may be eligible to receive, and typically whether a member is eligible to receive reimbursement of expenses. In addition, state policies in the *State of Arizona Accounting Manual* (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, reviewed and approved by knowledgeable personnel whose duties are separated, and reconciled to payroll system reports.

However, some boards auditors reviewed did not follow these internal control policies and procedures or state law, resulting in some board members being paid more than they should have been (overpayments) and some payments that were not supported by proper documentation (unsupported payments).¹⁵ Specifically, as shown in Table 1 on page 10, 13 of the 59 boards auditors judgmentally selected for review made per diem compensation and/or expense reimbursement payments in fiscal year 2016 that were higher than allowed or made payments that did not have proper supporting documentation. For example, the Arizona Department of Revenue's Economic Estimates Commission's statute allows board members to be paid compensation in the amount of \$30 for each day engaged in the service of the board; however, a member was paid \$50 for each day of attendance at board meetings, resulting in a total overpayment of \$100 during fiscal year 2016 (see Table 1 on page 10).¹⁶ Also, the Industrial Commission of Arizona's Special Fund Investment Committee reimbursed a board member for mileage

¹⁵ Auditors' procedures included reviewing per diem compensation and expense reimbursement payments for compliance with statute and state policies. However, auditors were unable to determine if the activities performed or time spent on these activities were reasonable and an appropriate use of public monies as these activities and time required to be spent on the activities were not defined in statute or written policies and procedures.

¹⁶ Arizona Revised Statutes (A.R.S.) §41-561(B) states the appointive commission members shall be appointed for a term of 2 years and shall receive compensation determined pursuant to A.R.S. §38-611. A.R.S. §38-611(C) states that members of boards who are authorized by law to receive compensation may receive compensation at the rate of not to exceed \$30 for each day engaged in the service of such board.

Table 1
Overpayments and unsupported payments for sampled boards
Fiscal year 2016

	Per diem compensation overpayments	Expense reimbursement overpayments	Unsupported payments ¹	Total overpayments and unsupported payments
Arizona board				
Arizona Geographic Information Council (Department of Land)		\$ 38		\$ 38
Behavioral Health Examiners, Board of	\$ 85	63		148
Cosmetology, Board of	710	622		1,332
Economic Estimates Commission (Department of Revenue)	100			100
Game and Fish Commission (Game and Fish Department)		22		22
Hunger Advisory Council (Department of Economic Security)			\$1,006	1,006
Optometry, Board of	30			30
Pharmacy, Board of	1,800	2		1,802
Professional Practice Advisory Committee (Board of Education)			205	205
School Facilities Board	103			103
Schools for the Deaf and the Blind Board		2		2
Special Fund Investment Committee (Industrial Commission of Arizona)			36	36
State Foster Care Review Board (Supreme Court)		20		20
Total overpayments and unsupported payments	\$2,828	\$769	\$1,247	\$4,844

¹ Payments where the board was unable to provide proof of attendance at meetings or completed reimbursement forms.

Source: Auditor General staff review of the fiscal year 2016 per diem compensation payments and expense reimbursements for the boards judgmentally selected for review.

without completion of a travel claim form as required by state law and ADOA policy.¹⁷ Although the board used an alternate internal form to request this payment, auditors considered this payment an unsupported payment as the board did not obtain the required information or documentation to support the payment. Auditors identified a total of \$4,844 in overpayments and unsupported payments out of the \$76,812 in fiscal year 2016 payments reviewed.¹⁸

Further, although some of the boards have collected the overpayments made, others have not, and these overpayments could be considered a gift of public monies in violation of the Arizona Constitution.¹⁹ Specifically, payments that do not comply with legal or policy requirements may not have a valid public purpose, and the Arizona Constitution, Article 9, §7, prohibits spending public money without a public purpose.²⁰ Consequently, because the overpayments auditors identified in Table 1 did not comply with legal and/or policy requirements, these payments may have been a gift of public monies that violated the Arizona Constitution. Therefore, each board should determine, along with its legal counsel, whether to pursue reimbursement from its board members for the identified overpayments that were made during fiscal year 2016.

¹⁷ A.R.S. §38-622 specifies that claims by public officers, deputies, and employees for reimbursement of expenses for transportation, lodging, meals and incidentals, and long-term subsistence allowances shall be submitted on forms prescribed by and in the manner required by the ADOA.

¹⁸ The \$76,812 represents the total per diem compensation and expense reimbursement payments auditors reviewed.

¹⁹ Unsupported payments may not be subject to collection if the board determines that board members attended meetings or were entitled to reimbursement.

²⁰ Auditor General staff analysis of Arizona Constitution, Art. 9, §7.

Boards should adhere to state internal control policies and procedures

To ensure board members are paid in accordance with statute and policy, boards should adhere to the State's internal control policies and procedures as outlined in SAAM. These policies and procedures require boards to develop and maintain an appropriate system of internal controls to support its processes and operations, safeguard assets, and ensure compliance with laws and regulations. Specifically, the policies and procedures require that the boards:

- Ensure payments are supported by adequate documentation, and processed accurately at the approved rates and in a timely manner;
- Ensure payments are approved by board staff having the expertise to determine the appropriateness of the transaction;
- Separate duties to ensure no one person has both review and approval roles for transactions processed;
- Reconcile payments made from the State's payroll system to supporting documentation; and
- Maintain documentation in accordance with the records retention requirements.

Further, internal control plays an important role in preventing and detecting fraud, waste, and abuse and protecting the board's resources. Therefore, the State's boards should follow the internal control policies and procedures outlined in SAAM.

ADOA should clarify policy for mileage reimbursements to board members

To ensure that board members are reimbursed appropriately for mileage, the ADOA should clarify the State's policy. For the 59 boards auditors reviewed, SAAM policy was interpreted inconsistently for fiscal year 2016 mileage reimbursements. Specifically, some boards reimbursed members for all mileage associated with traveling on board business, regardless of the number of miles traveled, while other boards reimbursed members for all mileage only when the member traveled more than 50 miles one way. State policy, as outlined in SAAM, describes procedures to follow when reimbursing mileage to travelers who use their own vehicle when traveling on state business and commute more than 50 miles from their personal residence. However, these policies and procedures do not specify that it applies to state board members, and as a result, boards reimbursed members inconsistently. Therefore, the ADOA should clarify the State's mileage reimbursement policy specifically for board members.

Recommendations

1. Arizona state boards should determine, along with their legal counsel, whether to pursue reimbursement from their board members for the identified overpayments that were made during fiscal year 2016.
2. Arizona state boards should adhere to the State's internal control policies and procedures outlined in SAAM to ensure payments to board members are processed in accordance with state laws and policies. Specifically, the boards should:
 - a. Ensure payments are supported by adequate documentation, and processed accurately at the approved rates and in a timely manner;
 - b. Ensure payments are approved by board staff having the expertise to determine the appropriateness of the transaction;
 - c. Separate duties to ensure no one person has both review and approval roles for transactions processed;
 - d. Reconcile payments made from the State's payroll system to supporting documentation; and

- e. Maintain documentation in accordance with the records retention requirements.
3. The ADOA should clarify the State's policies for mileage reimbursements to board members.



Board member per diem compensation and expense reimbursement payments should be processed in State’s payroll system

The State of Arizona’s boards, commissions, councils, and advisory committees (collectively referred to as boards) should process all per diem compensation and expense reimbursement payments to board members through the State’s payroll system to ensure compliance with tax withholding requirements. Certain payments to board members are subject to tax withholding requirements. Although the State’s payroll system is designed to ensure compliance with tax withholding requirements, state policy does not adequately direct boards to use this system to process board member payments. Some of the boards that auditors reviewed processed fiscal year 2016 per diem compensation and expense reimbursement payments outside of the payroll system, thus placing the State at risk of noncompliance with applicable tax withholding requirements. To help ensure compliance with tax withholding requirements, the Arizona Department of Administration (ADOA) should establish policies within the *State of Arizona Accounting Manual* (SAAM) that require all state boards to process board member per diem compensation and expense reimbursement payments using the State’s payroll system and communicate this policy requirement to the boards.

Certain board member payments subject to tax withholding requirements

As discussed in the Introduction (see page 2), the members of some boards may receive payments for per diem compensation and/or reimbursable expenses. The Internal Revenue Service (IRS) classifies board members as government employees for income tax withholding purposes. Thus, as for other state employees, the State is responsible for withholding federal and state income, social security, and Medicare taxes for applicable board member payments. These taxable payments specifically include per diem compensation and reimbursement of meal expenses for travel that does not involve an overnight stay.

State payroll system designed to ensure compliance with tax requirements, but boards not adequately directed to use it

The State’s payroll system is used to process payments to state employees, including board members, and has been designed to comply with applicable tax withholding requirements; however, Arizona state boards have not been adequately directed to use it for board member per diem compensation and expense reimbursement payments. Payments made outside of this system, such as through an accounting system, may result in noncompliance with tax withholding requirements if the alternate payment processes are not similarly designed for tax compliance. However, state policy does not adequately direct boards to use the payroll system to process board member payments. Specifically, the State lacks a policy directing boards to process board member payments for per diem compensation and nontravel-related expense reimbursements in the state payroll system.

The ADOA issued a memorandum in December 2007 that requires boards to process travel-related expense reimbursements and describes the process to pay board members through the State’s payroll system; however, this memorandum has not been adequately communicated to the boards. Although ADOA memoranda are

issued to inform state agencies of updated procedures, new policies, or changes to policies, staff processing payments outside of the payroll system (as described in the next section) reported being more familiar with SAAM policies and were unaware of this memorandum and the processing requirement for travel-related expense reimbursements.

Some boards processed payments outside the payroll system, placing the State at risk for noncompliance with tax requirements

Some boards processed fiscal year 2016 board member travel-related expenses outside of the State's payroll system because some board staff reported that they were unaware of the ADOA memorandum requirement to process board member travel-related expense reimbursement payments through the State's payroll system. Further, some boards similarly did not process per diem compensation payments through the State's payroll system. As a result, the State is at risk for noncompliance with applicable tax withholding requirements. Specifically, as shown in Table 2 on page 15, 14 of the 59 boards auditors reviewed processed fiscal year 2016 payments to board members for per diem compensation and/or travel-related expense reimbursements outside of the State's payroll system. Instead, these payments were processed using the State's accounting system, which is not designed to comply with applicable tax withholding requirements. Because these payments were not processed using the State's payroll system, the required taxes may not have been appropriately withheld.

State policies should direct boards to process payments through state payroll system

To help ensure compliance with applicable tax withholding requirements, state policies should direct boards to process all board member per diem compensation and expense reimbursement payments through the State's payroll system. Specifically, the ADOA should develop a policy and associated procedures requiring boards to process per diem compensation payments and nontravel-related expense reimbursements using the State's payroll system and incorporate them into SAAM. In addition, the ADOA should incorporate its existing memorandum and associated procedures for processing travel-related expense reimbursements using the State's payroll system into SAAM. The ADOA should then communicate these policy requirements to all state boards.

Recommendations

1. The ADOA should:
 - a. 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 and incorporate them into SAAM;
 - b. Incorporate its existing memorandum for processing travel-related expense reimbursements to board members using the State's payroll system into SAAM; and
 - c. Communicate these policy requirements to all state boards.

Table 2

**Board payments processed outside of the State’s payroll system for sampled boards
Fiscal year 2016**

	Per diem compensation	Travel-related expense reimbursements
Arizona board		
Accountancy, Board of		
Accounting and Auditing Advisory Committee	√	
Certification Advisory Committee	√	
Continuing Professional Education Advisory Committee	√	
Law Review Advisory Committee	√	√
Peer Review Oversight Advisory Committee	√	
Tax Advisory Committee	√	
Education, Board of		
Arizona State Board of Education		√
Professional Practices Advisory Committee		√
Industrial Commission of Arizona		
Occupational Safety and Health Advisory Committee		√
Special Fund Investment Committee	√	√
Land Department		
Arizona Geographic Information Council		√
Parks		
Arizona State Committee on Trails		√
Natural Areas Program Advisory Committee		√
Off-Highway Vehicle Advisory Group		√

Source: Auditor General staff analysis of fiscal year 2016 per diem compensation and expense reimbursements for board payments recorded in the State’s accounting system for auditors’ judgmentally-selected sample of boards.



Table 3
 Compiled list of state boards, commissions, councils and advisory committees (collectively referred to as boards), and payments made to members for per diem compensation and expense reimbursements
 Fiscal year 2016

Arizona board	Per diem compensation ¹	Expense reimbursements ¹	Total Payments ¹
Accountancy, Board of²	\$ 8,100	\$ 6,321	\$ 14,421
Accounting and Auditing Advisory Committee ²	6,400		6,400
Certification Advisory Committee ²	7,200		7,200
Continuing Professional Education Advisory Committee ²	5,700		5,700
Law Review Advisory Committee ²	4,200	304	4,504
Peer Review Oversight Advisory Committee ²	7,900		7,900
Tax Advisory Committee ²	7,900	1,345	9,245
Acupuncture Board of Examiners	3,350	1,528	4,878
Administration, Department of			
Arizona Lease Cost Review Board			
Governor’s Regulatory Review Council	22,600		22,600
Information Technology Authorization Committee			
Water Quality Appeals Board			
African American Affairs, Commission of			
Agriculture, Department of			
Animal Services Division Advisory Council			
Arizona Agricultural Employment Relations Board			
Arizona Agricultural Protection Commission			
Arizona Citrus Research Council			
Arizona Department of Agriculture Advisory Council			
Arizona Department of Agriculture, Public Safety Personnel Retirement System, Local Board			
Arizona Grain Research and Promotion Council			
Arizona Iceberg Lettuce Research Council			
Bee Advisory Committee			
Citrus, Fruit and Vegetable Advisory Council			
Pest Management Advisory Committee			
Pesticide Advisory Committee			
Arizona Health Care Cost Containment System (AHCCCS)			
Arizona Advisory Council on Indian Health Care		70	70
Arizona State Advisory Council on the Seriously Mentally Ill		5,871	5,871
Arizona State Medicaid Advisory Committee			
Arizona State Retirement System			
Arizona State Governing Committee for Tax Deferred Annuities and Deferred Compensation Plans			
Arizona State Retirement System Board of Trustees ²	2,550		2,550

Table 3 continued

Arizona board	Per diem compensation ¹	Expense reimbursements ¹	Total Payments ¹
External Affairs Committee Investment Committee Operations and Audit Committee			
Arizona State University Arizona State University, Public Safety Personnel Retirement System, Local Board			
Arts, Commission on the State Poet Laureate Nomination Committee			
Athletic Training, Board of		1,190	1,190
Attorney General Arizona Attorney General, Public Safety Personnel Retirement System, Local Board			
Arizona Civil Rights Advisory Board ²	660		660
Arizona Peace Officers Memorial Board Arizona Prosecuting Attorneys' Advisory Council			
Automobile Theft Authority Arizona Automobile Theft Authority Board		280	280
Barbers, Board of²	990	1,096	2,086
Beef Council			
Behavioral Health Examiners, Board of² Counseling Academic Review Committee ²	9,435 2,520	1,270 1,359	10,705 3,879
Marriage and Family Therapy Academic Review Committee Social Work Academic Review Committee	1,545 1,385	404 491	1,949 1,876
Substance Abuse Academic Review Committee ²	2,235	3,815	6,050
Charter Schools, Board for		918	918
Child Safety, Department of Arizona Department of Child Safety Community Advisory Committee			
Chiropractic Examiners, Board of²	11,500		11,500
Citizens Clean Elections Commission²	16,520	4,003	20,523
Commerce Authority Arizona Commerce Authority Board Rural Business Development Advisory Council			
Constable Ethics, Standards and Training Board			
Corporation Commission³ Arizona Power Plant and Transmission Line Siting Committee ²	17,200	6,006	23,206
Corrections, Department of Arizona Correctional Industries (ACI) Advisory Board Arizona Department of Corrections, Corrections Officer Retirement Plan, Local Board Constituent Services Advisory Committee			
Cosmetology, Board of²	6,170	13,576	19,746
Cotton Research and Protection Council		1,903	1,903

Table 3 continued

Arizona board	Per diem compensation ¹	Expense reimbursements ¹	Total Payments ¹
Criminal Justice Commission		386	386
Deaf and the Hard of Hearing, Commission for the		1,408	1,408
Dental Examiners, Board of Dental Hygiene Committee	18,000	4,564	22,564
Dispensing Opticians, Board of²	2,864	5,413	8,277
Early Childhood Development and Health Board First Things First Regional Partnership Councils (28 individual partnership councils) ⁴		1,625 54,184	1,625 54,184
Economic Security, Department of			
Arizona Developmental Disabilities Advisory Council		280	280
Arizona Developmental Disabilities Planning Council ²		3,528	3,528
Arizona State Rehabilitation Council			
Arizona Statewide Independent Living Council			
Child Care Advisory Committee			
Economic Security Advisory Council			
Governor’s Advisory Council on Aging ²		4,709	4,709
Governor’s Arizona Commission on Homelessness and Housing			
Governor’s Council on Blindness and Visual Impairment ²		1,778	1,778
Governor’s Council on Spinal and Head Injuries			
Human Rights Committee for the Developmentally Disabled		349	349
Hunger Advisory Council ²		1,006	1,006
Interagency Coordinating Council for Infants and Toddlers The Collaboration & Education Committee The Structure & Flow Committee			
Unemployment Insurance Tax Appeals Board			
Workforce Arizona Council ⁵			
Council Bylaws Workgroup Committee			
Executive Committee			
Measuring Effectiveness Committee			
Performance Excellence Committee			
Quality Workforce Committee			
Strategic Communications and Partnerships Committee			
Education, Board of²		1,385	1,385
A-F Ad Hoc Advisory Committee			
Arizona Standards Development Committee Arizona English Language Arts (ELA) Standard Development Subcommittee Arizona Mathematics Standard Development Subcommittee			
Certification Advisory Committee			
Certification Appeals Advisory Committee			
Certification Enforcement Actions Ad Hoc Committee			
K-3 Literacy Ad Hoc Committee			
Professional Practices Advisory Committee ²		643	643
Special Education Advisory Panel			
Education, Department of Data Governance Commission			
Emergency and Military Affairs, Department of Arizona Court of Military Appeals Department of Emergency and Military Affairs, Public Safety Personnel Retirement, Local Board			

Table 3 continued

Arizona board	Per diem compensation ¹	Expense reimbursements ¹	Total Payments ¹
Military Affairs Commission State Emergency Council			
Environmental Quality, Department of Arizona Emergency Response Commission Arizona Oil and Gas Conservation Commission Arizona Recycling Advisory Committee Governor’s Agricultural Best Management Practices Committee Water Quality Assurance Revolving Fund Advisory Board Water Systems Coordinating Council			
Equalization, Board of² The Education, Training and Certification Advisory Committee	80,200	11,831	92,031
Executive Clemency, Board of⁶	224,804	391	225,195
Exposition and State Fair Arizona Exposition and State Fair Board		125	125
Fingerprinting, Board of			
Fire, Building and Life Safety, Department of⁷ Board of Manufactured Housing State Fire Safety Committee			
Forestry and Fire Management, Department of Arizona Forest Health Council Yarnell Hill Memorial Site Board			
Funeral Directors and Embalmers, Board of	1,380	780	2,160
Game and Fish Department Arizona Game and Fish Commission ² Arizona Game and Fish Commission Appointment Recommendation Board Arizona Game and Fish Commission, Public Safety Personnel Retirement System, Local Board Heritage Fund Public Advisory Committee State of Arizona Livestock Loss Board	17,940	36,103	54,043
Gaming, Department of Arizona Racing Commission Arizona State Boxing and Mixed Martial Arts Commission	1,110 1,590		1,110 1,590
Geological Survey⁸ Mining, Mineral and Natural Resources Educational Museum Advisory Council			
Governor, Office of the Arizona Human Trafficking Council Arizona Juvenile Justice Commission Arizona-Mexico Commission Arizona Parents Commission on Drug Education and Prevention Arizona Substance Abuse Partnership Council Classrooms First Initiative Council Commission to Prevent Violence Against Women Council on Child Safety and Family Empowerment Governor’s Commission on Service and Volunteerism Governor’s Youth Commission Livestock and Agriculture Committee		1,118 1,324	1,118 1,324

Table 3 continued

Arizona board	Per diem compensation ¹	Expense reimbursements ¹	Total Payments ¹
State Council on the Education for Military Children State Energy Advisory Board ⁹			
Governor’s Office of Highway Safety			
Arizona Motorcycle Safety Advisory Council Oversight Council on Driving or Operating Under the Influence Abatement			
Health Facilities Authority			
Arizona Health Facilities Authority Board ⁵			
Health Services, Department of			
Advisory Committee on Clinical Laboratories			
Advisory Health Council			
Arizona Biomedical Research Commission ^{2,10}	4,375	132	4,507
Arizona Healthcare-Associated Infection (HAI) Advisory Committee			
Arizona Psychiatric Security Review Board ²	15,870		15,870
Arizona Sanitarians’ Council			
Clinical Laboratory Licensure Advisory Committee			
Council on Infectious Disease Preparedness and Response			
Emergency Medical Services Council			
Education Standing Committee			
Pediatric Advisory Committee for Emergency Services (PACES)			
Environmental Laboratory Advisory Committee			
Medical Direction Commission			
Newborn Screening Program Committee			
Protocols, Medications, and Devices Standing Committee			
State Trauma Advisory Board (STAB)			
Trauma and EMS Performance Improvement (TEPI) Standing Committee			
Tobacco Revenue Use Spending and Tracking Commission			
Historical Society			
Arizona Historical Society Board			
Centennial and Mining and Mineral Museum Advisory Council			
Homeland Security, Department of			
Arizona State Citizen Corps Council			
Governor’s Executive Oversight Committee of the Arizona Counter-Terrorism Information Center			
Homeland Security Regional Advisory Council (Central Region)			
Homeland Security Regional Advisory Council (East Region)			
Homeland Security Regional Advisory Council (North Region)			
Homeland Security Regional Advisory Council (South Region)			
Homeland Security Regional Advisory Council (West Region)			
Homeland Security Senior Advisory Committee			
Homeopathic and Integrated Medicine Examiners, Board of		1,351	1,351
Housing, Department of			
Arizona Housing Finance Authority Board ⁵			
Independent Redistricting Commission		3,838	3,838
Indian Affairs, Commission of¹¹		1,064	1,064
Industrial Commission of Arizona²	17,450	9,693	27,143
Boiler Advisory Board			
Elevator Advisory Board ¹⁰			

Table 3 continued

Arizona board	Per diem compensation ¹	Expense reimbursements ¹	Total Payments ¹
Employment Advisory Council ^{2,12}		961	961
Occupational Safety and Health Advisory Committee ²		725	725
Occupational Safety and Health Review Board			
Special Fund Investment Committee ²	1,100	277	1,377
Wage Board			
Insurance, Department of			
Arizona Life and Disability Insurance Guaranty Fund Board			
Arizona Property and Casualty Insurance Guaranty Fund Board			
Arizona Workers' Compensation Appeals Board			
Continuing Education Review Committee			
Insurance Consumer Advisory Board			
Uniform Employee Health Status Questionnaire Committee			
International Development Authority			
Arizona International Development Authority Board ⁵			
Juvenile Corrections, Department of			
Arizona Department of Juvenile Corrections, Corrections Officer Retirement Plan, Local Board			
Religious Services Advisory Committee			
Land Department			
Arizona Geographic Information Council ²		1,997	1,997
Arizona Resource Advisory Council			
Arizona State Land Department Board of Appeals	720	47	767
Conservation Advisory Committee			
Grazing Land Valuation Commission			
Public Lands Board of Review			
State Selection Board			
Urban Land Planning Oversight Committee			
Liquor Licenses and Control, Department of			
Arizona Department of Liquor Licenses and Control, Public Safety Personnel Retirement System, Local Board			
Arizona State Liquor Board ²	3,800	2,306	6,106
Lottery Commission			
	1,590		1,590
Massage Therapy, Board of			
	2,800	458	3,258
Medical Board²			
	55,080	15,745	70,825
Arizona Regulatory Board of Physician Assistants	6,800	2,185	8,985
Mine Inspector			
Mining Advisory Council			
Naturopathic Physicians Medical Board			
	5,700	1,149	6,849
Navigable Stream Adjudication Commission²			
	2,250	2,685	4,935
Northern Arizona University			
Northern Arizona University, Public Safety Personnel Retirement System, Local Board			
Nursing Care Institution Administrators and Assisted Living Facility Managers, Board of			
	1,890	3,625	5,515
Nursing, Board of²			
	37,556	1,019	38,575
Advanced Practice Committee			
Education Advisory Committee			

Table 3 continued

Arizona board	Per diem compensation ¹	Expense reimbursements ¹	Total Payments ¹
Scope of Practice Committee			
Occupational Therapy Examiners, Board of	4,200	492	4,692
Optometry, Board of²	1,350	3,475	4,825
Osteopathic Examiners in Medicine and Surgery, Board of²	13,250	4,428	17,678
Parks			
Arizona Outdoor Recreation Coordinating Commission			
Arizona State Committee on Trails ²		674	674
Arizona State Parks Board ²		411	411
Arizona State Parks, Public Safety Personnel Retirement System, Local Board			
AZSITE Consortium Advisory Committee			
AZSITE Consortium Board			
Conservation Acquisition Board			
Governor's Archaeology Advisory Commission			
Historic Preservation Advisory Committee			
Historic Sites Review Committee			
Natural Areas Program Advisory Committee ²		633	633
Off-Highway Vehicle Advisory Group ²		2,071	2,071
Personnel Board	3,500	1,302	4,802
Pharmacy, Board of²	14,000	4,332	18,332
Physical Therapy, Board of		523	523
Podiatry Examiners, Board of²	6,550	4,098	10,648
Postsecondary Education, Commission for			
Arizona College Application Campaign Advisory Committee			
Arizona Family College Savings (529) Program Oversight Committee			
Arizona Minority Education Policy Analysis Center Committee			
Power Authority			
Arizona Power Authority Commission	5,160	11,446	16,606
Prescott Historical Society			
Prescott Historical Society Board			
Private Postsecondary Education, Board for	2,500		2,500
Psychologist Examiners Arizona, Board of²	6,099	7,734	13,833
Public Safety Personnel Retirement System			
Public Safety Personnel Retirement System Board of Trustees			
Public Safety, Department of			
Arizona Automated Fingerprint Identification System Advisory Board			
Arizona Department of Public Safety, Corrections Officer Retirement Plan, Local Board			
Arizona Department of Public Safety, Public Safety Personnel Retirement System, Local Board			
Arizona Peace Officer Standards and Training Board ²		5,602	5,602
Arizona School Bus Advisory Council			
Law Enforcement Merit System Council ²	2,600		2,600
Private Investigator and Security Guard Hearing Board			

Table 3 continued

Arizona board	Per diem compensation ¹	Expense reimbursements ¹	Total Payments ¹
Radiation Regulatory Agency			
Arizona Radiation Regulatory Hearing Board			
Medical Radiologic Technology Board of Examiners	450		450
Real Estate, Department of			
Arizona Real Estate Advisory Board			
Regents, Board of²			
Academic and Student Affairs Committee	4,500	15,889	20,389
Audit Committee		234	234
Business and Finance Committee			
Health Affairs Committee ¹³			
Legislative Affairs Committee			
Regents Executive Committee			
Respiratory Care Examiners, Board of			
	1,830	1,125	2,955
Revenue, Department of			
Economic Estimates Commission ²	340		340
Municipal Tax Code Commission			
Property Tax Oversight Commission	800		800
School Facilities Board²			
	4,275	1,709	5,984
Schools for the Deaf and the Blind			
Arizona State Schools for the Deaf and the Blind Board ²		2,687	2,687
Secretary of State			
Advisory Board of the Arizona State Library, Archives and Public Records		89	89
Arizona Board of Library Examiners			
Arizona Historical Records Advisory Board			
Arizona State Board on Geographic and Historic Names			
Supreme Court			
Advisory Committee on Rules of Evidence			
Arizona Commission on Access to Justice			
Arizona Commission on Appellate Court Appointments			
Committee on the Review of the Uniform Rules of Procedures for the Commissions on Appellate and Trial Court Appointments			
Nominating Committee for the Commission on Appellate Court Appointments			
Arizona Commission on Judicial Conduct ²		2,598	2,598
Judicial Ethics Advisory Committee			
Arizona Commission on Judicial Performance Review			
Arizona Judicial Council			
Attorney Regulation Advisory Committee			
Board of Certified Court Reporters			
Board of Legal Document Preparers			
Capital Case Oversight Committee			
Commission on Minorities in the Judiciary			
Commission on Technology			
Commission on Victims in the Courts			
Committee on Character and Fitness			
Committee on Civil Justice Reform			
Committee on Examinations			
Committee on Judicial Education and Training			
Committee on Juvenile Courts			
Committee on Limited Jurisdiction Courts			

Table 3 continued

Arizona board	Per diem compensation ¹	Expense reimbursements ¹	Total Payments ¹
Committee on Probation Education			
Committee on Superior Court			
Committee on the Impact of Domestic Violence and the Courts			
Committee on the Review of the Supreme Court Rules Governing the Professional Conduct and the Practice of Law			
Committee on Time Periods for Electronic Display of Superior Court Case Records			
Confidential Intermediary Board			
Court Interpreter Program Advisory Committee			
Court Security Standards Committee			
Defensive Driving Board			
Fiduciary Board			
Judicial Staff Education Committee			
State Foster Care Review Board ^{2,14}		2,490	2,490
Local Foster Care Review Boards (146 individual partnership councils) ¹⁴			
Steering Committee on Arizona Appellate Case Processing Standards			
Steering Committee on Arizona Case Processing Standards			
Tax Appeals, Board of²	1,800	291	2,091
Technical Registration, Board of²	8,010	2,759	10,769
Enforcement Advisory Committee			
Home Inspector Committee			
Legislation Rules Committee			
Tourism, Office of			
Tourism Advisory Council			
Transportation, Department of			
Arizona Companion Animal Spay and Neuter Committee			
Arizona Freight Advisory Council			
Arizona Overdimensional Permit Council			
Arizona Self-Driving Vehicle Oversight Committee			
Arizona State Transportation Board ²	8,340	22,354	30,694
Citizens Transportation Oversight Commission ¹⁰			
Medical Advisory Board			
Parkways and Historic and Scenic Roads Advisory Committee			
Priority Planning Advisory Committee			
Treasurer, Office of the			
Board of Investment			
Debt Oversight Commission			
Fire Fighters and Emergency Paramedics Memorial Board			
State Loan Commission			
Uniform State Laws Commission			
University of Arizona			
Arizona Area Health Education Centers Advisory Commission			
Arizona Health Sciences Center Facility Advisory Committee			
Board of Medical Student Loans			
University of Arizona, Public Safety Personnel Retirement System, Local Board			
Veterans' Services, Department of			
Arizona Military Family Relief Fund Advisory Committee			
Arizona Veterans' Service Advisory Commission		1,035	1,035

Table 3 continued

Arizona board	Per diem compensation ¹	Expense reimbursements ¹	Total Payments ¹
Post-9/11 Veteran Education Relief Advisory Committee			
Veterinary Medical Examining Board²	17,000	2,010	19,010
Water Infrastructure Finance Authority of Arizona			
Greater Arizona Development Authority Board ⁵			
Water Infrastructure Finance Authority Board of Directors ^{2,5}		866	866
Water Resources, Department of			
Arizona Water Banking Authority Commission			
Arizona Water Protection Fund Commission		724	724
Governor’s Council on Water Supply Sustainability			
Governor’s Water Augmentation Council			
Groundwater Users Advisory Council—Phoenix AMA			
Groundwater Users Advisory Council—Pinal AMA			
Groundwater Users Advisory Council—Prescott AMA			
Groundwater Users Advisory Council—Santa Cruz AMA			
Groundwater Users Advisory Council—Tucson AMA			
Total per diem compensation and expense reimbursements paid to members	\$757,483	\$338,018	\$1,095,501

¹ Per diem compensation, expense reimbursements, and total payments that are blank represent boards having no payments identified by auditors.

² Rows highlighted designate boards auditors judgmentally selected for sampling.

³ The Arizona Corporation Commission members are elected officials that receive a salary as determined by the Arizona Commission on Salaries for Elective State Officers.

⁴ The Arizona Early Childhood Development and Health Board (also known as First Things First) has 28 First Things First Regional Partnership Councils made up of local volunteers that support the healthy development and learning of young children in the local community.

⁵ The Arizona Office of Economic Opportunity was established in August 2016. The Arizona Finance Authority and the Workforce Arizona Council were established under this office. The Greater Arizona Development Authority Board and the Water Infrastructure Finance Authority Board were transferred to the Arizona Finance Authority. In addition, the Arizona Health Facilities Authority, the Arizona International Development Authority, and the Arizona Housing Finance Authority transferred to the Arizona Industrial Development Authority, which is under the Arizona Finance Authority.

⁶ Effective fiscal year 2017, the per diem compensation for the Arizona Board of Executive Clemency was changed from an hourly rate to a salary within the range as determined by the Arizona Department of Administration.

⁷ Laws 2016, Ch. 128 abolished the Department of Fire, Building and Life Safety and divided its duties among three existing state agencies (the Department of Housing, the State Forester, and the Department of Real Estate). The law transferred the duties, responsibilities, and programs of the Office of Manufactured Housing, including the Board of Manufactured Housing, to the Department of Housing. In addition, the measure placed the State Fire Marshal under the authority and direction of the State Forester and the State Fire Safety Committee was changed to advisory status.

⁸ Laws 2016, Ch. 128 transferred the responsibilities of the Arizona Geological Survey (AZGS) to the University of Arizona, under the jurisdiction of Arizona Board of Regents (ABOR); provided that the state geologist serves at the pleasure of ABOR (rather than the Governor); and modified certain duties of the AZGS.

⁹ As of fiscal year 2017, the State Energy Advisory Board is no longer in existence.

¹⁰ The Arizona Biomedical Research Commission, Elevator Advisory Board, and Citizens Transportation Oversight Commission were terminated during the fiscal year 2017 legislative session (effective fiscal year 2018).

¹¹ Laws 2016, Ch. 150 repealed the Arizona Commission of Indian Affairs (ACOIA) and established a new entity, the Governor’s Office on Tribal Relations, which succeeded to the authority, powers, duties, and responsibilities of the ACOIA, effective July 1, 2016.

¹² Laws 2016, Ch. 356 did not provide for the continuation of the Employment Advisory Council. As such, this council was terminated effective January 1, 2017. See Arizona Revised Statutes §41-3016.04.

¹³ The Arizona Board of Regents, Health Affairs Committee, was renamed the Research, Innovation and Impact Committee in fiscal year 2017.

¹⁴ The State Foster Care Review Board and the 146 Local Foster Care Review Boards are reimbursed non-taxable expenses through the Supreme Court Revolving Fund. Auditors were unable to readily identify whether payments were to state or local board members and therefore reported the amounts reimbursed to both state and local board members under the state board.

Source: Auditor General staff analysis of Arizona Revised Statutes, the Arizona Department of Administration’s report of boards and board payments, various board websites, the Governor’s Office website, and the State’s accounting and payroll systems (see Appendix B for the methods auditors used to compile the table).



Methodology

Auditors used various methods to meet the review's objective related to the evaluation of the propriety of per diem compensation and reimbursement of expenses for members of state boards, commissions, councils, and advisory committees (collectively referred to as boards). Specifically, auditors:

- Compiled a list of 524 state boards (see Appendix A, pages a-1 through a-10). As stated in the Introduction (see page 1), the State did not have a complete list of all boards. Therefore, to compile the list to be used for the review, auditors:
 - Searched and reviewed the Arizona Revised Statutes for statutes containing the words “board,” “commission,” “council,” and “committee” to identify any statutes authorizing boards;
 - Reviewed the Arizona Department of Administration's (ADOA) report of boards, commissions, councils, and advisory committees prepared pursuant to Laws 2016, Ch. 328, §2;²¹
 - Reviewed board websites to identify additional councils or advisory committees formed by the individual boards;
 - Reviewed the list of boards on the Governor's Office website;²² and
 - Analyzed payments made to board members in the State's or agencies' payroll and accounting systems to identify additional boards.

During the compilation process, auditors determined ADOA's report of boards was compiled through self-reporting by each agency or board, which may not have included comprehensive board information if an agency or board did not provide information. In addition, agency websites often lacked complete board information, and payments to board members were processed through multiple systems and recorded under various expense categories. Therefore, auditors were unable to determine if the compiled list in Appendix A is a complete list of all state boards.

- Identified 131 boards that paid per diem compensation or reimbursed expenses to board members during fiscal year 2016 and compiled a list of board payments using the methods below (see Appendix A, pages a-1 through a-10, for the board list and total payments processed by those boards):
 - Auditors reviewed expense transactions from the State's or agencies' payroll and accounting systems processed with various expense categories to identify payments to board members. In addition, during the review, auditors noted the Supreme Court used an internal revolving fund to reimburse expenses to board members and recorded some payments to non-board employees as board member payments.²³

²¹ Laws 2016, Ch. 328, §2, required each board, commission, council, or advisory committee to report to the ADOA by October 1, 2016, the amount of compensation that a board member was authorized to receive and the amount of per diem compensation and reimbursed expenses that were paid for fiscal year 2016. The ADOA was required to compile the data that was reported and report this information to the Governor, the President of the Senate, and the Speaker of the House.

²² Auditor General staff obtained this information as of June 15, 2017, at the following URL: <https://bc.azgovernor.gov/home/list>.

²³ Arizona Supreme Court staff provided auditors with a list of payments processed through its revolving fund totaling nearly \$46,000, which was not included on the board list in Appendix A. Auditors were unable to determine whether the list obtained from the Supreme Court was complete and only included payments to board members.

- Reviewed the report prepared by the ADOA to ensure that all payments reported by boards were included in auditors' compilation.²⁴

During the compilation process, auditors determined that payments to board members were processed through multiple systems and recorded under various expense categories, and the amounts in the ADOA's report were compiled by the ADOA but not always confirmed by the boards. Therefore, a complete population of payments could not be identified and auditors could not determine if the compiled list of board payments in Appendix A (see pages a-1 through a-10) was complete and accurate.

- Judgmentally selected a sample of 106 fiscal year 2016 payments of per diem compensation and expense reimbursements totaling \$76,812 to members at 59 boards. To identify payments to judgmentally select, auditors performed the following:
 - Analyzed each board's payments of per diem compensation to identify payments that appeared to not comply with statute, such as payments exceeding statutorily allowed amounts, potential duplicate payments, or payments for meetings that a member may not have attended. Specifically, auditors:
 - Reviewed statutes governing the board to determine the amount of per diem compensation the member was eligible to receive;
 - Reviewed the board's meeting minutes to verify the member's attendance at board meetings and that the date of the member's payment(s) coincided with the board's meeting dates; and
 - Determined the member served on the board during the fiscal year by reviewing the board's website or other board documentation.
 - Analyzed each board member's expense reimbursements to identify payments that appeared to be large, unusual, or not consistent with other board members' expense reimbursements.
- Evaluated the samples of per diem compensation and expense reimbursements to determine their propriety. Specifically, auditors reviewed the State's policies and board statutes and policies and interviewed board management and staff to gain an understanding of policies, procedures, and internal controls over board payments.

The Auditor General and staff express appreciation to the staff at the Arizona Department of Administration and at the many boards, commissions, councils, and advisory committees for their cooperation and assistance throughout the review.

²⁴ Laws 2016, Ch. 328, §2. See footnote 21 on page b-1 for additional information on the report requirements.

