



## Our Authority

The Office of the Auditor General is a legislative agency under the direction of the Joint Legislative Audit Committee. The Office provides information to the Legislature and various other governmental entities, which assists them in overseeing operations, improving their financial management and effectiveness, and giving the public a measure of accountability.

## Our Mission

To serve as catalysts for improving the effectiveness, efficiency, and accountability of Arizona state and local governments' operations by independently providing the Legislature, government decision-makers, and the public with timely, accurate, impartial, and impactful information, technical assistance, and recommendations.

## Our Vision

To make a positive difference in the lives of Arizona's citizens by promoting better government.



# 2013

Year Ended June 30, 2013

## Office makes a positive difference by promoting better government

We are committed to making a positive difference in the way our State and its local governments operate, and we focus on helping state agencies and local governments improve their accountability and effective use of public monies. We accomplish this through our audit and oversight activities by providing impartial, objective, and useful information and recommendations in our reports, at briefings and hearings, and by providing helpful technical assistance to government officials who manage operations.

**Office audits provide effective information and recommendations**—As the State's independent auditor, our primary responsibility focuses on conducting audits and issuing effective reports. Our reports focus on various ways that state agencies and local governments can make positive differences in the way they operate. During fiscal year 2013, we issued 190 reports that covered various matters regarding state agencies, universities, school districts, counties, and community colleges (see the table on page 2). These reports can be broadly categorized into three main types described in the textbox below.

**Special audits requested by the Legislature**—The Arizona State Legislature relies on our Office to provide useful information, which helps legislative members make better decisions in governing our State. One of those special requests includes our annual state-wide school district spending report, which provides details about how Arizona's school districts spend their monies both in the classroom and for other operations. Also, during fiscal year 2013, we issued two other special reports requested by the Legislature. One report about the Arizona Independent Redistricting Commission addressed how it spent over \$4 million for mapping consultant services and software and other administrative personnel and tasks during fiscal years 2011 and 2012. The second report covered how Pima County manages its \$893 million general obligation bond program. Further, the Legislature has asked our Office to conduct four more special audits, which we will be conducting in fiscal year 2014. These include three reviews of the Arizona Department of Economic Security—Children Support Services covering various services provided to Arizona's children and a review of selected state practices for information technology procurement.

### Office report types

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

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

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

**Office reports issued totaling 190 by report type and government  
Fiscal year 2013**

Report type	State agencies	Universities	School districts	Counties	Community colleges	Total reports
<b>Performance and special audits</b>						
Performance audit	7		12			19
Sunset audit	1					1
Audit follow-up letter	18		41			59
Special legislative requests	1		1	1		3
<b>Financial and federal compliance audits</b>						
Financial statement	5	3		5	9	22
Internal control	3	3		5	9	20
Federal compliance	1			5	7	13
<b>Procedural and compliance reviews and investigations</b>						
Special investigation	1		2			3
Procedural review	4			2		6
Compliance review			16	3		19
Agreed-upon procedures		1		6	1	8
Expenditure limitation				9	8	17
<b>Total reports</b>	<b><u>41</u></b>	<b><u>7</u></b>	<b><u>72</u></b>	<b><u>36</u></b>	<b><u>34</u></b>	<b><u>190</u></b>

**State agency performance audits**—The performance audits and sunset reviews we issued during fiscal year 2013 covered several state agencies or boards that provide a variety of services to Arizona citizens. These reports include many recommendations to help state agency leaders provide services and conduct operations more effectively and efficiently. For example, to help the Arizona State Parks Board with its efforts to keep parks open and reopen closed parks, we recommended that it expand its partnerships, create a new marketing plan, develop more accurate and consistent ways to track visitation, and improve its planning to determine how best to sustain the State Parks system in an environment in which the Board’s financial resources have changed. In addition, in our audit of the Department of Environmental Quality—Compliance Management, we found that the Department can improve the efficiency and effectiveness of its inspection and compliance efforts by working with the U.S. Environmental Protection Agency to employ a risk-based inspection approach and targeting its inspections to the facilities that are most likely to violate regulations. Finally, we made recommendations to help the Arizona Health Care Cost Containment System do more to detect Medicaid fraud and abuse and recommended that the Arizona School for the Deaf and Blind do more to promote student success by ensuring that children with sensory impairments receive services early in their lives and by increasing students’ access to highly qualified teachers.

**School district performance audits**—School district performance audits are yet another example of how we have a positive impact, identifying some common issues that affect the accountability and effective use of public monies. We found that districts overstaffed operational areas; lacked adequate controls to minimize the risks of errors and fraud, which allowed fraudulent and inappropriate activities such as falsified drug tests, personal profiting from the sale of district property, and theft to occur without timely detection; misreported mileage, resulting in the overfunding of student transportation; did not conduct drug and alcohol tests of school bus drivers or conduct proper preventative maintenance, resulting in school bus safety violations; had poor fuel controls, resulting in suspicious fuel usage and missing fuel; had large amounts of excess square footage and surplus property, resulting in increased plant operations costs; shifted monies out of the classroom into other operational areas; and had performance pay goals that were so easily met that they did not promote improved performance. Our reports also highlighted some best practices at districts such as properly overseeing operational areas, monitoring energy usage and implementing energy conservation plans, providing services in cooperation with neighboring districts, and closing unneeded schools and buildings to reduce costs.

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

**Special investigations**—Special fraud investigations result in individuals being held responsible for their unlawful and inappropriate use of public monies. We issued reports over one state agency and two school districts during fiscal year 2013. For example, our investigation of the Arizona Governor’s Office of Economic Recovery revealed that an individual fraudulently obtained \$250,000 of its Arizona jobs grant monies by falsely representing his company. He also deceptively received \$493,765 in lease benefits from an Arizona company after providing it similar false information. On August 21, 2013, as part of a plea agreement, he pled guilty to felony theft and illegal control of an enterprise. He was sentenced to 2.5 years in prison and ordered to pay nearly \$750,000 in restitution. In addition, our investigation of the Glendale Elementary School District revealed that a former district employee misused more than \$32,000 of public monies, embezzling \$8,045 for her own purposes. On October 8, 2013, as part of a plea agreement, the former employee pled guilty to felony theft. She was sentenced to 3 years of probation and ordered to pay nearly \$32,000 in restitution.

**Audit followup**—After audits are completed, we follow up on state agency, local government, and school district efforts to implement our recommendations. We report on the status of these efforts to legislative members and governing bodies. Specifically, following the release of state agency performance audits and/or sunset reviews, we conduct followups at 6 and 18 months; historically, more than 90 percent of our recommendations have been implemented. We also conducted 41 follow-up visits at school districts to determine their status in implementing our audit recommendations. Cumulatively, those districts reported saving millions of dollars by implementing audit recommendations such as consolidating bus routes; eliminating payments for unproductive time; rebidding poor contracts; and reducing administrative, plant operations, and transportation positions. Finally, our annual financial and federal compliance audits allow us continual contact to provide ongoing assistance that helps ensure state and local governments implement our recommendations.

**Office provides helpful technical assistance**—Our Office impacts governments through ongoing assistance that we provide through webinars, alerts and informational memorandums, and meetings. For example, we have continued our effort to help school districts, cities, towns, community colleges, and counties lower their training costs by providing training via free, live webinars. For example, we partnered with the Arizona Department of Revenue to conduct a webinar for school districts on extracurricular activities fees tax credit monies and also provided additional webinars to school districts and community college districts on topics such as cash handling, bookstore operations, and financial stress assessments. Using webinars allowed over 500 participants to view formal trainings as they aired without incurring travel time and related costs, and many others accessed them at their convenience through our Web site. Participant feedback has been extremely positive.

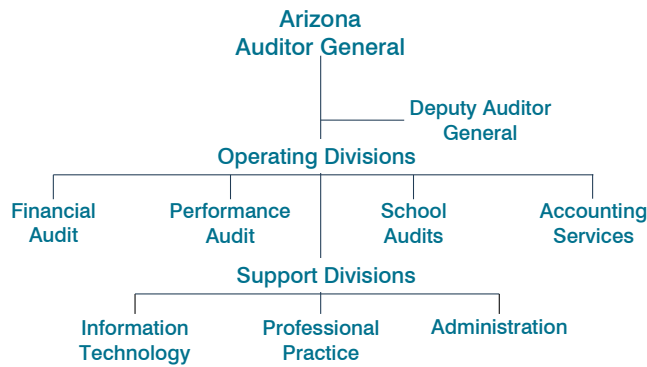
We also have worked closely with the State and local governments in our financial statement and federal compliance audits to help improve the timeliness and accuracy of financial statement and federally mandated compliance reports. Investors, financial institutions, and federal agencies continue to demand accurate financial information reported as quickly as possible. The State’s size and complexities require extraordinary coordination between all state agencies and universities. Through our working together with the State’s Department of Administration and other state agencies, the State has continued to issue its audited financial statements earlier over the last 3 years. Also, the State has met the federal requirements for issuing its federal compliance audit reports for the past 3 years.

We continually provide assistance through budget preparation packages, alerts and informational memorandums, annual financial reporting packages and report templates, and meetings. Our continual presence while auditing state agencies and local governments places our professionals in a unique position to provide ongoing helpful and consistent technical assistance that helps to improve state government effectiveness, efficiency, and accountability.

### Making a positive difference

- State agencies, school districts, and other local governments have consistently implemented more than 90 percent of our performance audit recommendations within 2 years.
- Federal compliance audits of the State’s agencies, universities, community colleges, and counties verify appropriate spending of federal monies. In our audits covering fiscal year 2012, these entities spent nearly \$15.5 billion in federal monies to provide services such as healthcare and education programs to Arizona citizens.
- Technical assistance we regularly provide to the State’s agencies and local governments helps to improve state government effectiveness, efficiency, and accountability.

## Office has audit and oversight responsibilities



- **Performance and special audits**—State agencies/programs and school districts
- **Financial and compliance audits**—The State and its agencies, universities, counties, and community colleges
- **Procedural and compliance reviews and investigations**—State agencies and certain local governments
- **Uniform accounting systems**—School districts, charter schools, and certain local governments
- **Uniform expenditure reporting system**—Certain local governments

The Office has audit and oversight responsibilities and serves as an independent auditor for the State's agencies, universities, school districts, counties, and community colleges. Our Office is also regularly asked to complete highly specific research and investigative projects in response to legislative requests. In addition, the Legislature requires us to define standards and establish procedures for uniform accounting and budgeting systems for school districts and other local governments. The Auditor General is assisted in fulfilling these responsibilities by a Deputy Auditor General and approximately 180 office professionals organized into four operating and three support divisions.

## Office professionals have excellent reputation in government auditing

The Office conducts high-quality work and demonstrates leadership in the government auditing field. As a result, we have an excellent national reputation among auditing organizations, including our recognition for the quality of our work and involvement in professional organizations.

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

**Office professionals participate in professional organizations**—Our Office professionals stay involved and participate in national, state, and local professional organizations, which demonstrates their expertise, energy, and enthusiasm as leaders in the government auditing field. As part of our participation in professional organizations, we give presentations and lead and participate in discussions that help with standard-setting oversight and monitoring, best practices sharing, and training in many technical areas, such as accounting principles and government auditing standards. During the fiscal year, our Office gave over 30 presentations to professional organization or government officials, providing technical assistance and education.