



Annual Report

Year Ended June 30, 2007

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 improve state and local government operations and accountability by independently providing the Legislature, government decision-makers, and the public with timely, accurate, and impartial information; relevant recommendations; and technical assistance.

Our Vision

To serve as catalysts for improving the effectiveness, efficiency, and accountability of government in Arizona.



2007

Year Ended June 30, 2007

Auditor General Staff Has 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 audit organizations, including recognition for the quality of our work and involvement in professional organizations.

One recognition of the quality of our work and national reputation is our recent Quality Control Review by the National State Auditors Association (NSAA). This review represents an independent "audit" of our Office. Specifically, the review measured our compliance with following professional standards when we perform our audit work and issue our resulting reports. After reviewing our fiscal year 2007 audit activities, the NSAA review team issued an opinion 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 Quality Control Review results

give us the highest mark a state audit organization can receive in such a review.

Our staff's involvement in professional organizations demonstrates their expertise, energy, and enthusiasm as leaders in the government auditing field. Numerous employees participate in professional organizations in various capacities, at the national, state, and local levels. They serve in these organizations at the board, executive, committee, task force, and conference levels. They are involved in standards-setting, oversight and monitoring, best-practices sharing, and training activities. These activities directly contribute to our staff's professional development and improves the audit quality of other government auditors and accountability over government auditees. As individuals, and cumulatively as an audit organization, these efforts have helped to establish our Office as one of the premier state audit organizations in the country.

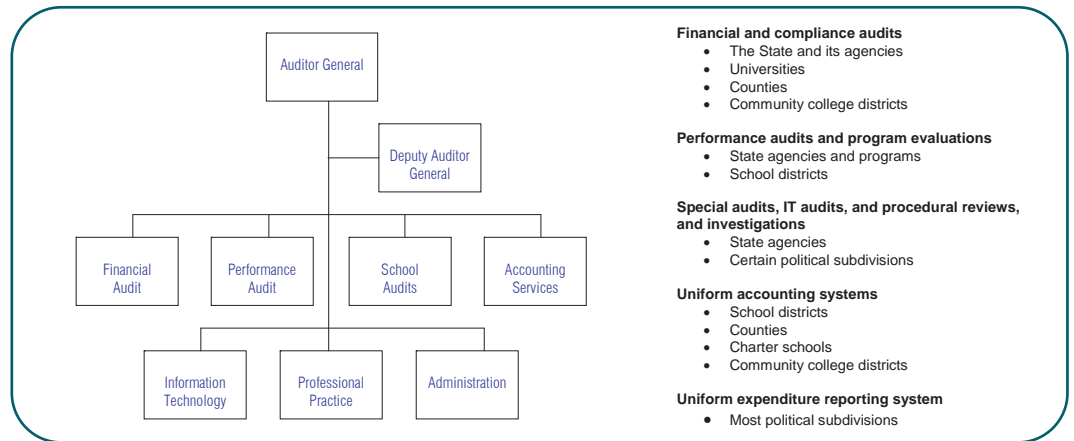
National Awards and Recognition

- NSAA Quality Control Review Team issued an opinion that our Office has a quality control system that ensures we follow professional standards
- Numerous staff actively participate in national, state, and local professional accountability organizations
- Gave 19 presentations to numerous professional organizations and local governments, providing technical assistance and education

Auditor General Responsibilities and Activities

The Office has audit and oversight responsibility for state agencies, universities, counties, community colleges, and school districts. We also complete specific research

and investigative projects at the Legislature's request. The Office's responsibilities and activities detailed below are carried out by four operating and three support divisions.



Auditor General Issued Nearly 200 Reports

The Office issued 197 reports in fiscal year 2007, providing the Legislature, state and local governments, and the public with reliable, valuable information. These reports communicate the results of our audits and reviews, broadly summarized in three categories as follows:

Performance audits, evaluations, studies, and reviews—These reports focus on determining how effectively, efficiently, and economically state agencies and school districts conduct business. For example, sunset audits help the Legislature determine whether to continue or terminate an agency. Our follow-up letters tell the Legislature how well state agencies and school districts are implementing our recommendations.

Financial audits and related letter reports—These reports focus on the accuracy of financial data, effectiveness of internal controls, and compliance with required accounting practices of the State, its agencies, and local governments. Also, we

issue letter reports that provide recommendations to improve financial practices.

Compliance reports and letters—These reports focus on whether the State, its agencies, and local governments are complying with laws and regulations for various administrative and reporting requirements. Various federal and state agencies use these reports to monitor state and local governments' activities. For example, single audits satisfy federal audit requirements, and are necessary for the State and local governments to continue receiving federal funding.

The table on page 3 summarizes the number of reports issued, by type, for each of the state agencies and local governments we audit. Many reports are accompanied by report highlights, which summarize the results and conclusions of our audits and reviews. All of our reports can be accessed from our Web site at www.azauditor.gov.

**Number of Reports Issued
by Type of Report and Government**

Type of Report	State Agencies	Universities	Counties	Community Colleges	School Districts
Performance audit	7				4
Sunset audit	2				
Audit follow-up letter	41				19
Special legislative report/study	1				2
Information brief	3				
Questions and answers	1				
Financial statement audit	7	3	8	7	
Single audit	1		4	4	
Special investigation			3	1	1
Management letter	10	3	5	7	
Procedural review letter	4				
Compliance review					21
Status review					12
Agreed-upon procedures report	3		3		
Expenditure limitation			4	7	
Other special reports	1				

Auditor General Activities Positively Impact State and Local Governments

We are committed to making a difference in the way state and local governments operate. We accomplish this through our audit and oversight activities by providing impartial, objective information in our reports or at briefings and hearings, and technical assistance to the State and local governments. All of these activities focus on helping state agencies and local governments to improve their accountability.

Our audit results and oversight activities provide recommendations to state agencies and local governments, which give guidance on improving an agency's operations. For example, our performance audit of the delivery of behavioral health services to adults with serious mental illness in Maricopa County addressed how the money for these services was being spent, whether there was an adequate focus on the outcomes achieved by the services, and how effectively the Department of Health Services' Division of Behavioral Health Services (Division) conducted financial oversight and reviewed the levels and costs of services provided. Our audit found that Arizona

has a well-funded mental health system managed by the Division. However, our report recommended that the Division increase its existing efforts to measure whether adults with serious mental illness are making progress. In addition, our report recommended that the Division also provide greater assurance that monies are spent appropriately and sufficient services are provided.

This year's school district performance audits are another example, identifying some common issues that affect accountability and the effective use of public monies. In three of our four school district performance audit reports issued during fiscal year 2007, we found that districts paid employees bonuses or stipends that may not have been legally appropriate. Three reports made recommendations for improving the accuracy and integrity of accounting information. These reports also made recommendations for more efficient bus routes and accurate route miles reporting, both of which impact transportation costs and funding.

TO OBTAIN MORE INFORMATION

Or to obtain copies of our reports, call
(602) 553-0333



or visit
our Web site at:
www.azauditor.gov

One measure of our success is how many of our recommendations are implemented. During fiscal year 2007, state agencies and school districts implemented 100 percent and 97 percent, respectively, of our performance audit recommendations. Local governments are also addressing our Uniform System of Financial Records compliance and single audit recommendations for improving their accountability.

Another way our Office makes a difference is by helping state agencies and local governments establish practices that improve operations, compliance with laws, and financial reporting. For example, our Office issued five budget preparation packages and three annual report preparation packages to counties, cities and towns, community college districts, school districts, charter schools, and special districts. We also modified school district and charter school budget packages to include the Structured English Immersion Fund and provided assistance to the Arizona

Department of Education in the creation of English Language Learner budget request forms that school districts and charter schools will use to request Compensatory Instruction Fund monies.

We have also begun employing various strategies to help our State's rural counties and community college districts as they address the demands placed on them by comprehensive governmental reporting requirements implemented in fiscal year 2003. These demands have resulted in some rural counties and community college districts not being able to meet financial reporting deadlines, which could lead to a loss in federal funding or lower bond ratings. To help address this problem, we have been partnering with those governments to provide assistance and tools that will improve their ability to issue more timely and accurate financial reports. As a result of these strategies, we have begun to help governments catch up, auditing and releasing 6

county and community college district financial statement and single audit reports over the past 2 years for fiscal years ranging from 2003 through 2005. We plan to continue these strategies, looking forward to the opportunity to improve accountability in Arizona's local governments. These efforts provide guidance that helps local governments implement annual financial accounting and reporting requirements to comply with Arizona law.

Results of Audit Work

- The Legislature implemented 100 percent of our performance audit recommendations
- State agencies implemented or were in the process of implementing 100 percent of our performance audit recommendations
- School districts implemented or were in the process of implementing 97 percent of our performance audit recommendations
- 72 percent of school districts corrected deficiencies sufficiently to comply with the *Uniform System of Financial Records*
- Single audits identified nearly \$6.4 million in federal grant monies that state and local governments spent in violation of federal grant provisions
- Special investigations found that over \$359,000 was stolen from and over \$465,000 was misused by employees of three local governments
- Provided technical assistance to other agencies, universities, counties, cities, community college districts, and school districts about financial reporting, compliance, and other matters