



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.



2009

Year Ended June 30, 2009

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

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. For example, the Auditor General is the current President of the National State Auditors Association. Staff serve in organizations at the board, executive, committee, task force, and conference levels, and are involved in standards-setting oversight and monitoring, best-practices sharing, and training activities. For example the Director of Professional Practice is a member of the American Institute of Certified Public Accountants' Auditing Standards Board. The activities our staff participate in directly contribute to their professional development and improve the audit quality of 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.

One example of where the quality of our work has been recognized is the National Legislative Program Evaluation Society (NLPES) presenting its Recognition of Impact Award to our Office for our performance audit of the Arizona Supreme Court—Juvenile Detention Centers. This award was presented to us for demonstrating impact from the Legislature's, public's, and other organizations' perspectives, and/or dollar savings and program improvements resulting from the implementation of our report recommendations. For instance, in this audit, we made recommendations that resulted in several improvements in the way the detention centers operate in areas affecting juveniles' health care and suicide screening, detention centers' safety and security, and computer security, and resulted in the creation of a juvenile detention task force to develop mandatory standards for the detention centers. The NLPES Impact Award acknowledges our Office's efforts to produce meaningful and useful audit reports.

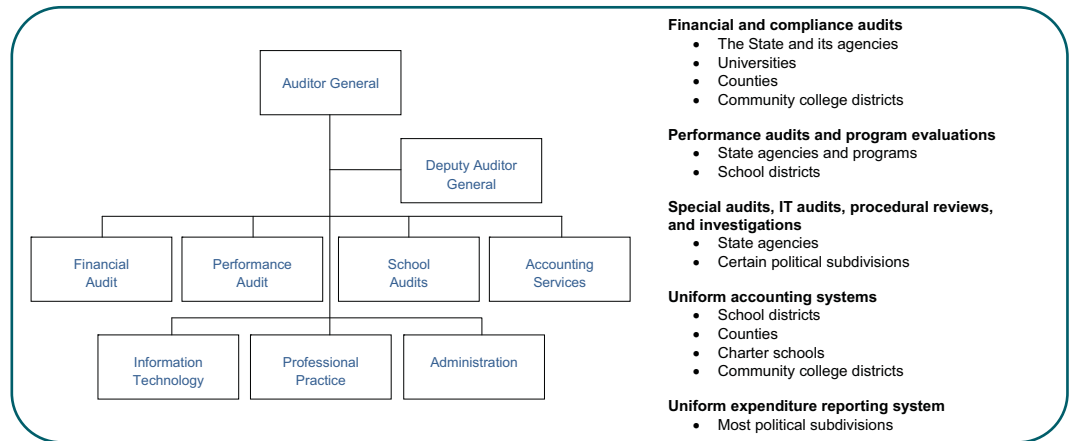
National Awards and Recognition

- Received NLPES Recognition of Impact Award for performance audit of the Arizona Supreme Court—Juvenile Detention Centers
- Numerous staff actively participate in national, state, and local professional accountability organizations
- Gave 38 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 2009, 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, modify, 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	5		1		8
Sunset audit	3				
Audit follow-up letter	31	3	1		20
Special legislative report/study			1		1
Information brief	1				
Questions and answers	1				
Financial statement audit	6	3	5	7	
Single audit	1		8	4	
Special investigation	2		1	1	1
Internal control letter	3	3	5	6	
Management letter	2				
Procedural review letter	1				
Compliance review					22
Status review					16
Agreed-upon procedures report			5		
Expenditure limitation			5	5	
Other special reports	1	1	6	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.

For example, our performance audit of the Department of Health Services licensing fees found that the fees do not cover the cost of regulation. We recommended that the Department propose changes to the Legislature to allow the fees to more fully cover the regulatory costs. A bill was introduced that would remove the fees from statute, leaving the Department to then work with the Governor's Budget Office to set the fees.

In another example, our special report on the Maricopa County Community College District found that the District had improperly enrolled employees of three nonprofit corporations in the Arizona State Retirement System (ASRS) and loaned public monies by improperly placing nonprofit employees in its payroll

system, paying their salaries and benefits, and later accepting reimbursement from those employees' corporations. The loans totaled more than \$3 million during the past 6 fiscal years. Our report resulted in a new statute that provides for an employer to fully pay the ASRS if that employer pays contributions into ASRS on behalf of noneligible persons because the ASRS is ultimately required to leave those noneligible persons in its System.

This year's school district performance audits are yet another example, identifying some common issues that affect the accountability and effective use of public monies. All eight of our school district performance audits issued during fiscal year 2009 found that the districts had inadequate controls or procedures over at least one of the following areas—computer system access, credit card usage, fuel card usage, and cash handling. Poor controls in these areas left the districts more susceptible to fraud, theft, and errors. Three of the eight reports identified inaccurate reporting of student transportation riders or miles, resulting in the likely overfunding of about \$275,000. Two of the eight reports found that the districts had overpaid vendors for transportation services. Three of the eight reports identified

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inappropriate expenditures of Proposition 301 monies, and two reports identified \$34,000 and \$130,000 of district supplanting of Proposition 301 monies. All of these reports made recommendations for improving or correcting the problems we found.

One measure of our success is how many of our recommendations are implemented. During fiscal year 2009, state agencies and school districts implemented, or were implementing 97 percent and 99 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 govern-

ments establish practices that improve operations, compliance with laws, and financial reporting. For example, our Office issued budget preparation and annual report preparation packages, and memorandums that provided guidance to counties, cities and towns, community college districts, school districts, charter schools, and special districts that will assist them in meeting their various statutory responsibilities. We have also been providing technical guidance to the school districts placed in receivership. More recently, we have been working with the Arizona Office of Recovery and the Department of Education to provide technical guidance to school districts about receiving, accounting for, and reporting on Federal Education Stabilization monies made available through the American Reinvestment and Recovery Act.

Finally, beginning this year, we periodically distribute "fraud alerts" to make state agencies, universities, counties, community colleges, school districts, and charter schools aware of the types of fraud schemes that can occur. In these fraud alerts, we point out the fraud scheme or fraudulent activities that are occurring and most importantly, explain how entities can prevent these fraud schemes from happening to them. For example, we issued our first fraud alert about automated clearinghouse payments to vendors. We explained how fraudsters were substituting real vendors with false vendor information to divert payments to the fraudster's bank accounts. Another example is our recently issued fraud alert about fraudulent purchases with purchasing cards, commonly known as "p-cards". We shared an example of the types of embezzlements and abuses that we are finding when employees use their employers' p-cards. In all cases, our fraud alerts provide recommendations for the types of procedures an entity should have in place to establish protection from these types of fraud schemes.

Making a Difference

- State agencies implemented or were in the process of implementing 97 percent of our performance audit recommendations
- School districts implemented or were in the process of implementing 99 percent of our performance audit recommendations
- 77 percent of school districts corrected deficiencies sufficiently to comply with the *Uniform System of Financial Records*
- Single audits verify appropriate spending of federal monies by the State, and are necessary for State and local government programs to continue receiving federal funding. In fiscal year 2008, state agencies, universities, community college districts, and counties spent more than \$10.6 billion in federal; monies to provide a variety of services to Arizona citizens, including health care, financial assistance, and education programs
- Special investigations found that nearly \$27,000 was stolen from and nearly \$100,000 was misused by employees of four local governments, and resulted in nearly \$85,000 in restitution and the indictment of 5 individuals
- We provided technical assistance to other agencies, universities, counties, cities, community college districts, and school districts about financial reporting, compliance, and other matters