



Annual Report

Year Ended June 30, 2010

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.



2010

Year Ended June 30, 2010

Office 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 just completed a term as President of the National State Auditors Association. Further, 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 our high-quality work being recognized is the National Legislative Program Evaluation Society (NLPES) presenting its Recognition of Impact Award to our Office for our performance audit of the Department of Health Services—Division of Licensing Services. NLPES presented us with this award for the significant amount of dollar savings and program improvements resulting from the implementation of our report recommendations. Our recommendations resulted in a savings of over \$5 million to the State General Fund in fiscal year 2010.

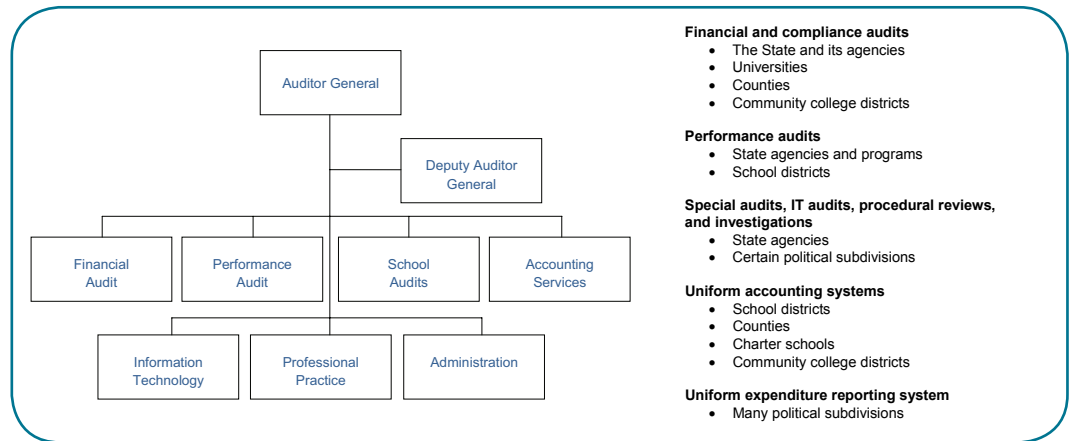
National Awards and Recognition

- Received NLPES Recognition of Impact Award for performance audit of the Department of Health Services—Division of Licensing Services
- Numerous staff actively participate in national, state, and local professional accountability organizations
- Gave 39 presentations to numerous professional organizations and government officials, providing technical assistance and education

Office 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 investiga-

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



Office Issued 169 Reports

The Office issued 169 reports in fiscal year 2010, 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 | | | | 7 |
| Sunset audit | 6 | | | | |
| Audit follow-up letter | 29 | 4 | 1 | | 30 |
| Special legislative report/study | | | | | 2 |
| Questions and answers | 3 | | | | |
| Financial statement audit | 5 | 3 | 5 | 5 | |
| Single audit | 1 | | 4 | 4 | |
| Special investigation | 1 | | | 1 | |
| Internal control letter | 3 | 3 | 5 | 5 | |
| Management letter | 2 | | | | |
| Procedural review letter | 2 | | | | |
| Compliance review | | | | | 8 |
| Status review | | | | | 6 |
| Agreed-upon procedures report | | | 2 | | |
| Expenditure limitation | | | 8 | 3 | |
| Other special reports | 1 | | 3 | 1 | 1 |

Office 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, we issued two reports that provided timely and important information to the Legislature at the start of the 2010 regular legislative session. The first report addressed the reorganization and restructuring of the Office of Pest Management, which addressed a legislative request regarding the Office's efficiency. The second report provided information on the Department of Public Safety's Photo Enforcement Program, including these findings: 47 percent of detections were rejected for various reasons; only \$37 million of the projected \$90 million was raised in the program's first year; and approximately 38 percent of the photo violation notices sent were paid in the program's first year.

Beginning in fiscal year 2010, our Office has a key role in ensuring that monies received by

local governments under the American Recovery and Reinvestment Act (ARRA) are properly accounted for and expended in accordance with laws and regulations.

Through 2012, the State is expecting to receive approximately \$2.8 billion of ARRA monies with additional monies being received directly from the federal government by the community college districts, public school districts, and counties.

To accomplish our objectives regarding ARRA, we provided technical guidance to the Governor's Office of Economic Recovery and the Arizona Department of Education to help them develop the State's plan for distributing and accounting for the ARRA monies provided to school districts and charter schools. We also modified the school district and charter school budget forms and issued guidance to school districts, charter schools, and their auditors to help them properly account for and report the ARRA monies. In addition, we have provided ongoing assistance regarding accounting for ARRA monies to districts and charter schools through Webinars, e-mails, and telephone consulting.

We are also responsible for auditing monies expended by the State, counties, and commu-

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nity college districts—including those for ARRA programs—in accordance with federal guidelines. These audits focus on internal controls established by the entities administering the programs and on compliance with applicable laws and regulations. And now, our audits will pay particular attention to programs with large amounts of ARRA funding.

In addition to our audit responsibilities, we have been providing technical guidance and assistance to state agencies, counties, and community colleges about ARRA administrative and reporting requirements. For example, we assisted the Governor's Office of Economic Recovery in developing a guide for state agencies that describes common fraud schemes and recommends proper internal controls to prevent fraud schemes from occurring. We have also been coordinating our audit responsibilities with the Governor's

Office of Economic Recovery's oversight responsibilities to maximize the use of our resources and prevent duplicated effort.

This year's seven 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. These school district performance audits found that districts underutilized school facility space, overstaffed operational areas, had poor controls over cash handling and facility rentals that resulted in the loss of district monies including one case of theft, made excessive and inappropriate food purchases for staff, misreported mileage had state funding formula issues resulting in the overfunding of transportation by the State, and supplanted Classroom Site Fund monies. All of these reports made recommendations for improving or correcting the prob-

lems we found. We also conducted follow-up visits at 17 school districts to determine their status in implementing recommendations we made in prior audits. Those districts reported saving millions of dollars by implementing audit recommendations in areas such as reducing excess building capacity; eliminating transportation or administrative positions; reducing unusually generous retiree benefits; and recovering monies for inappropriate credit card purchases, overages from a vendor, and underbilling of organizations that had rented facilities.

One final measure of our success is how many of our recommendations are implemented. During fiscal year 2010, state agencies and school districts implemented, or were implementing, 98 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.

Making a Difference

- State agencies implemented or were in the process of implementing 98 percent of our performance audit recommendations
- School districts implemented or were in the process of implementing 97 percent of our performance audit recommendations
- 85 percent of school districts with deficiencies corrected those 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 2009, state agencies, universities, community college districts, and counties spent more than \$13 billion in federal monies to provide a variety of services to Arizona citizens, including healthcare, financial assistance, and education programs
- Special investigations found that over \$1 million was misused by a state agency director, which led to an indictment on 8 felony counts, and over \$23,000 was misused by a community college president
- We provided technical assistance to other agencies, universities, counties, cities, community college districts, and school districts