



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.



2012

Year Ended June 30, 2012

Office makes a positive difference by promoting better government

We are committed to making a positive difference in the way the 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 2012, we issued 173 reports that covered various issues 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. Included in our reports is our annual state-wide school district spending report, which addresses how Arizona's school districts spend money in the classroom and other areas and also our annual state-wide report, which addresses the State's controls over financial reporting and federal compliance.

Many of our reports provided recommendations to help promote efficient operations; to help ensure our recommendations are being implemented, we regularly communicate and send follow-up information after we issue reports. Some examples of these reports and our findings and recommendations include:

- **State agency performance and special audits**—Our performance audits, sunset reviews, and other audits requested by the Legislature covered various state agencies and included many recommendations. Most of these

recommendations have been or are in the process of being implemented. For example, our performance audit of the Arizona Department of Veteran's Services—Veterans' Donations and Military Family Relief Funds, found that although the director had implemented a process to avoid past misuses of the Veteran's Services' Donations Fund, we identified uses of Donations Fund monies that did not benefit Arizona veterans, and some expenditures that did not follow applicable

Office report types

Performance and special audits—Reports focus on how effectively, efficiently, and economically state agencies and school districts conduct business.

Financial and federal compliance audits—Reports are on 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 173 by report type and government
Fiscal year 2012**

Report type	State agencies	Universities	School districts	Counties	Community colleges	Total reports
Performance and special audits						
Performance audit	7		11	1		19
Sunset audit	4					4
Audit follow-up letter	9		31			40
Special legislative study	1		1			2
Questions and answers	1					1
Financial and federal compliance audits						
Financial statement	4	3		11	8	26
Internal control	4	3		11	8	26
Federal compliance	1			9	6	16
Procedural and compliance reviews and investigations						
Special investigation	1		1			2
Procedural review	2					2
Compliance review			9	3		12
Agreed-upon procedures				4	5	9
Expenditure limitation	—	—	—	6	8	14
Total reports	<u>34</u>	<u>6</u>	<u>53</u>	<u>45</u>	<u>35</u>	<u>173</u>

state statutes. We recommended both statutory and operational changes to improve controls over the Donations Fund. In addition, the Military Family Relief Fund assists service members and their families. Although the Military Family Relief Fund Advisory Committee generally followed award eligibility criteria, we identified inconsistencies in some of the awards and found that this committee should establish additional criteria for recommending awards and that the Department should modify its appeals process and inform applicants of their option to appeal decisions. In response, the Department has made operational improvements, and the Legislature addressed some of our recommendations by passing a bill that made changes regarding the processes the Department must use to award monies from the Donations Fund.

In addition, we issued a performance audit on the Department of Corrections—Oversight of Security Operations. The July 2010 Kingman private prison escapes alerted the Department to the need for improved oversight of its private prisons. In response, the Department implemented a new inspection program to better assess security operations at both private and state-run prisons and had begun developing training for contract monitoring staff. We recommended that the Department also improve officer compliance with security policies and procedures at state-run prisons, implement its plans to identify systemic noncompliance with these policies and procedures at all prisons, take appropriate system-wide action, and use this information for correctional officer training needs. Overall, we made 11 recommendations and the Department has implemented all but one of them.

- **School district performance audits**—These audits revealed some common issues that affect the accountability and effective use of public monies. Among the 11 districts we audited, we found that some districts overstaffed operational areas; misreported mileage resulting in the State overfunding district transportation; did not conduct random drug and alcohol tests of school bus drivers or conduct proper preventative maintenance resulting in school bus safety violations; lacked adequate controls to minimize the risks of errors, fraud, and unauthorized access to student information and accounting systems; shifted monies out of the classroom into other operational areas; had teacher performance pay goals that were so easily met that they did not promote improved performance; and paid performance monies for goals that were not met.

We also conducted 31 school district follow-up visits. Cumulatively, those districts reported saving millions of dollars by implementing audit recommendations such as consolidating bus routes; eliminating

payments for unproductive time; re-bidding poor contracts; recovering overpayments made to vendors; reducing administrative, plant operations, and transportation positions; and reducing electricity costs.

- **Financial and federal compliance audits**—These audits focused on accuracy of financial data, 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.
- **Special investigations**—Our investigation of the Arizona Department of Emergency and Military Affairs determined that a former department employee embezzled and misused more than \$2.7 million from the Department and the Arizona National Guard Emergency Relief Fund, a nonprofit corporation. On October 19, 2011, the Arizona State Grand Jury indicted the former employee on felony charges related to theft, fraudulent schemes, and forgery. On February 15, 2012, as part of a plea agreement, the former employee pled guilty to two felony counts related to theft and fraudulent schemes.

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, during fiscal year 2012, we have continued our effort to effectively provide quality training to school districts, cities, towns, and counties; in some cases via free, live webinars. We developed and presented five webinars on relevant topics, such as payroll processing and budgeting. Using webinars allowed more than 600 participants to view formal trainings as they aired without incurring travel time and related costs. Participant feedback has been extremely positive.

We have also 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 the universities. Through our working together with the State's Department of Administration and other state agencies, the State has issued its audited financial statements 3 months earlier over the last 2 years. Also, the State has met the federal requirements for issuing its federal compliance audited reports for the past 2 years.

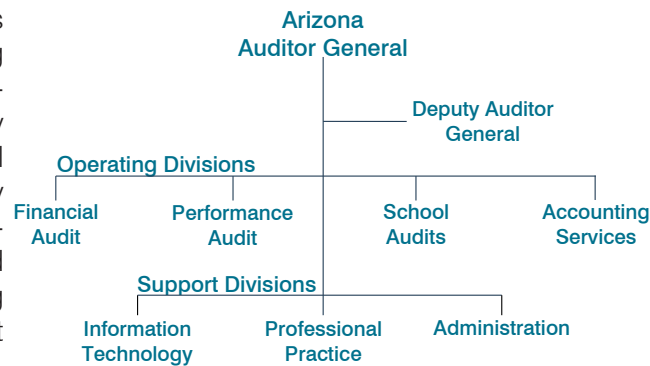
We continually provide assistance through budget and annual financial reporting preparation packages, alerts and informational memorandums, and meetings. For example, we identified a common problem of school districts entering into long-term solar power contracts without a full understanding of the details needed to ensure such contracts are beneficial and result in cost savings. As a result, we provided training on solar power system contracts and subsequently issued a written alert for all school districts. Finally, 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 2011, these entities spent more than \$16 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

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 develop standards and establish procedures for uniform accounting and reporting systems for school districts and other local governments that conform to generally accepted accounting principles and federal and state laws. The Auditor General is assisted in fulfilling these responsibilities by a Deputy Auditor General and approximately 170 office professionals organized into four operating and three support divisions.



- **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

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 audit 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 our quality work is through the external peer review program of the National State Auditors Association. This peer review program represents an independent audit of our Office, which we have successfully undergone every 3 years since 1981. These reviews measure our compliance with following professional auditing standards in our work and reports. Our external peer review results have given us the highest marks a state audit organization can receive in such a review over the past three decades.

Another example of our high-quality work being recognized is the National Legislative Program Evaluation Society (NLPES) presenting our Office with its Recognition of Impact Award for our performance audit of the Department of Veteran's Services—Veteran's Donations and Military Family Relief Funds (see page 1 for a summary of this report). Based on the impact of this audit report from both the legislative and public perspectives, the NLPES presented us with this award for providing information to our Legislature regarding impactful program improvements that can result from the implementation of our recommendations.

Office professionals participate in professional organizations—Our Office professionals stay involved and participate in national, state, and local professional organizations, which demonstrate their expertise 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 organizations or government officials.