



## 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.



# 2011

Year Ended June 30, 2011

## 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.

One 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 following professional standards when we perform our audit work and issue our resulting reports. After reviewing our fiscal year 2010 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 External Peer Review results give us the highest mark a state audit organization can receive in such a review.

Another 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 Corrections—Prison Population Growth. This report discussed the significant growth that has occurred in the State’s prison population between 1979 and 2010, requiring nearly \$900 million in State General Fund monies to house more than 40,000 inmates in fiscal year 2011. In this report, we recommended several options for legislative consideration to address this growth, including expanding the prison system and exploring the use of nonprison alternatives to divert nonviolent, low-risk offenders from prison or reduce the time they serve. 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 report recommendations.

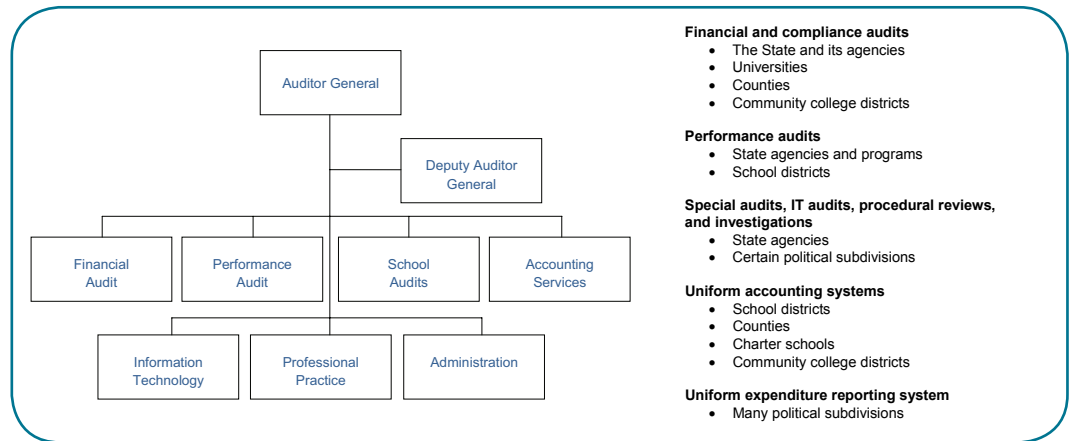
### National Awards and Recognition

- Received NLPES Recognition of Impact Award for performance audit of the Department of Corrections—Prison Population Growth
- Numerous staff actively participate in national, state, and local professional accountability organizations
- Gave 41 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 155 Reports

The Office issued 155 reports in fiscal year 2011, 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](http://www.azauditor.gov).

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

Type of Report	State Agencies	Universities	Counties	Community Colleges	School Districts	TOTAL
Performance audit	4		1		17	22
Sunset audit	4					4
Audit follow-up letter	4		1		23	28
Special legislative report/study					5	5
Financial statement audit	3	3	10	5		21
Single audit	1		9	4		14
Special investigation					1	1
Internal control letter	3	3	10	5		21
Management letter	1					1
Procedural review letter			1			1
Compliance review					2	2
Status review					3	3
Agreed-upon procedures report	3		8			11
Expenditure limitation			8	8		16
Other special reports	<u>1</u>	<u>1</u>	<u>—</u>	<u>1</u>	<u>2</u>	<u>5</u>
<b>TOTAL</b>	<b><u>24</u></b>	<b><u>7</u></b>	<b><u>48</u></b>	<b><u>23</u></b>	<b><u>53</u></b>	<b><u>155</u></b>

## 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 and 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 continue to respond in a timely manner to legislative requests for our work. Specifically, in response to legislation passed in the 2010 regular legislative session, the Office conducted its most comprehensive review yet of the Arizona Sports and Tourism Authority. The 2010 legislation required our Office to review and evaluate 17 different areas, which resulted in a top-to-bottom review of the Authority's operations, including the Authority's procurement processes; its options for increasing revenues or decreasing expenses and ability to continue meeting its bond obligations; its oversight of the University of Phoenix Stadium manager; its contractual obligations for financing Cactus League commitments, and its policies for funding youth and amateur sports programs within Maricopa County. In another example, as we have done

in several other performance audit reports, we also issued a report on the Department of Veterans' Services—Fiduciary Program that recommended that the Department consider eliminating the program. The report also recommended that, if it retained this program, it should adopt or develop a structured approach for reviewing its Fiduciary Program costs, minimizing these costs where possible, and then setting fees at an appropriate level to recover its costs. Recommendations such as these help to mitigate reliance on the use of State General Fund monies for such activities.

We responded to legislative requests to conduct more school district performance audits to further increase our impact on improving district practices. Specifically, we streamlined and improved the audit process to more than double the number of school district performance audits issued during fiscal year 2010 compared to fiscal year 2009. These 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 overstuffed operational areas, misreported mileage resulting in the State overfunding district transportation, lacked adequate controls to ensure student safety on school buses,

## TO OBTAIN MORE INFORMATION

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our Web site at:  
[www.azauditor.gov](http://www.azauditor.gov)

made excessive and inappropriate food and hotel purchases for staff, had poor controls over payroll resulting in overpayments to employees, did not adequately protect sensitive student information, and spent Classroom Site Fund monies for unallowable purposes. Our reports also highlighted some best practices at districts such as implementing energy conservation plans, properly overseeing operational areas including using staffing formulas, and effectively using technology to help control costs. We also conducted two follow-up visits at 17 school districts to determine their status in implementing recommendations we made in prior audits. Cumulatively, those districts reported saving millions of dollars by implementing audit recommendations such as consolidating bus routes; discontinuing paying for meals for staff not on travel status; reducing administrative, plant operations, and transportation positions; and reducing electricity costs.

Our Office impacts state agencies and local governments in other ways as well—through assistance to those state agencies and local governments that we audit and monitor. For example, during the past year we have worked closely with the agencies and local governments in our financial statement and federal compliance audits to help them improve the timeliness of their financial reporting. Investors, banking institutions, and grantors continue to demand accurate financial information reported as quickly as possible. Two of the more significant improvements this year occurred at Navajo County and the State of Arizona. Several years ago we assisted Navajo County in developing a plan to help it issue its financial reports more quickly. As a result of our combined efforts, Navajo County issued its fiscal year 2010 financial statements nearly 5 months earlier than its 2009 statements. Another example is our audit of the State of Arizona financial statements and federal compliance. The State's size and complexities require extraordinary coordination for all state agencies and the universities. Making even small improvements in the timeliness of reporting takes the effort of many people working together. During fiscal year 2011, we worked closely with the Department of Administration and other state agencies, which resulted in the State issuing its fiscal year 2010 audited financial statements 2 months earlier than the previous year's statements. This is of particular note because of the high scrutiny placed on the State by the bond-rating community and federal agencies.

Finally, in addition to providing assistance to local governments in the form of budget preparation packages, informational memorandums, and annual financial reporting packages, in fiscal year 2011 we used webinar technology to provide live and pre-recorded webinars on current important topics to school districts, charter schools, cities, towns, and counties at no cost to the participants.

## Making a Difference

- State agencies implemented or were in the process of implementing 99 percent of our performance audit recommendations
- School districts implemented or were in the process of implementing 98 percent of our performance audit recommendations
- 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 our audits covering fiscal year 2010, state agencies, universities, community college districts, and counties spent more than \$17 billion in federal monies to provide a variety of services to Arizona citizens, including healthcare, financial assistance, and education programs
- Special investigations found three embezzlements that led to multiple indictments of theft, misuse of public monies, and fraudulent schemes by a principal, two state employees, and two city employees
- We provided technical assistance to other agencies, universities, counties, cities, community college districts, and school districts about financial reporting, compliance, and other matters