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Executive Summary

The Office of the Auditor General was established by statute, and is responsible for conducting annual financial and compliance audits; special financial audits, reviews, and investigations; and performance and Sunset audits; as well as developing uniform accounting systems for counties, community college districts, school districts, and charter schools, and a Uniform Expenditure Reporting System for political subdivisions subject to a constitutional expenditure limitation. We provide this information to the various governmental entities and the Legislature to assist them in overseeing government operations, to provide the public with a measure of accountability, and to assist state agencies and other governmental entities in improving their financial management and effectiveness.

In 1992, at the Auditor General's recommendation, the Legislature established the Joint Legislative Audit Committee (JLAC) to oversee all audit functions of the Legislature and state agencies including Sunset, performance, and special and financial audits, and to introduce legislation as a result of audit recommendations. JLAC is composed of five members of each house who are appointed by the President of the Senate and Speaker of the House of Representatives, with the President and Speaker serving as ex-officio members.

ORGANIZATION

The Office is composed of three operating divisions: Financial Audit, Performance Audit, and Accounting Services; and three groups that provide support services to those divisions; Professional Practice, Information Technology Services, and Administration.

AUDIT ACTIVITIES

During fiscal year 1998-99 we completed 46 financial audits, 22 performance audits, and many other reviews and special audits. Our audit reports contained a number of recommendations to improve governmental management and operations.

1998-99 HIGHLIGHTS

- We recently received a "Recognition of Impact" award from the National Conference of State Legislatures, National Legislative Program Evaluation Society. This national award was based on our 1997 performance audit report of the Arizona State Land Department. Acting on one of the recommendations, the Arizona Legislature referred a ballot initiative to Arizona's voters requesting voter approval to amend the State Constitution. This amendment proposed allowing a portion of the earnings from the sale of state lands to be invested in stock. Voters passed this

Executive Summary

ballot initiative in 1998. By investing a portion of the state land funds in stocks, the State can now potentially furnish higher levels of income to beneficiaries, and protect the Fund from inflation.

- We continued a cooperative investigation with the Attorney General's Office which revealed that, from July 1994 through June 1998, certain Scottsdale Unified School District No. 48 administrators and employees were responsible for circumventing and otherwise violating procurement rules that affected projects totaling \$11.8 million. Two former District employees were indicted on various charges including theft, fraud, and conspiracy to restrain trade. Furthermore, our Office has supervised the first of three mandated procurement audits that resulted in additional procurement findings.
- We are in the middle of the second year of audits under the revised Single Audit Act Amendments of 1996. Beginning with fiscal year 1998-99, auditors and auditees faced a new deadline for submitting single audit reports. Single audit reports are now due 9 months after fiscal year-end, instead of 13 months after fiscal year-end. We have been performing federal compliance test work at interim periods before the close of fiscal year 1998-99 to ensure that the single audits and resulting reports will be completed and filed by the new deadline.
- In June 1999, the Governmental Accounting Standards Board approved the most significant and comprehensive change in history to the financial reporting standards for state and local governments. The new standards will require a dramatic change in the way state and local governments report financial information to the public and will take effect between fiscal years 2002 and 2004, depending on the government's size. We have planned an extensive training program to prepare our auditors and auditees who must implement these sweeping changes.
- We developed and issued the first school district and charter school budget forms on a school-by-school basis in cooperation with the Arizona Department of Education and school officials. The school-by-school format was mandated in legislation passed in 1998.
- We made the *Uniform Accounting Manual for Arizona County Treasurers* (UAMACT) available in a downloadable electronic format in a continuing effort to improve the usefulness of the uniform accounting and compliance manuals. To provide easier access to all of our computer-formatted manuals, we have posted them on our Web site.

Executive Summary

- We made various presentations on subjects related to our accounting and compliance manuals and emerging school district issues. We also presented workshops on school district procurement to Scottsdale Unified School District in accordance with a consent judgment between the District and the State of Arizona, and gave a presentation on school district procurement practices to an Ad Hoc Committee of the Arizona House of Representatives.

HUMAN RESOURCES

During fiscal year 1998-99, the Office continued its commitment to professionalism and leadership in the field of governmental auditing. The achievements of our 165 professional staff members demonstrate this commitment. There are 54 Certified Public Accountants; 4 Certified Fraud Examiners; 18 Certified Government Financial Managers; 9 employees who passed the uniform CPA Examination, but are not yet certified; 4 employees who hold doctorate degrees; and 39 employees who hold other graduate-level degrees. In addition, most of them are active in professional organizations. Employees refine their skills in the Office's broad continuing professional education program, with classes in such topics as audit planning, sampling, interviewing, computer software applications, communications, writing, and management.

We endeavor to be a major contributor to improving the quality and accountability of government in Arizona.

As professionals, we will meet the needs of our customers through relevant, timely, and objective reporting of activities, innovations, and recommendations.



The Auditor General

Debra K. Davenport began her career with the Office of the Auditor General before moving to a public accounting firm, where she worked seven years before rejoining the Office. Debbie worked for the Office for five years before being appointed Deputy Auditor General in 1992. After Doug Norton retired as Auditor General on June 29, 1999 (see next page), she became the Acting Auditor General, and was appointed Auditor General on October 12, 1999.



Debra K. Davenport, CPA

The Office of the Auditor General is a legislative agency under the direction of the Joint Legislative Audit Committee (JLAC). Debbie has developed a close working relationship with JLAC members and increased the Office's visibility by bringing information about our duties and activities directly to legislators' attention.

Debbie is a graduate of Arizona State University and sits on the Professional Advisory Board of the University's School of Accountancy. She is a Certified Public Accountant with memberships in the American Institute of CPAs and the Arizona Society of CPAs. Debbie is active in the government auditing community, serving on the Auditing Standards, AICPA Relations, and Single Audit Committees of the National State Auditors Association. She is past chairperson for the Executive Committee and co-chairperson of the Training Committee of the Western Intergovernmental Audit Forum.

In her leisure time, Debbie is an avid golfer and tennis player.

The Auditor General (1976–1999)

Douglas R. Norton served as the Auditor General from 1976 to his retirement on June 29, 1999. During that time, Doug brought the Auditor General's Office from relative obscurity in state government to one of the leading audit organizations in the country.

Upon Doug's retirement, the Arizona Senate passed a resolution enumerating and recognizing Doug's achievements. We have included this resolution in Appendix A.



Douglas R. Norton, CPA



The mission of the Office of the Auditor General is to serve the public and its legislative representatives by independently providing impartial information and specific recommendations to improve the operations of state and local governmental entities.



Office Overview

PURPOSE AND RESPONSIBILITIES

The Office of the Auditor General is charged with a number of responsibilities. First, we examine the State's operations by conducting financial and compliance audits or performing procedural reviews of state agencies, conduct Sunset and performance audits of those same agencies, and evaluate state programs. Next, we establish and enforce a uniform system of accounting for counties, community college districts, school districts, and charter schools. In addition, we conduct audits of Arizona counties and community college districts and oversee school district and charter school audits or perform their procedural reviews. We also prescribe and update the uniform expenditure reporting system and assure adherence to it. Finally, we perform special audits and investigations.

We provide reports to the Legislature that help it oversee operations budgeted at more than \$9.79 billion. Our financial audit reports of the counties and other political subdivisions similarly help their governing bodies to oversee operations.

We encourage you to request further information on any of these topics by contacting us at the phone number, address, or Web site on the inside back cover.

ORGANIZATION

The Office is under the direction of the Auditor General, who is the executive officer and has ultimate responsibility for the Office's policies and practices.

In recognition of potential conflicts that existed when the Attorney General represented both the auditors and the agencies they audit, Jeff Larson was appointed as General Counsel several years ago.

The Office is organized into three operating divisions and three support groups:

The Auditor General provides financial audits and accounting services to the State and political subdivisions, and performance audits of state agencies.

The Office is organized into three divisions and three support groups.

- The Financial Audit Division conducts annual financial and compliance audits of all state agencies, counties, community college districts, and universities to meet the requirements of the federal Single Audit Act. On a rotating basis, the division also performs procedural reviews of school districts that did not require single audits. In addition, the division conducts special financial audits, reviews, and investigations at the Legislature's request. Dennis Mattheisen is the Director.
- The Performance Audit Division conducts comprehensive performance evaluations of state agencies and the programs they administer. These evaluations are conducted at the Legislature's request, and under the provision of the various laws, including Arizona's Sunset Law, which mandates the periodic review of state agencies. Bill Thomson is the Director.
- The Accounting Services Division is responsible for prescribing, in accordance with Arizona Revised Statutes, uniform systems of accounting and financial reporting for counties, community college districts, school districts, charter schools, cities, and towns, and determining entities' compliance with them. In addition, the division reviews the annual expenditure limitation reports of counties, community college districts, cities, and towns to ensure that each entity's spending is within its constitutional expenditure limitation. Magdalene D. Haggerty is the Director.
- Information Technology Services (ITS) provides computer technology support. Specifically, the group performs audit software and general computer support activities, and provides computer-related training to our staff. The group also maintains the Office's information systems

Office Overview

including the Office's Web site and administrative and accounting applications; and performs system development and network administration. Joe Moore is the Director.

- The Professional Practice Group performs quality assurance reviews of all reports and manuals the Office issues. The group also provides technical research and assistance to the divisions and the entities we audit. In addition, the group administers the Office's professional training program. Randy Roberts is the Director.
- Administration is responsible for the Office's fiscal management, and officewide printing, purchasing, and operational support.

Providing staff members with a means of communicating questions and concerns to management, and responding in a timely manner to the issues they raise, is important to our organization's long-term success. It is equally important that all employees be aware of the Office's goals and accomplishments. To facilitate open communications between staff and management within the Office, we hold an annual officewide meeting and have organized an officewide advisory committee. At the annual officewide meeting, we discuss our mission, goals, and significant accomplishments since the last meeting. We also present awards that recognize employees' years of service and outstanding performance.

The officewide advisory committee comprises representatives from each division. Committee members compile questions and concerns from employees within their respective divisions, and discuss them in quarterly meetings with the Auditor General.

The committee also considers issues that impact the Office as a whole and, when appropriate, recommends policy changes to management.

See page 14 for a chart that represents the Office's organizational structure.

EXTERNAL QUALITY CONTROL AND SUNSET REVIEW

We support the independent assessment of the Office's system of quality control.

We are occasionally asked, "Is the auditor ever audited?" The answer is yes. Every three years, the Office undergoes an independent assessment of our quality control system. We consider this assessment process, commonly referred to as peer review, to be valuable. Conducted as part of the National State Auditors Association (NSAA) External Quality Control Review Program, it scrutinizes the Office's system of quality control policies and procedures used to ensure compliance with the professional standards established by the American Institute of Certified Public Accountants and *Government Auditing Standards* issued by the Comptroller General of the United States. We received our fifth consecutive unqualified opinion on our system of quality control in September 1998.

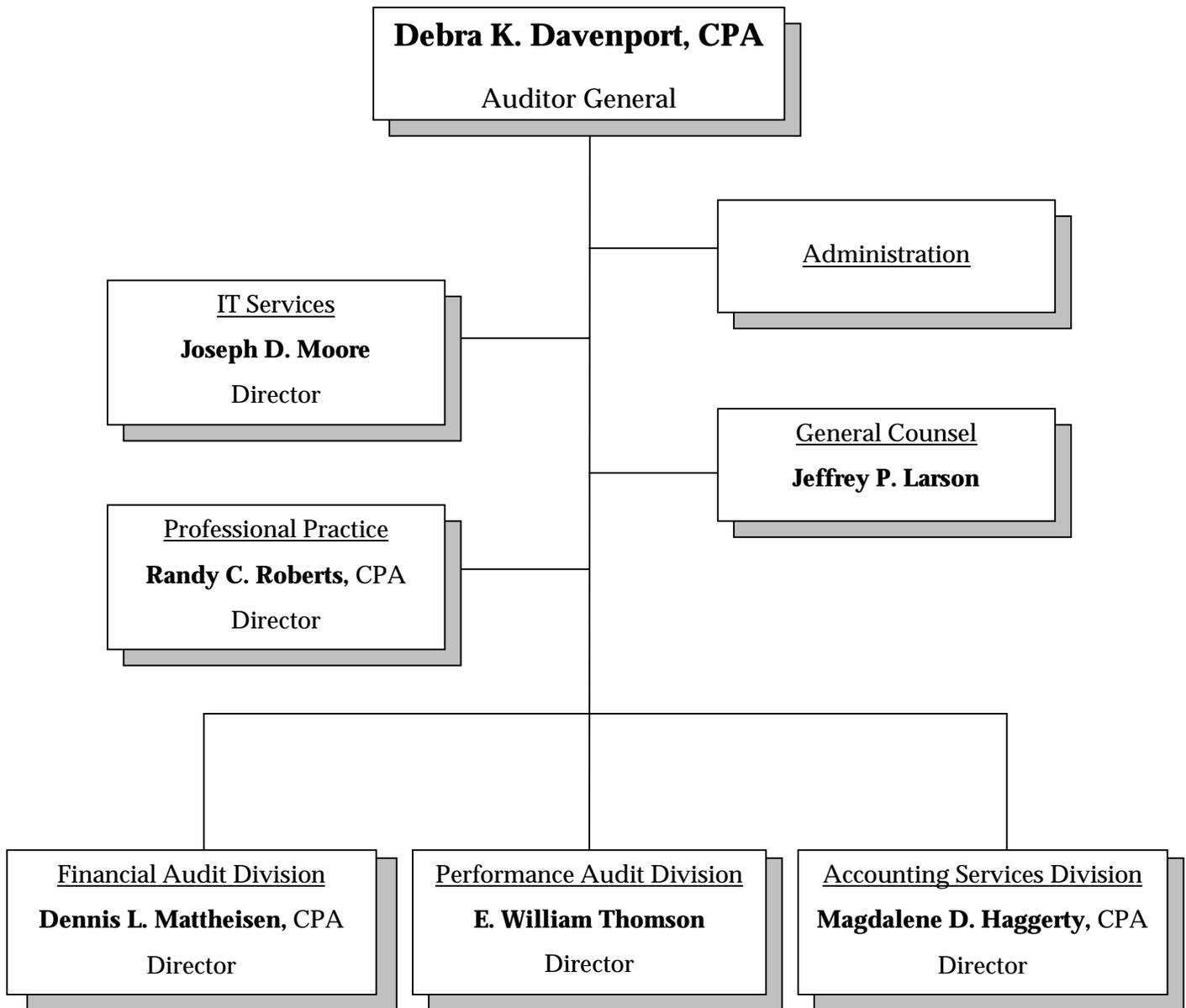
Participation in the NSAA External Quality Control Review Program is not unilateral. Audit managers and seniors from our Office join their peers to perform reviews of other state auditor offices.

In addition to the peer review, about every ten years the Office also undergoes a Sunset review. The purpose of the review is the same for each state agency—to determine whether it serves its intended purpose and whether it should be continued. The National Conference of State Legislatures conducted a Sunset review of our Office and submitted it to the Legislature in April 1999.

Office Overview

The reviewers found that the Office performs a significant function in state government and stakeholders acknowledge our high-quality work. Further, unbiased research supports the findings and conclusions of our reports. The review also recognizes that we provide excellent training to our staff as well as adequate access to information technology. The review also made recommendations to improve the Office's operations, all of which we have implemented. Additionally, the review identified turnover as a major challenge and recommended that the Office work with the Legislature to address salaries.

Organizational Structure



Auditor General Reports and Services

TYPES OF AUDIT SERVICES

Financial Statement Audits are planned and conducted to provide reasonable assurance of whether the entity's financial statements are fairly presented in conformity with generally accepted accounting principles and to determine compliance with laws and regulations.

Single Audits are financial audits performed in accordance with the Single Audit Act, as amended, and its implementing regulations. They are designed to meet the needs of all federal grantor agencies and other financial report users. Single audits require additional testing of internal controls and compliance with laws and regulations relevant to federal program awards.

Performance Audits and *Program Evaluations* are designed to determine whether an agency is achieving the objectives the Legislature has established. These studies also identify whether an agency is managing its resources in an economical and efficient manner. If not, the study identifies the causes of the inefficiencies, such as inadequate administration, management information systems, and purchasing policies and procedures. Sunset audits are performance audits that also answer the specific questions in A.R.S. §41-2954(D) relating to the continuation of agencies.

Special Audits are financial or performance audits of limited scope.

Procedural Reviews evaluate the entity's internal control policies and procedures established to help safeguard its assets. These reviews may also assess the risk that fraud, waste, or abuse may occur within an entity.

The Office provides several types of reports, including financial and performance information.

Auditor General Reports and Services

Compliance Status Reviews follow up on letters of noncompliance issued to school districts and charter schools for significant deficiencies in their internal control. The review determines whether the district or charter school has attained compliance.

PROFESSIONAL STANDARDS

We performed our audits in accordance with the following auditing standards and OMB requirements:

- *Generally Accepted Auditing Standards* promulgated by the American Institute of Certified Public Accountants (AICPA)
- *Government Auditing Standards* issued by the Comptroller General of the United States
- The Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

VALUE OF AUDIT REPORTS AND OTHER SERVICES

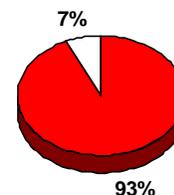
To the Legislature—Auditor General financial and single audit reports provide members of the Legislature with objective, independently developed information about the audited entity's receipt and use of public monies. Our performance audit and program evaluation reports provide them with timely, accurate information about the operation and management of state agencies and programs. The Auditor General also responds to the Legislature's special requests that go beyond the scope of scheduled audits to assist members in their oversight of state government. Members of the Legislature can rely on the information we provide to help them make informed decisions.

Adherence to standards is the basis for the quality of our work.

Information from reports assists the Legislature and the auditees.

Auditor General Reports and Services

To emphasize the importance of performance audits and ensure that state agencies improve their performance, the JLAC approved policies and procedures to ensure that agencies implement the audit recommendations issued by our Office. These policies and procedures require agencies to provide JLAC a written response detailing the agency's efforts in, and status of, implementing the audit recommendations within six months of each audit report's issue date. Between July 1, 1998 and June 30, 1999, 27 agencies provided six-month status reports updating JLAC on the status of implementing the 302 associated audit recommendations. Based on the agencies' responses and follow-up conducted by audit staff, it appears that 280 of the 302 recommendations, or 93 percent, have been implemented or are in the process of being implemented by the agencies. Twenty-two, or 7 percent, have not been implemented.



Agencies have implemented 93% of audit recommendations.

To the Auditee—Auditor General financial and single audit reports provide auditee management with specific recommendations to help ensure future compliance with applicable state and federal laws and help strengthen their internal controls over assets and financial transactions. Our performance audit reports give state agencies an independent analysis as to whether they are executing their management responsibilities in compliance with applicable laws, rules, regulations, and policies. These reports provide useful and practical recommendations for agencies to improve their operations and services.

Uniform accounting system manuals provide guidance to political subdivisions and charter schools on developing internal controls that adhere to generally accepted accounting principles and state and federal laws and regulations.

Compliance status review reports help school districts and charter schools that continue to have significant

Auditor General Reports and Services

deficiencies by identifying the areas where improvement is needed and recommending corrective measures.

To the Federal Government—Single audit reports we issue satisfy the federal government’s demand for accountability of federal monies allocated to the Arizona entities we audit. We identify material weaknesses and other reportable conditions noted in internal controls and findings of noncompliance in these reports.

To Other Report Users—Auditor General financial reports provide investors and creditors with objective, unbiased, and independently developed information they can rely on to make decisions. For example, Auditor General opinions on financial statements are often relied on by the financial community in setting bond ratings for debt issued by counties and community college districts. Performance audits provide interested citizens with an accounting of what is being accomplished with their tax dollars, and how those government services can be improved.

Generally, we distribute all reports to the Joint Legislative Audit Committee, the audited entity, the Governor and other Executive Offices, the Department of Library, Archives and Public Records, and to others who specifically request the report. We also distribute performance audit reports to Committee of Reference members and Senate and House staff members. In addition, we distribute a summary to every legislator who does not receive a complete performance audit report.

All reports become public documents and are available on our Web site.

Financial Audit Activities

Most of our hours Officewide are dedicated to conducting financial audits and related services. The distribution of hours among the divisions and support staff is shown below:

Hours by Division



PARTNERING WITH OUR AUDITEES TO IMPROVE REPORTING TIMELINESS AND QUALITY

We face ever-increasing audit demands imposed by the federal government, as evidenced by significant changes made to the Single Audit Act; and by the profession, as evidenced by a new accounting and reporting standard that will significantly change state and local governments’ financial reporting, both of which are briefly described below.

Second Year of Audits Under the Revised Single Audit Requirements—We are in the middle of the second year of audits under the revised Single Audit Act Amendments of 1996. The new single audit requirements, especially the risk-based approach, have broadened our coverage of federal programs administered by our auditees. In particular, the risk-based approach has allowed us to focus our audit attention on high-risk programs and programs that have not been previously audited, while still providing significant overall audit coverage.

Before the 1996 Amendments were implemented, we conducted an extensive training program to prepare our auditors and our auditees who must account for federal grants to comply with the new requirements. The training program helped to ensure that the new audit requirements were successfully implemented

For audits beginning after June 30, 1998, auditors and auditees were faced with a new deadline for submitting single audit reports. Such single audit reports will be due 9 months after the fiscal year-end, rather than 13 months. For several of our auditees we implemented the reduced filing timeline early, and submitted their fiscal year 1997-98 reports within the 9-month filing deadline. We are taking various steps to help ensure the single audits and related reports will meet the new deadline.

The Governmental Accounting Standards Board releases new standard that will significantly change financial reporting by state and local governments—

In June 1999 the Governmental Accounting Standards Board approved the most significant and comprehensive change in history to the financial reporting standards. The new standard will require a dramatic change in the way state and local governments report financial information to the public. When implemented, it will present new information and will restructure much of the information that governments have presented in the past. Consequently, citizens, the media, bond rating agencies, creditors, legislators, and others will have more and easier-to-understand information about their governments. The new standards' major innovations will require governments to:

- Report on the overall condition of the government's financial health, not just its individual funds.

Financial Audit Activities

- Provide the most complete information ever available about the cost of delivering government services to its citizens.
- Require, for the first time, information about the government's public infrastructure assets, such as bridges and roads.
- Prepare an introductory narrative section analyzing the government's financial activities.

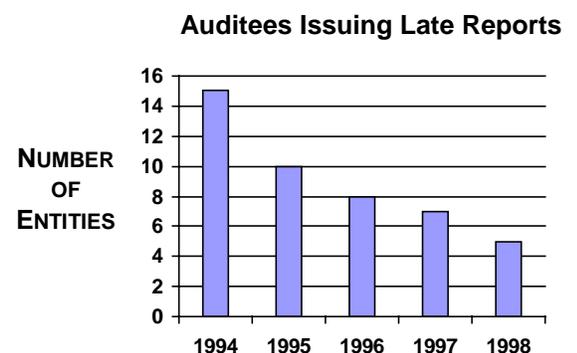
The new standard will take effect for large governments in fiscal year 2002, for medium-size governments in fiscal year 2003, and for smaller governments in fiscal year 2004.

The changes in the financial reporting model are significant and will greatly affect our auditees and our staff. To help prepare our auditees to implement these sweeping changes and our staff to audit the new financial reports, we have already started planning extensive training programs.

More Timely Audit Reports—Reports for all audits subject to the Single Audit Act must be issued within nine months after the end of the period audited. In addition, there are statutory and other authoritative deadlines for financial audits of entities such as county health plans and college and university radio stations.

In an effort to improve reporting timeliness, we have improved communication with our auditees, offered them training, and provided more on-site assistance. Our goal is to help our auditees promptly meet their responsibilities to provide the financial statements and information necessary to conduct an audit. Our efforts have resulted in significant improvement in the timely issuance of reports.

Overall, as shown to the right, we have reduced the number of audits issued after the deadline by 67 percent over the last five years.



Excellence in Financial Reporting—Some of our auditees choose to issue a Comprehensive Annual Financial Report (CAFR) rather than the traditional general purpose financial statements. The CAFR, a substantial undertaking by any reporting entity, includes a transmittal letter containing a discussion and analysis of the entity's financial condition and results of operations, combined and combining financial statements and related schedules, and statistical tables that provide considerable supplemental information.

We allocated the resources necessary to complete the audits of all CAFRs in time for their preparers to meet the deadline for applying for the Certificate of Achievement for Excellence in Financial Reporting awarded by the Government Finance Officers Association. This certificate is awarded only for CAFRs that achieve the highest standards in financial reporting, disclosure, and format. Maricopa, Mohave, Pima, Pinal, and Santa Cruz Counties, and Coconino, Maricopa, and Pima County Community College Districts all received the certificate for fiscal year 1997-98.

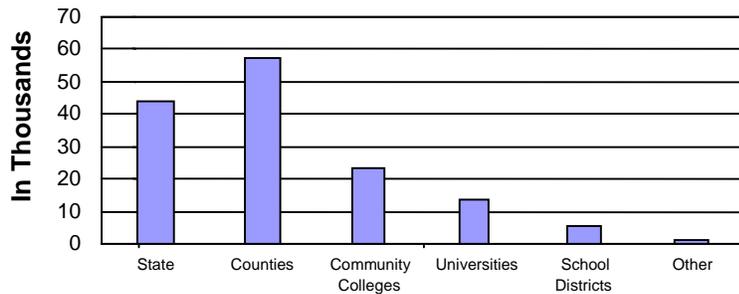
STATEWIDE AUDIT A SIGNIFICANT UNDERTAKING

The graph on the following page illustrates the distribution of Financial Audit Division hours by entity type.

Financial Audit Activities

This graph below shows that almost a third of financial audit hours are spent on the statewide audit and audits and procedural reviews of various state

Hours by Entity Type



agencies. The State incorporates the audited financial statements of 18 state agencies, data from the *Uniform Statewide Accounting System*, and agency information to prepare a CAFR. When the State's CAFR is compared to the financial statements of leading U.S. companies, the State would rank 62nd in assets, ahead of Boeing, Mobil, Sears Roebuck, and Motorola; and 131st in revenues, ahead of McDonald's and Kimberly-Clark.

Our independent auditors' report on the State's CAFR for the year ended June 30, 1998, was no longer qualified due to a scope limitation on the General Fixed Assets Account Group. We worked with the Department of Administration to make improvements in the State's accounting for buildings, which allowed us to express an unqualified opinion.

SPECIAL AUDIT UNIT

The Office established the Special Audit Unit ten years ago to conduct special investigations and reviews requested by the Legislature.

In addition, the Arizona Attorney General's Office and local county attorneys often request the Office's assistance in investigating matters for possible criminal prosecution.

Our Special Audit Unit provides invaluable assistance to state and county law enforcement officials.

Financial Audit Activities

The Unit provides special training in fraud, waste, and abuse detection and deterrence to our audit staff and assists other governmental entities to meet their needs for such training. The unit is also an immediate resource for our auditors who may discover unusual activities or allegations of irregularities while conducting financial or performance audits. In such instances, the unit develops and/or recommends additional audit steps, creative methods of obtaining information, and other courses of action to meet auditors' needs. Further, the unit has responded to citizens' concerns by answering questions or directing them to other resources.

Financial Audit Division teams develop audit programs specifically tailored for the various entities to detect potential fraud, wasteful spending, or administrative abuse of state resources. All discovered deficiencies are not necessarily of a criminal nature; however, each time we identify deficiencies, we are promoting increased governmental accountability.

When the financial auditors uncover indications of such deficiencies, the Fraud Unit reviews the incidents. During fiscal year 1998-99, the Unit conducted 33 such reviews, 6 of which resulted in criminal investigations. Following is a summary of 4 of our most significant investigations.

Scottsdale School District—The cooperative investigation by our Office and the Attorney General's Office of alleged financial improprieties by administrators and employees of the Scottsdale Unified School District No. 48 continues. Subsequent to the consent judgment agreement reached between the District and the Attorney General's Office on October 20, 1998, two former District employees, the spouse of one of those employees, and a District vendor were indicted on various charges including theft, fraud, and conspiracy to restrain trade. We also

Financial Audit Activities

supervised the first of three mandated procurement audits that resulted in the following findings:

- An emergency purchase of fencing worth \$83,215 was not properly documented.
- Change orders worth \$47,724 were not properly approved and were outside the scope of the original contracts.
- Rather than soliciting its own price quotations for building a \$14,544 shade cover, the District relied on a vendor to obtain such quotations.
- Other findings included blanket purchase orders lacking specificity, failure to gain Governing Board approval on purchases, vendors being paid more than documented on original price quotations, and issues relating to the lack of proper documentation.

Paloma Elementary School District—Our Office concluded an investigation of the former superintendent, who was alleged to have misused public monies. We determined that the superintendent caused public monies to be used to purchase health insurance for dependents outside his employment contract, used the District's credit card for personal expenditures, and received pay for vacation time that he had not accrued.

As a result of this investigation, the former superintendent pleaded guilty to one count of conflict of interest and was ordered to pay restitution.

Department of Building and Fire Safety—Our investigation determined that over \$71,000 was embezzled from the Department's receipts. Due to a lack of management oversight, these monies were taken over a period of four months. By employing a common fraud scheme (i.e., lapping), the embezzler used later receipts to replace those stolen earlier. Our investigative report was issued to the Attorney General's Office.

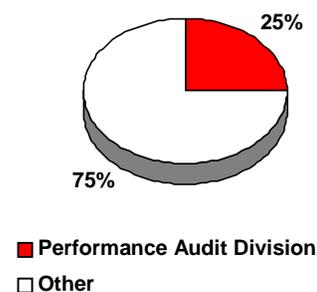
Financial Audit Activities

Tolleson Justice Court—We conducted an investigation of the Tolleson Justice Court that resulted in the former fines manager pleading guilty to one count of theft and being ordered to pay restitution. The former court employee misappropriated at least \$1,328 of defendants' cash payments for her personal use.

Performance Audit Activities

The graph at right illustrates the percentage of Officewide hours attributed to the Performance Audit Division.

Following is a summary of the reports that the Performance Audit Division issued during fiscal year 1998-99.



Universities' Auxiliary Enterprises (98-11)—Auxiliary enterprises represent a very wide variety of activities and services, including bookstores, student housing, intercollegiate athletics, and parking services. Changes may be needed if the universities are to successfully review services for possible privatization, as required by 1996 legislation. The report recommends that the universities: 1) encourage and pursue partnership opportunities to operate their auxiliary enterprise on campus; and 2) develop and implement standardization policies for purchasing commonly used supplies and equipment, as ASU currently does.

Universities' Enrollment Management (98-12)—Arizona's universities and the Board of Regents need to develop enrollment forecasts to predict future enrollment growth at the universities. Several past forecasts have tended to overestimate enrollment. Additionally, the universities need to revise the existing plan used to manage future enrollment growth. The plan identified several strategies for managing university growth, including expanding the universities' evening and weekend programs, distance learning programs, and partnerships with community colleges, and establishing two new branch campuses. The universities should revisit the current plan with the Board of Regents, and initiate a statewide master plan to more effectively meet future enrollment growth.

More can be done to increase enrollment at ASU West, one of ASU's branch campuses. ASU and ASU West

should consider expanding the number of programs offered, ensuring that course credits transfer between programs at ASU and ASU West, and offering students incentives for enrolling there.

Private Enterprise Review Board (98-13)—PERB was established in 1983 to provide an independent body that could review state government functions that compete with private enterprise. PERB's duties include reviewing complaints about state agencies competing with private enterprise and soliciting and evaluating written notices of interest from the private sector to perform agency activities. While PERB has made efforts to increase its public visibility and implement procedures for handling cases brought before it, the continued need for PERB remains questionable. Additionally, other entities have been established since 1996 that could likely perform the same functions as PERB.

Arizona Supreme Court, Administrative Office of the Courts, Adult Services Division (98-14)—Although probation programs in Arizona are operated at the county level, the Supreme Court's Administrative Office of the Courts has administrative responsibility for all court programs. The Division's duties include distributing state monies for programs such as standard and intensive adult probation, and performing a variety of oversight activities. Funding for both the standard and intensive probation programs has been overestimated for fiscal year 1999. Additionally, inaccurate projections caused the Division to overestimate the need for state funding. Moreover, the Division cannot adequately monitor collection of probation fees nor ensure that the fees are fully used.

Board of Podiatry Examiners (98-15)—The Board of Podiatry Examiners generally investigates and resolves complaints in a timely manner. It spent an average of 116 days resolving the 30 cases it closed in

Performance Audit Activities

1997, but can improve its complaint-handling process by:

- Separating its investigative and adjudicative functions by assigning one of its members to investigate each complaint, appointing an investigative panel, or hiring a staff investigator;
- Considering podiatrists' disciplinary history when deliberating new complaints against them; and
- Better documenting the rationale behind its decisions to dismiss complaints and issue letters of concern.

The Board also needs to provide more complete information to consumers inquiring about podiatrists' disciplinary histories.

Board of Medical Examiners (98-16)—Based on a review of 117 complaints resolved by the Board in fiscal year 1997, we determined that complaint investigations are often incomplete, medical review of complaints is sometimes inadequate, and the Board lacks policies and procedures for its investigation and medical review process. Additionally, most complaints are resolved with no disciplinary action, and the Board continues to misuse letters of concern, fails to use its disciplinary guidelines, and does not enforce some disciplinary orders.

Arizona Department of Health Services, Division of Assurance and Licensure Services (98-17)—This report focuses on the Division's regulatory duties over five licensing programs including Behavioral Health, Child Care, Home and Community Based Care, Long Term Care and Medical Facilities. Specifically, we found that the Division has not taken sufficient enforcement action against facilities that repeatedly violated licensing standards, has not restricted or prevented some facilities from operating when they fail to meet licensing

standards, and has failed to provide consumers with complete, appropriate, and easily accessible regulatory information.

Governor's Council on Developmental Disabilities (98-18)—The Council annually contracts with six regional district councils to serve their local developmentally disabled citizens including informing the Council of local issues facing these citizens, providing information regarding local service providers and services offered, and referring developmentally disabled citizens and their families to needed services. The process by which the Council has historically contracted with its district councils has resulted in contracts that do not correspond with the Council's stated goals. Additionally, some district councils do not perform in accordance with contract requirements.

Arizona State Personnel Board (98-19)—To improve the timeliness of hearing officer reports and Board decisions, the Board should cease providing transcripts to hearing officers and provide transcripts only at the request of parties to the hearings. Further, the Legislature should consider increasing the statutory time the Board has to issue its decision from 30 to 45 days, and shortening the Board's meeting notice period to 10 days.

Department of Liquor Licenses and Control (98-20)—The Department inconsistently issues penalties for liquor law violations and does not always take appropriate action against licensees who repeatedly violate the State's liquor laws. The lack of formal policies and procedures governing the Department's enforcement practices contributes to the inconsistent and sometimes inappropriate treatment of licensees who violate liquor laws. Additionally, while hundreds of licensees fail to renew their licenses on time, the Department does not ensure that these licensees cease liquor sales until they have renewed their licenses.

Performance Audit Activities

Arizona Department of Insurance (98-21)—Although Arizona adopted an open competition approach to regulating most property and casualty rates in 1980, the Department continues to subject all rate filings to the same scrutiny as it did when rates required Department approval prior to their use. Since market forces serve as the primary regulator of rates in an open competition environment, such detailed and comprehensive reviews are unnecessary and offer minimal consumer protection. Rather than reviewing every filing in detail, the Department should adopt a targeted approach to reviewing open competition rate filings, and should expand its market monitoring activities.

State Compensation Fund (98-22)—Although the Fund remains the major provider of workers' compensation insurance in Arizona, competition has reduced the Fund's market share and premium earnings. In 1995, the Fund collected approximately \$334.5 million in premiums, or nearly 50 percent of the total \$671.6 million paid to all workers' compensation carriers. Since then, premium rates have steadily declined as have total premiums paid to all workers' compensation carriers in the State. In 1997, employers in Arizona paid workers' compensation premiums of approximately \$563 million. Of that total, the Fund collected approximately \$228.7 million, or about 41 percent.

Because the Fund has implemented, or is in the process of implementing, a number of process improvements and operational changes, no recommendations for additional actions are offered in this audit report.

Department of Administration, Human Resources Division (99-1)—While the Division has made some progress in addressing prior Auditor General recommendations, the State's job evaluation system remains the same as it was in 1993. Specifically, the current system is subjective and easily manipulated by state employees, and continues to have outdated job classifications. However, the Division has

decreased the time it takes to produce candidate hiring lists for state agencies from eight weeks to three days. The Division has also made progress in employee benefits management and hiring. However, more can be done to monitor contracts with health benefits carriers and track state employees' complaints.

Arizona Air Pollution Control Hearing Board (99-2)—The Air Pollution Control Hearing Board (Board) is responsible for hearing appeals of Arizona Department of Environmental Quality (ADEQ) decisions regarding air quality permits and related matters. While no significant harm to the public would likely result if the Board were terminated, the Board does provide an appeal opportunity that is less costly to the taxpayers and more accessible than appeal through Superior Court, and is unlike other ADEQ appeal processes for which the ADEQ Director has final authority.

Home Health Care Regulation and Expenditures (99-3)—As a result of the National State Auditors' Association's multi-state audit, Arizona and nine other states agreed to study their respective Medicaid-supported home health service delivery systems to determine whether regulation, claims payment processes, complaint investigations, and quality-of-care assurance programs are appropriate and sufficient.

Our review of DHS' responsibilities found that DHS' licensure and complaint investigation processes are inadequate. In addition, DHS has failed to conduct timely inspections and has also failed to conduct timely complaint investigations. Finally, when DHS identifies licensing violations during home health agency inspections and complaint investigations, it does not consistently use its enforcement authority to take progressive action.

Performance Audit Activities

Our review of AHCCCS' responsibilities identified some improvements that could be made to controls over the claims payment process and as well as some improvements that could better ensure home health clients receive quality care.

Adult Probation Programs (99-4)—We describe factors that contribute to adults successfully completing probation, including substance abuse treatment programs, differing probation management approaches counties have adopted, and outcomes associated with gender and other demographic characteristics. Of particular note was the fact that substance abusers who consistently attended or successfully completed alcohol or drug abuse treatment were much more likely to successfully complete probation than the general sample of probationers we evaluated. Consistent employment and completion of community service also predict successful probation outcomes. Education, age, and income were correlated positively with probation success for men, but not for women.

Arizona Department of Gaming (99-5)—We recommend that state officials, including the Governor and Legislature, determine whether the Department's current regulatory stance is the optimal approach for monitoring Indian gaming operations in Arizona. Though the Department employs extensive oversight activities that are well designed for ensuring the integrity of gaming operations, its approach is among the most extensive and costly in the nation. Further, since the tribal-state gaming compacts negotiated between the State and tribes do not clearly delineate the extent of state oversight or enforcement, disagreement exists in Arizona between the Department and several tribes regarding what level of involvement the State should have within Indian gaming.

Department of Health Services, Bureau of Emergency Medical Services (99-6)—The Certificate of Necessity (CON) system provides more regulation than is necessary for overseeing ambulance services. Although CON systems are intended to ensure ambulance coverage throughout the State, and to provide quality assurance, Arizona's CON system does not guarantee either outcome. Additionally, it limits competition and may prevent the introduction of service improvements that would better meet a community's needs. As a result, the system should be reevaluated, and other forms of regulation should be considered.

Arizona Drug and Gang Policy Council (99-7)—The 1996 Auditor General Report (Report No. 96-11) found the Council to be ineffective in fulfilling its evaluation and coordination of publicly funded drug and gang prevention and treatment programs in Arizona due to poor member attendance and lack of monetary support. Since the last audit, the Council has made significant progress in improving its attendance and developing an accountability system to measure the State's effectiveness in preventing and treating drug abuse and gang participation. However, the Council's continued progress is dependent on future funding. Because the Council receives no dedicated funding, it has had to rely on external grants to finance its activities, which expire by the year 2001.

Arizona Department of Water Resources (99-8)—Under the current regulatory structure, the safe yield goal for water supply will not likely be achieved by the Prescott, Phoenix, and Tucson areas. Safe yield is accomplished when no more groundwater is withdrawn from the aquifer than is annually replaced. The Groundwater Code contains a number of statutory restrictions and exemptions that limit the Active Management Areas' ability to achieve

Performance Audit Activities

safe yield. We recommend that the Legislature consider forming a study commission to address the State's ability to achieve the safe yield goal. The second finding notes that Arizona may experience future water supply problems related to population growth.

Department of Health Services, Arizona State Hospital (99-9)—The hospital's patient treatment units are often insufficiently staffed to provide patients with appropriate treatment and a therapeutic environment. The hospital's staffing problems, including high turnover and vacancy rates, are long-standing and are compounded by problems in the method used to allocate staff among the patient units. In addition, ASH's facilities do not provide an adequate environment for treating patients.

Residential Utility Consumer Office (RUCO) and Residential Utility Consumer Board (Board) (99-10)—The Residential Utility Consumer Office (RUCO) is generally effective in advocating on behalf of residential utility consumers. RUCO should develop a comprehensive strategic plan and formalize its processes for determining in which rate and non-rate cases to intervene and for evaluating the effectiveness of its intervention efforts.

We also found that stronger fiscal monitoring is needed for RUCO to accurately determine its annual assessment. For the past few years, RUCO has incorrectly calculated its annual assessment, which has created a large and unnecessary fund balance.

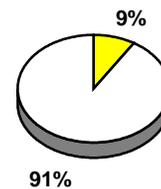
While statute requires the Residential Utility Consumer Board to advise RUCO on rate cases, the Board's efforts in recent years have had minimal impact. Inadequate processes and information have contributed to the Board's limitations. Therefore, the

Performance Audit Activities

Board should work with RUCO to develop and implement various processes that will enable it to better fulfill its responsibilities.

Accounting Services Activities

The graph at right illustrates the percentage of officewide hours attributed to the Accounting Services Division. Their work includes developing and maintaining seven accounting policies and procedures manuals and a *Uniform Expenditure Reporting System* manual. These eight manuals were developed and are maintained in accordance with generally accepted accounting principles, the Arizona Constitution, and state and federal laws. The division continues to be an authority in the State for school district and charter school financial reporting, accounting, and compliance and the internal controls over them.



■ Accounting Services Division
□ Other

Last year, schools in Arizona received approximately \$4.5 billion from county, federal, local, and state sources to educate students in kindergarten through the 12th grade. One of the division's oversight responsibilities is establishing policies and procedures to account for these monies that are distributed to the approximately 400 school districts and charter schools in the State.

Our activities during fiscal year 1998-99 are described below.

SCHOOLS

School Districts—Over 20 years ago, the Office established a *Uniform System of Financial Records* (USFR) which remains the standard to which all school districts must adhere. During the fiscal year, we issued numerous memorandums revising the manual in an effort to provide school districts with the most up-to-date information on internal controls and state and federal laws.

School districts subject to the *Single Audit Act Amendments of 1996* must submit for our review single audit reports and compliance questionnaires prepared by their auditors. We review these audits to

determine the district's compliance with the USFR and whether the audit was conducted in accordance with professional standards and the *Single Audit Act Amendments of 1996*.

Charter Schools—Since the first Arizona charter school opened in 1995, the number of charter schools in Arizona has grown rapidly. In response to legislation passed for charter schools, we developed a *Uniform System of Financial Records for Arizona Charter Schools* (USFRCS), which establishes the standards for charter school financial accountability. We continually update this manual to ensure charter schools have the most up-to-date information.

All charter schools are subject to either a financial statement audit or single audit by independent certified public accountants. We reviewed these audits to determine whether the school has established and maintained internal controls in accordance with USFRCS requirements and whether the audit was conducted in accordance with professional standards and OMB requirements.

As of July 7, 1999, responsibility for oversight of charter schools sponsored by either the Arizona State Board of Education or Arizona State Board for Charter Schools was shifted to those boards. As a result, the Office's responsibility for audit and compliance oversight of charter schools was greatly decreased beginning with the 1999-2000 fiscal year.

Enforcing School District and Charter School Compliance—If we determine that a district or charter school has not substantially met USFR/USFRCS requirements, we issue a letter of noncompliance giving it 90 days to correct the cited deficiencies. At the end of the 90-day period, we determine whether the district/school has made substantial progress toward compliance.

Accounting Services Activities

MANUALS AND REPORTS

Developing and Maintaining Accounting and Compliance Manuals—The division has developed and maintains manuals that establish uniform accounting, reporting, and compliance requirements to assist school districts, charter schools, counties, county treasurers, county school superintendents, community college districts, and justices of the peace in establishing and maintaining effective internal controls over such requirements. The Division has also developed a *Uniform Expenditure Reporting System* (UERS) manual to assist counties, community college districts, cities, and towns in complying with constitutional expenditure limitation reporting requirements. We revise these manuals as necessary to inform users about current accounting, reporting, and legal requirements.

In an effort to improve the usefulness of the uniform accounting and compliance manuals, we have made six of our eight manuals available on computer diskette or from our Web site.

In addition to the uniform accounting manuals, we periodically issue newsletters to school districts and charter schools to communicate current accounting and financial reporting requirements and to provide information regarding compliance with federal and state laws.

Developing Annual Forms—The Office is required to develop annual financial report forms for Arizona's special taxing districts, charter schools, and school districts. These reports disclose financial activity for the reporting period along with governing board action taken during the year. We provide detailed instructions for users to prepare the annual reports as easily and completely as possible.

Accounting Services Activities

We also develop annual budget forms for counties, community college districts, school districts, charter schools, and cities and towns. The budget packages contain detailed instructions and ready-to-use forms for users to prepare their budgets as easily and completely as possible. Forms are also available on computer diskette or from our Web site.

In fiscal year 1997-98 the Legislature made changes to the laws for school district and charter school budgets requiring budget information to be prepared on a school-by-school basis beginning in fiscal year 1999-2000.

During the fiscal year we developed and issued budget forms for school districts and charter schools for fiscal year 1999-2000 on a school-by-school basis. These forms were provided with all necessary instructions and allocation formulas to allow school districts and charter schools to prepare school-by-school budgets.

PRESENTATIONS AND WORKSHOPS

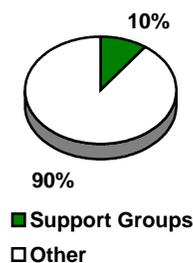
To keep entities informed of changes in federal and state laws, and professional standards, we conducted various presentations and workshops.

- We presented various topics at the summer, winter, and spring conferences for the Arizona Association of School Business Officials, as well as a presentation on the new school district budget forms on a school-by-school basis.
- We made a presentation to the Association of Government Accountants on the *Uniform Expenditure Reporting System*.
- We presented topics from the current revisions to the *Uniform Accounting Manual for Arizona County Treasurers* at a meeting of county treasurers.

Accounting Services Activities

- We provided two workshops on procurement policies and procedures to Scottsdale Unified School District.
- We made a brief presentation to the Arizona House of Representatives Ad Hoc Committee on school district procurement practices.

Support Groups' Activities



The graph at left illustrates the percentage of Officewide hours attributed to the Information Technology and Professional Practice support groups. These groups provide the services that assist Office staff in performing their tasks efficiently and effectively. The support groups' more significant activities in the past year are described below.

INFORMATION TECHNOLOGY SERVICES

Section Highlights

In 1999, the ITS group accomplished a number of its significant goals, including upgrading the Office's computer network, implementing Internet access, and replacing and expanding our e-mail system. The group also continued its efforts to automate audit activities, and provide more efficient audit data processing.

Upgrading our computer network—We replaced older servers, network operating systems, and communications devices, and upgraded and expanded our network cabling. We also significantly upgraded field staff's ability to connect to the network from remote locations, which provided them with much better access to the network. These changes have increased the Office's capacity to provide better communications between staff, and made it easier for them to collaborate.

Implementing Internet access—One of the group's most popular accomplishments this year was implementing Internet access for all staff. The Internet provides the Office with the capability to perform more efficient research and obtain information that was previously difficult to get.

Replacing and expanding e-mail—We also replaced the Office's outdated and limited e-mail system. All staff can now send and receive both internal and Internet-based messages. This system will not only

Support Groups' Activities

improve communications within the Office but also between our staff and audit clients/professional colleagues, and the Legislature.

Continuing the commitment to provide the most effective automation of audit activities—The Office's commitment to automating audit activities continued during the past year. We replaced a large number of our aging computers, providing staff with the increased capacity they need to implement improvements in our auditing techniques. This new equipment, combined with training specifically targeted to applying our technology to audit activities, has resulted in improvements in our auditors' efficiency and effectiveness.

Providing more efficient audit data processing—During the year, we continued to provide audit staff significantly faster turnaround on data requests. We also developed and implemented a number of software tools that allow staff auditors to perform more of their own audit analysis. We continue to provide staff with data in a wider variety of formats so that they have more direct access to audit data and can perform additional analysis, which up to now has not been possible.

PROFESSIONAL PRACTICE GROUP

Administering an effective training program—The Office must ensure that all professional staff receive at least 40 hours of continuing professional education each year. To meet that responsibility, the group administers a training program that offers classes in accounting and auditing, computer applications, professional development, and writing. The graph at right illustrates the percentage of classes offered in each of these areas in 1999.



Using the expertise of our staff and that of selected professional trainers, we keep staff up to date on

Support Groups' Activities

changing standards, how to apply the latest audit methodologies, and how to use new computer applications, management techniques, and reader-friendly writing.

Providing timely technical research and assistance to our staff and auditees—New accounting and auditing standards and earlier audit and report due dates challenge our staff and auditees. The best way to meet these challenges is to provide ongoing technical research and assistance to those who need the information. During the year, the group provided that information in a number of ways.

The group provided research and assistance to our staff and auditees on accounting, auditing, and reporting issues as the audits were being performed. This approach allowed auditors and auditees to address and resolve issues in a timely manner. The group also made presentations to staff and auditees at office meetings, auditee conferences, and professional association meetings throughout the year.

Financial Summary

Summary Statement of Revenues, Expenditures, and Changes in Fund Balances Year Ended June 30, 1999

General Fund

Revenues:	
General Fund appropriations	<u>\$10,112,700</u>
Expenditures:	
Personal services	6,885,440
Employer related	1,200,390
Other	<u>1,763,605</u>
Total expenditures	<u>9,849,435</u>
Excess of expenditures over revenues	(263,265)
Fund balance, July 1, 1998	<u>753,366</u>
Fund balance, June 30, 1999	<u>\$ 1,016,631</u>

Audit Services Revolving Fund

Revenues:	
Charges for services	<u>\$1,316,874</u>
Expenditures:	
Personal services	845,400
Employer related	157,200
Other	<u>46,950</u>
Total expenditures	<u>1,049,550</u>
Excess of expenditures over revenues	(267,324)
Fund balance, July 1, 1998	<u>279,172</u>
Fund balance, June 30, 1999	<u>\$ 546,496^a</u>

^aReserved for federal single audits.

Appendix A

Douglas R. Norton

Resolution on the Retirement from The Office of the Auditor General by Douglas R. Norton, CPA

Whereas, Douglas R. Norton retired from his legislative appointment as the Auditor General on June 29, 1999; and

Whereas, in 1976, the Legislature sought out Doug Norton to lead the legislative Office of the Auditor General into a new era of governmental accountability and Mr. Norton left a private Certified Public Accountant practice in Prescott to begin the first of more than four terms as this state's second Auditor General. During his service, Doug Norton has overseen significant developments in the financial oversight of public monies and assets and has reviewed fiscal responsibility for the efficient and effective use of public monies and assets; and

Whereas, in 1978, the Legislature implemented the sunset review of all state agencies and charged the Auditor General with the primary responsibility of conducting those sunset reviews, as well as other performance audits to determine whether state resources were being used in an economical and efficient manner, the causes if state resources were not being used in an economical and efficient manner and whether legislative objectives were being met. These Sunset and performance audits have become increasingly important to the Legislature as evidenced by the growth of the Auditor General's Performance Audit Division from 6 employees to 49 employees who produce over 20 reports annually; and

Whereas, in 1984, Congress passed the Single Audit Act in an effort to consolidate a multitude of federal audits occurring on a state and local basis. On Mr. Norton's recommendation the Legislature enacted legislation that made it easier to comply with the federally mandated guidelines providing for audits of federal grants. Mr. Norton also promoted adherence to government auditing standards and the preparation of financial statements in accordance with generally accepted accounting principles for this state and its political subdivisions; and

Whereas, in the course of his service Mr. Norton elevated Arizona to national prominence in the field of government accounting and auditing through his involvement in national state auditor organizations. He served as the chairman of the Western Intergovernmental Audit Forum and of the Post Auditors' Section of the National Conference of State Legislatures. He was president of the National State Auditors Association and the National Association of State Auditors, Comptrollers and Treasurers. He was appointed to the United States Comptroller General's Government Auditing Standards Advisory Council; and

Appendix A

Whereas, in recognition of his service, Mr. Norton received the federal government's Joint Financial Management Improvement Program's Donald L. Scantlebury Memorial Award, the Western Intergovernmental Audit Forum's Jack Birkholz Leadership Award, and the Association of Government Accountants' Frank Greathouse Distinguished Leadership Award.

Therefore

Be it resolved by the Senate of the State of Arizona:

That the members of the Senate extend their appreciation for a job well done as Auditor General of the State of Arizona to Douglas R. Norton, CPA.

*Unanimously adopted by the Senate, June 22, 1999.
Filed in the Office of the Secretary of State, June 22, 1999.*

Appendix B

Financial Audit Division Audit Reports Issued—Counties, County Hospitals, and County Health Plans

County, County Hospital, or County Health Plan	Comprehensive Annual Financial Report or Report on Audit of Financial Statements	Reports on Internal Control and Compliance in Accordance with GAS and the Single Audit Act	Report on Audit of Annual Expenditure Limitation Report
Cochise County			June 30, 1996 and June 30, 1997
Graham County ¹	June 30, 1998	June 30, 1998	June 30, 1998
Greenlee County ¹	June 30, 1998	June 30, 1998	
La Paz County ¹	June 30, 1998	June 30, 1998	June 30, 1998
Maricopa County	June 30, 1998	June 30, 1998	June 30, 1998
Maricopa County AHCCCS and ALTCS Plans	June 30, 1998	N/A	N/A
Maricopa County Medical Center	June 30, 1998	N/A	N/A
Maricopa County, Arizona— Risk Management and Employee Benefits Trust Funds	June 30, 1998	N/A	N/A
Mohave County ¹	June 30, 1998	June 30, 1998	June 30, 1998
Navajo County ¹	June 30, 1997 and June 30, 1998	June 30, 1997	June 30, 1997
Pima County	June 30, 1998	June 30, 1998	June 30, 1997 and June 30, 1998
Pima County, Arizona— Department of Wastewater Management	June 30, 1998	N/A	N/A
Pima County, Arizona— Development Services Enterprise Fund	June 30, 1998	N/A	N/A
Pima County, Arizona— Pima Health Care System	June 30, 1998	N/A	N/A
Pima County, Arizona—Self-Insurance Trust	June 30, 1998	N/A	N/A
Pinal County	June 30, 1998	June 30, 1998	June 30, 1997 and June 30, 1998
Santa Cruz County	June 30, 1998	June 30, 1998	June 30, 1998
Yavapai County ¹	June 30, 1998	June 30, 1998	June 30, 1998
Yuma County	June 30, 1996 and June 30, 1997	June 30, 1996	June 30, 1996

¹ Reports issued by certified public accountants under contract with the Office of the Auditor General.

Appendix B

Financial Audit Division Audit Reports Issued—State and State Agencies

State Agency	Annual Financial Report or Report on Audit of Financial Statements	Reports on Internal Control and Compliance in Accordance with GAS and the Single Audit Act
State of Arizona	June 30, 1998	
Criminal Justice Commission— Drug and Gang Enforcement Account Distributions	June 30, 1998	N/A
Department of Economic Security	June 30, 1998	N/A
Department of Economic Security— Division of Developmental Disabilities (ALTCS Contract)	June 30, 1998	N/A
Office of the Treasurer	June 30, 1998	N/A
State of Arizona—Report on Audit of Statement of Federal Land Payments	October 1, 1997- September 30, 1998	N/A

Audit Reports Issued—Universities

University	Annual Financial Report or Report on Audit of Financial Statements
Arizona State University	June 30, 1998
Northern Arizona University	June 30, 1998
The University of Arizona	June 30, 1998

Appendix B

Financial Audit Division Audit Reports Issued—Community College Districts

Community College District	Comprehensive Annual Financial Report or Report on Audit of Financial Statements	Reports on Internal Control and Compliance in Accordance with GAS and Single Audit	Report on Audit of Annual Budgeted Expenditure Limitation Report
County Community College Districts of Arizona ¹	June 30, 1998	N/A	N/A
Cochise County Community College District	June 30, 1998 and June 30, 1997 and June 30, 1996	June 30, 1998 and June 30, 1997 and June 30, 1996	June 30, 1998 and June 30, 1997 and June 30, 1996
Coconino County Community College District ²	June 30, 1998	June 30, 1998	June 30, 1998
Graham County Community College District (Eastern Arizona College) ²	June 30, 1998	June 30, 1998	June 30, 1998
Maricopa County Community College District	June 30, 1998	June 30, 1998	June 30, 1998
KJZZ-FM Radio (Maricopa County Community College District) ³	June 30, 1998	N/A	N/A
KBAQ-FM Radio (Maricopa County Community College District) ³	June 30, 1998	N/A	N/A
Mohave County Community College District (Mohave Community College) ²	June 30, 1998	June 30, 1998	June 30, 1998
Navajo County Community College District (Northland Pioneer College) ²	June 30, 1998	June 30, 1998	June 30, 1998
Pima County Community College District (Pima Community College)	June 30, 1998	June 30, 1998 ⁴	June 30, 1998
Pinal County Community College District (Central Arizona College) ²	June 30, 1998	June 30, 1998	June 30, 1998
Yavapai County Community College District	June 30, 1997	June 30, 1997	June 30, 1997
Yuma/La Paz Counties Community College District (Arizona Western College) ²	June 30, 1998	June 30, 1998	June 30, 1998

1 A Full-Time Equivalent Student Enrollment Report was issued instead of a Report on Audit of Financial Statements.

2 Reports issued by certified public accountants under contract with the Office of the Auditor General.

3 A Schedule of Nonfederal Financial Support and a Corporation for Public Broadcasting Annual Financial Report were also issued.

4 A Report on Internal Control and Compliance in Accordance with Governmental Auditing Standards was issued by the Office of the Auditor General. A Report on Internal Control and Compliance in accordance with the Single Audit Act was issued by certified public accountants under contract with the college.

Appendix B

Financial Audit Division Procedural Review Reports Issued—School Districts

Bowie Unified School
District No. 14

Bagdad Unified School
District No. 20

Chevelon Butte Elementary School
District No. 5

Double Adobe Elementary School
District No. 45

Elfrida Elementary School
District No. 12

Hackberry Elementary School
District No. 3

Maine Consolidated Elementary School
District No. 10

Owens-Whitney Elementary School
District No. 6

Pomerene Elementary School
District No. 64

Valentine Elementary School
District No. 22

Procedural Review Reports Issued—State Agencies

Arizona Board of Regents

Arizona State Board of Cosmetology

Arizona State Board of Directors for
Community Colleges

Arizona State Board of Tax Appeals

Office of Tourism

Financial Audit Division Agreed-Upon Procedures Reports Issued

Cochise County
Landfill

Coconino County
Page Justice Court

Gila County
Clerk of Superior Court
Globe Justice Court
Hayden Justice Court

Maricopa County
Chandler Justice Court
East Mesa Justice of the Peace
Gila Bend Justice Court
Glendale Justice of the Peace
North Mesa Justice Court
Scottsdale Justice Court
Tolleson Justice of the Peace
Landfill

Mohave County
Bullhead City Court
Clerk of the Superior Court

Pima County
Precinct No. 3 Justice Court
Landfill

Santa Cruz County
East Justice Court
Landfill

Special Review Reports Issued

Arizona Veteran's Service Commission—
Procedural Review

Special Audit Unit Investigation Reports Issued

Arizona Department of Building and Fire Safety

Paloma Elementary School District

Scottsdale School District

Tolleson Justice Court

Appendix C

Performance Audit Reports Issued Year Ended June 30, 1999

98-11	Universities' Auxiliary Enterprises
98-12	Universities' Enrollment Management
98-13	Private Enterprise Review Board
98-14	Arizona Supreme Court, Administrative Office of the Courts, Adult Services Division
98-15	Board of Podiatry Examiners
98-16	Board of Medical Examiners
98-17	Arizona Department of Health Services, Division of Assurance and Licensure Services
98-18	Governor's Council on Developmental Disabilities
98-19	Arizona State Personnel Board
98-20	Department of Liquor Licenses and Control
98-21	Arizona Department of Insurance
98-22	State Compensation Fund
99-1	Department of Administration, Human Resources Division
99-2	Arizona Air Pollution Control Hearing Board
99-3	Home Health Care Regulation and Expenditures
99-4	Adult Probation Programs
99-5	Arizona Department of Gaming
99-6	Department of Health Services, Bureau of Emergency Medical Services
99-7	Arizona Drug and Gang Policy Council
99-8	Arizona Department of Water Resources
99-9	Department of Health Services, Arizona State Hospital
99-10	Residential Utility Consumer Office (RUCO) and Residential Utility Consumer Board (Board)

Appendix D

Accounting Services Division Projects Completed Year Ended June 30, 1999

Reviewed 98 School District Audit Contracts with CPA Firms

Reviewed 105 Charter School Audit Contracts with CPA Firms

Reviewed 132 School District Audit Reports and USFR Compliance Questionnaires

Reviewed 38 Charter School Audit Reports and USFRCS Compliance Questionnaires

Performed 9 audit working paper reviews of 8 CPA Firms

Performed 10 USFR/USFRCS 90-Day Compliance Status Reviews

Reviewed Alternative Expenditure Limitation Proposals of 8 Cities and Towns

Reviewed Permanent Base Limit Adjustment Proposals of 2 Cities and Towns and 2 Counties

Reviewed Compliance with the *Uniform Expenditure Reporting System (UERS)*

- 73 Cities and Towns
- 2 Counties
- 5 Community College District

Conducted 14 Outside Training Sessions

- Arizona Association of School Business Officials winter, spring, and summer conferences—USFR compliance, audit requirements, uniform chart of accounts (4)
- Arizona House of Representatives Ad Hoc Committee—School District Procurement Practices
- Association of Governmental Accountants—current UERS issues
- County Treasurer Affiliates—recent revisions to UAMACT
- Scottsdale USD—Training on school district procurement (2)
- AASBO Bi-monthly meetings—school district issues and school based budgeting (5)

Revised One Manual and Issued It in Computer Format

- *Uniform Accounting Manual for Arizona County Treasurers (UAMACT)* in its entirety

Appendix D

Issued Uniform Accounting and Financial Reporting Memorandums and Newsletters

- 1 UAMACT Memorandum
- 8 USFR Memorandums
- 8 USFRCS Memorandums
- 2 School District Financial Issues Newsletters
- 3 Charter School Financial Issues Newsletters

Issued Budget Forms

- Cities and Towns
- Community Colleges
- Counties
- School Districts:
 - Revenue
 - Expenditure (Districtwide and School-by-School)
- Charter School Annual Budget (Charter Schoolwide and School-by-School)
-

Issued Annual Report Forms

- School District Annual Financial Report
- Charter School Annual Financial Report
- Special District Annual Report

Other Projects

- Monitored legislation for its impact on our Office and our clients
- Reviewed Creighton Elementary School District's application for the Accounting Responsibility Program
- Reviewed changes to the School District Procurement Rules as required by A.R.S. §15-213
- Reviewed and approved the audit reports for the Water Infrastructure Finance Authority of Arizona