

Joint Legislative Audit Committee
November 21, 2022—9:00 a.m.



Lindsey A. Perry
Auditor General



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ARIZONA STATE LEGISLATURE

INTERIM MEETING NOTICE OPEN TO THE PUBLIC

JOINT LEGISLATIVE AUDIT COMMITTEE

Date: Monday, November 21, 2022

Time: 9:00 A.M.

Place: HHR 1

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<https://www.azleg.gov/videoplayer/?clientID=6361162879&eventID=2022111010>

AGENDA

- Call to order - opening remarks
- 1. Arizona Auditor General (Office) fiscal year 2022 annual report
- 2. Consideration and approval of changes to 2022-2023 performance audit and sunset review schedule
- 3. Consideration and approval of 2024-2025 proposed performance audit and sunset review schedule
- 4. Consideration and approval of 2024-2025 COR assignments and additions to the 2022-2023 COR assignments
- 5. Fiscal years 2022 and 2023 financial and compliance audit schedule and consideration of approval to bill entities for audit work
- 6. Consideration of request for special audit of the Arizona State Land Department
- 7. Executive Session – Auditor General’s performance review

Adjourn

Members:

Representative Joanne Osborne, Chair - 2022
 Representative Russell "Rusty" Bowers, Ex-officio
 Representative Timothy M. Dunn
 Representative Steve Kaiser
 Representative Sarah Liguori
 Representative Jennifer Longdon
 Representative Pamela Powers Hannley

Senator Nancy Barto
 Senator Karen Fann, Ex-officio
 Senator Rosanna Gabaldon
 Senator David Livingston
 Senator Martin Quezada
 Senator Kelly Townsend

11/18/2022
JY

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LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

DATE: November 21, 2022

TO: Representative Joanne Osborne, Chair
Senator Nancy Barto, Vice Chair
Members, Joint Legislative Audit Committee (JLAC)

FROM: Lindsey Perry, Auditor General

SUBJECT: Arizona Auditor General (Office) fiscal year 2022 annual report

Background

For a summary of the Office's fiscal year 2022 results, see our attached annual report. We issue this report each year to highlight the 179 audits, reviews, investigations, and followups we conducted throughout the fiscal year, including the 568 recommendations we made. Our reports contain recommendations designed to improve State and local government operations. Not only do we provide recommendations, but we also follow up with the audited entities to assess their efforts to implement the recommendations and, consistent with the intent of our recommendations, often find their implementation improves performance, ensures compliance with laws and regulations, and yields cost savings. During fiscal year 2022, State agencies and school districts implemented 80 percent of our recommendations.

The annual report also highlights other ways the Office provides value by lowering costs, uncovering fraud, helping government work better, holding State agencies and school districts accountable, and providing high-impact training and information to stakeholders.

To meet our mission of providing impartial information, impactful recommendations, and stakeholder education to improve Arizona government, we employ highly knowledgeable and skilled professionals who care about Arizona's citizens and the quality of programs that serve them. Because of our staff, we have developed and work diligently to maintain an excellent reputation for the accuracy and quality of our work and the information that we provide. This reputation extends nationally among audit organizations at all levels of government, largely resulting from our leadership in the government auditing field and our nationally recognized work.

For example, in September 2022, we received the highest rating possible in our peer review, indicating we have designed and complied with a system of quality control that ensures our audits and reports follow Government Auditing Standards. Additionally, our interactive dashboard for our Arizona School District Spending Analysis received a 2022 Notable Document Award for Education from the National Conference of State Legislatures Legislative Research Librarians Professional Staff Association. Finally, we received a National Legislative Program Evaluation Society Certificate of Impact award for our Arizona Department of Juvenile Corrections—Use of Temporary Stabilization Units performance audit.

Action required

None. Presented for JLAC's information only.

We Make a Positive Difference

We help government work better by analyzing governmental operations and recommending improvements. In fiscal year 2022, we issued 179 audits, reviews, investigations, and followups with 568 recommendations.

Performance audits and sunset reviews

28 reports | 259 recommendations

These audits and reviews assess how governmental entities such as State agencies and school districts are performing—that is, how well they are fulfilling statutory mandates and serving Arizona. Sunset reviews help the Legislature decide whether to continue or terminate (“sunset”) an agency. We include recommendations to guide entities so they can better serve the public.

Followups

49 followups

After issuing performance audits and sunset reviews, we follow up with governmental entities at regular intervals to assess the status of our recommendations and issue follow-up reports showing implementation progress. Although we regularly conduct 6-, 12-, 18-, and 24-month followups, in some instances, we may follow up for several years.

Agency/school district recommendations implemented: 80%

Financial investigations and alerts

9 reports | 19 recommendations

These financial investigations occur when we receive allegations that public officials or government employees have potentially committed criminal violations, such as theft, fraud, misuse of public monies, and conflict of interest. We look into these allegations, and if we uncover potential criminal violations, we submit our findings to prosecutors for independent reviews, and after the prosecutor files a criminal indictment or complaint, issue public reports with this information. We also help protect public monies by issuing timely fraud prevention alerts designed to help government deter and detect fraud.

Financial and federal compliance audits

44 reports | 288 recommendations

These annual audits help ensure State agencies, universities, community college districts, and counties properly spend, account for, and report public monies that totaled more than \$49.7 and \$46.8 billion in revenues and expenses in fiscal year 2022, respectively. Federal compliance audits also help ensure federal monies are being used in accordance with federal requirements, including federal monies allocated to the State for COVID-19 response and relief efforts. Our annual financial and federal compliance audits allow us to provide ongoing assistance that helps ensure entities implement our recommendations.

Accountability reviews

42 reports | 2 recommendations

These reviews, such as school district compliance reviews and county and community college district expenditure limitation reports, help ensure public monies are protected and accounted for and that government entities follow certain State laws and regulations.

Special audits/reviews

7 reports

We conduct these reviews when required by law, or when the Joint Legislative Audit Committee directs us to perform them.

We Add Value by...

Lowering Costs

In our school district performance audits, we recommended districts reduce costs by reviewing high salaries, staffing levels, utility costs, disadvantageous energy contracts, and recovering overpayments. For example, we identified about \$258,100 the [Pine Strawberry Elementary School District](#) could save annually by addressing higher noninstructional staffing levels and pay. Additionally, we reported the [Buckeye Elementary School District](#) had an estimated loss of \$800,000 over 2 years due to a disadvantageous solar contract, and spent \$260,000 more on water and sewage than their peers.

Uncovering Fraud

Through our financial investigations work, we reported losses of \$9,065,406 leading to 64 felony counts, including 22 fraud schemes, 10 conflict of interest, 8 misuse of public monies, and 6 theft counts. For example, we investigated a former director of operations at [Wickenburg Unified School District](#) and found he participated in a District contract awarded to a vendor with whom he had an undisclosed conflict of interest involving construction materials and services valued between \$52,000 and \$72,000 that he received from the vendor and to whom he loaned \$25,000. The former employee may have also created false price quotes for other unrelated contracts. He was indicted on 4 felony counts.

Helping Government Work Better

Our school district performance audits of [Valentine Elementary](#) and [Bagdad Unified School Districts](#) found that they did not comply or document compliance with school bus driver random drug and alcohol testing requirements and did not perform systematic school bus maintenance, putting student safety at risk and decreasing the lifespan of school buses due to inadequate maintenance.

Similarly, in our performance audit and sunset review of the [Arizona Department of Public Safety](#), we found that the Department did not always enforce Minimum Standards for school bus maintenance and bus driver certification. Specifically, we notified the Department of 13 school districts that did not comply with Minimum Standards; the Department reported that it took no action in response to our notification. We recommended the Department continue developing and implementing procedures to better track, review, and follow up on reported instances of noncompliance.

Holding State Agencies and School Districts Accountable

Through our audit and follow-up work, we identify practices that lead to higher costs and/or do not protect the public. Specifically, our 30-month followup of our performance audit and sunset review of the [Arizona Department of Health Services \(ADHS\)](#) found none of our recommendations to improve long-term care facility (i.e., nursing home) complaint investigations had been implemented, and we identified additional significant prioritization and investigation failures that continued to put residents' health, safety, and welfare at risk. For example, contrary to federal requirements, ADHS inappropriately closed High-Priority complaints without on-site investigations. Our follow-up report included new recommendations to address the additional deficiencies and resulted in legislative hearings, wherein ADHS was asked to publicly explain its plan for implementing our recommendations and correcting the identified failures.

Our school district performance audit of [Buckeye Elementary School District](#) found that over 5 ½ years, the District paid to or on behalf of its superintendent \$1,712,976 of "additional compensation." The superintendent's total compensation was \$3,274,505, about 100 percent more than the State's 3 largest districts spent, on average, on superintendent compensation and may have been in violation of the Arizona Constitution. Also, inconsistent with public records law, the District omitted related critical information in employment agreements. Moreover, because the District miscalculated withholdings related to this "additional compensation," it overpaid to or on behalf of the superintendent an estimated \$571,256, or 33 percent. We submitted our report to the Arizona Attorney General's Office.

Informing Stakeholders

We completed our [annual analysis of school district spending](#) that looks at State- and district-level spending. We found that the State's per pupil and instructional spending percentage continued an upward trend, and the State's average teacher salary increased to \$56,349 in fiscal year 2021—a 16.5 percent increase over 2017's average, but short of the 20 percent cumulative budgeted goal.

Based on increased amounts of federal COVID-19 monies allocated for response and relief efforts, we compiled and issued reports on COVID-19 federal relief spending. First, we issued a [web-based report](#) providing summary information on Arizona school districts' and charter schools' \$1.1 billion spent and the Arizona Department of Education's \$18 million spent in fiscal year 2021 and schools' and ADE's planned uses for their remaining \$3.2 billion and \$383.1 million, respectively. We also issued the State of Arizona [Special COVID-19 Funding Report](#) providing information on the intended allocation of COVID-19 federal relief monies and audit results of the monies Arizona State government spent and distributed during fiscal year 2020.

We Provide High-Impact Training and Presentations

Our staff provide presentations to legislators and other government officials; and provide trainings, webinars, technical assistance, and other outreach to help improve governmental services.



National Awards and Recognition

We are consistently recognized for the quality, relevance, and professionalism of our work. For example, in September 2022, we received the highest rating possible in a [peer review](#), indicating we have designed and complied with a system of quality control that ensures our audits and reports are in compliance with Government Auditing Standards. Additionally, our interactive dashboard for our [Arizona School District Spending Analysis](#) received a [2022 Notable Document Award for Education](#) from the National Conference of State Legislatures Legislative Research Librarians Professional Staff Association. Finally, we received a [National Legislative Program Evaluation Society Certificate of Impact award](#) for our Arizona Department of Juvenile Corrections—Use of Temporary Stabilization Units performance audit.



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MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

DATE: November 21, 2022

TO: Representative Joanne Osborne, Chair
Senator Nancy Barto, Vice Chair
Members, JLAC

THROUGH: Lindsey Perry, Auditor General

FROM: Jeff Gove, Director, Performance Audit Division

SUBJECT: Consideration and approval of changes to 2022-2023 performance audit and sunset review schedule

Background

Laws 1978, Ch. 210, established the sunset review process, which requires most State agencies to receive a systematic review typically at least once every 8 years to determine whether they should be continued or terminated. A.R.S. §41-2953(B) directs the Auditor General to provide JLAC a list of agencies scheduled for termination in the next sunset schedule. The Office does not have sufficient resources to conduct all sunset reviews; therefore, JLAC determines which agencies the Office will review and which agencies will conduct self-reviews for the Committees of Reference (CORs).¹

JLAC previously approved the 2022-2023 performance audit and sunset review schedule and assigned the sunset reviews on that schedule to the Office or to the agencies to conduct self-reviews for the CORs. However, additional changes to the schedule are needed, as detailed below and shown in the attachment.

Addition of new work to 2023 performance audit schedule and increased follow-up workload

In the 2022 legislative session, the Legislature added additional work to our schedule. First, Laws 2022, Ch. 327, Sec. 1, requires the Arizona Auditor General to annually review the Arizona Department of Corrections, Rehabilitation, and Reentry's compliance with 7 statutory requirements. These include compliance with the statutory requirements for the inmate transition program and the earned release credit programs, which allow inmates meeting specific requirements to be released from prison early. The first annual review is due by September 1, 2023. We are currently working on this first review. Second, Laws 2022, Ch. 313, Sec. 55, requires

¹ The essential difference between sunset reviews the Office conducts and agency self-reviews is the depth and scope of the work performed. When the Office performs an agency's sunset review, it conducts a performance audit of the agency to identify ways the agency can operate more efficiently and effectively and independently gathers information to address the statutory sunset factors.

us to hire and oversee an independent consultant to examine the current adult protective services system and consider best practices to improve the delivery of services and safety of vulnerable adults. This work, which is due on or before October 1, 2023, is also underway and will require our staff to spend a significant amount of time working with the consultant to ensure the project is completed on time and in line with legislative expectations.

In addition, our workload related to following up with agencies to ensure they are implementing audit recommendations has increased significantly when compared to previous years. This increase is due in part to our Office conducting more audit work over the last few years and because we are often conducting follow-up work with agencies at least 3 or more times because they are taking longer to implement the recommendations. In fact, for 2023, we estimate conducting additional work and issuing 47 standalone follow-up reports. Further, our staff continue to conduct ongoing and extensive follow-up work related to the Arizona Department of Health Services long-term care complaints and self-reports to help ensure the Department implements not only the recommendations from the audit, but also new recommendations from our 30-month follow-up report and the Legislature.

Finally, as shown in agenda item 3, we have proposed an ambitious performance audit and sunset review schedule for 2024-2025, and it would be important for us to start on that schedule as soon as possible, including work related to the Arizona State Land Department.

To accommodate our increased audit and follow-up workload during the 2023 performance audit schedule, we propose that the following 4 agencies JLAC previously assigned to the Auditor General be reassigned to the CORs to conduct the sunset reviews:

- Industrial Commission of Arizona
- Physical Therapy, Board of
- Pioneers' Home, Arizona; State Hospital for Miners with Disabilities
- Private Postsecondary Education, State Board for

Additions to the 2023 sunset review schedule

Legislation passed in the 2022 session placed 2 additional sunset reviews on the 2022-2023 schedule, giving these agencies shortened continuations. The Office proposes these agencies be assigned to CORs because we are currently conducting followups on these agencies and do not have the resources to absorb these audits into our 2022-2023 workload. Our Office recently audited these agencies, and our follow-up work indicates the agencies are making progress in implementing our recommendations. Specifically:

- Arizona State Board of Funeral Directors and Embalmers—In August 2022, we issued an 18-month followup of our November 2020 performance audit and sunset review of the Board. We found the Board had implemented 17 of 24 recommendations and was in the process of implementing another 4. Another 2 recommendations were not yet applicable, and the Board had not implemented 1 of the recommendations. We will be conducting a 30-month followup with the Board in May 2023.
- Arizona Board of Examiners of Nursing Care Institution Administrators and Assisted Living Facility Managers—In November 2022, we issued a 30-month followup of our February 2020 performance audit and sunset review. We found the Board had implemented 13 of

17 recommendations and was in the process of implementing another 4. We will be conducting a 36-month followup with the Board in February 2023.

Action required

For the 6 agencies mentioned above, per statute, JLAC is required to determine whether the Office or the CORs will perform the sunset reviews.

2022-2023 Proposed Performance Audit and Sunset Review Schedule

(Revisions November 2022)

Statutorily mandated audits

Arizona Auditor General conducts

1. Parks Heritage Fund, Arizona State (A.R.S. §41-504)
2. Regional Transportation Authority Plan, Pima County Association of Governments (A.R.S. §41-1279.03)

New audits assigned to Arizona Auditor General during 2022 legislative session

3. Adult protective services system (Laws 2022, Ch. 313, Sec. 55)
4. Corrections, Rehabilitation and Reentry, Arizona Department of (Laws 2022, Ch. 327, Sec. 1)

Sunset reviews (agencies terminate in 2023 and 2024)

Arizona Auditor General conducts

5. Administration, Arizona Department of
6. Arizona Health Care Cost Containment System¹
7. Charter Schools, Board for
8. Child Safety, Arizona Department of
9. Commerce Authority, Arizona
10. Deaf and Blind, Arizona State Schools for the
11. Dental Examiners, Arizona State Board of
12. Economic Opportunity, Office of
13. Emergency and Military Affairs, Department of; State Emergency Council
14. Forestry and Fire Management, Arizona Department of
15. Foster Care Review Board
16. Liquor Licenses and Control, Department of
17. Massage Therapy, Arizona State Board of
18. Municipal Tax Code Commission
19. Naturopathic Physicians Medical Board
20. Optometry, Arizona State Board of
21. Parks Board, Arizona State
22. Public Safety Personnel Retirement System Board of Trustees (includes Elected Officials' Retirement Plan and Corrections Officer Retirement Plan)
23. Transportation, Arizona Department of
24. Followups at 6 and 18 months or longer if not making progress, including Arizona Department of Health Services, long-term care facility complaints and self-reports

CORs conduct

1. Accountancy, Arizona State Board of
2. Boiler Advisory Board
3. Cosmetology, Board of
4. Cotton Research and Protection Council, Arizona
5. Equalization, State Board of
6. Grain Research and Promotion Council, Arizona
7. Historical Society, Arizona
8. Historical Society of Arizona, Prescott
9. Homeland Security, Arizona Department of
10. Law Enforcement Merit System Council
11. Occupational Safety and Health Advisory Committee
12. Occupational Safety and Health Review Board
13. Outdoor Recreation Coordinating Commission, Arizona
14. Personnel Board, State

¹ The Joint Legislative Audit Committee directed the Arizona Auditor General to conduct the sunset review of the Arizona Health Care Cost Containment System at its September 19, 2018, meeting.

CORs conduct (continued)

- | | |
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| 15. | Power Authority, Arizona |
| 16. | Racing Commission, Arizona |
| 17. | Registrar of Contractors, Arizona |
| 18. | Resource Advisory Council, Arizona |
| 19. | Retirement System, Arizona State |
| 20. | Tax Appeals, Arizona Board of |
| 21. | Technical Registration, Board of |
| 22. | Tribal Relations, Governor's Office on |

Recommend JLAC reassign these sunset reviews from Arizona Auditor General to CORs

- | | |
|-----|--|
| 23. | Industrial Commission of Arizona |
| 24. | Physical Therapy, Board of |
| 25. | Pioneers' Home, Arizona; State Hospital for Miners with Disabilities |
| 26. | Private Postsecondary Education, State Board for |

Recommend JLAC assign these agencies with short continuations to CORs

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| 27. | Funeral Directors and Embalmers, Arizona State Board of |
| 28. | Nursing Care Institution Administrators and Assisted Living Facility Managers, Arizona Board of Examiners of |



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MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

DATE: November 21, 2022

TO: Representative Joanne Osborne, Chair
Senator Nancy Barto, Vice Chair
Members, JLAC

THROUGH: Lindsey Perry, Auditor General

FROM: Jeff Gove, Director, Performance Audit Division

SUBJECT: Consideration and approval of 2024-2025 proposed performance audit and sunset review schedule

Background

Laws 1978, Ch. 210, established the sunset review process, which requires most State agencies to receive a systematic review typically at least once every 8 years to determine whether they should be continued or terminated. A.R.S. §41-2953(B) directs the Auditor General to provide JLAC a list of agencies scheduled for termination in the next sunset schedule. The Office does not have sufficient resources to conduct all sunset reviews; therefore, JLAC determines which agencies the Office will review and which agencies the Committees of Reference (CORs) will review.

Before providing JLAC a proposed audit schedule, the Office obtains background information on the agencies, as well as input from legislators and other interested parties, to identify and recommend which agencies the Office should review. The Office uses the input from legislators and other stakeholders, and also considers prior audits and reviews of these agencies, to prioritize the agencies the Office should review and recommends that the CORs review the remaining agencies. However, JLAC ultimately determines whether the Office or CORs will perform the sunset reviews.¹

The proposed performance audit and sunset review schedule for 2024-2025 is attached. This schedule shows which agencies we propose the Office to conduct the sunset reviews and which agencies we propose the CORs review. The schedule also identifies 6 agencies or programs that statute mandates the Office to audit.

¹ The essential difference between sunset reviews the Office conducts and CORs conduct is the depth and scope of the work performed. When the Office performs an agency's sunset review, it conducts a performance audit of the agency to identify ways the agency can operate more efficiently and effectively and independently gathers information to address the statutory sunset factors.

Action required

Per statute, for the agencies scheduled for termination in the next sunset schedule, JLAC is required to determine whether the Office or CORs will perform the sunset reviews.

2024-2025 Proposed Performance Audit and Sunset Review Schedule

Statutorily mandated audits

Arizona Auditor General conducts

1. Child Safety, Arizona Department of (A.R.S. §41-1966; audits for 2024-2025 still to be determined)
2. Corrections, Rehabilitation and Reentry, Arizona Department of (annual audit, Laws 2022, Ch. 327, Sec. 1)
3. Education, Arizona Department of (includes School Safety Program, A.R.S. §§15-154 and 41-2958)¹
4. Sports and Tourism Authority, Arizona (A.R.S. §5-812)
5. Transportation Excise Tax, Coconino County (A.R.S. §41-1279.03)
6. Transportation Excise Tax, Gila County (A.R.S. §41-1279.03)

Sunset reviews (agencies terminate in 2025 and 2026)

Arizona Auditor General conducts

7. Barbering and Cosmetology, Arizona Board of
8. Behavioral Health Examiners, Arizona State Board of
9. Boxing and Mixed Martial Arts Commission, Arizona State
10. Economic Security, Arizona Department of
11. Executive Clemency, Arizona Board of
12. Gaming, Arizona Department of
13. Housing, Arizona Department of
14. Insurance and Financial Institutions, Arizona Department of
15. Land Department, Arizona State
16. Nursing, Arizona State Board of
17. Occupational Therapy Examiners, Arizona Board of
18. Osteopathic Examiners in Medicine and Surgery, Arizona Board of
19. Pharmacy, Arizona State Board of
20. Physician Assistants, Arizona Regulatory Board of
21. Regulatory Review Council, Governor's
22. Respiratory Care Examiners, Arizona State Board of
23. School Facilities Oversight Board
24. Veterinary Medical Examining Board, Arizona State
25. Followups at 6 and 18 months or longer if not making progress, including Arizona Department of Health Services, long-term care facility complaints and self-reports

CORs conduct

1. Beef Council, Arizona
2. Civil Rights Advisory Board, Arizona
3. Credit Enhancement Eligibility Board
4. Criminal Justice Commission, Arizona
5. Exposition and State Fair Board, Arizona
6. Higher Education, Western Interstate Commission for
7. Property Tax Oversight Commission

¹ The Arizona Department of Education audits are due July 1, 2026.



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DATE: November 21, 2022

TO: Representative Joanne Osborne, Chair
Senator Nancy Barto, Vice Chair
Members, JLAC

THROUGH: Lindsey Perry, Auditor General

FROM: Jeff Gove, Director, Performance Audit Division

SUBJECT: Consideration and approval of 2024-2025 COR assignments and additions to the 2022-2023 COR assignments

Background

JLAC is statutorily required to assign agencies subject to a sunset review to CORs, regardless of whether the Office will conduct the sunset review or the agency will conduct a self-review for the CORs. JLAC is also responsible for assigning all other performance audits to CORs or other pertinent committees to ensure that each audit receives a public hearing by a legislative committee. Agencies are generally assigned to the CORs reflecting the standing committees most likely to be responsible for hearing any legislation affecting that specific agency and have knowledge or expertise in that particular subject area.

Attached are the Senate President's and House Speaker's recommendations for the 2024 and 2025 sunset reviews and performance audits. Also attached are the Senate President's and House Speaker's recommendations for adding the adult protective services system; the Arizona Department of Corrections, Rehabilitation and Reentry; the Arizona State Board of Funeral Directors and Embalmers; and the Arizona Board of Nursing Care Institution Administrators and Assisted Living Facility Managers to the 2022-2023 COR assignments.

The CORs are responsible for holding at least 1 public hearing to discuss the audit and/or sunset review report and receive testimony from agency officials and the public. These hearings should be held after the report is issued and when the Legislature is not in session or before the third Friday in January.

Attachment A details the 2024 COR recommendations. **Attachment B** details the 2025 COR recommendations. **Attachment C** includes the addition of the Arizona State Board of Funeral Directors and Embalmers to the 2022 COR assignments. **Attachment D** includes the addition of the adult protective services system; the Arizona Department of Corrections, Rehabilitation and Reentry; and the Arizona Board of Nursing Care Institution Administrators and Assisted Living Facility Managers to the 2023 COR assignments. In addition, any House- or Senate-

recommended changes to COR assignments previously approved by JLAC during its December 17, 2020, meeting are noted in blue font.

Action required

JLAC may either approve the CORs as recommended by the Senate President and House Speaker or assign different CORs.

Attachment A
2024 performance audit and sunset review schedule
President and Speaker COR recommendations

Statutory reference	Agency selected for review	COR recommendations
A.R.S. §41-3025.01	Criminal Justice Commission, Arizona	House: Judiciary Senate: Judiciary
A.R.S. §41-3025.02	Insurance and Financial Institutions, Arizona Department of	House: Commerce Senate: Finance
A.R.S. §41-3025.03	Exposition and State Fair Board, Arizona	House: Land, Agriculture, and Rural Affairs Senate: Commerce
A.R.S. §41-3025.04	Respiratory Care Examiners, Arizona State Board of	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-3025.05	Regulatory Review Council, Governor's	House: Government and Elections Senate: Government
A.R.S. §41-3025.06	Housing, Arizona Department of	House: Commerce Senate: Commerce
A.R.S. §41-3025.07	School Facilities Oversight Board	House: Education Senate: Education
A.R.S. §41-3025.08	Property Tax Oversight Commission	House: Ways and Means Senate: Finance
A.R.S. §41-3025.11	Osteopathic Examiners in Medicine and Surgery, Arizona Board of	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-3025.13	Executive Clemency, Arizona Board of	House: Judiciary Senate: Judiciary
A.R.S. §41-3025.14	Behavioral Health Examiners, Arizona State Board of	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-1279.03	Transportation Excise Tax, Gila County	House: Transportation Senate: Transportation and Technology
A.R.S. §41-1610.02	Corrections, Rehabilitation and Reentry, Arizona Department of	House: Judiciary Senate: Judiciary
A.R.S. §41-1966	Child Safety, Arizona Department of (audit to be determined)	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-1279.03	School Districts	House: Education Senate: Education

Attachment B
2025 performance audit and sunset review schedule
President and Speaker COR recommendations

Statutory reference	Agency selected for review	COR recommendations
A.R.S. 41-3026.01A4:A23	Credit Enhancement Eligibility Board	House: Education Senate: Education
A.R.S. 41-3026.02	Veterinary Medical Examining Board, Arizona State	House: Natural Resources, Energy, and Water Senate: Natural Resources, Energy, and Water
A.R.S. 41-3026.03	Beef Council, Arizona	House: Land, Agriculture, and Rural Affairs Senate: Natural Resources, Energy, and Water
A.R.S. 41-3026.04	Gaming, Arizona Department of	House: Commerce Senate: Commerce
A.R.S. 41-3026.05	Land Department, Arizona State	House: Land, Agriculture, and Rural Affairs Senate: Natural Resources, Energy, and Water
A.R.S. 41-3026.06	Barbering and Cosmetology, Arizona Board of	House: Commerce Senate: Commerce
A.R.S. §41-3026.07	Pharmacy, Arizona State Board of	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-3026.07	Nursing, Arizona State Board of	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-3026.09	Occupational Therapy Examiners, Arizona Board of	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-3026.10	Higher Education, Western Interstate Commission for	House: Education Senate: Education
A.R.S. §41-3026.11	Civil Rights Advisory Board, Arizona	House: Judiciary Senate: Judiciary
A.R.S. §41-3026.12	Physician Assistants, Arizona Regulatory Board of	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-3026.21	Economic Security, Arizona Department of	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-3026.22	Boxing and Mixed Martial Arts Commsision, Arizona State	House: Commerce Senate: Commerce
A.R.S. §5-812	Sports and Tourism Authority, Arizona	House: Commerce Senate: Commerce
A.R.S. §15-154, A.R.S. §41-2958	Education, Arizona Department of (including School Safety Program)	House: Education Senate: Education
A.R.S. §41-1279.03	Transportation Excise Tax, Coconino County	House: Transportation Senate: Transportation and Technology
A.R.S. §41-1610.02	Corrections, Rehabilitation and Reentry, Arizona Department of	House: Judiciary Senate: Judiciary
A.R.S. §41-1966	Child Safety, Arizona Department of (audit to be determined)	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-1279.03	School Districts	House: Education Senate: Education

Attachment C

2022 performance audit and sunset review schedule

President and Speaker COR recommendations and assignments

COR recommendations (new assignments)		
Statutory reference	Agency selected for review	COR recommendations
A.R.S. §41-3023.17	Funeral Directors and Embalmers, Arizona State Board of	House: Commerce Senate: Commerce

COR assignments (approved December 17, 2020, except blue font represents changes)		
Statutory reference	Agency selected for review	COR recommendations
A.R.S. §41-3023.01	Arizona Health Care Cost Containment System	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-3023.02	Accountancy, Arizona State Board of	House: Commerce Senate: Commerce
A.R.S. §41-3023.03	Schools for the Deaf and Blind, Arizona State	House: Education Senate: Education
A.R.S. §41-3023.04	Grain Research and Promotion Council, Arizona	House: Land, Agriculture, and Rural Affairs Senate: Natural Resources and Energy
A.R.S. §41-3023.05	Naturopathic Physicians Medical Board	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-3023.06	Parks Board, Arizona State	House: Land, Agriculture, and Rural Affairs Senate: Natural Resources and Energy
A.R.S. §41-3023.07	Dental Examiners, Arizona State Board of	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-3023.08	Optometry, Arizona State Board of	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-3023.09	Municipal Tax Code Commission	House: Ways and Means Senate: Finance
A.R.S. §41-3023.10	Massage Therapy, Arizona State Board of	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-3023.11	Law Enforcement Merit Council	House: Military Affairs and Public Safety Senate: Judiciary
A.R.S. §41-3023.12	Tax Appeals, Arizona Board of	House: Ways and Means Senate: Finance
A.R.S. §41-3023.13	Emergency and Military Affairs, Department of: State Emergency Council	House: Military Affairs and Public Safety Senate: Government
A.R.S. §41-3023.14	Liquor Licenses and Control, Department of	House: Commerce Senate: Commerce
A.R.S. §41-3023.15	Economic Opportunity, Office of	House: Commerce Senate: Commerce
A.R.S. §41-3024.16	Outdoor Recreation Coordinating Commission, Arizona	House: Land, Agriculture, and Rural Affairs Senate: Natural Resources and Energy
A.R.S. §41-1966	Child Safety, Arizona Department of (audit to be determined)	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-1279.03	Pima Association of Governments Regional Transportation Plan	House: Transportation Senate: Transportation and Technology
A.R.S. §41-504	Arizona State Parks Heritage Fund	House: Land, Agriculture, and Rural Affairs Senate: Natural Resources and Energy
A.R.S. §41-1279.03	School Districts	House: Education Senate: Education

Attachment D
2023 performance audit and sunset review schedule
President and Speaker COR recommendations and assignments

COR recommendations (new assignments)		
Statutory reference	Agency selected for review	COR recommendations
Laws 2022, Ch. 313 §55	Adult protective services system	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-1610.02	Corrections, Rehabilitation and Reentry, Arizona Department of	House: Judiciary Senate: Judiciary
A.R.S. §41-3024.03	Nursing Care Institution Administrators and Assisted Living Facility Managers, Arizona Board of Examiners of	House: Health and Human Services Senate: Health and Human Services

COR assignments (approved December 17, 2020, except blue font represents changes)		
Statutory reference	Agency selected for review	COR recommendations
A.R.S. §41-3024.01 +A12:A42	Resource Advisory Council, Arizona	House: Natural Resources, Energy and Water Senate: Natural Resources and Energy
A.R.S. §41-3024.02	Physical Therapy, Arizona Board of	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-3024.04	Registrar of Contractors, Arizona	House: Commerce Senate: Commerce
A.R.S. §41-3024.05	Cosmetology, Arizona Board of	House: Commerce Senate: Commerce
A.R.S. §41-3024.06	Child Safety, Arizona Department of	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-3024.07	Cotton Research and Protection Council, Arizona	House: Land, Agriculture, and Rural Affairs Senate: Natural Resources and Energy
A.R.S. §41-3024.08	Historical Society, Arizona	House: Government and Elections Senate: Natural Resources and Energy
A.R.S. §41-3024.09	Historical Society of Arizona, Prescott	House: Government and Elections Senate: Natural Resources and Energy
A.R.S. §41-3024.10	Personnel Board, State	House: Government and Elections Senate: Government
A.R.S. §41-3024.11	Technical Registration, Board of	House: Commerce Senate: Commerce
A.R.S. §41-3024.12	Pioneers' Home, Arizona; State Hospital for Miners with Disabilities	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-3024.13	Equalization, State Board of	House: Ways and Means Senate: Finance
A.R.S. §41-3024.14	Administration, Arizona Department	House: Government and Elections Senate: Government
A.R.S. §41-3024.15	Charter Schools, Arizona State Board for	House: Education Senate: Education
A.R.S. §41-3024.16	Power Authority, Arizona	House: Natural Resources, Energy and Water Senate: Natural Resources and Energy
A.R.S. §41-3024.17	Occupational Safety and Health Advisory Committee	House: Commerce Senate: Commerce
A.R.S. §41-3024.18	Boiler Advisory Board	House: Commerce Senate: Commerce
A.R.S. §41-3024.19	Occupational Safety and Health Review Board	House: Commerce Senate: Commerce
A.R.S. §41-3024.20	Industrial Commission of Arizona	House: Commerce Senate: Commerce
A.R.S. §41-3024.21	Forestry and Fire Management, Arizona Department of	House: Natural Resources, Energy and Water Senate: Natural Resources and Energy
A.R.S. §41-3024.22	Homeland Security, Arizona Department of	House: Military Affairs and Public Safety Senate: Government

COR assignments (approved December 17, 2020, except blue font represents changes) (continued)

Statutory reference	Agency selected for review	COR recommendations
A.R.S. §41-3024.23	Office on Tribal Relations, Governor's	House: Government and Elections Senate: Government
A.R.S. §41-3024.24	Private Postsecondary Education, Arizona State Board for	House: Education Senate: Education
A.R.S. §41-3024.25	Transportation, Arizona Department of	House: Transportation Senate: Transportation and Technology
A.R.S. §41-3024.26	Retirement System, Arizona State	House: Government and Elections Senate: Finance
A.R.S. §41-3024.27	Public Safety Personnel Retirement System Board of Trustees (includes Elected Officials' Retirement Plan and Corrections Officer Retirement Plan)	House: Government and Elections Senate: Finance
A.R.S. §41-3024.28	Racing Commission, Arizona	House: Land, Agriculture, and Rural Affairs Senate: Natural Resources and Energy
A.R.S. §41-3024.30	Foster Care Review Board	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-3024.31	Commerce Authority, Arizona	House: Commerce Senate: Commerce
A.R.S. §41-1966	Child Safety, Arizona Department of (audit to be determined)	House: Health and Human Services Senate: Health and Human Services
A.R.S. §41-1279.03	School Districts	House: Education Senate: Education



LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

DATE: November 21, 2022

TO: Representative Joanne Osborne, Chair
Senator Nancy Barto, Vice-Chair
Members, JLAC

THROUGH: Lindsey Perry, Auditor General

FROM: Stephanie Gerber, Director, Financial Audit Division

SUBJECT: Fiscal years 2022 and 2023 financial and compliance audit schedule and consideration of approval to bill entities for audit work

Background

Under A.R.S. §§41-1279.03 and 41-1279.21, the Office conducts annual financial and compliance audits of all State agencies, including the State universities, counties, and community college districts. These audits are conducted under the federally mandated single audit requirements established by the U.S. Office of Management and Budget. In addition, the Office conducts other financial audits and reviews at the Legislature's request and as mandated in statute.

Attachment A titled *Financial and Compliance Audit Schedule* provides a complete list of the Office's scheduled financial and compliance audits for fiscal years 2022 and 2023.

Action required

This schedule has been included as a courtesy and does not require any action.

Background

Under A.R.S. §41-1279.03(C), with JLAC approval, the Office may charge auditees a reasonable fee for performing specific audit work or providing other accounting services. For example, this would include audits of federal grants required by the federal government for which auditees can ultimately recover the audit costs from the federal grantor(s).

Attachment B titled *List of Entities to Bill for Audit Work* includes those auditees the Office plans to bill for specific audit work for fiscal years 2022 and 2023. See action required below.

Action required

JLAC needs to consider and approve the Office to bill the entities in Attachment B for audit work or other accounting services we perform.

Attachment A
Financial and compliance audit schedule
Fiscal years 2022 and 2023

Financial and compliance audits

State of Arizona

1. State of Arizona as a whole
2. Department of Economic Security—Arizona Long-Term Care System
3. Office of the State Treasurer
4. Arizona State University
5. Northern Arizona University
6. University of Arizona

Arizona counties

1. Apache County
2. Cochise County
3. Coconino County
4. Gila County
5. Graham County
6. Greenlee County
7. La Paz County
8. Maricopa County
9. Mohave County
10. Navajo County
11. Pima County
12. Pinal County
13. Santa Cruz County
14. Yavapai County
15. Yuma County

Arizona college districts

1. Cochise County Community College District
2. Coconino County Community College District
3. Gila County Community College District
4. Graham County Community College District
5. Maricopa County Community College District
6. Mohave County Community College District
7. Navajo County Community College District
8. Pima County Community College District
9. Pinal County Community College District
10. Santa Cruz County Community College District
11. Yavapai County Community College District
12. Yuma/La Paz Counties Community College District

Other statutorily required financial and accountability audits/special reviews¹

1. Annual Expenditure Limitation Reports for Counties and Annual Budgeted Expenditure Limitation Reports for College Districts
2. Arizona Attorney General Colorado River Revolving Fund Revenues and Expenses (only issued for years with fund activity)
3. Arizona Attorney General Use of Anti-racketeering Revolving Fund Monies (issued every 2 years)
4. Arizona Citizens Clean Elections Commission Revenues and Expenses (issued every 4 years)
5. Arizona County Community College Districts and Colleges of Qualifying Indian Tribes Full-Time Equivalent Student Enrollment Report
6. Arizona State Board Member Per Diem Compensation and Expense Reimbursements
7. Arizona State Procurement Office—Compliance Review
8. Arizona Statement of Federal Land Payments
9. Arizona University System Full-Time Equivalent Student Enrollment Report
10. Diné College Funding Compact
11. Navajo Technical University Funding Compact
12. Tohono O'odham College Funding Compact

¹ Reports issued annually unless otherwise noted.

Attachment B
List of entities to bill for audit work
Fiscal years 2022 and 2023

Pursuant to A.R.S. §41-1279.03(C), with JLAC’s approval, the Office may bill the following entities for audit work

State of Arizona	
State agencies and universities	
Arizona counties	
1.	Apache County
2.	Cochise County
3.	Coconino County
4.	Gila County
5.	Graham County
6.	Greenlee County
7.	La Paz County
8.	Maricopa County
9.	Mohave County
10.	Navajo County
11.	Pima County
12.	Pinal County
13.	Santa Cruz County
14.	Yavapai County
15.	Yuma County
Arizona college districts	
1.	Cochise County Community College District
2.	Coconino County Community College District
3.	Gila County Community College District
4.	Graham County Community College District
5.	Maricopa County Community College District
6.	Mohave County Community College District
7.	Navajo County Community College District
8.	Pima County Community College District
9.	Pinal County Community College District
10.	Santa Cruz County Community College District
11.	Yavapai County Community College District
12.	Yuma/La Paz Counties Community College District
Arizona school districts	
Assess whether a school district is no longer in noncompliance with the <i>Uniform System of Financial Records for Arizona School Districts</i> and whether school district contracted audits meet minimum standards	



LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

DATE: November 21, 2022

TO: Representative Joanne Osborne, Chair
Senator Nancy Barto, Vice Chair
Members, JLAC

FROM: Lindsey Perry, Auditor General

SUBJECT: Consideration of request for special audit of the Arizona State Land Department

Background

Under A.R.S. §41-1279.03(A)(4), JLAC may direct the Office to perform special research requests, special audits, and related assignments of any state agency. Individual legislators may not assign audits to the Office; however, JLAC may consider the legislator's request and direct the Office to conduct an audit. As of the date of this memo, JLAC has received 1 written legislative request for a special audit of the Arizona State Land Department (Department). The request is attached.

The request specifically outlines 3 areas for the special audit to focus on:

1. An evaluation of whether the Department's process for determining agricultural rates is aligned with peer states and best practices.
2. An analysis of appropriate reporting mechanisms for groundwater pumping, especially by foreign leases.
3. To address whether the contract between Fondomonte Arizona LLC and the Department:
 - a. Provides lease costs for land and water below market rates.
 - b. Adequately addresses the issue of protecting water levels in the basin.

As discussed in agenda item 3, the Department's sunset date is July 1, 2026. Therefore, the Department's performance audit and sunset review is due to the CORs by October 1, 2025. Dependent on JLAC's approval for the Office to conduct the Department's sunset review as presented in the 2024-2025 proposed performance audit and sunset review schedule (see agenda item 3), the Office recommends conducting this requested special audit at the same time as the Department's performance audit and sunset review. The Office estimates that it could commence this special audit by summer 2023 during the Department's sunset review.

Additionally, in accordance with Laws 2022, Ch. 366, the Arizona Department of Water Resources is required to conduct an annual water supply and demand assessment for at least 6 of the 46 groundwater basins established pursuant to A.R.S. §45-403. This first assessment report is due by December 1, 2023. The Office would rely on and use this assessment report to help guide work in the 3 areas previously outlined.

Action required

JLAC can consider the request for a special audit of the Arizona State Land Department. If JLAC approves the special audit as part of the Department's performance audit and sunset review, the Office will commence the special audit work in the summer of 2023.

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COMMITTEES:
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MILITARY AFFAIRS & PUBLIC SAFETY

DISTRICT 23

Arizona House of Representatives Phoenix, Arizona 85007

JOINT LEGISLATIVE BUDGET
JOINT COMMITTEE ON CAPITOL REVIEW

September 27th, 2022

Re: Special audit request of the Arizona State Land Department

Dear Representative Osborne,

Butler Valley is a 288 square mile groundwater basin in La Paz County. Private lands only account for 1,292 acres. The remainder is made up to state trust lands (80,624 acres) and federal public lands (102,130 acres). Based on a 2020 U.S. Geological Survey field verification survey, there are 4,000 acres of irrigated acreage in this basin. The Arizona State Land Department has authority over all state trust lands and the natural products from these trust lands with the mission of managing trust lands, preserving the trust land's long-term value, and optimizing economic returns to the beneficiaries named in the Enabling Act ([A.R.S. § 37-102](#)).

Fondomonte Arizona LLC is a Saudi-owned company that leases about 3,500 acres of state trust land in Butler Valley. This lease has attracted scrutiny because of the favorable terms the company received for the lease rental and groundwater usage.

State trust lands can be leased for various uses, including agricultural uses ([A.R.S. § 37-132\(A\)\(6\)](#)). All state trust lands (including improvements to those lands) are subject to appraisal ([A.R.S. § 37-231](#)). Crucially, an agricultural lease must have an annual rental of not less than the appraised rental value of the land. This rental can be adjusted each year ([A.R.S. § 37-285\(A\)](#)). However, Fondomonte only pays \$25 per acre in annual rent for this lease, which may be well below the market rate. The State Land Department believes that \$50 per acre is the market rate for such a lease. Additionally, it provides a 50% discount because the agency does not pay for the improvements. But according to an *AZCentral* article, experts in this area have suggested that \$150 per acre is the typical rate that a farmer would pay for leasing land with flood irrigation. (A mass appraisal conducted for the State Land Department in 2018 similarly placed the "most reasonable rent" for flood irrigation in nearby areas at \$125-175 per acre.) It has also been reported that the State Land Department has not changed its agricultural rental rates since 2006.

As stated before, Fondomonte's activities occur in Butler Valley, which is one of four designated areas from which groundwater can be withdrawn and transported to initial active management areas (AMAs) subject to certain requirements. However, unlike the other three designated areas, there are very few limitations on transporting groundwater in Butler Valley. Groundwater can be withdrawn and transported from state trust lands and lands owned by political subdivisions, such as cities and towns. (Similarly, the title to lands from which groundwater is being transported can only be conveyed to the State or its political subdivisions.) There are no restrictions on how much groundwater can be transported away from this basin or on who can transport or use transported groundwater ([A.R.S. § 45-553](#)). What this effectively means is that Butler Valley serves as an open, unrestricted source of water for metropolitan areas.

Like most rural areas of the state, anyone can withdraw and use groundwater in Butler Valley for "reasonable and beneficial use" ([A.R.S. § 45-453](#)). The State Land Department does not require Fondomonte to report on its groundwater pumping. The best available estimate is around 18,000 acre-

Representative Joanne Osborne, LD-13

September 27, 2022

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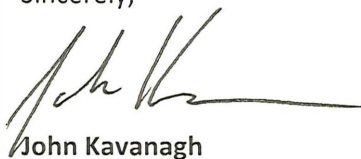
feet per year. Given that there's (at most) 1,000 acre-feet of natural recharge to this basin annually and this basin is a "closed basin" (meaning very little water enters or leaves it), any overpumping of groundwater could threaten Butler Valley's potential as a water supply for initial AMAs.

Therefore, I am asking the Co-Chairs of the Joint Legislative Audit Committee (JLAC) to convene a meeting to call for a special audit of the Arizona State Land Department to be conducted by the Office of the Auditor General to address the following:

1. An evaluation of if the department's process for determining agricultural rental rates is aligned with peer states and best practices.
2. An analysis on appropriate reporting mechanisms for groundwater pumping especially by foreign leases.
3. To address whether the contract between Fondomonte and the State Land Department:
 - a. Provides lease costs for land and water below market rates.
 - b. Adequately addresses the issue of protecting water levels in the basin.

We as leaders in this state cannot stand by and let our precious and ever-dwindling groundwater become depleted by foreign interests at a fraction of the price.

Sincerely,



John Kavanagh

Arizona House of Representatives

District 23

Scottsdale, Fountain Hills, Rio Verde, and Tonto Verde

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cc: Senator Nancy Barto, LD-15

