



A REPORT
TO THE
ARIZONA LEGISLATURE

Joint Legislative Audit Committee

November 5, 2015—2:00 p.m.
Senate Hearing Room 1



Debra K. Davenport
Auditor General

Interim agendas can be obtained via the Internet at <http://www.azleg.state.az.us/InterimCommittees.asp>

ARIZONA STATE LEGISLATURE

INTERIM MEETING NOTICE
OPEN TO THE PUBLIC

JOINT LEGISLATIVE AUDIT COMMITTEE

Date: Thursday, November 5, 2015

Time: 2:00 P.M.

Place: SHR 1

AGENDA

- Call to Order - opening remarks
- Approval of minutes
- 1. Consideration of audit request
- 2. Consideration and approval of proposed 2016-2017 performance audit and sunset review schedule
- 3. Consideration and approval of additions to 2016 Committees of Reference assignments
- 4. Presentation and status update of legislatively directed work in Department of Child Safety
- 5. Presentation of financial audit schedule and consideration of cost reimbursement audits for fiscal year 2016
- 6. Presentation and status update of school-wide audit team schedule for 2016-2017
- 7. Public testimony
- 8. Adjourn

Members:

Senator Judy Burges, Chair - 2015
 Senator Nancy Barto
 Senator Lupe Contreras
 Senator David Farnsworth
 Senator Lynne Pancrazi
 Senator Andy Biggs, Ex-officio



Representative John Allen, Chair - 2016
~~Representative Gina Cobb~~
 Representative Anthony Kern
 Representative Debbie McCune Davis
 Representative Rebecca Rios
 Representative Kelly Townsend
 Representative David Gowan, Ex-officio

11/3/15
sh
sa

For questions regarding this agenda, please contact Senate Research Department.
Persons with a disability may request a reasonable accommodation such as a sign language interpreter, by contacting the Senate Secretary's Office: (602) 926-4231 (voice). Requests should be made as early as possible to allow time to arrange the accommodation.



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

DATE: November 5, 2015

TO: Senator Judy Burges, Chair
Members, Joint Legislative Audit Committee

FROM: Debbie Davenport, Auditor General

SUBJECT: Audit Request from Legislator

Background

Under A.R.S. §41-1279.03(A)(4), the Joint Legislative Audit Committee (JLAC) may direct the Office of the Auditor General (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 one written legislative request for an audit of the Arizona Early Childhood Development and Health Board (Board). A copy of this request is attached.

If JLAC determines that it wants the Office to conduct an audit of the Board, the Office proposes that it conduct a special audit of the Board, due by August 31, 2016, that consists of a review of the following:

- Board revenues and expenditures for the year ended June 30, 2015, and any revenue projections;
- Board processes for soliciting, reviewing, and approving grant applications;
- Board processes and practices for distributing grant funding and monitoring grant awards;
- Board processes for evaluating the effectiveness/outcomes of funded programs;
- The cost and purpose of media and outreach efforts, including an assessment of any impact studies of these efforts; and
- Board processes for identifying potential areas of duplication or opportunities for collaboration among board-funded programs and other

state agencies and/or the educational system serving similar child populations.

If JLAC approves the audit of the Board, the Office proposes that JLAC remove two sunset reviews from the Office and reassign them to a Committee of Reference (COR) to free up the resources necessary to conduct the audit of the Board. The Office proposes reassigning the following two sunset reviews:

- School Safety Program Oversight Committee
- Western Interstate Commission for Higher Education

Action Required

JLAC needs to consider the request for an audit of the Arizona Early Childhood Development and Health Board. If JLAC approves the audit of the Board, JLAC needs to consider and approve transferring sunset reviews of the School Safety Program Oversight Committee and the Western Interstate Commission for Higher Education from the Office to a COR, which would occur under Tab 2.

ANDY BIGGS
DISTRICT 12



COMMITTEES:

RULES, CHAIRMAN

SENATE PRESIDENT
FIFTY-FIRST LEGISLATURE

CAPITOL COMPLEX, SENATE BUILDING
PHOENIX, ARIZONA 85007-2890
PHONE (602) 926-4371
TOLL FREE 1-800-352-8404
FAX (602) 417-3022
E-MAIL abiggs@azleg.gov

Arizona State Senate

October 20, 2015

Judy Burges, Chairman
Joint Legislative Audit Committee:

Dear Judy:

In response to The Early Childhood Development and Health Board's ("First Things First") vocal opposition to proposals that utilize the agency's surplus revenues for education or other programs serving children, I believe an audit of First Things First is appropriate and long overdue.

As such, I respectfully request that the Joint Legislative Audit Committee seek a forensic audit of expenditures as well as a performance audit. I believe a forecast of revenue is warranted, as the organization is preparing for a loss of revenues and decline of services. In addition, an audit of First Things First's performance is necessary as there has been no analysis on the impact that First Things First has had in terms of outcomes and achievement since its inception. Specifically, we should have an understanding of how the programs comport with our education system, if they have met or exceeded the agency's projected goals and where the services align with those already provided by the state. The taxpayers deserve this independent review. At a minimum a baseline measurement of the program, which we require of all other state funded programs, is necessary to ensure that resources are adequately purposed.

I am attaching the "Accountability" fact sheet and the recent Annual Report contained on the Early Childhood Development website for your review as a frame of reference as to what taxpayers see in transparency of government spending. Former Senate President Bob Burns was on point in recognizing that First Things First may duplicate efforts that are required by state law. The revenue stream of First Things First could certainly benefit Arizona's children to a greater extent. I would like to continue his good work, and these audits will be informative.

Thank you for your consideration.

Andy Biggs
Senate President

cc: John Allen
✓ Debbie Davenport, Auditor General
Attachments

EARLY CHILDHOOD DEVELOPMENT **ACCOUNTABILITY**

The success of the (First Things First) board and the regional partnerships, as well as the programs they undertake and fund, (must) be measured by outcomes for children and families.

- Arizona Revised Statutes

Effectiveness and Efficiency – It’s the Law!

When voters created First Things First, they built efficiency and effectiveness for early childhood funds into the law. The statutes that guide our work require that:

- 90 cents of every tobacco tax dollar currently directed to FTF go into a program account that can only be used to fund programs or services that benefit children and families.
- Decisions about which programs to fund are made by local communities who know best what their kids need.
- Every two years, the state board and regional councils are required to do extensive studies on the needs of children in Arizona and in specific communities, as well as the resources available to meet those needs. These studies ensure that programs funded meet the needs of local communities and allow for changes as improvements are made and as new needs are identified.
- Every year, First Things First’s finances are audited by an independent organization, and the results of that audit are made public.
- In addition, FTF is required to submit an annual report to the Governor and Legislature that reflects how monies were spent and the impact to kids and families.



Funding that Works

Part of being both efficient and effective is funding what works. Services funded by FTF are backed up by evidence that they improve the early education and health of children 5 years old and younger. Every contract approved by FTF meets the procurement standards established by the Arizona Department of Administration. Selected grantees must provide comprehensive financial and service reports on a quarterly basis. Those progress reports outline how funds are being used, the number of children and families served, as well as narrative information about the impact of those services.



FTF monitors the impact of its programs and services in three tiers:

- Grantee Accountability – each grantee must provide information that shows they are providing the services to children required in their contracts with FTF.
- Programmatic Accountability – Programs at FTF are evaluated on whether the services provided are achieving the desired result in that area. For example, did the Arizona Parent Kit effectively impact parental knowledge and behavior?
- Statewide Accountability – Statewide studies determine whether the services funded by FTF collectively are resulting in children arriving at school healthier and ready to succeed.

Fulfilling Our Commitment to Arizona's Youngest Kids

While it is important to ensure that individual grantees or strategies are successful, it is also critical that taken together – and as part of a larger, statewide early childhood system – those services are producing long-term gains in school readiness for Arizona's children. To that end, FTF has funded several multi-year efforts to assess the success of the voters' early childhood commitment.

2014 ANNUAL REPORT



FIRST THINGS FIRST

Ready for School. Set for Life.

THINK YOU KNOW FIRST THINGS FIRST?



While many Arizonans recognize First Things First as a crucial partner in enhancing school readiness for young children, they may not realize just how much First Things First invests in local communities. That's because First Things First largely partners with successful programs to expand their capacity to strengthen families. Below is a sample of the community-based programs whose crucial work has been supported through funding from First Things First.

Arizona Kith and Kin Project

Information and support for relatives, friends and neighbors caring for young kids.

Arizona Parent Kit

Free information for all new parents to support their child's healthy development.

Baby Smarts

Voluntary, home-based parenting education and support.

Best for Babies

Improves outcomes for infants in the child welfare system.

Birth to 5 Helpline

Toll-free statewide hotline that answers caregivers' toughest parenting questions.

Bright Beginnings

Voluntary, home-based parenting education and support.

Building Bright Futures

Voluntary, home-based parenting education and support.

Early Steps to School Success

Voluntary, home-based parenting education and support.

Family Resource Centers

Community-based information, training and referrals for families.

First Teeth First

Oral health screenings and application of preventative fluoride varnishes.

Grandparents Raising Grandchildren

Tools for grandparents raising infants, toddlers and preschoolers.

Growing Up Great

Community-based parenting classes for families of kids 5 and younger.

Healthy Families

Voluntary, home-based parenting education and support.

Healthy Smiles

Oral health screenings and application of preventative fluoride varnishes.

Healthy Steps

Developmental screening and tools to help parents meet their child's health needs.

Imagination Library

Tips for parents to promote literacy and free monthly books for young kids to take home.

KinderCamp

Kindergarten transition program for children who did not have access to preschool.

My Child's Ready

Voluntary, home-based parenting education and support.

Nurse Family Partnership

Voluntary, home-based parenting education and support.

Parents as Teachers

Voluntary, home-based parenting education and support.

Professional Career Pathways

Increases the skills of professionals working with infants, toddlers and preschoolers.

Professional REWARD\$

Stipends to reward longevity and keep the best teachers working with our youngest kids.

Quality First

Improves the quality of child care and preschool and provides scholarships for kids to attend quality early learning programs.

Raising A Reader

Highlights the importance of early literacy and gives parents tools to support language development.

Reach Out and Read

Partners with pediatricians to encourage early literacy.

Safety, Nutrition, Activity, and Care for Kids (SNACK)

Promotes nutrition and physical activity in child care settings.

Smart Support

Helps child care settings meet the social-emotional needs of kids in their care.

Smart Smiles

Oral health screenings and application of preventative fluoride varnishes.

T.E.A.C.H. Early Childhood Arizona

Increases the skills of professionals working with infants, toddlers and preschoolers.

Teen Outreach Pregnancy Services

Supports pregnant or parenting teens in a healthy delivery and effective parenting.

STRONG FAMILIES, STRONG COMMUNITIES

It is a generally accepted maxim that the easiest (and least expensive) problem to fix is the one you prevent in the first place.

Many Arizonans already know First Things First as a crucial part of an early childhood system that works to close the school readiness gap and improve outcomes for all children by ensuring that more kids arrive at kindergarten ready to meet our state's high expectations.

But, when Arizona found itself facing a child welfare crisis – brought about in part by skyrocketing reports of child abuse or neglect and a sharp decline in resources to help struggling families – First Things First's role in the broader prevention and early intervention system became more apparent.

The programs funded by First Things First – like scholarships that help more kids birth to 5 years old access quality early learning programs and keep them safe while their parents work; screenings that identify learning delays early on; and, voluntary, home- or community-based coaching to help parents and grandparents learn how to create stable, nurturing environments for their children – strengthen families and communities throughout Arizona.

The data and stories in this report highlight some of First Things First's successes in the past year. These are just a few examples of what is possible when we commit ourselves to ensuring that children have the support they need in their crucial early years.

This report also highlights some of the challenges faced by kids 5 and younger throughout our state – and the proven strategies that can turn those statistics around – for children and for Arizona.

First Things First looks forward to our continued partnership with families and communities across Arizona – and to the future collaborations that will expand this crucial work on behalf of young children. We all have a shared responsibility to ensure children arrive at school ready to be successful. By working together, we can build a brighter future for our kids and for Arizona.

Sincerely,



Janice L. Decker

Board Chair
First Things First

A handwritten signature in black ink that reads "Janice Decker".



Sam Leyvas

Chief Executive Officer
First Things First

A handwritten signature in black ink that reads "Sam Leyvas".

SCHOOL SUCCESS STARTS EARLY



The job of getting kids ready for school starts the day they are born. About 90% of a child's critical brain development happens before kindergarten. Because of this, a child's early experiences lay the foundation for their success in school and in life.

For example, did you know that gaps in children's vocabulary start to appear at the age of about 18 months, and that a child's vocabulary, attention and general knowledge at ages 3 and 4 are good predictors of reading comprehension at ages 9 and 10?

Study after study shows that kids with quality early childhood experiences score higher on school readiness assessments and do better in school. They are less likely to need special education or remediation services and more likely to graduate and advance in to college and successful careers. They also tend to be healthier and demand less from the public welfare system.

The snapshot on next page shows some of the economic, education and health challenges young children in Arizona face. Some of these challenges – such as poverty, lack of access to early learning, and unidentified developmental delays – have been shown to impact children's school readiness.

The good news is that all of these challenges can be overcome. By ensuring that families have the tools they need to feel confident in their role as their child's first teacher, expanding access to early education through quality child care and preschool, and identifying health and development issues early on, we can ensure that children are prepared to succeed in kindergarten and beyond!

First Things First State Board

Janice L. Decker, Chair

Dr. Pamela Powell, Vice Chair

Nadine Mathis Basha, Member

Gayle Burns, Member

Steven W. Lynn, Member

Hon. Cecil Patterson, Member

Vivian Saunders, Member

Ruth Solomon, Member

Ex-Officio Members

Clarence H. Carter, Director, DES

Will Humble, Director, ADHS

John Huppenthal, Superintendent, ADE

A SNAPSHOT OF ARIZONA'S CHILDREN

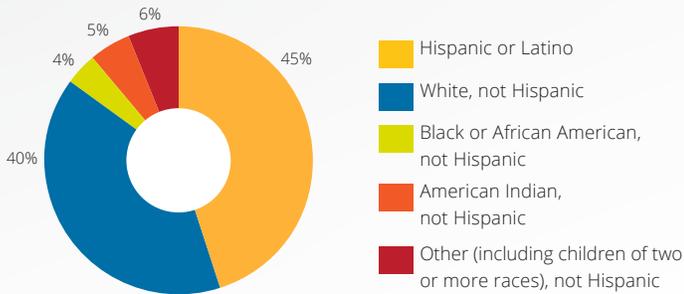


DEMOGRAPHICS

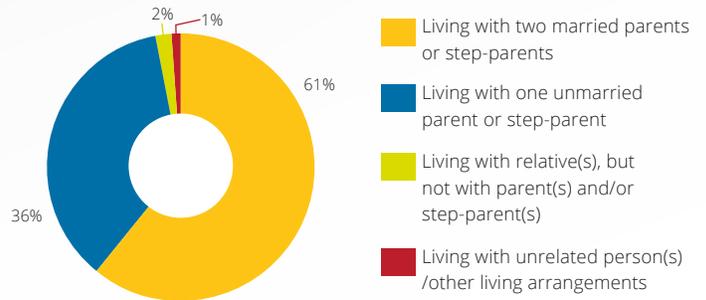
546,649 Number of kids under 6 in Arizona

384,441 Households with kids under 6

Ethnic breakdown of kids under 6



Living arrangements of kids under 6



EDUCATION

66% Percentage of 3-4 year-olds who don't go to preschool

23% Percent of 3rd grade students not passing AIMS in reading (2014)

25% Percentage of teens who don't graduate high school in four years



HEALTH

9% Babies born to teen mothers

25% Percentage of Arizona infants/toddlers with untreated tooth decay (2009)

< 50% Percentage of children with developmental delays identified before starting school

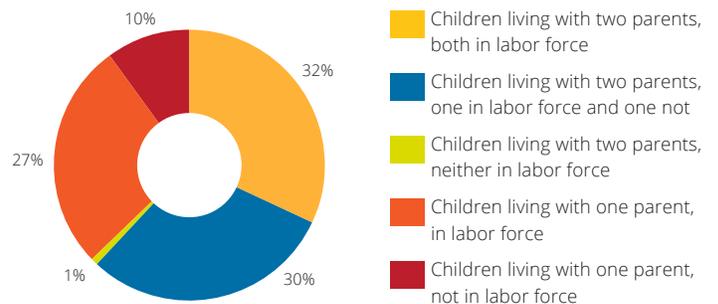


ECONOMICS

26% Percentage of young kids in poverty

139,423 Number of children (0-5) living in poverty

Employment status of parents with young kids



OUR PRIORITIES

Strengthening Families: Strong families are the building blocks of a strong society. First Things First's programs ensure that parents have choices when it comes to making decisions about what's best for their children. Programs are available in a variety of settings and at the level that meets the family's needs – from drop-in classes at community-based resource centers to more intensive, one-on-one support at home.

Quality Child Care and Preschool: Children exposed to high quality early education are more prepared when they enter kindergarten, do better in school, and are more likely to graduate and go on to college. First Things First works to improve the quality of child care and preschool. Through our website – QualityFirstAZ.com – parents can get information and tools to help them choose quality early learning settings that meet their families' needs. First Things First also funds scholarships that help more young kids access quality child care or preschool and keep them safe while their parents work.

Preventative Health: Undetected developmental delays or early childhood medical conditions that are left untreated can impact a child's development and learning later on. First Things First funds screening and outreach programs that help identify potential issues early on and refer families to resources that give them options for promoting their child's health and well-being. First Things First also funds oral health screenings and fluoride varnishes for young children – and education for their families – to prevent dental problems (a major cause of school absences later on).

Workforce Development and Training: A child's interactions with adult caregivers greatly impact brain development and school readiness. First Things First funds a variety of professional development opportunities to expand the skills of those working with infants, toddlers and preschoolers, including scholarships to increase access to higher education for child care professionals and incentives to keep the best teachers working with our youngest kids.

Community Awareness: We all have a shared responsibility to ensure that children arrive at school healthy and ready to succeed. First Things First works at the grassroots level to ensure that families and communities have the information and tools they need to actively support the education and health of their youngest children.

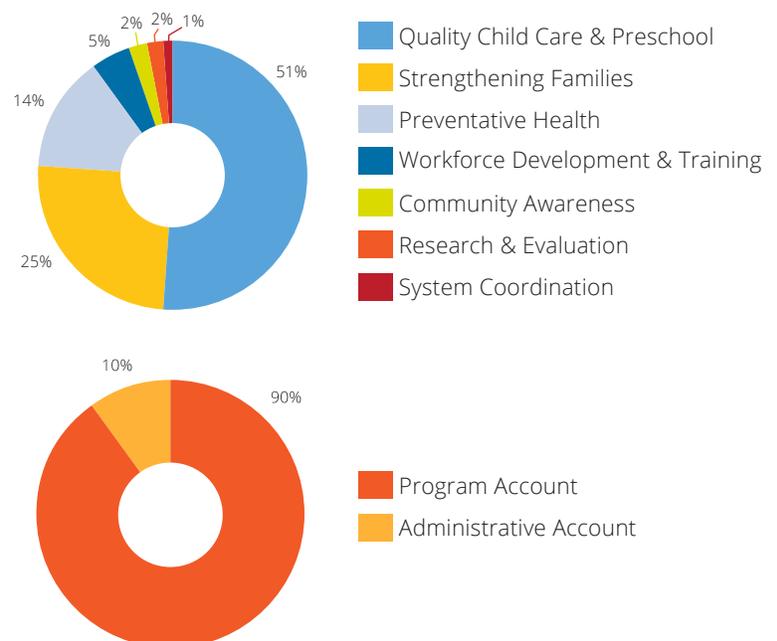
STATEWIDE FINANCIAL REPORT

FY2014 Expenditures by Goal Area

| | |
|----------------------------------|-------------------------|
| Quality Child Care & Preschool | \$72,802,875.11 |
| Strengthening Families | \$35,271,855.15 |
| Preventative Health | \$19,824,335.34 |
| Workforce Development & Training | \$6,771,912.08 |
| Community Awareness | \$3,263,006.80 |
| Research & Evaluation | \$2,517,579.51 |
| System Coordination | \$1,455,922.69 |
| Total | \$141,907,486.68 |

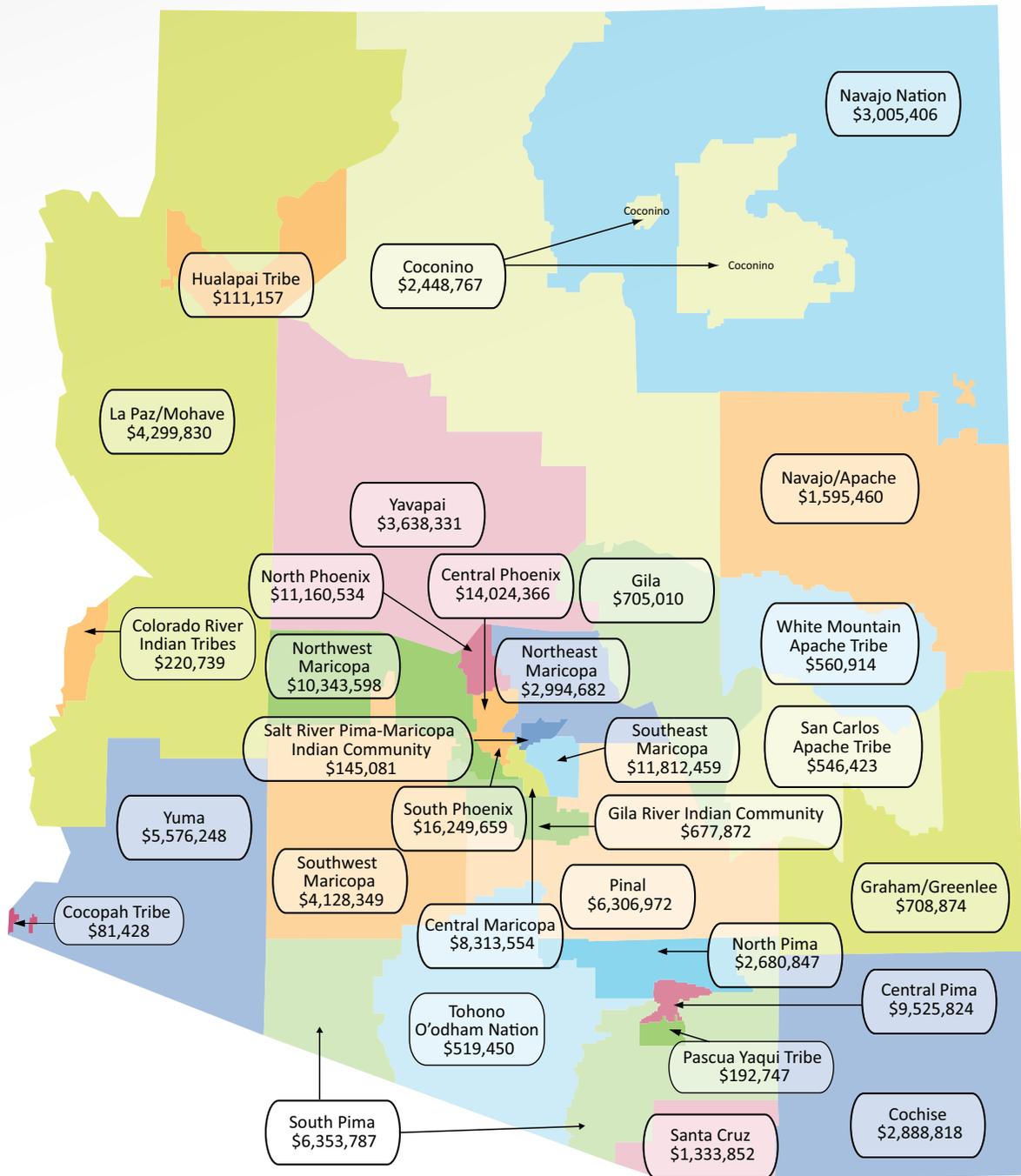
FY2014 Revenues by Fund

| | |
|------------------------|-------------------------|
| Program Account | \$117,555,239.80 |
| Administrative Account | \$13,046,382.11 |
| Total | \$130,601,621.91 |





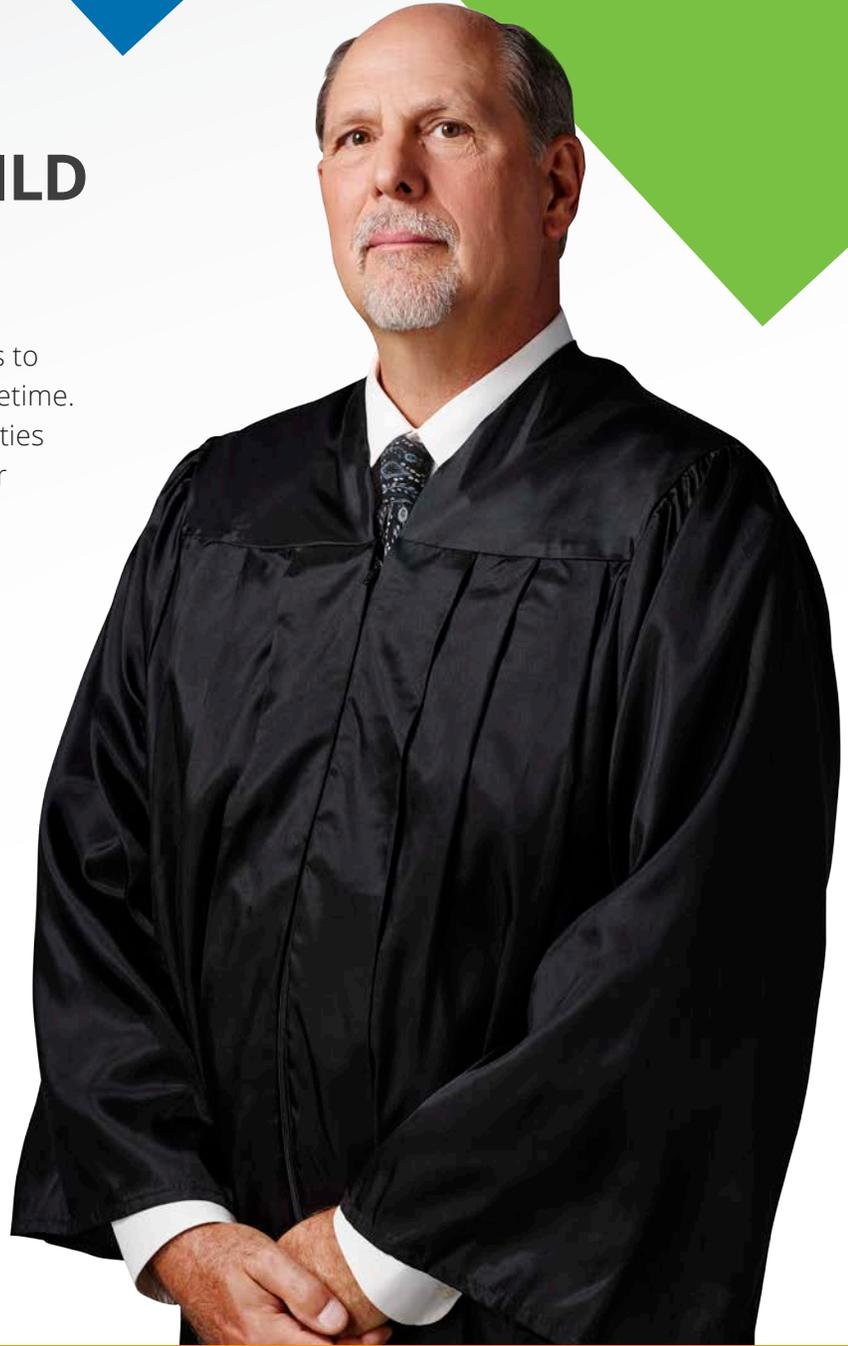
COMMUNITY INVESTMENTS



STRONG FAMILIES BUILD A STRONG SOCIETY

“As a juvenile court judge, I know that what happens to kids in their early years sets the foundation for a lifetime. That’s why First Things First partners with communities across Arizona to strengthen families and empower parents in their role as their child’s first teacher.”

Judge Richard Weiss



FISCAL YEAR 2014 SERVICE NUMBERS

70,364 Parent kits distributed

66,786 Caregivers attended voluntary classes in community-based settings on topics such as parenting skills, child development, literacy and nutrition



IMPACT ACROSS ARIZONA

Foster Family Finds Support

Brian and Jessica* knew their 2-year-old foster son needed some help – he had delayed speech and would throw intense temper tantrums any time his routine was disrupted. When their son was found ineligible for services provided through the Arizona Early Intervention Program (AZEIP), their foster licensing agency referred them to Parent Coaching and Support Services (PCSS), a program funded by First Things First in eastern Maricopa County.

Through PCSS – which is administered by Southwest Human Development – a parent coach worked with the family to complete assessments on their son and get him started in occupational and speech therapy. Three months later, he was re-assessed and found eligible to receive early intervention services through AZEIP.

The parent coach also completed assessments on the family's 1-year-old foster daughter, who was unsteady in walking and running and had trouble with fine motor skills, like picking up small objects. In addition to the developmental screenings, coaches in the program also worked with the family during regular visits to the home to discover ways to help their children learn. The family also had the opportunity to participate in parent and child play groups and receive guidance on child development and common parental concerns.

"There's always room for improvement to help your child learn," said Jessica. "This program provides you the resources to be a better parent, especially if you have concerns about your child's development." Nadine, program manager for PCSS, said, "Parents should listen to their inner voice telling them that something is not right – because they know their child best – and seek out services."

*Names changed due to confidentiality concerns.



FISCAL YEAR 2014 SERVICE NUMBERS

7,453

Arizona families enjoyed stronger, more supportive parent-child relationships through home-based parenting education and support

101,114

Families accessed early childhood information, training or referrals through family resource centers

TEACHERS KNOW SCHOOL SUCCESS BEGINS AT BIRTH

"As a teacher, I know that crucial skills like motivation, self-discipline and focus take root in the early years. That's why First Things First helps many of Arizona's young kids receive the quality early education, health care and family support they need to be ready for school and set for life."

Nicole Teyechea McNeil
Teacher



FISCAL YEAR 2014 SERVICE NUMBERS

19,492

Infants, toddlers and preschoolers received scholarships to access child care and early learning programs

48,697

Children had access to a higher standard of early learning programs (child care and preschool) through Quality First



IMPACT ACROSS ARIZONA

Scholarship Keeps Preschooler Learning, Dad Working

How does a single father raise three little girls and hold a job? For one Safford dad, a Quality First scholarship made all the difference.

“Josh came into my office explaining he needed child care for his youngest daughter,” said Corrina, preschool director at First United Methodist Preschool Daycare Program. “His babysitter had bailed out on him, and he was actually bringing (4-year-old) Kylee to work with him. He was afraid of losing his job.”

The family was new to the community. Josh had taken a cut in pay for a new job that allowed him more time with his daughters since he would no longer have to work weekends. He found that there was room for Kylee in the preschool program and that the family also qualified for a scholarship.

Quality First Scholarships are available to qualifying families whose children attend child care and preschool settings that meet First Thing First’s quality standards. The scholarships help families earning below 200% of the Federal Poverty Level afford high-quality early learning experiences for their young children.

“As I drove away from the building on Kylee’s first day of child care, I stopped the car in the parking lot and just broke down,” said Josh. “I finally felt relief. My child was in a safe place with people who cared for her. I can’t describe the feeling. At last we were headed in the right direction.”

Josh is a believer in paying it forward. He noticed that the church had received new basketball equipment but had no court. Josh’s boss agreed to provide the equipment to build a court at no cost. Josh and other volunteers worked on Saturdays to build the court, which is also used for the preschool kids to ride their tricycles. “I feel so good about giving back to this program,” he said. “My family owes them so much.”



FISCAL YEAR 2014 SERVICE NUMBERS

1,552 Stipends to reward longevity and continuous learning among early childhood teachers

693 Early childhood teachers received scholarships to expand their skills working with infants, toddlers and preschoolers

90% OF A CHILD'S BRAIN DEVELOPS BEFORE KINDERGARTEN

"As a pediatrician, I know positive, nurturing experiences in a child's first five years lay the foundation for a lifetime. That's why First Things First partners with communities across Arizona to strengthen families and support the health and learning of our youngest children."

Dr. Lyndy Jones
Pediatrician



FISCAL YEAR 2014 SERVICE NUMBERS

16,721 Screenings completed to detect vision, hearing and developmental issues in young kids and prevent learning challenges later on

11,984 Children benefited from trainings for child care providers to help them meet the social-emotional needs of kids in their care

IMPACT ACROSS ARIZONA

Screening Reveals Need for Corrective Oral Surgery for Preschooler

A routine oral health screening led to oral surgery and changes in family food choices for one Navajo Nation preschooler.

An oral health screening sponsored by First Things First at a Tuba City preschool revealed extensive decay in the teeth of one preschooler. The child's family was referred to a dentist, who later performed oral surgery on the child due to the extent of the decay.

Many people are not aware that decay in first teeth can cause problems with jaw and language development, speech delays, nutritional deficiencies and, if left untreated, chronic absences when young kids enter school.

Preschool teacher Catrina said the child's mother told her that, without the screening, she probably would not have taken the child to the dentist.

Catrina said since the screening, the preschooler's family has committed to changing the child's eating habits to prevent future dental decay and practicing good oral health.

"It has changed their eating habits and the snacks (the child) brings to school," Catrina said.



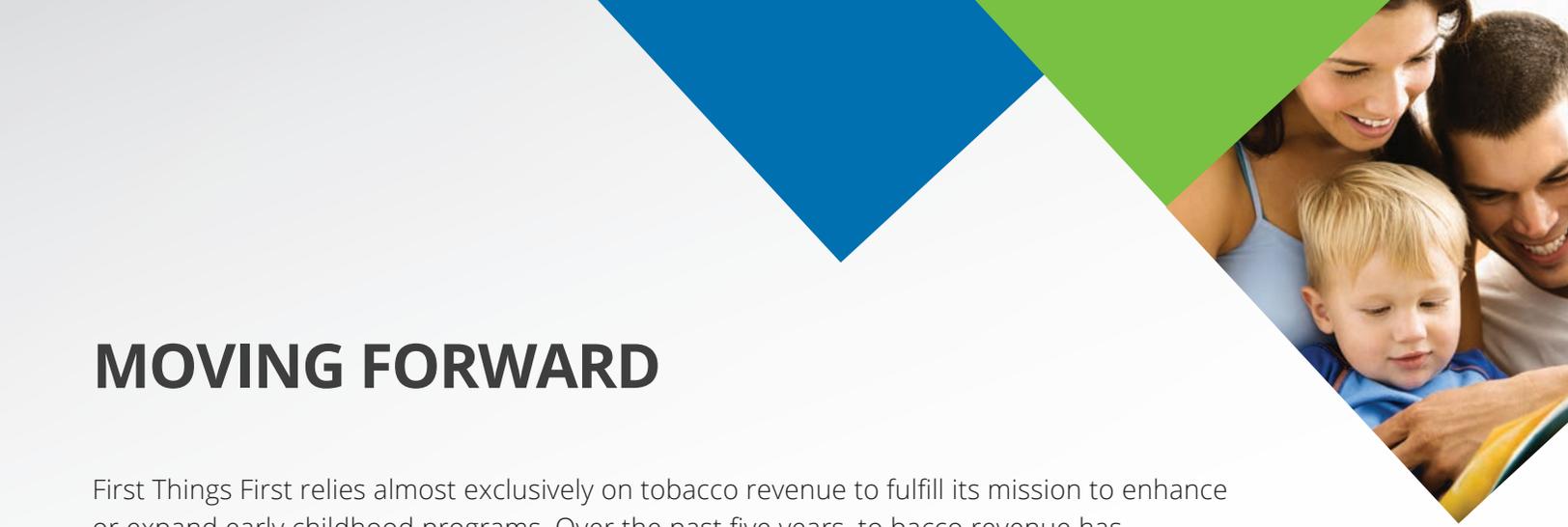
FISCAL YEAR 2014 SERVICE NUMBERS

47,119

Oral health screenings administered to children statewide

42,057

Fluoride varnishes applied to protect against dental decay



MOVING FORWARD

First Things First relies almost exclusively on tobacco revenue to fulfill its mission to enhance or expand early childhood programs. Over the past five years, tobacco revenue has decreased by about 23%, meaning that the organization has \$39 million less to work with on an annual basis than when it started.

The statewide Board has taken several proactive steps to maximize the sustainability of these funds and look for new partnership opportunities. First Things First's thoughtful and strategic approach to budgeting – which is based on analysis of spending over the past five years, as well as projected future tobacco revenues – ensures the stability of a base level of funding for the next decade.

At the same time, First Things First will continue its efforts in the broader community to increase the resources available to support early childhood programs, including expanding promising public/private partnerships.

But, ensuring that the resources exist to fulfill Arizona's commitment to our youngest kids is more than any one organization can achieve. First Things First will continue to work with policymakers, educators, business leaders and philanthropic organizations to increase investment in areas that can yield the greatest return: the health and education of our youngest children.

Because everyone benefits when children arrive at school healthy and ready to be successful.



FIRST THINGS FIRST

Ready for School. Set for Life.

The First Things First annual report is produced and submitted in accordance with A.R.S. §8-1192 A(4) and is distributed in accordance with section 41-4153.

© 2014 Arizona Early Childhood Development and Health Board (First Things First)
4000 North Central Avenue, Suite 800, Phoenix, AZ 85012 | www.aztf.gov

Permission to copy, disseminate or otherwise use the information in this publication is granted, as long as appropriate acknowledgement is given.



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

DATE: November 5, 2015

TO: Senator Judy Burges, Chair
Members, Joint Legislative Audit Committee

THROUGH: Debbie Davenport, Auditor General

FROM: Kim Hildebrand, Manager, Performance Audit Division

SUBJECT: Consideration and Approval of Proposed 2016-2017 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 evaluation at least once every 10 years to determine whether they should be continued or terminated. A.R.S. §41-2953(B) directs the Auditor General to provide the Joint Legislative Audit Committee (JLAC) a list of agencies scheduled for termination in the next sunset schedule. The Office of the Auditor General (Office) does not have sufficient resources to conduct all sunset reviews; therefore, JLAC determines which agencies the Office will review and which the Committees of Reference (CORs) will review.

Before giving JLAC a proposed audit schedule, the Office obtains background information on the agencies, as well as information from legislators and other interested parties, to identify and recommend which agencies the Office should perform the sunset review. Since the Office does not have the resources to perform the sunset reviews of every agency on the cycle, the Office uses the information obtained from legislators and others to prioritize those agencies on which our Office should perform the sunset reviews and recommends that the CORs perform the sunset reviews of the remaining agencies. However, JLAC ultimately determines whether the Office or CORs will perform the sunset reviews.¹

¹ The essential difference between a sunset review performed by the Office and a review conducted by the CORs is the depth and scope of the work performed. When our Office performs the sunset review of an agency, it conducts a performance audit of the agency to identify ways the agency can operate more efficiently and effectively.

On October 22, 2014, JLAC approved the 2016-2017 performance audit and sunset review schedule and assigned the sunset reviews on that schedule to either the Office or to the CORs. However, adjustments to the schedule are needed, as detailed below.

Additions to 2016-2107 COR Schedule

In order to accommodate the audit of the Arizona Early Childhood Development and Health Board being considered today, as discussed under Tab 1, the Office proposes that JLAC reassign the School Safety Program Oversight Committee and Western Interstate Commission for Higher Education sunset reviews from the Office to a COR.

In addition, the Board of Executive Clemency (Board) was added to the 2016 sunset cycle during the 2015 legislative session. Specifically, Laws 2015, Ch. 53, §2, provided for a 2-year continuation of the Board and requires a sunset review by October 1, 2016. The Office proposes that the Board's sunset review be assigned to a COR for review for two reasons. First, the Office has already conducted an initial followup of the Board and will be conducting another followup in 2016. The Office will provide the result of this followup to JLAC. Second, the Office does not have the resources to incorporate this sunset review into its 2016 workload.

Removal from 2017 Sunset Review Schedule

The Legislature extended the termination date of the Arizona Emergency Response Commission (Commission) and therefore it is no longer subject to sunset review in 2017. Specifically, Laws 2015, Ch. 208, §12, transferred the Commission and related statutes to the Arizona Department of Environmental Quality (ADEQ) and extended the Commission's sunset date to coincide with ADEQ's sunset date.

Summary

Attached is the 2016-2017 performance audit and sunset review schedule with the proposed revisions outlined above. This schedule shows which agencies we propose will have their sunset reviews conducted by the Office and which agencies will be reviewed by the CORs. The schedule also identifies audits that the Office is mandated by statute to conduct.

Action Required

Per statute, JLAC is required to review the audit schedule prepared by the Office and determine which agencies will have their sunset reviews performed by the Office and which agencies will be reviewed by the CORs.

2016-2017 PROPOSED PERFORMANCE AUDIT AND SUNSET REVIEW SCHEDULE

(Revised November 2015)

Statutorily Mandated Audits

1. Arizona Department of Education (A.R.S. §41-2958)
2. Judiciary Programs (A.R.S. §41-2958)
3. Foster Care Tuition Waiver Pilot Program ((A.R.S. §15-1809(c))
4. Maricopa County Regional Transportation Plan (A.R.S. §28-6313)
5. Pima County Transportation Excise Tax (A.R.S. §41-1279.03)
6. Pinal County Transportation Excise Tax (A.R.S. §41-1279.03)
7. Arizona Department of Child Safety - ongoing audits (A.R.S. §41-1966)

JLAC Requested Audit

1. Arizona Early Childhood Development and Health Board

Sunset Reviews To Be Conducted by Auditor General

1. Arizona Department of Economic Security
2. Arizona School Facilities Board
3. State of Arizona Acupuncture Board of Examiners
4. Arizona Board of Occupational Therapy Examiners
5. Arizona Board of Osteopathic Examiners
6. Arizona State Board of Respiratory Care Examiners
7. Arizona State Veterinary Medical Examining Board
8. Arizona Criminal Justice Commission
9. Followups at 6 and 18 months

Recommend JLAC Reassign These Sunset Reviews from Auditor General to COR

1. School Safety Program Oversight Committee
2. Western Interstate Commission for Higher Education

Sunset Reviews To Be Conducted by Committees of Reference

1. Arizona Department of Housing
2. Arizona State Land Department
3. Arizona Beef Council
4. Arizona Exposition and State Fair Board
5. Arizona Civil Rights Advisory Board
6. Board of Medical Student Loans
7. Arizona Regulatory Board of Physician Assistants
8. Governor's Archaeology Advisory Commission
9. Arizona Outdoor Recreation Coordinating Commission
10. Property Tax Oversight Commission
11. Arizona State Board of Behavioral Health Examiners
13. Governor's Regulatory Review Council
14. Board of Executive Clemency



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

DATE: November 5, 2015

TO: Senator Judy Burges, Chair
Members, Joint Legislative Audit Committee

THROUGH: Debbie Davenport, Auditor General

FROM: Kim Hildebrand, Manager, Performance Audit Division

SUBJECT: Additions to 2016 Committees of Reference Assignments

Background

The Joint Legislative Audit Committee (JLAC) is statutorily required to assign agencies subject to a sunset review to Committees of Reference (CORs), regardless of whether the Office of the Auditor General or the CORs will conduct the sunset review. 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 whose standing committees would most likely be responsible for hearing any legislation affecting that particular agency and that has knowledge or expertise in that particular subject area.

JLAC previously approved the 2016 CORs at their October 24, 2014, meeting. However, one agency (Board of Executive Clemency) was added to the 2016 sunset review schedule in the 2015 legislative session. In addition, if approved, the audit of the Arizona Early Childhood Development and Health Board needs to be assigned to a COR. Thus, JLAC needs to assign the CORs for these two audits.

Attached are the President's and Speaker's recommendations for the sunset review of the Board of Executive Clemency and the audit of the Arizona Early Childhood Development and Health Board. The CORs are responsible for holding at least one public hearing to discuss the audit and receive testimony from agency officials and the public. For sunset reviews, these hearings should be held by December 1 of the year the sunset review is due.

Action Required

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

2016 PERFORMANCE AUDITS¹
PRESIDENT AND SPEAKER RECOMMENDATIONS
FOR COMMITTEE OF REFERENCE (COR) ASSIGNMENTS

| Statutory Reference | Agency and Programs Selected for Review | COR Recommendations |
|----------------------------|--|---|
| A.R.S. §41-3017.13 | Board of Executive Clemency | Senate: Judiciary House: Judiciary |
| A.R.S. §41-1279.03(A)(4) | Arizona Early Childhood Development and Health Board | Senate: Health and Human Services House: Children and Family Affairs |

¹ This listing is for audits conducted under authority of the sunset law, specific legislation, or JLAC direction and due in 2016. JLAC procedures require all audits to have a hearing. JLAC approves which CORs (or successor committees) will receive the assignment in order to conduct the hearing or may assign audits to JLAC for a hearing.



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

DATE: November 5, 2015

TO: Senator Judy Burges, Chair
Members, Joint Legislative Audit Committee

THROUGH: Debbie Davenport, Auditor General

FROM: Dale Chapman, Director, Performance Audit Division

SUBJECT: Status of Legislatively Directed Work in Department of Child Safety

Background

A.R.S. §8-465 requires the Auditor General to establish a Department of Child Safety (DCS) audit team to provide ongoing performance reviews and analyses of the DCS. The statute requires the Auditor General to adopt an audit plan, subject to review by JLAC. As outlined in statute, this plan may include work to determine the validity and accuracy of information reported by the DCS, other reviews and analyses of the DCS, and reviews of specified functions or DCS-related processes as requested by JLAC.

Recently Issued Reports

As required by Laws 2014, Ch. 11, §24, the Auditor General issued a report in March 2015 addressing the number of child abuse or neglect reports and the rate of substantiated child abuse or neglect cases in Arizona compared to other states, as well as the number of states with an office similar to Arizona's Office of Child Welfare Investigations.

In addition, as directed by Laws 2014, 2nd S.S., Ch. 1, §159, the Auditor General contracted with an independent consultant with expertise in child welfare system planning and operations to examine the current child safety system and consider best practices to improve the delivery of child welfare services in Arizona and to provide consultation on the effective establishment of the DCS with a focus on implementation challenges. This review was conducted by the Chapin Hall Center for Children at the University of Chicago. Chapin Hall issued its report in June 2015 and a supplemental report in July 2015.

Laws 2015, Ch. 18, §6, requires the Auditor General to issue three reports. The first of these three reports was issued in September 2015 and addressed the DCS' child safety and risk assessment practices, including its approach for determining whether to remove a child from his/her home.

Future Reports

The remaining 2 reports required under Laws 2015, Ch. 18, §6, will address:

1. The use of a differential response system and case screening. This report shall evaluate the merits and disadvantages of a differential response system when responding to reports of child maltreatment, including the State's historical use of the Family Builders program established by A.R.S. §8-816. A differential response system would contract out the initial investigation of low-risk reports of child maltreatment as well as case management and the provision of services. The report also shall address the appropriateness of using set criteria to screen out reports of child maltreatment from investigation. In evaluating differential response and case screening, the Auditor General shall include best practices in other states and recommend improvements.
2. Permanency practices for children in out-of-home care. This report shall address the appropriateness of the DCS' permanency practices and examine whether its permanency practices allow adequate attention to be focused on seeking permanent families for out-of-home children. The report shall also address best practices in other states and recommend improvements.

These two reports will be issued in March 2016 and September 2016, respectively.

Action required

None. This schedule is presented for JLAC information only.



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

DATE: November 5, 2015

TO: Senator Judy Burges, Chair
Members, Joint Legislative Audit Committee

THROUGH: Debbie Davenport, Auditor General

FROM: Jay Zsorey, Financial Audit Division Director

SUBJECT: Fiscal Year 2016 Financial Audit Schedule and Cost Reimbursement Audits

Background

The Financial Audit Division (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. In addition, the Division conducts special financial audits, reviews, and investigations at the Legislature's request.

Attachment A titled "Fiscal Year 2016 Audit Schedule" provides a complete list of the Division's audit schedule. This schedule has been included as a courtesy and does not require any action.

Under A.R.S. §41-1279.03(C)'s provisions, with the Joint Legislative Audit Committee's (JLAC) approval, the Division can charge a fee to the auditee for performing federally mandated work. The auditee will ultimately recover the costs of the federal audit work performed from the federal grantor(s). The fiscal year 2016 audits that include federally mandated work are listed on **Attachment B** of the Division's schedule titled "Audits Including a Portion of Services That Will Be Performed on a Cost Reimbursement Basis." See action required below.

Action Required

JLAC needs to consider and approve the Division to perform federally mandated work on a cost reimbursement basis for certain political subdivisions of the State, under A.R.S. §41-1279.03(C)'s provisions.

Attachment A

OFFICE OF THE AUDITOR GENERAL FINANCIAL AUDIT DIVISION Fiscal Year 2016 Audit Schedule

The Financial Audit Division's fiscal year 2016 audit schedule is presented below. All counties, community colleges, and state agencies, including the three state universities, will be audited in accordance with the Single Audit Act, as amended.

Arizona State-wide Audit

Detailed records testing is performed at the larger state agencies on an annual basis. Limited testing of procedures is performed at the remaining agencies on a rotating basis.

In addition to the annual state-wide financial statements issued by the Arizona Department of Administration, separate financial reports are issued by the following state agencies and audited by the Financial Audit Division on an annual basis:

Department of Economic Security—ALTCS
Office of the State Treasurer (Agency Funds only)

Arizona State University
Northern Arizona University
University of Arizona

County Financial and Compliance Audits

Apache County
Cochise County
Coconino County
Gila County
Graham County
Greenlee County
La Paz County
Maricopa County
Mohave County
Navajo County
Pima County
Pinal County
Santa Cruz County
Yavapai County
Yuma County

College Financial and Compliance Audits

Cochise County Community College District
Coconino County Community College District
Gila County Community College District
Graham County Community College District
Maricopa County Community College District
Mohave County Community College District
Navajo County Community College District
Pima County Community College District
Pinal County Community College District
Santa Cruz County Community College District
Yavapai County Community College District
Yuma/La Paz Counties Community College District

Attachment A

Other Audits/Special Reviews

Arizona County Community College Districts and Colleges of Qualifying Indian Tribes (Full-Time Equivalent Student Enrollment Report)

Arizona University System (Full-Time Equivalent Student Enrollment Report)

Department of Health Services—BHS Attestation

State Procurement Office—Compliance Review

Federal Land Payments

Attorney General—Colorado River Revolving Fund

Diné College Funding Compact

Attachment B

**OFFICE OF THE AUDITOR GENERAL
FINANCIAL AUDIT DIVISION
Audits Including a Portion of Services That Will Be
Performed on a Cost Reimbursement Basis
Fiscal Year 2016**

The Financial Audit Division will conduct single audits of the State of Arizona and the following political subdivisions. The federal compliance work performed during these engagements is required by the Single Audit Act, and the related audit costs can be charged to the federal grant programs.

Apache County
Cochise County
Coconino County
Gila County
Graham County
Greenlee County
La Paz County
Maricopa County
Mohave County
Navajo County
Pima County
Pinal County
Santa Cruz County
Yavapai County
Yuma County

Cochise County Community College District
Coconino County Community College District
Gila County Community College District
Graham County Community College District
Maricopa County Community College District
Mohave County Community College District
Navajo County Community College District
Pima County Community College District
Pinal County Community College District
Santa Cruz County Community College District
Yavapai County Community College District
Yuma/La Paz Counties Community College District



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

DATE: November 5, 2015

TO: Senator Judy Burges, Chair
Members, Joint Legislative Audit Committee

THROUGH: Debbie Davenport, Auditor General

FROM: Ross Ehrick, Division of School Audits Director

SUBJECT: Updated 2016-2017 School District Performance Audit Schedule

Background

A.R.S. §41-1279.03 requires the Office of the Auditor General to conduct performance audits of randomly selected school districts and to monitor school districts to determine the percentage of every dollar spent in the classroom. The statute requires the Auditor General to determine, through random selection, the districts to be audited each year, subject to review by the Joint Legislative Audit Committee.

School district performance audits

Attachment A lists the school districts randomly selected for the updated 2016-2017 performance audit schedule. **Attachment B** lists the current status of the 2014-2015 audit schedule.

These school district performance audits review the efficiency and effectiveness of district noninstructional operations, such as administration, student transportation, food service, and plant operations, and make recommendations for improvement and/or identify best practices. These audits also review compliance with certain requirements, such as the proper coding of accounting transactions and expenditures of sales taxes received under Proposition 301. If applicable, these audits may also provide information on the district's desegregation program. To gain evidence to support information and conclusions in the reports, auditors interview district personnel; review district policies, procedures, and internal controls; examine district accounting records and other district documents; compare district costs to similar districts'; and determine compliance with certain statutory requirements. The audits result in publicly released audit reports and report highlights documents.

Other school district audits and reports

The Office of the Auditor General is also required to monitor the percentage of every dollar spent in the classroom.¹ Our next annual *Arizona School District Spending* report will be issued in March 2016. This study determines the percentage spent in the classroom and other functional areas for the State and for each school district. It also reports on each district's operational efficiency, student achievement, and other measures. Additionally, this year's report for the first time will include revenues and nonoperational expenditures for each school district.

Action Required

None. Per statute, JLAC is to review the school districts randomly selected for performance audit, but is not required to approve them. The audit schedules and the additional information on other scheduled reports are presented for JLAC's information only.

¹A.R.S. §41-1279.03(9)

Attachment A

2016-2017 School District Performance Audit Schedule (updated)

| School District | Size¹ |
|---------------------------|-------------------------|
| Mesa Unified | Very Large |
| Peoria Unified | Very Large |
| Tucson Unified | Very Large |
| Roosevelt Elementary | Large |
| Sunnyside Unified | Large |
| Yuma Union High | Large |
| Blue Ridge Unified | Medium-Large |
| Holbrook Unified | Medium-Large |
| Nogales Unified | Medium-Large |
| Page Unified | Medium-Large |
| Show Low Unified | Medium-Large |
| Snowflake Unified | Medium-Large |
| Altar Valley Elementary | Medium |
| Eloy Elementary | Medium |
| Palominas Elementary | Medium |
| Pinon Unified | Medium |
| Red Mesa Unified | Medium |
| Tuba City Unified | Medium |
| Colorado City Unified | Small |
| Fredonia-Moccasin Unified | Small |
| Littlefield Unified | Small |
| Bonita Elementary | Very Small |
| Canon Elementary | Very Small |
| Congress Elementary | Very Small |
| Mobile Elementary | Very Small |
| Paloma Elementary | Very Small |
| San Fernando Elementary | Very Small |
| Santa Cruz Elementary | Very Small |
| Sentinel Elementary | Very Small |
| Solomon Elementary | Very Small |
| Skull Valley Elementary | Very Small |

¹ Size is based on ADM using the following categories:

Very Large – 20,000 or more students

Large – 8,000 to 19,999

Medium-Large – 2,000 to 7,999

Medium – 600 to 1,999

Small – 200 to 599

Very Small – less than 200

Attachment B

2014-2015 School District Performance Audit Schedule

| School District | Size¹ | Release Date |
|---------------------------|-------------------------|---------------------|
| Clifton USD | Very Small | April 2014 |
| Laveen Elementary | Medium-Large | May 2014 |
| Duncan Unified | Small | August 2014 |
| Window Rock Unified | Medium-Large | September 2014 |
| Salome Consolidated | Very Small | October 2014 |
| St. David Unified | Small | December 2014 |
| Winslow Unified | Medium-Large | December 2014 |
| Fowler Elementary | Medium-Large | January 2015 |
| Isaac Elementary | Medium-Large | February 2015 |
| Payson Unified | Medium-Large | March 2015 |
| Osborn Elementary | Medium-Large | April 2015 |
| Scottsdale Unified | Very Large | May 2015 |
| Kayenta Unified | Medium | May 2015 |
| Wenden Elementary | Very Small | June 2015 |
| Tolleson Elementary | Medium-Large | August 2015 |
| Safford Unified | Medium-Large | September 2015 |
| Santa Cruz Valley Unified | Medium-Large | September 2015 |
| Riverside Elementary | Medium | October 2015 |
| Maricopa Unified | Medium-Large | October 2015 |
| Littleton Elementary | Medium-Large | November 2015 |
| Whiteriver Unified | Medium-Large | November 2015 |
| Hillside Elementary | Very Small | November 2015 |
| Kirkland Elementary | Very Small | December 2015 |
| Kyrene Elementary | Large | December 2015 |
| Bouse Elementary | Very Small | January 2016 |
| Yarnell Elementary | Very Small | January 2016 |

¹ Size is based on ADM using the following categories:

Very Large – 20,000 or more students

Large – 8,000 to 19,999

Medium-Large – 2,000 to 7,999

Medium – 600 to 1,999

Small – 200 to 599

Very Small – less than 200