

May 13, 2015

To the Governing Body of the  
Arizona Criminal Justice Commission

We have audited the Summary of Drug and Gang Enforcement Account Distributions (Summary) of the Arizona Criminal Justice Commission for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter provided to you during the planning phase of the audit. Professional standards also require that we communicate to you the following information related to our audit.

**Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Arizona Criminal Justice Commission are described in notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Arizona Criminal Justice Commission during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period and the financial statement disclosures are neutral, consistent, and clear.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events.

**Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

**Audit Adjustments**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. During the course of the audit we did not identify any misstatements which require communication.

**Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### Management Representations

We have requested certain representations from management that are included in the management representation letter provided to us at the conclusion of the audit.

### Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Arizona Criminal Justice Commission's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### Discussions with Management

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management throughout the course of the year. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention as the Commission's auditors.

### Responsibility for Fraud

It is important for both management and the members of the governing body to recognize their role in preventing, deterring, and detecting fraud. One common misconception is that the auditors are responsible for detecting fraud. Auditors are required to plan and perform an audit to obtain reasonable assurance that the financial statements do not include material misstatements caused by fraud. Unfortunately most frauds which occur in an organization do not meet this threshold.

The attached document prepared by the Association of Certified Fraud Examiners (ACFE) is provided as a courtesy to test the effectiveness of the fraud prevention measures of your organization. Some of these steps may already be in place, others may not. Not even the most well-designed internal controls or procedures can prevent and detect all forms of fraud. However, an awareness of fraud related factors, as well as the active involvement by management and the members of the governing body in setting the proper "tone at the top", increases the likelihood that fraud will be prevented, deterred and detected.

### Restriction on Use

This information is intended solely for the use of the member and management of Arizona Criminal Justice Commission and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

*Heinfeld, Meech & Co., P.C.*

HEINFELD, MEECH & CO., P.C.  
CPAs and Business Consultants

# Fraud Prevention Checklist

The most cost-effective way to limit fraud losses is to prevent fraud from occurring. This checklist is designed to help organizations test the effectiveness of their fraud prevention measures.

## **1. Is ongoing anti-fraud training provided to all employees of the organization?**

- Do employees understand what constitutes fraud?
- Have the costs of fraud to the company and everyone in it — including lost profits, adverse publicity, job loss and decreased morale and productivity — been made clear to employees?
- Do employees know where to seek advice when faced with uncertain ethical decisions, and do they believe that they can speak freely?
- Has a policy of zero-tolerance for fraud been communicated to employees through words and actions?

## **2. Is an effective fraud reporting mechanism in place?**

- Have employees been taught how to communicate concerns about known or potential wrongdoing?
- Is there an anonymous reporting channel available to employees, such as a third-party hotline?
- Do employees trust that they can report suspicious activity anonymously and/or confidentially and without fear of reprisal?
- Has it been made clear to employees that reports of suspicious activity will be promptly and thoroughly evaluated?
- Do reporting policies and mechanisms extend to vendors, customers and other outside parties?

## **3. To increase employees' perception of detection, are the following proactive measures taken and publicized to employees?**

- Is possible fraudulent conduct aggressively sought out, rather than dealt with passively?
- Does the organization send the message that it actively seeks out fraudulent conduct through fraud assessment questioning by auditors?
- Are surprise fraud audits performed in addition to regularly scheduled audits?
- Is continuous auditing software used to detect fraud and, if so, has the use of such software been made known throughout the organization?

- 4. Is the management climate/tone at the top one of honesty and integrity?**
  - Are employees surveyed to determine the extent to which they believe management acts with honesty and integrity?
  - Are performance goals realistic?
  - Have fraud prevention goals been incorporated into the performance measures against which managers are evaluated and which are used to determine performance-related compensation?
  - Has the organization established, implemented and tested a process for oversight of fraud risks by the board of directors or others charged with governance (e.g., the audit committee)?
- 5. Are fraud risk assessments performed to proactively identify and mitigate the company's vulnerabilities to internal and external fraud?**
- 6. Are strong anti-fraud controls in place and operating effectively, including the following?**
  - Proper separation of duties
  - Use of authorizations
  - Physical safeguards
  - Job rotations
  - Mandatory vacations
- 7. Does the internal audit department, if one exists, have adequate resources and authority to operate effectively and without undue influence from senior management?**
- 8. Does the hiring policy include the following (where permitted by law)?**
  - Past employment verification
  - Criminal and civil background checks
  - Credit checks
  - Drug screening
  - Education verification
  - References check
- 9. Are employee support programs in place to assist employees struggling with addictions, mental/ emotional health, family or financial problems?**
- 10. Is an open-door policy in place that allows employees to speak freely about pressures, providing management the opportunity to alleviate such pressures before they become acute?**
- 11. Are anonymous surveys conducted to assess employee morale?**

May 13, 2015

Karen Ziegler, Deputy Director  
Arizona Criminal Justice Commission  
1110 W. Washington, Suite 230  
Phoenix, AZ 85007

Dear Ms. Ziegler:

Enclosed are the Arizona Criminal Justice Commission Report on Audit of Summary of Drug and Gang Enforcement Account Distributions for the fiscal year ended June 30, 2014.

In addition to the items listed above, you will find a letter addressed to your Governing Body. Professional standards require the auditors to communicate various items to those at your Organization who are charged with governance. Please forward this required communication to your Governing Body. The letter includes information regarding fraud and steps management can take to prevent fraud. This information is presented as additional information that your Governing Body may find helpful.

On behalf of Chris Goeman and the rest of the staff at Heinfeld, Meech & Co., P.C., I would like to take this opportunity to thank you for the assistance provided by you and your staff in completing the audit and preparing the report in a timely manner. It has been a pleasure working with you and your staff. If you should have any questions, please do not hesitate to call us at (602) 277-9449.

Sincerely,



Jill A. Shaw, CPA  
Partner

Enclosures

**ARIZONA CRIMINAL JUSTICE COMMISSION  
REPORT ON AUDIT OF SUMMARY OF  
DRUG AND GANG ENFORCEMENT  
ACCOUNT DISTRIBUTIONS  
FOR THE YEAR ENDED JUNE 30, 2014  
AND FROM INCEPTION TO JUNE 30, 2014**

ARIZONA CRIMINAL JUSTICE COMMISSION  
JUNE 30, 2014

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## INDEPENDENT AUDITOR'S REPORT

Members of the Arizona State Legislature  
The Honorable Doug Ducey, Governor  
The Arizona Criminal Justice Commission

### **Report on the Summary**

We have audited the accompanying Summary of Drug and Gang Enforcement Account Distributions (Summary) for the year ended June 30, 2014, and the related notes to the Summary pursuant to Arizona Revised Statutes (A.R.S.) §41-2402.

### ***Management's Responsibility for the Summary***

Management is responsible for the preparation and fair presentation of the Summary in accordance with A.R.S. §41-2402; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Summary that is free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on this Summary based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Summary is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Summary. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Summary, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the Summary in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Summary.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the Summary referred to above presents fairly, in all material respects, the Arizona Criminal Justice Commission's distributions for the year ended June 30, 2014, of Drug and Gang Enforcement Account monies by type of activity specified by A.R.S. §41-2402.



***Distributions from Inception in August 1987 to June 30, 2010***

The distributions from inception in August 1987 to June 30, 2010 in the accompanying Summary were audited by other accountants and are included for additional analysis only. Neither we nor the other accountants have performed any auditing procedures on this information since the date of their report.

***Basis of Accounting***

The accompanying Summary was prepared for the purpose of complying with A.R.S. §41-2402 as discussed in Note 1, and is not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America.

***Restriction on Use***

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Governor, the Arizona Criminal Justice Commission, and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

*Heinfeld, Meech & Co., P.C.*

HEINFELD, MEECH & CO., P.C.  
CPAs and Business Consultants

April 30, 2015

**ARIZONA CRIMINAL JUSTICE COMMISSION**  
**SUMMARY OF DRUG AND GANG ENFORCEMENT ACCOUNT DISTRIBUTIONS**  
**YEAR ENDED JUNE 30, 2014, AND FROM INCEPTION TO JUNE 30, 2014**

**Distributions for Year Ended June 30, 2014**

Type of Activity	Federal	Federal/ARRA (Note 6)	Nonfederal (Note 3)	Reversions (Note 4)	Total
Investigation	\$ 1,718,497	\$	\$ 1,023,278	\$ 217,742	\$ 2,524,034
Prosecution:					
State and county prosecution	2,297,763		1,460,577	58,622	3,699,719
City and town prosecution	141,584		101,553		243,137
Adjudication			1,364,429	68,649	1,295,780
Forensics	334,369		167,484		501,853
Criminal Justice Records Improvement Program	242,101				242,101
Total distributions for year ended June 30, 2014	<u>\$ 4,734,315</u>	<u>\$</u>	<u>\$ 4,117,322</u>	<u>\$ 345,013</u>	<u>\$ 8,506,624</u>

**Distributions from Inception in August 1987 to June 30, 2014**

Type of Activity	Federal	Federal/ARRA (Note 6)	Nonfederal (Note 3)	Reversions (Note 4)	Total
Investigation	\$ 61,625,038	\$ 8,649,915	\$ 29,988,678	\$ 1,798,408	\$ 98,465,224
Prosecution:					
State and county prosecution	58,043,005	10,726,231	30,535,877	610,723	98,694,391
City and town prosecution	4,811,458	710,904	2,548,892	209,713	7,861,541
Adjudication	6,998,480		51,256,666	1,467,895	56,787,251
Detention	1,407,397		6,061,249	64,605	7,404,041
Drug abuse education	1,183,862		190,123	44,764	1,329,221
Forensics	3,463,649	1,190,560	8,819,992	39,277	13,434,924
Priority 5 projects	1,677,475	846,044	461,748	35,104	2,950,163
Arizona Drug and Gang Prevention Resource Center			4,238,300		4,238,300
General Fund			200,000		200,000
Criminal Justice Records Improvement Program	7,449,278	1,257,102	1,760,504	146,913	10,319,971
State matching for Edward Byrne Memorial Formula Grant Program (formerly entitled Drug Control and System Improvement - Formula Grant)	(2,894,192)		2,894,192		
Total distributions from inception to June 30, 2014	<u>\$ 143,765,451</u>	<u>\$ 23,380,756</u>	<u>\$ 138,956,222</u>	<u>\$ 4,417,402</u>	<u>\$ 301,685,027</u>

**ARIZONA CRIMINAL JUSTICE COMMISSION  
NOTES TO SUMMARY OF DRUG AND GANG ENFORCEMENT  
ACCOUNT DISTRIBUTIONS  
YEAR ENDED JUNE 30, 2014, AND FROM INCEPTION TO JUNE 30, 2014**

**NOTE 1**

Arizona Revised Statutes (A.R.S.) §41-2402(A) established the Drug and Gang Enforcement Account (Account) within the Criminal Justice Enhancement Fund to be used for the purpose of enhancing efforts to deter, investigate, prosecute, adjudicate, and punish drug offenders and members of criminal street gangs. To fund this effort, A.R.S. §41-2402(B) and (C) require the Arizona Criminal Justice Commission (Commission) to distribute monies from the Account within prescribed limits based on a plan of expenditures. Further, A.R.S. §41-2402(F) requires that any federal monies or state matching monies in the Account be allocated by the Commission pursuant to a plan approved by the federal government, notwithstanding the limitations prescribed in subsection B of the statute. The Summary of Drug and Gang Enforcement Account Distributions (Summary) presents distributions by type of activity specified by A.R.S. §41-2402 for the year ended June 30, 2014, and since the Account's inception in August 1987 to June 30, 2014.

**NOTE 2**

The proceedings of the Commission's open meeting, dated May 23, 2013 established the distribution by activity (i.e., investigation, prosecution, adjudication, detention, forensics, and so forth) for the Account for fiscal year 2014.

**NOTE 3**

Nonfederal distributions for the Arizona Drug and Gang Prevention Resource Center were made from state appropriations of the fees collected pursuant to A.R.S. §12-284 and distributed pursuant to A.R.S. §12-284.03(A)(1). Beginning in fiscal year 2010, the Legislature appropriated these monies to support the Arizona Youth Survey conducted by the Commission. These monies are no longer distributed to the Arizona Drug and Gang Prevention Resource Center and, therefore, are no longer reported in the current year distributions. For all other activities, nonfederal distributions were made from fines and fees collected pursuant to A.R.S. §13-811(C) and the subrecipients' matching contributions to the program.

**NOTE 4**

Reversions consist of adjustments resulting from subrecipient-monitoring reviews performed by the Commission. These reversions are either deposited into the Account for redistribution in the following year or reverted to the federal government.

**ARIZONA CRIMINAL JUSTICE COMMISSION  
NOTES TO SUMMARY OF DRUG AND GANG ENFORCEMENT  
ACCOUNT DISTRIBUTIONS  
YEAR ENDED JUNE 30, 2014, AND FROM INCEPTION TO JUNE 30, 2014**

**NOTE 5**

During fiscal year 2004, the Commission changed its method of accounting for subrecipient matching monies. Matching monies from subrecipients are no longer collected by the Commission and distributed from the Account. Subrecipients report spent matching monies on their monthly financial reports. As of July 1, 2003, subrecipient matching monies are excluded from the Summary since they are no longer considered distributions from the Account. However, total distributions from inception to June 30, 2014 still include subrecipient matching monies through June 30, 2003.

**NOTE 6**

The Commission first distributed American Recovery and Reinvestment Act (ARRA) monies in fiscal year 2010. A separate column is added to the Summary to separately identify ARRA monies from other federal monies as required by ARRA.

**NOTE 7**

In fiscal year 2010, the Commission expanded the funding priorities to include a Priority 5 category. Priority 5 projects include all other projects eligible under the federal Byrne/Justice Assistance Grant that do not fall under Investigation, Prosecution, Adjudication, Detention, Drug Abuse Education, Forensics and Criminal History Records Improvement.