



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

November 28, 2011

The Honorable Doug Ducey, State Treasurer
Office of the State Treasurer
1700 West Washington
Phoenix, AZ 85007

Dear Mr. Ducey:

We have completed the audit of the Office of the Arizona State Treasurer (Treasurer) as of and for the year ended June 30, 2011, which was conducted in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*. As required by those auditing standards, we are providing you the following information related to our audit to assist you in overseeing the financial reporting and disclosure process for which management is responsible.

Auditors' Reports Issued and Auditors' Results

The results of our audit have been reported in our auditors' report on the Treasurer's financial statements that is included in the Treasurer's annual financial report. In addition, we have separately issued our report on the Treasurer's internal controls over financial reporting. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting and compliance. That report is an integral part of our audit of the Treasurer's financial statements. You should have already received a copy of the Treasurer's annual financial report and our separately issued report on our consideration of the Treasurer's internal control over financial reporting.

Based on the audit, auditors found that the information in the Treasurer's financial statements is fairly presented in all material respects and the financial statements can be relied on. Also, the Treasurer generally maintained adequate internal controls over financial reporting.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies the Treasurer used are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of other existing policies was not changed during the year ended June 30, 2011. We noted no transactions the Treasurer entered into during the year for which there is a lack of authoritative guidance or consensus.

The disclosures in the notes to the financial statements are neutral, consistent, and clear.

Material Misstatements

There were no material misstatements that came to our attention during the audit that required correction by management.

Management Representations

We obtained certain representations from management that are included in the management representation letter dated October 25, 2011.

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 Treasurer's financial statements or a determination of the type of auditors' 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.

This letter is intended solely for the information of those charged with the governance of the Office of the Arizona State Treasurer and is not intended to be and should not be used by anyone other than the specified party. However, this letter is a matter of public record, and its distribution is not limited.

If you would like to discuss this letter or have any questions, please contact Kathleen Wood, Financial Audit Manager, at (602) 553-0333.

Sincerely,

Debbie Davenport
Auditor General

cc: Mr. Mark Swenson, Deputy Treasurer
Mr. Carlton Woodruff, Deputy Treasurer of Operations
Mr. Tim White, Senior Portfolio Manager
Office of the Arizona State Treasurer
Mr. D. Clark Partridge, State Comptroller
State of Arizona, Department of Administration



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Report on Internal Control and Compliance

State of Arizona Office of the Treasurer

For the Year Ended June 30, 2011



Debra K. Davenport
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.



Copies of the Auditor General's reports are free.
You may request them by contacting us at:

Office of the Auditor General
2910 N. 44th Street, Suite 410 • Phoenix, AZ 85018 • (602) 553-0333

Additionally, many of our reports can be found in electronic format at:

www.azauditor.gov

State of Arizona
Office of the Treasurer
Report on Internal Control and Compliance
For the Year Ended June 30, 2011

Table of Contents	Page
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Report Issued Separately	
Annual Financial Report	



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards***

Members of the Arizona State Legislature

The Honorable Doug Ducey, State Treasurer

We have audited the financial statements of the fiduciary funds of the State of Arizona, Office of the Treasurer, as of and for the year ended June 30, 2011, and have issued our report thereon dated October 25, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

The Office's management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Office's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements of the fiduciary funds, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Office's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Office's financial statements of the fiduciary funds will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Office's financial statements of the fiduciary funds are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Arizona State Treasurer, management, and others within the Office 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.

Debbie Davenport
Auditor General

October 25, 2011

