



State of Arizona Accounting Manual

Topic 05 Internal Controls
Section 35 Related Party Transactions

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INTRODUCTION

The management of each agency is charged with the fiduciary responsibility to safeguard public funds and to use resources wisely. A major factor in fulfilling this responsibility and achieving agency goals is to ensure that adequate internal controls exist. The prevention and elimination of conflicts of interest is an example of a control objective that, when in place and effective, aids in the achievement of an agency's goals.

Conflict of interest laws, rules and policies govern interactions between public employees' financial interests and the public interest. Arizona's conflict of interest statutes, A.R.S. §§ 38-501 through 38-503, <http://www.azleg.gov/arstitle/>, apply to "all public officers and employees...of the State."

Violations of the conflict of interest statutes, rules or policies may result in disciplinary action, up to and including dismissal, as well as criminal prosecution.

Certain terms have specific legal definitions that are contained in A.R.S. § 38-502, <http://www.azleg.gov/viewdocument/?docName=http://www.azleg.gov/ars/38/00502.htm>, and in the SAAM Glossary, Section 9505. Such terms include "substantial interest" and "remote interest."

POLICY & PROCEDURES

1. It is the responsibility of all State officers and employees to:
 - 1.1. Become familiar with the conflict of interest statutes, rules and policies.
 - 1.2. Recognize conflict of interest situations.
 - 1.2.1. Conflict of interest situations are those in which a person's judgment may be impaired or may be perceived to be impaired by a substantial interest, remote interest or other complications.
 - 1.3. Take appropriate action in each conflict of interest situation.
 - 1.4. Adhere to the provisions of A.R.S. § 38-503 by disclosing to his agency head, deputy agency head and agency chief financial officer whether he or a relative has a substantial or remote interest in any contract, sale, purchase or service to the State.

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- 1.5. Refrain from voting upon or participating in any manner in any contract, sale or purchase in which he or a relative has a substantial or remote interest.
2. Management at each agency is responsible for:
 - 2.1. Monitoring, in the normal course of business, but at least annually, any transactions that occur between the agency, agency management and/or agency staff with individuals or organizations in or with which agency management or agency employees have a substantial or remote interest.
 - 2.2. Retaining documentation relating to any conflict of interest situations and how they were resolved.
3. By August 31st of each year, the Agency shall, as part of its annual closing package, submit a report to the State Comptroller identifying by individual all related party transactions that aggregate to one hundred thousand dollars (\$100,000) or more during the immediately preceding fiscal year. Such related party transactions include, but are not limited to, the exercise or approval of:
 - 3.1. Procurements.
 - 3.2. Contracting.
 - 3.3. Purchasing.
 - 3.4. Payments.
4. Transactions that may involve a conflict of interest should be immediately reported to the State Comptroller.