

**Federal Award Findings, Questioned Costs and Corrective Action Plan
(Reformatted from FY 2009 Single Audit Report)**

09-101

CFDA No.: Not applicable

Questioned Cost: N/A

Finding

Criteria: Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, §.320, requires the State to submit its Single Audit Reporting Package to the federal clearinghouse no later than 9 months after fiscal year-end, unless the State's federal oversight agency approves an extension of this deadline.

Condition and context: The federal reporting deadline for the State's Single Audit Reporting Package was March 31, 2010; however, the State did not issue its Single Audit Reporting Package until June 2010. In addition, the State's federal oversight agency, the U.S. Department of Health and Human Services, has not approved an extension for late submission of the 2009 Single Audit Reporting Package.

Effect: The late submission affects all federal programs the State administered. This finding is a material weakness in internal control over compliance and noncompliance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, §.320. However, this finding does not result in a control deficiency in internal control over compliance or noncompliance for the individual federal programs, as this was not caused by the programs' administration.

Cause: As discussed in finding 09-01, the late completion of the State's CAFR contributed to the late submission of its Single Audit Reporting Package.

Recommendation: The State should improve its financial reporting process so that it can submit its Single Audit Reporting Package to the federal clearinghouse no later than 9 months after fiscal year-end.

Agency Response: Concur

Contact person: Clark Partridge, State Comptroller, (602) 542-5405

Anticipated completion date: June 2010

Agency Corrective Action Plan: We have requested an extension but have not received a response. Our understanding is that the Office of Management and Budget has recommended no extensions be granted for fiscal years 2009, 2010, and 2011. This finding is connected with finding 09-01, and we will likewise continue to work with state agencies to improve the timely submission and completion of state financial information.

09-102

SNAP Cluster:

CFDA No.: 10.551 Supplemental Nutrition Assistance Program, #7AZ400AZ4

10.561 State Administrative Matching Grants for the Supplemental Nutrition Assistance Program, #7AZ400AZ4

10.561 ARRA—State Administrative Matching Grants for the Supplemental Nutrition Assistance Program, #7AZ400AZ4

Child Nutrition Cluster:

CFDA No.: 10.553 School Breakfast Program, #7AZ300AZ3

10.555 National School Lunch Program, #7AZ300AZ3

10.556 Special Milk Program for Children, #7AZ300AZ3

10.559 Summer Food Service Program for Children, #7AZ300AZ3

CFDA No.: 10.558 Child and Adult Care Food Program, #7AZ300AZ3

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U.S. Department of Agriculture

Award Period: October 1, 2007 through September 30, 2008
October 1, 2008 through September 30, 2009

CFDA No.: 12.401 **National Guard Military Operations and Maintenance (O&M) Projects, Various**

U.S. Department of Defense

Award Period: October 1, 2007 through September 30, 2012

Employment Services Cluster:

CFDA No.: 17.207 **Employment Service/Wagner-Peyser Funded Activities, #s E-9-5-8-5084 and E-9-5-9-5084**

17.801 **Disabled Veterans' Outreach Program (DVOP), #s E-9-5-8-5084 and E-9-5-9-5084**

17.804 **Local Veterans' Employment Representative Program, #s E-9-5-8-5084 and E-9-5-9-5084**

WIA Cluster:

CFDA No.: 17.258 **WIA Adult Program, #s AA-15466-06-55, AA-16015-07-55-A-4, AA-17107-08-55, and AA-18266-09-55**

17.258 **ARRA—WIA Adult Program, #AA-18266-09-55**

17.259 **WIA Youth Activities, #s AA-15466-06-55, AA-16015-07-55-A-4, AA-17107-08-55, and AA-18266-09-55**

17.259 **ARRA—WIA Youth Activities, #AA-18266-09-55**

17.260 **WIA Dislocated Workers, #s AA-15466-06-55, AA-16015-07-55-A-4, AA-17107-08-55, and AA-18266-09-55**

17.260 **ARRA—WIA Dislocated Workers, #AA-18266-09-55**

U.S. Department of Labor

Award Period: April 1, 2006 through June 30, 2009
April 1, 2007 through June 30, 2010
October 1, 2007 through September 30, 2008
April 1, 2008 through June 30, 2011
October 1, 2008 through September 30, 2009
April 1, 2009 through June 30, 2012

Highway Planning and Construction Cluster:

CFDA No.: 20.205 **Highway Planning and Construction, Various**
20.219 **Recreational Trails Program, Various**

U.S. Department of Transportation

Award Period: October 1, 2007 through September 30, 2008
October 1, 2008 through September 30, 2009

Title I, Part A Cluster:

CFDA No.: 84.010 **Title I Grants to Local Educational Agencies, #s S010A060003, S010A070003, and S010A080003**

84.389 **Title I Grants to Local Educational Agencies, Recovery Act, #S389A090003**

Special Education Cluster (IDEA):

CFDA No.: 84.027 **Special Education—Grants to States, #s H027A060007, H027A070007, and H027A080007**

84.173 **Special Education—Preschool Grants, #s H173A060003, H173A070003, and H173A080003**

Vocational Rehabilitation Cluster:

CFDA No.: 84.126 **Rehabilitation Services—Vocational Rehabilitation Grants to States, #s H126A070002, H126A080002, and H126A090002**

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Early Intervention Services (IDEA) Cluster:

CFDA No.: 84.181 **Special Education—Grants for Infants and Families, #s H181A080001 and H181A080002**

84.393 **Special Education—Grants for Infants and Families, Recovery Act, #s H181A080001 and H181A080002**

CFDA No.: 84.367 **Improving Teacher Quality State Grants, #s S367A060049, S367B060003, S367A070049, S367B070003, S367A080049, and S367B080003**

U.S. Department of Education

Award Period: July 1, 2006 through September 30, 2007

October 1, 2006 through September 30, 2008

July 1, 2007 through September 30, 2008

October 1, 2007 through September 30, 2009

November 6, 2007 through September 30, 2008

July 1, 2008 through September 30, 2009

October 1, 2008 through September 30, 2010

TANF Cluster:

CFDA No.: 93.558 **Temporary Assistance for Needy Families, #s G0802AZTANF and G0902AZTANF**

CCDF Cluster:

CFDA No.: 93.575 **Child Care and Development Block Grant, #s G0801AZCCDF and G0901AZCCDF**

93.596 **Child Care Mandatory and Matching Funds of the Child Care and Development Fund, #s G0801AZCCDF and G0901AZCCDF**

93.713 **ARRA—Child Care and Development Block Grant, #s G0901AZCCDF**

Medicaid Cluster:

CFDA No.: 93.775 **State Medicaid Fraud Control Units**

93.777 **State Survey and Certification of Health Care Providers and Suppliers**

93.778 **Medical Assistance Program**

93.778 **ARRA—Medical Assistance Program**

CFDA No.: 93.658 **Foster Care—Title IV-E, #s 0701AZ1401, 0801AZ1401, and 0901AZ1401**

CFDA No.: 93.658 **ARRA—Foster Care—Title IV-E, #0901AZ1402**

CFDA No.: 93.767 **Children’s Health Insurance Program**

CFDA No.: 93.959 **Block Grants for Prevention and Treatment of Substance Abuse, #s B1AZSAPT-07-5 and 3B08T10004-08S1**

U.S. Department of Health and Human Services

Award Period: October 1, 2006 through September 30, 2007

October 1, 2006 through September 30, 2008

October 1, 2007 through September 30, 2008

October 1, 2007 through September 30, 2009

October 1, 2008 through September 30, 2009

October 1, 2008 through September 30, 2010

Homeland Security Cluster:

CFDA No.: 97.067 **Homeland Security Grant Program, #s 2006-GE-T6-4007, 2007-SG-N6-0004, 2007-GE-T7-0006, 2007-SG-N6-0007, 2008-GE-T8-0021, and 2008-SG-T8-0007**

U.S. Department of Homeland Security

Award Period: November 1, 2006 through October 31, 2008

November 1, 2006 through September 30, 2008

July 1, 2007 through June 30, 2010

September 1, 2008 through August 31, 2011

Allowable Costs/Cost Principles

Questioned Cost: \$498,752

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from FY 2009 Single Audit Report)

Finding

Criteria: In accordance with OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment A, paragraphs C.1.b and 3.a., costs charged to federal programs should be based on the relative benefits received.

Condition and context: The State of Arizona did not comply with the allowable costs/cost principles requirements with respect to the general agency counsel service costs provided by the Office of the Attorney General that were charged to federal programs administered by various state agencies. A.R.S. §41-191.09 created the Attorney General Legal Services Cost Allocation Fund (Fund) for the purpose of reimbursing the Attorney General's Department of Law for general agency counsel services. Beginning on July 1, 2006, all state agency funds, except those specifically exempted by the statute, were required to reimburse the Fund for the costs of general agency counsel services. Reimbursements were obtained by charging 0.675 percent of each applicable agency's total payroll expenditures, including those paid with federal monies, each pay period.

Effect: During fiscal year 2009, these charges totaled \$498,752, including \$158,408 for the major federal programs listed above and \$340,344 for all other federal programs. This finding is noncompliance with the allowable costs/cost principles requirements and could potentially affect all federal programs administered by the affected state agencies that incurred payroll costs.

Cause: The noncompliance resulted from a statutory requirement that these programs be charged for general agency counsel service costs, and therefore, this was not caused by the federal programs' administration.

Recommendation: The State should ensure that general agency counsel services are not charged to federal programs unless treated as direct costs or allocated using an equitable allocation basis, such as each agency's direct usage of counsel services. In addition, the Department of Administration should monitor bills being considered in the Arizona State Legislature to help ensure that unallowable costs to federal programs will not be incurred in the future if the bill is enacted into law.

This finding was similar to a prior-year finding.

Agency Response: Concur

Contact person: Clark Partridge, State Comptroller, (602) 542-5405

Anticipated completion date: Unknown

Agency Corrective Action Plan: We have an established process in place for monitoring legislation. In fact, this concept was raised for over two years prior to actually becoming law. On multiple occasions during that period we advised that this was, in our opinion, not consistent with established federal cost principles and almost certainly would be disallowed. This item is controlled by statute and cannot be resolved without a legislative change. Until the methodology is acceptably modified, there will likely continue to be disallowed costs which will require repayment with applicable interest. We will continue efforts to develop a solution to this issue.

This issue is a cross-cutting finding and is appropriately being addressed with the Department of Health and Human Services, Division of Cost Allocation (DHHS-DCA), for the payment and appropriate resolution of the questioned costs. We agree and commit to continue to work with DHHS-DCA, to the best of our ability, to find a resolution which ensures that the federal programs will be properly charged up front for these costs, thus eliminating the need for subsequent refunds or adjustments.

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State Fiscal Stabilization Fund Cluster:

CFDA No.: 84.394 **State Fiscal Stabilization Fund (SFSF)—Education State Grants, Recovery Act, #S394A090003**

U.S. Department of Education

Award Period: June 4, 2009 through September 30, 2010

Suspension and Debarment

Questioned Cost: None

Finding

Criteria: In accordance with 34 Code of Federal Regulations (CFR) §80.35, the Governor's Office must verify that subrecipients are not suspended or debarred from doing business with the federal government before entering into contract with them.

Condition and context: The Governor's Office indicated that it has verified that each subrecipient had not been suspended or debarred from doing business with the federal government; however, it did not maintain documentation of the verification. Auditors performed additional audit procedures and noted no instances of payments made to suspended or debarred subrecipients.

Effect: Payments could be made to suspended or debarred subrecipients. This finding is a significant deficiency in internal control over compliance and noncompliance with the program's suspension and debarment compliance requirements. This finding has the potential to affect other federal programs administered by the Governor's Office.

Cause: The Governor's Office did not realize they needed to maintain documentation of the verification process.

Recommendation: The Governor's Office should document its determination that subrecipients being paid over \$25,000 in federal monies have not been suspended or debarred from doing business with governmental entities. This verification may be accomplished by checking the Excluded Parties List System maintained by the U.S. General Services Administration, obtaining a certification from the subrecipient, or adding a clause or condition to the subrecipient contracts.

Agency Response: Concur

Contact person: Matthew D. Hanson, Assistant Director of Programs and Performance, (602) 542-7567

Anticipated completion date: August 2, 2010

Agency Corrective Action Plan: During the state fiscal year 2009, the Governor's Office of Economic Recovery (OER) allocated over \$182,000,000 in State Fiscal Stabilization Funds – Education (SFSF-Education) to Arizona's Institutions of Higher Education (IHEs). OER's standard process was to receive and review grant applications from each IHE, enter into an Intergovernmental Agreement (IGA) or Interagency Service Agreement (ISA) with each IHE, and then receive and review a request for reimbursement from each IHE before any reimbursement of SFSF-Education funds were distributed. As part of the IGA/ISA process, each of the IHE's was compared against the Federal Excluded Parties List System (EPLS) web site: <https://www.epls.gov/>. This comparison resulted in no matches and thus none of Arizona's IHEs have been suspended or debarred by the federal government. As a further safeguard, OER compares each of its subrecipients against the EPLS as part of its quarterly ARRA Section 1512 reporting process. While documentation of these comparisons was not placed in the subrecipient folders, it is part of OER's standard process.

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In order to respond to the Auditor General's finding, OER will undertake two activities to ensure that this safeguard is properly documented. First of all, OER will place a print screen from EPLS and a memo to file each time the subrecipients are analyzed for suspension and debarment status. The next anticipated time this is expected to happen is May 2010 when the next allocation of SFSF-Education funds is made to the IHEs. Secondly, OER will build out its grants management solution to add an EPLS field for each subrecipient. Once the verification process is completed, OER will document this in their grants management solution accordingly.

OER expects to complete both of these activities by August 2, 2010.

09-104

SNAP Cluster:

CFDA No.: 10.551 **Supplemental Nutrition Assistance Program, #7AZ400AZ4**

10.561 **State Administrative Matching Grants for the Supplemental Nutrition Assistance Program, #7AZ400AZ4**

10.561 **ARRA—State Administrative Matching Grants for the Supplemental Nutrition Assistance Program, #7AZ400AZ4**

U.S. Department of Agriculture

Award Period: October 1, 2007 through September 30, 2008

October 1, 2008 through September 30, 2009

Special Tests and Provisions

TANF Cluster:

CFDA No.: 93.558 **Temporary Assistance for Needy Families, #s G0802AZTANF and G0902AZTANF**

U.S. Department of Health and Human Services

Award Period: October 1, 2007 through September 30, 2008

October 1, 2008 through September 30, 2009

Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility

Questioned Cost: Unknown

Finding

Criteria: In accordance with 7 CFR §§274.7(b), 274.11(c), and 274.12(h)(3), the Department of Economic Security must adhere to control and security procedures for electronic benefits transfer (EBT) security requirements for establishing and maintaining EBT accounts.

Condition and context: The Department of Economic Security, Division of Benefits and Medical Eligibility, Family Assistance Administrative (FAA) Offices, did not always follow internal control policies and procedures for activating and issuing EBT cards for the Supplemental Nutrition Assistance Program and Temporary Assistance for Needy Families (TANF) cash assistance benefits to ensure that benefits were only issued to eligible recipients. Auditors performed observations at 10 of 97 FAA offices in May 2009, and noted that in 4 offices, the eligibility verification system was not secured when the computer was left unattended. In addition, in 1 office, the EBT card issuance log was not completed, and in 2 offices, the EBT cards were not safeguarded. Further, in 3 offices, the daily reconciliations of EBT cards issued and remaining were not always prepared. Further, during the period of July 1, 2008 through June 30, 2009, the Division identified the following two deficiencies: an employee manipulated the eligibility computer system to override requirements for supervisory review and an employee obtained an EBT card and changed the pin number to use a deceased participant's remaining benefits. No losses were sustained from these cases. This finding only affected the Supplemental Nutrition Assistance Program and TANF Program since EBT cards are not used for the other programs.

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Effect: Not adhering to policies and procedures leaves the Division vulnerable to potential fraud, waste, and abuse. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a material weakness in internal control over compliance and material noncompliance with the Supplemental Nutrition Assistance Program Cluster's special tests and provisions requirements. It is also a material weakness in internal control over compliance and material noncompliance with the TANF Cluster's activities allowed or unallowed, allowable costs/cost principles, and eligibility requirements.

Cause: The Division did not monitor the local offices to ensure that they were following established procedures.

Recommendation: The Division should monitor adherence to and enforce its internal control policies and procedures over the process of authorizing and issuing EBT cards at its FAA Offices.

This finding was similar to a prior-year finding.

Agency Response: Concur

Contact person: Leona Hodges, DBME Deputy Assistant Director, (602) 542-7596

Anticipated completion date: June 2010

Agency Corrective Action Plan: To ensure benefits are issued only to eligible recipients and EBT cards are adequately safeguarded, the Division of Benefits and Medical Eligibility (DBME) local offices only issue cards for cases that meet the expedite criteria. This was necessary to ensure that these cases have access to benefits within seven days from the date of application as required by federal regulation. DBME also programmed the eligibility system to prevent the issuance of EBT cards in the local offices except for expedite cases. The vendor mails out all other EBT cards. Local offices placed posters in their lobbies informing clients of the following:

- DO NOT give your unwanted, damaged, or unusable EBT card to any DES employee.
- DES employees are not allowed to accept, handle, or receive EBT Cards from participants for any reason.
- You must destroy the unwanted EBT card yourself. Shred or cut the card in pieces before discarding.
- Remember! Never give your personal identification number (PIN) to anyone for any reason.

In addition, DBME made changes to the eligibility system to restrict issuance of supplemental payments and to prevent the occurrence of EBT fraud. DBME has partnered with the DES Office of Special Investigations to establish a fraud unit that will perform detailed analysis of eligibility system reports to assist in detection and prevention of fraud.

DBME addressed all issues noted in the finding with the appropriate staff and issued a reminder to log off the eligibility system when computers are unattended.

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SNAP Cluster:

CFDA No.: 10.551 **Supplemental Nutrition Assistance Program, #7AZ400AZ4**

10.561 **State Administrative Matching Grants for the Supplemental Nutrition Assistance Program, #7AZ400AZ4**

10.561 **ARRA—State Administrative Matching Grants for the Supplemental Nutrition Assistance Program, #7AZ400AZ4**

U.S. Department of Agriculture

Award Period: October 1, 2007 through September 30, 2008

October 1, 2008 through September 30, 2009

Special Tests and Provisions

Questioned Cost: \$11,271

Finding

Criteria: In accordance with 7 CFR §273.2(a)(2), (b), and (f), the case files for food stamp recipients must support eligibility and benefit-level determinations. Further, in accordance with 7 CFR §272.10(b)(1), a food stamp system should be able to be updated for mass changes initiated at the state and federal levels.

Condition and context: The Department of Economic Security, Division of Benefits and Medical Eligibility, did not ensure all required documentation was included in case files for supplemental nutrition assistance recipients and all recipient information was accurately transferred into the eligibility verification system. Specifically, for 5 of 48 recipients tested, auditors noted the case files did not include rent or earned or unearned income verification documents used for determining benefit amounts, which resulted in benefit overpayments of \$11,271 for the benefit period. Additionally, for 4 of 48 recipients tested, the rent or income amounts were entered incorrectly into the eligibility verification system; however, the benefit payments were not affected for the benefit period. Additionally, the Division did not apply automated mass updates of federal allotments and standards used for benefit determination to all open cases. Specifically, for 1 of 48 recipients tested, auditors noted the federal maximum allotments and standard deduction amounts stored in the eligibility verification system were not updated to properly calculate the benefit amount, which resulted in an underpayment of \$150 for the benefit period. This finding only affected the Supplemental Nutrition Assistance Program since the finding did not affect administrative monies.

Effect: Assistance may be granted to ineligible recipients or incorrect benefit determinations could be made that may result in over- or underpayments to recipients. It was not practical to extend our auditing procedures sufficiently to determine whether any additional questioned costs resulted from this finding. This finding is a material weakness in internal control over compliance and material noncompliance with the Cluster's special tests and provisions requirements.

Cause: The Division did not follow its policies and procedures to retain adequate verification documentation and to properly transfer recipient information into the eligibility verification system at the local offices. Further, the Division did not have procedures in place to ensure that mass changes to federal tables stored in the eligibility verification system were applied to all open cases.

Recommendation: The Division should enforce the following procedures to help ensure compliance with special tests and provision requirements.

- Retain its supplemental nutrition assistance recipients' verification documentation to support benefit authorizations.

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- Document all required information in the eligibility verification system to help ensure that benefits are accurately calculated.

Further, the Division should perform tests on its system when mass changes to federal tables occur to help ensure that all open cases are properly updated.

Agency Response: Concur

Contact person: Leona Hodges, DBME Deputy Assistant Director, (602) 542-7596

Anticipated completion date: July 2010

Agency Corrective Action Plan: To ensure all required documentation is included in case files and all recipient information is accurately transferred into the eligibility verification system, DBME will continue to perform extensive reviews throughout the eligibility determination process to detect and correct errors such as the ones noted in this finding. This includes case reads by supervisors, quality control reviews, management evaluation reviews, and secondary case reads by quality control staff. During fiscal year 2008, DBME implemented an Accuracy Improvement Plan to improve the quality of services and eligibility determinations. To ensure compliance, this plan was closely monitored internally and by the Federal Food & Nutrition Services. The error rate based on case reads in June 2008 was 4.66% compared to 6.07% in June 2007 and 8.26% in 2006. DBME received bonus funding due to the improvement in the accuracy rate. The error rate was within the allowable federal standard for federal fiscal year 2008. Due to resource issues and increasing caseloads, the error rate began to increase again in 2009. Accordingly, DBME is making significant changes in the case read process that were recommended by their federal partners. DBME is also centralizing the quality function in order to provide more focus, better analysis and a consistent, efficient statewide approach.

09-106

CFDA No.: 17.225 **Unemployment Insurance, #s UI-15108-06-55, UI-15785-07-55, UI-16733-08-55, and UI-18007-09-55**

17.225 ARRA—**Unemployment Insurance, # UI-18007-09-55**

U.S. Department of Labor

Award Period: October 1, 2005 through September 30, 2008
October 1, 2006 through September 30, 2009
October 1, 2007 through September 30, 2010
October 1, 2008 through September 30, 2011

Special Tests and Provisions

Questioned Cost: N/A

Finding

Criteria: In accordance with 20 CFR §602.11(d), the Department of Economic Security is required to operate a Benefits Accuracy Measurement (BAM) program to assess the accuracy of unemployment insurance benefit payments and denied claims. The *Benefit Accuracy Measurement State Operations Handbook, ET Handbook No. 395, 4th Edition*, requires the Division to select a minimum number of payments and denied claims each week, quarter, and calendar year and review them for accuracy.

Condition and context: The Department of Economic Security, Employment Administration, Benefit Accuracy Measurement Unit, did not select the minimum weekly, quarterly, or annual number of benefit payments for testing. Specifically, for the last 3 weeks of calendar year 2008, the Unit selected 3 cases instead of the required minimum of 6; for the fourth quarter of calendar year 2008, the Unit selected 93 cases instead of the minimum of 108; and for calendar year 2008, the Unit selected 446 cases instead of the minimum of 480. This finding did not affect any American Recovery and Reinvestment Act (ARRA) monies since there were no ARRA benefit payments for calendar year 2008.

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Effect: Failure to operate the BAM program in accordance with the requirements can result in noncompliance with federal regulations and failure to identify overpaid, underpaid, or erroneously denied claims. This finding is a significant deficiency in internal control over compliance and noncompliance with the Unemployment Insurance programs' special tests and provisions requirements.

Cause: Due to limited staff during the period, the Benefit Accuracy Measurement Unit was unable to test the minimum number of benefit payments.

Recommendation: The Benefit Accuracy Measurement Unit should test the minimum number of benefit payments for each week, quarter, or year to comply with federal guidelines.

Agency Response: Concur

Contact person: Andrew Baldwin, Deputy UI Program Administrator, (520) 770-3769

Anticipated completion date: June 30, 2010

Agency Corrective Action Plan: During state fiscal year 2009, unemployment insurance claims increased by over 400% and the Division of Employment and Rehabilitation Services (DERS) experienced staffing shortages and high staff turnover. As a result, DERS was unable to sample the required number of claims for the Benefit Accuracy Measurement (BAM) process. DERS increased staffing to address the increase in unemployment insurance activities and increased the BAM sample size to ensure sufficient cases are pulled each quarter. For the quarter ending March 31, 2010, DERS exceeded the federal target requirement.

09-107

CFDA No.: 17.225 Unemployment Insurance, #s UI-15108-06-55, UI-15785-07-55, UI-16733-08-55, and UI-18007-09-55

17.225 ARRA—Unemployment Insurance, # UI-18007-09-55

U.S. Department of Labor

Award Period: October 1, 2005 through September 30, 2008
October 1, 2006 through September 30, 2009
October 1, 2007 through September 30, 2010
October 1, 2008 through September 30, 2011

Reporting

Questioned Cost: N/A

Finding

Criteria: In accordance with 29 CFR §97.20(b)(6), amounts presented on the reports should agree to the entity's financial records.

Condition and context: The Department of Economic Security, Division of Employment and Rehabilitation Services, did not always follow its policies and procedures to ensure that information reported was supported by the Division's records. Specifically, the Division was unable to provide supporting documentation for various financial and nonfinancial data reported on its December 31, 2008, and June 30, 2009, ETA 581–Contribution Operations reports and its June 30, 2009, ETA-227–Overpayment Detection and Recovery Activities reports.

Effect: Incorrect financial and nonfinancial data may be submitted to the federal grantor, resulting in errors in analysis or other determinations. This finding did not result in questioned costs since these reports were not used to request reimbursement of federal expenditures. This finding is a significant deficiency in internal control over compliance and noncompliance with the Unemployment Insurance and ARRA—Unemployment Insurance programs' reporting requirements.

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Cause: The system-generated reports had programming deficiencies. As a result, the Division made unsupported manual adjustments to the ETA 581 and ETA 227 reports in order to agree to the ending balances on other system-generated reports.

Recommendation: The Division should investigate the system deficiencies and correct any faulty programming to ensure that internal reports are properly generated to support various financial and nonfinancial data. If manual adjustments are required, the Division should retain adequate supporting documentation for these adjustments.

This finding was similar to a prior-year finding.

Agency Response: Concur

Contact person: Andrew Baldwin, Deputy UI Program Administrator, (520) 770-3769

Anticipated completion date: June 30, 2010

Agency Corrective Action Plan: DERS is researching the automated system coding to identify any coding issues that may have led to the discrepancies found by the auditors. In addition, DERS contacted the US Department of Labor (US DOL) and inquired about the submitted reports. In consultation with the US DOL representative, the reports were found to have been submitted satisfactorily based upon US DOL guidance. No issues were noted. If DERS identifies issues during review of the system coding, changes will be implemented to resolve the errors.

09-108

WIA Cluster:

CFDA No.: 17.258 **WIA Adult Program, #s AA-15466-06-55, AA-16015-07-55-A-4, AA-17107-08-55, and AA-18266-09-55**

17.258 **ARRA—WIA Adult Program, #AA-18266-09-55**

17.259 **WIA Youth Activities, #s AA-15466-06-55, AA-16015-07-55-A-4, AA-17107-08-55, and AA-18266-09-55**

17.259 **ARRA—WIA Youth Activities, #AA-18266-09-55**

17.260 **WIA Dislocated Workers, #s AA-15466-06-55, AA-16015-07-55-A-4, AA-17107-08-55, and AA-18266-09-55**

17.260 **ARRA—WIA Dislocated Workers, #AA-18266-09-55**

U.S. Department of Labor

Award Period: April 1, 2006 through June 30, 2009

April 1, 2007 through June 30, 2010

April 1, 2008 through June 30, 2011

April 1, 2009 through June 30, 2012

Reporting

Questioned Cost: N/A

Finding

Criteria: In accordance with 20 CFR §667.300, states must report financial, participant, and performance data in accordance with instructions issued by the U.S. Department of Labor.

Condition and context: The Department of Economic Security, Division of Employment and Rehabilitation Services, Employment Administration, and Financial Services Administration did not accurately prepare the ETA-9130 Financial Reports during fiscal year 2009. While performing test work on 24 reports, auditors noted for grant award AA-17107-08-55, the Financial Services Administration omitted administrative expenditures totaling \$4,940 on the September 30, 2008, local adult report. In addition, the Employment Administration

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understated the federal share of expenditures by \$7,537 on the June 30, 2009, ARRA local youth report and understated the federal share of expenditures by \$559 on the June 30, 2009, ARRA rapid response dislocated workers report.

Effect: This finding did not result in questioned costs since the reports were not used to request reimbursement of federal expenditures. This finding is a significant deficiency in internal control over compliance and noncompliance with the Cluster's reporting requirements.

Cause: The Administrations did not adequately review the ETA-9130 reports to ensure the amounts reported were accurate.

Recommendation: The Administrations' supervisors should review the reports for accuracy by comparing them to the Department's financial records prior to submission to the U.S. Department of Labor.

Agency Response: Concur

Contact persons: Mark Darmer, DERS Budget Manager, (602) 542-6333 and Michael Wisheart, DES Acting Chief Financial Officer (602) 542-3786

Anticipated completion date: Various, for anticipated completion dates see corrective action plan below

Agency Corrective Action Plan: By June 30, 2010, the WIA Fiscal Unit will revise its policy related to records retention of supporting documentation for the quarterly ETA-9130 reports. The underreporting of the Youth and Dislocated Worker expenditures occurred because the Fiscal Unit did not retain a back-up copy of the detail expenditure reports used to compile the quarterly reports. The Fiscal Unit now retains a copy of the detailed transaction records that comprise the quarterly report to aid in reviewing all ETA-9130 reports, and staff have been trained on where the information is located.

The omitted administrative expenditures on the September 30, 2008, local adult report was the result of an inadvertent error that the Financial Services Administration (FSA) did not identify during the review and approval phase of preparing federal financial reports. However, this error was identified and corrected in a subsequent quarter. On May 4, 2010, in order to help ensure that this error will not occur in the future, the specific requirements for these reports were reviewed with the FSA staff who routinely prepare the ETA-9130 Federal Financial Status reports. In addition, FSA asked staff to place specific emphasis upon the total administrative expenditures reported on line 10f during the review process.

09-109

Vocational Rehabilitation Cluster:

CFDA No.: 84.126 **Rehabilitation Services—Vocational Rehabilitation Grants to States, #s H126A070002, H126A080002, and H126A090002**

U.S. Department of Education

Award Period: October 1, 2006 through September 30, 2008
October 1, 2007 through September 30, 2009
October 1, 2008 through September 30, 2010

Eligibility

Questioned Cost: N/A

Finding

Criteria: In accordance with 29 U.S. Code 722(a)(6), the Department of Economic Security must determine whether an individual is eligible for Vocational Rehabilitation services within a reasonable period of time, not to exceed 60 days, after the individual has submitted an application for the services, unless exceptional and

**Federal Award Findings, Questioned Costs and Corrective Action Plan
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unforeseen circumstances beyond the control of the Department exist or the Department is exploring the individual's abilities, capabilities, and capacity in order to be able to make the eligibility determination.

Condition and context: The Department of Economic Security, Division of Employment and Rehabilitation Services, Rehabilitation Services Administration, did not always follow its policies and procedures to ensure compliance with eligibility requirements. While performing test work, auditors noted the Administration did not always determine the applicant's eligibility for vocational rehabilitation services within 60 days of the application submission date. Specifically, for 12 of 55 applicants tested, it took the Administration between 62 and 258 days to determine if the applicants were eligible for the program. In addition, the Administration did not retain documentation indicating why the 60-day period was exceeded with either an extension letter signed by both the Administration and applicant or the Administration's continued exploration of the applicant's abilities, capabilities, and capacity to perform in work situations.

Effect: This finding is a material weakness in internal control over compliance and material noncompliance with the program's eligibility compliance requirements.

Cause: The Administration did not monitor open applications to make eligibility determinations within the 60-day requirement.

Recommendation: The Administration should determine an applicant's eligibility within 60 days of the application submission date. If an applicant's eligibility cannot be determined within 60 days, the Administration should maintain documentation indicating justification for exceeding the 60-day period.

This finding was similar to a prior-year finding.

Agency Response: Concur

Contact person: Kathy Levandowsky, RSA Program Administrator, (602) 542-6295

Anticipated completion date: June 30, 2010

Agency Corrective Action Plan: The Rehabilitation Services Administration (RSA) continues to stress the importance of complying with federal regulations and to train the Vocational Rehabilitation Counselors, supervisors, and support staff regarding the use of Libera, the new automated case management system. Libera contains a predefined alert list query containing those clients who are approaching the 60-day eligibility time limit. This query is available to the primary Vocational Rehabilitation Counselor and the Case Team, which includes the counselor's supervisor and support staff. The tool allows staff in each unit to closely monitor client eligibility timeframes in order to improve timeliness. During employee training, RSA emphasizes how the query can assist the Case Team in managing the eligibility process to ensure compliance with federal regulations.

09-110

Vocational Rehabilitation Cluster:

CFDA No.: 84.126 **Rehabilitation Services—Vocational Rehabilitation Grants to States, #s H126A070002, H126A080002, and H126A090002**

U.S. Department of Education

Award Period: October 1, 2006 through September 30, 2008

October 1, 2007 through September 30, 2009

October 1, 2008 through September 30, 2010

Reporting

Questioned Cost: N/A

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from FY 2009 Single Audit Report)

Finding

Criteria: In accordance with 29 U.S. Code 721(a)(10) and 34 CFR §361.40, the Department of Economic Security should review the required federal reports for accuracy before submitting them to the U.S. Department of Education.

Condition and context: The Department of Economic Security, Division of Employment and Rehabilitation Services, Rehabilitation Services Administration (RSA), and the Financial Services Administration (FSA) did not accurately prepare the RSA-2 Program Cost Report and the SF-269 Federal Status Report during fiscal year 2009. While performing test work, auditors noted the RSA understated total Section 110 monies expended on services by \$160,015 on the December 2008, RSA-2 Program Cost Report. In addition, auditors noted the FSA misallocated Social Security Administration program income disbursed that understated Vocational Rehabilitation program monies and overstated Independent Living program monies by \$1,297 on the December 31, 2008, SF-269 Financial Status Report.

Effect: Noncompliance with federal regulations and failure to report accurate financial information may result in errors in analysis or other determinations. This finding did not result in questioned costs since these reports were not used to request reimbursement of federal expenditures. This finding is a significant deficiency in internal control over compliance and noncompliance with the program's reporting requirements.

Cause: The RSA and FSA did not follow the federal guidelines when preparing the reports and did not verify the accuracy of the calculations used when compiling the reports.

Recommendation: The RSA and FSA should review all reports for accuracy before the reports are submitted to the U.S. Department of Education and should ensure that federal guidelines are followed when preparing the reports.

This finding was similar to a prior-year finding.

Agency Response: Concur

Contact persons: Kathy Levandowsky, RSA Program Administrator, (602) 542-6295 and Michael Wisehart, DES Acting Chief Financial Officer, (602) 542-3786

Anticipated completion date: Various, for anticipated completion dates see corrective action plan below

Agency Corrective Action Plan: Whenever there are changes to the federal guidelines, the Rehabilitation Services Administration (RSA) Finance and Budget Unit updates the desk reference materials used by staff when compiling data for the RSA-2 report. The last update was completed in April 2010. In addition, to ensure the accuracy of future reports, the Finance and Budget Unit will review the data before they submit the RSA-2 report.

As of May 4, 2010, the Financial Services Administration (FSA) employees who routinely prepare and review the SF-269 Federal Financial Status report were trained on the specific calculations for allocating the Social Security Administration program income expenditures between the Independent Living Program and Vocational Rehabilitation Program. Staff involved in the review process have been reminded to review these calculations closely. FSA also instituted an additional level of detailed review. These actions should help ensure that this error will not occur in future.

**Federal Award Findings, Questioned Costs and Corrective Action Plan
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09-111

TANF Cluster:

CFDA No.: 93.558 **Temporary Assistance for Needy Families, #s G0802AZTANF and G0902AZTANF**

U.S. Department of Health and Human Services

Award Period: October 1, 2007 through September 30, 2008

October 1, 2008 through September 30, 2009

Special Tests and Provisions

Questioned Cost: N/A

Finding

Criteria: In accordance with 45 CFR §§205.55(a) and 205.60(a), income and benefit information must be requested from other federally assisted programs and federal agencies through automated data exchanges and used for identifying ineligible recipients. In addition, the information used in supporting its verification of wage and unemployment compensation through the data exchange must be retained.

Condition and context: The Department of Economic Security, Division of Benefits and Medical Eligibility, did not always follow its internal control policies and procedures to ensure that the required data was received, used, and maintained in accordance with federal regulations. In 14 of 48 case files tested, the Division did not retain documents supporting its verification of wage and unemployment compensation through the data exchange even though it retained documents in the recipients' case files supporting its eligibility and benefit determinations. In addition, for all 48 cases tested, the Division did not disseminate the federal tax return information received from the Internal Revenue Service to the local offices for verification of and comparison to applicants' and recipients' unearned income records.

Effect: Assistance may be granted to ineligible recipients or incorrect benefit determinations may result in over or underpayments. This finding is a material weakness in internal control over compliance and material noncompliance with the Cluster's special tests and provisions requirements.

Cause: The Division did not test its new method of disseminating the data exchange information and the data became corrupted. Further, the Division did not retain the printed reports so they could be disseminated to the local offices for use in wage verifications.

Recommendation: The Division should ensure that a viable copy of the data exchange information is sent to its local offices and the Division should monitor adherence to its policies and procedures for documenting its use of the data exchange process.

Agency Response: Concur

Contact person: Leona Hodges, DBME Deputy Assistant Director, (602) 542-7596

Anticipated completion date: Various, for anticipated completion dates see corrective action plan below

Agency Corrective Action Plan: In March 2009, the Division of Benefits & Medical Eligibility (DBME) reviewed and revised the Family Assistance Administration Policy Manual and eligibility system to address the identified issues. DBME also issued two Flash Bulletins to inform staff of the changes and remind them of the policy. The eligibility system screen that contains the verification of wage and unemployment compensation through the data exchange now displays a "SEND Y/N." If the eligibility worker chooses Y, the AZTECS screen prints directly to the View Center.

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In addition, DBME is revising the screening and processing of the federal tax information to improve the effectiveness of the information and make the process more efficient. DBME expects to implement the new process by December 2010.

09-112

TANF Cluster:

CFDA No.: 93.558 **Temporary Assistance for Needy Families, #s G0802AZTANF and G0902AZTANF**

U.S. Department of Health and Human Services

Award Period: October 1, 2007 through September 30, 2008

October 1, 2008 through September 30, 2009

Reporting

Questioned Cost: N/A

Finding

Criteria: In accordance with 45 CFR §§265.7(b)(1) and 265.7(b)(3), the data reported on the quarterly TANF Data Report must be complete and accurately reflect information available in case records, financial records, and automated data systems. In addition, in accordance with 45 CFR §265.9(c)(5), the average monthly total number or the total number of eligible families served for which maintenance of effort (MOE) expenditures are claimed at fiscal year-end must be reported on the Annual Report on State Maintenance-of-Effort Programs.

Condition and context: The Department of Economic Security did not accurately prepare its quarterly TANF Data Reports and Annual Report on State Maintenance-of-Effort Programs. Specifically, the Division of Benefits and Medical Eligibility's Family Assistance Administration did not accurately report child care and work participation data on the TANF Data Report. While performing test work, auditors noted for 4 of 24 items tested, the child care data reported did not agree to the child care information tracking system. In addition, the Division of Business and Finance's Policy and Planning Administration did not include 5,396 families in the total number of families served under the TANF program with MOE expenditures reported on the Annual Report on State Maintenance-of-Effort Programs during fiscal year 2009 for the Jobs Program line item.

Effect: Incorrect data was submitted to the federal government. This finding is a significant deficiency in internal control over compliance and noncompliance with the Cluster's reporting requirements.

Cause: The Family Assistance Administration did not extract updated child care data before compiling the TANF Data Report. In addition, the Policy and Planning Administration did not have procedures to perform reviews on its Annual Report on State Maintenance-of-Effort Programs.

Recommendation: The Family Assistance Administration should extract updated child care data to correspond with the TANF Data Report submission dates. In addition, the Policy and Planning Administration should require supervisors to review reports and underlying data prior to submission of the Annual Report on State Maintenance-of-Effort Programs.

Agency Response: Concur

Contact persons: Leona Hodges, DBME Deputy Assistant Director, (602) 542-7596 and Kathy Waite, Policy & Planning Administration Administrator, (602)-542-3882

Anticipated completion date: Various, for anticipated completion dates see corrective action plan below

Agency Corrective Action Plan: To ensure Temporary Assistance to Needy Families (TANF) Data Reports are prepared accurately, the Division of Benefits and Medical Eligibility (DBME) identified the programming error that resulted in the incorrect childcare data. DBME will initiate a program change to correct this coding issue by December 2010.

**Federal Award Findings, Questioned Costs and Corrective Action Plan
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The Policy and Planning Administration (PPA) receives client count information from the various Department programs utilizing TANF funds and inputs the data into the final report format for submittal to Health and Human Services, Administration for Children and Families (HHS/ACF). PPA will ensure all programs that submit data for the report are provided an opportunity to review the final report prior to submission to HHS/ACF. The review process will utilize a final sign-off by the designated responsible person in each program area. By doing so, each program area will ensure that the numbers being used in the report are accurate. This corrective action will be effective with completion of the 2010 Annual TANF Maintenance of Effort (MOE) Report (ACF 204), on December 31, 2010. PPA will submit a corrected ACF 204, Attachment B, to HHS/ACF no later than July 1, 2010.

09-113

CFDA No.: 93.563 **Child Support Enforcement, #s G0804AZ4004 and G0904AZ4004**
93.563 **ARRA—Child Support Enforcement, #G0904AZ4002**

U.S. Department of Health and Human Services

Award Period: October 1, 2007 through September 30, 2008

October 1, 2008 through September 30, 2009

Special Tests and Provisions

Questioned Cost: N/A

Finding

Criteria: In accordance with 45 CFR §§302.33, 303.2(b), 303.4(d), and 303.7(b)(2), the Department of Economic Security is required to establish support obligations, process interstate cases, and open a case within specific time frames.

Condition and context: The Department of Economic Security, Division of Child Support Enforcement, did not always follow its internal control policies and procedures to ensure compliance with special tests and provisions requirements for establishing support obligations, processing interstate cases, and establishing new cases. For 3 of 53 cases tested, the Division did not refer the noncustodial parent to the Office of the Attorney General or pursue other actions to establish a child support order within 90 days after it located the noncustodial parent. Specifically, one case was never referred to the Office of the Attorney General, one case was referred after 245 days, and one case was initially referred in 41 days but was returned for missing information and the missing information was not provided until 81 days later. In addition, for 1 of 10 cases tested, the Division never referred an interstate IV-D case to the applicable state's interstate central registry for action after it determined the noncustodial parent was in a different state. Finally, for 6 of 77 cases tested, the Division failed to establish new cases within 20 days after receiving a case referral or an application. Specifically, the Division took between 24 and 155 days to complete this process.

Effect: Failure to meet the time frames specified by the federal regulations could result in delays in providing financial support to the custodial parents. This finding is a material weakness in internal control over compliance and material noncompliance with the Child Support Enforcement and ARRA—Child Support Enforcement program's special tests and provisions requirements.

Cause: The Division did not always follow its policies and procedures to check work lists to ensure that cases were processed within the specified time frames.

Recommendation: The Division should ensure that case workers check the work lists on a regular basis or develop other means to notify the case worker of critical due dates.

This finding was similar to a prior-year finding.

**Federal Award Findings, Questioned Costs and Corrective Action Plan
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Agency Response: Concur

Contact person: Sherry Seaman, DCSE Legal Services Administrator, (602) 771-8147

Anticipated completion date: Various, for anticipated completion dates see corrective action plan below

Agency Corrective Action Plan: The Division of Child Support Enforcement (DCSE) implemented processes to ensure that child support orders are established within time requirements. To improve establishment of child support orders, effective June 1, 2010, DCSE will begin to monitor L0025 worklist items that indicate the non-custodial parent has been located and the case should be reviewed for action.

To ensure DCSE refers interstate IV-D cases to applicable state interstate central registries for action, effective June 1, 2010, DCSE will begin to monitor L0025 worklist items that indicate the non-custodial parents have been located and cases should be reviewed for action.

On April 6, 2009, DCSE centralized receipt of DCSE IV-D applications in order to streamline and enhance monitoring of application process. DCSE logs and monitors all applications for IV-D services to ensure child support cases are established within time requirements. Five of the six cases noted in this finding were the result of IV-D applications received and processed prior to implementing the application centralization.

09-114

CFDA No.: 93.563 **Child Support Enforcement, #s G0804AZ4004 and G0904AZ4004**
93.563 **ARRA—Child Support Enforcement, #G0904AZ4002**

U.S. Department of Health and Human Services

Award Period: October 1, 2007 through September 30, 2008
October 1, 2008 through September 30, 2009

Reporting

Questioned Cost: \$26,079

Finding

Criteria: The reporting instructions for the OCSE-396A, Quarterly Report of Expenditures and Estimates state that expenditures must be actual, verifiable transactions supported by readily available accounting records and source documentation or an approved cost allocation plan, as applicable.

Condition and context: The Department of Economic Security, Financial Services Administration, overstated the federal share of lab/paternity fees on its March 2009 OCSE-396A Quarterly Report of Expenditures and Estimates by \$26,079. These expenditures were included in both IV-D and non-IV-D administrative costs.

Effect: Reporting duplicate expenditures results in questioned costs and unallowable activities. It was not practical to extend our auditing procedures sufficiently to determine whether any additional questioned costs resulted from this finding. This finding is a significant deficiency in internal control over compliance and noncompliance with the Child Support Enforcement and ARRA—Child Support Enforcement program’s reporting requirements.

Cause: The Administration did not adequately review or compare the report against financial system records in order to identify the data entry error.

Recommendation: The Administration should review reports to ensure that they agree to supporting financial records prior to submission.

**Federal Award Findings, Questioned Costs and Corrective Action Plan
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Agency Response: Concur

Contact person: Michael Wisheart, DES Acting Chief Financial Officer, (602) 542-3786
Completion date: January 29, 2010

Agency Corrective Action Plan: The Genetic Testing expenditures were included twice on the March 2009 Quarterly OCSE-396A report. The Financial Services Administration (FSA) submitted a subsequent Quarterly OCSE-396A report correcting reporting expenditures for the period. As a result, there are no outstanding disallowances or questioned costs.

A formula error in the workbook used by FSA to aggregate amounts for the various report lines on the OCSE-396A report caused the overstatement. Because of the error, lab/paternity costs for the quarter were reported once in the totals for IV-D costs and a second time in the totals for Non-IV-D costs.

FSA incorporated a correction into a subsequent report to compensate for and correct the reporting error. On January 29, 2010, FSA corrected the formula error in the report template so that future reports will not continue the error.

FSA reviewed with staff involved in preparing this report the importance of conducting a comprehensive match of the report totals against the various sources of supporting information. FSA staff will verify that a comprehensive match takes place in the future. Such a match will detect any formula error that could potentially produce a double reporting of an expenditure item on future reports.

09-115

CFDA No.: 93.563 **Child Support Enforcement, #s G0804AZ4004 and G0904AZ4004**
93.563 **ARRA—Child Support Enforcement, #G0904AZ4002**

U.S. Department of Health and Human Services

Award Period: October 1, 2007 through September 30, 2008
October 1, 2008 through September 30, 2009

Subrecipient Monitoring

Questioned Cost: Unknown

Finding

Criteria: In accordance with the Department of Economic Security's grant agreements, if a subrecipient intends to claim reimbursement for indirect costs, it shall provide the Department with a copy of its cost allocation plan. The plan shall comply with the standards contained in OMB Circular A-87, and be subject to written approval from the Department. The Department shall provide approval prior to the date of any period for which reimbursement is requested.

Condition and context: The Department of Economic Security, Division of Child Support Enforcement, did not review or approve its subrecipients' cost allocation plans prior to reimbursing indirect costs as required by its grant agreements. However, the Division reviewed its subrecipients' program budgets, which included indirect costs that were based on the cost allocation plans, but did not provide written approval. This finding only affected the Child Support Enforcement program since ARRA monies were not passed through to subrecipients.

Effect: Since indirect costs were allowable program expenditures, it was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding did not result in noncompliance with OMB Circular A-87 since the subrecipients also received direct federal funding; therefore, the Division was not responsible for negotiating indirect cost rates or monitoring subrecipients' cost allocation plans. However, this finding is a significant deficiency in internal control over

**Federal Award Findings, Questioned Costs and Corrective Action Plan
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compliance and noncompliance with the Division's grant agreements and the Child Support Enforcement program's subrecipient monitoring requirements.

Cause: Although the Division did have a policy to review and approve program budgets containing indirect costs, it did not have procedures for reviewing and approving subrecipients' cost allocation plans prior to reimbursing indirect costs.

Recommendation: The Division should develop and implement detailed written procedures to provide written approval of subrecipients' cost allocation plans as required by its grant agreements.

Agency Response: Concur

Contact person: Roger C. Welch, DCSE Finance Administrator, (602) 771-8326

Anticipated completion date: October 1, 2010

Agency Corrective Action Plan: The Division of Child Support Enforcement (DCSE) is in the process of writing new intergovernmental agreements with counties who perform a variety of child support enforcement activities. DCSE anticipates these intergovernmental agreements will become effective October 1, 2010. Language will be added to the new agreements to require counties that plan to claim indirect costs to submit an acceptable cost allocation plan with its yearly summary budget. DCSE will notify the counties in writing prior to any reimbursement as to the acceptability of both the cost allocation plan and the summary budget.

09-116

CFDA No.: 93.563 **Child Support Enforcement, #s G0804AZ4004 and G0904AZ4004**

93.563 **ARRA—Child Support Enforcement, # G0904AZ4002**

CFDA No.: 93.566 **Refugee and Entrant Assistance—State Administered Programs, # G04AAAZ9110**

U.S. Department of Health and Human Services

Award Period: October 1, 2003 through September 30, 2004

October 1, 2007 through September 30, 2008

October 1, 2008 through September 30, 2009

Reporting

Questioned Cost: N/A

Finding

Criteria: The PSC-272 Federal Cash Transactions Report reporting instructions require the cumulative total of the federal share of net disbursements made against award authorizations up through the reporting period end date to be reported.

Condition and context: The Department of Economic Security, Financial Services Administration (FSA), did not accurately report amounts on the PSC-272 Federal Cash Transactions Report for the quarter ended June 30, 2009. While performing test work, auditors noted the amounts reported did not agree to the Department's financial records or the FSA reports for the period tested. Specifically, the Refugee and Entrant Assistance—State Administered Programs' expenditures reported were overstated by \$14,577 and the Child Support Enforcement program expenditures reported were understated by \$948,986. The Administration corrected the applicable cumulative amounts reported on the September 30, 2009, report. Further, this finding did not affect any ARRA monies, since the error did not involve that contract.

Effect: This finding did not result in questioned costs since the PSC-272 Federal Cash Transactions Report was not used to request federal reimbursements. This finding is a significant deficiency in internal control over compliance and noncompliance with the Child Support Enforcement and the Refugee and Entrant Assistance—State Administered Programs' reporting requirements.

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Cause: The Financial Services Administration did not adequately review the supporting records used to determine the total federal expenditures charged to the grant through the end of the reporting period.

Recommendation: The Financial Services Administration should perform a detailed review of the records used when determining amounts to be reported to federal agencies.

Agency Response: Concur

Contact person: Michael Wisheart, DES Acting Chief Financial Officer, (602) 542-3786

Anticipated completion date: May 7, 2010

Agency Corrective Action Plan: To ensure the Financial Services Administration (FSA) accurately reports amounts for each quarter on the PSC-272 Federal Cash Transactions Report, FSA augmented the written procedure for preparation of the PSC-272 report with an instruction to include the prior period expenditures for each quarter. This procedure should ensure that analysts and reviewers scrutinize the report to prevent omissions. The written procedure will also assist analysts responsible for preparation of the PSC-272 avoid errors as identified in this finding. FSA corrected the applicable cumulative amounts reported on the September 30, 2009, report.

09-117

CFDA No.: 93.658 **Foster Care—Title IV-E, #s 0701AZ1401, 0801AZ1401, and 0901AZ1401**
93.658 **ARRA—Foster Care—Title IV-E, # 0901AZ1402**

U.S. Department of Health and Human Services

Award Period: October 1, 2006 through September 30, 2007
October 1, 2007 through September 30, 2008
October 1, 2008 through September 30, 2009

Eligibility

Questioned Cost: \$38,735

Finding

Criteria: In accordance with 42 U.S. Code 672(b) and (c), Foster Care benefit payments may be made only on behalf of a child who is in a foster family home that is licensed by the state in which it is situated.

Condition and context: The Department of Economic Security, Division of Children, Youth and Families, made payments under the Foster Care program to an unlicensed provider. Specifically, auditors noted, for 1 of 48 payments tested, payments from federal grant monies were paid to a provider that was not licensed by the Department's Office of Licensing, Certification, and Regulation. This resulted in questioned costs totaling \$35,788 for Foster Care—Title IV-E and \$2,947 for the ARRA—Foster Care—Title IV-E programs.

Effect: Using federal monies for payments to unlicensed providers resulted in questioned costs and unallowable expenditures. It was not practical to extend our auditing procedures sufficiently to determine whether any additional questioned costs resulted from this finding. This finding is a significant deficiency in internal control over compliance and noncompliance with the Foster Care—Title IV-E and ARRA—Foster Care—Title IV-E programs' eligibility requirements.

Cause: The Division did not follow its policies and procedures to ensure that unlicensed providers were not paid with federal monies.

Recommendation: The Division should enforce its policies and procedures and regularly monitor all foster care cases to ensure that payments from federal monies are made only to licensed providers.

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Agency Response: Concur

Contact person: David Longo, DCYF Finance and Business Administrator, (602) 542-5099
Anticipated completion date: October 31, 2010

Agency Corrective Action Plan: To ensure the Division of Children, Youth and Families (DCYF) does not make payments from the Foster Care program to an unlicensed provider, DCYF will modify the automated system to meet the requirements for this service. In addition, DCYF will continue to monitor expenditures to ensure that payments from federal funds are only to licensed providers.

09-118

TANF Cluster:

CFDA No.: 93.558 **Temporary Assistance for Needy Families, #s G0802AZTANF and G0902AZTANF**

Medicaid Cluster:

CFDA No.: 93.775 **State Medicaid Fraud Control Units**

93.777 **State Survey and Certification of Health Care Providers and Suppliers**

93.778 **Medical Assistance Program**

93.778 **ARRA—Medical Assistance Program**

CFDA No.: 93.556 **Promoting Safe and Stable Families, #s G0801AZFPSS and G0901AZFPSS**

CFDA No.: 93.658 **Foster Care —Title IV-E, #s 0701AZ1401, 0801AZ1401 and 0901AZ1401**

CFDA No.: 93.658 **ARRA—Foster Care—Title IV-E, # 0901AZ1402**

CFDA No.: 93.659 **Adoption Assistance, #s 0801AZ1407 and 0901AZ1407**

CFDA No.: 93.659 **ARRA—Adoption Assistance, #0901AZ1403**

CFDA No.: 93.667 **Social Services Block Grant, #s G0801AZSOSR and G0901AZSOSR**

U.S. Department of Health and Human Services

Award Period: October 1, 2006 through September 30, 2007

October 1, 2007 through September 30, 2008

October 1, 2007 through September 30, 2009

October 1, 2008 through September 30, 2009

October 1, 2008 through September 30, 2010

Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Questioned Cost: \$36,840

Finding

Criteria: In accordance with 2 CFR §225 Appendix A, §§C.1.c, and C.3.a, a cost must be allowable and meet certain criteria to be allocable. The Department of Economic Security, Division of Children, Youth, and Families' policies and procedures require that employees on educational leave charge a specific cost pool in order to be properly allocated.

Condition and context: Employees did not always charge educational leave on their time sheets to the appropriate cost allocation pool, and the employees' supervisors did not detect these errors when reviewing employee time sheets. Therefore, payroll expenditures for Foster Care—Title IV-E employees on educational leave were incorrectly allocated to the Adoption Assistance, Medical Assistance Program, Promoting Safe and Stable Families (PSSF), Social Services Block Grant (SSBG), and TANF programs. The Division subsequently made corrections to the proper programs; however, the corrections were inaccurate and incomplete, resulting in \$36,840 of uncorrected costs. This finding did not affect any ARRA monies since the costs were not allocated to ARRA programs.

Effect: Failure to charge time for educational leave to the appropriate cost allocation pool can result in questioned costs and unallowable expenditures. It was not practical to extend our auditing procedures sufficiently to

**Federal Award Findings, Questioned Costs and Corrective Action Plan
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determine the amounts of questioned costs for each program affected or whether any additional questioned costs resulted from this finding. This finding is a significant deficiency in internal control over compliance for the Division and the Foster Care—Title IV-E program, but is not a deficiency in internal control over compliance for the Adoption Assistance, Medical Assistance Program, PSSF, SSBG, and TANF Cluster. However, this finding does result in noncompliance with the programs' activities allowed or unallowed and allowable costs/cost principles requirements.

Cause: The Department of Economic Security, Division of Children, Youth, and Families did not always follow its internal control procedures to ensure that the expenditures for educational leave were properly reviewed and accurately charged to federal programs.

Recommendation: The Division should require supervisors to carefully review and approve employee time sheets to help ensure that payroll expenditures for Foster Care employees on educational leave are charged accurately to the Foster Care—Title IV-E program.

This finding was similar to a prior-year finding.

Agency Response: Concur

Contact person: David Longo, DCYF Finance and Business Administrator, (602) 542-5099

Anticipated completion date: July 31, 2010

Agency Corrective Action Plan: To correct this deficiency, the Division of Children, Youth and Families (DCYF), will review the time file and reporting codes used and submit expenditure corrections for the period in question. DCYF has discontinued this program so no additional monitoring will be needed.

09-119

Disability Insurance/SSI Cluster:

CFDA No.: 96.001 **Social Security—Disability Insurance, #'s 040804AZD100 and 040904AZD100**

Social Security Administration

Award Period: October 1, 2007 through September 30, 2008
October 1, 2008 through September 30, 2009

Reporting

Questioned Cost: N/A

Finding

Criteria: The Social Security Administration's (SSA) Program Operations Manual System policy instructions, §§DI 39506.231 and DI 39506.210 should be followed to report the hours worked by staffing category and employment status, such as full-time, part-time, or temporary, accurately on the quarterly Time Report of Personnel Service for Disability Determination Services (SSA-4514) reports and to report cumulative obligations by line item for the fiscal year accurately on the quarterly State Agency Report of Obligations for SSA Disability Programs (SSA-4513) reports.

Condition and context: The Department of Economic Security, Disability Determination Services Administration, did not have adequate internal control policies and procedures to ensure its SSA-4514 reports were accurately prepared. Specifically, auditors noted the activity hours reported on the March 31, 2009, SSA-4514 report did not agree to the time sheets for 7 of 20 employees tested. These errors resulted in an overstatement of 48.5 supporting hours worked and an understatement of 5.5 leave hours taken. This also resulted in an overstatement of 54.3 total hours worked and total duty hours reported on the report's accompanying supporting schedule. In addition, the Administration did not properly calculate the amount of SSA leave hours taken since it used an incorrect

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from FY 2009 Single Audit Report)

percentage to apply the non-SSA leave hours in the supporting schedules which resulted in an understatement of 49.9 SSA leave hours on the SSA-4514 report. Further, while performing tests over program expenditures, auditors noted 2 consultative examination expenditures were not accurately recorded in the accounting system, resulting in an understatement of \$124 for concurrent supplemental security income/disability insurance claims and an overstatement of \$124 for supplemental security income claims on the March 31, 2009, SSA-4513 report, and an understatement of \$124 of supplemental security income claims and an overstatement of \$124 of disability insurance claims on the June 30, 2009, SSA-4513 report.

Effect: This finding did not result in a questioned cost since the reports were not used to request reimbursement of federal expenditures. This finding is a significant deficiency in internal control over compliance and noncompliance with the program's reporting compliance requirements.

Cause: The Administration did not adequately review or reconcile its federal reports to supporting records. In addition, the Administration did not adequately review the expenditure transactions to ensure that they were recorded properly on its general ledger system used to prepare the SSA-4513 report.

Recommendation: The Administration should establish a review process to help ensure federal reports are accurate before they are submitted to the Social Security Administration. This review should include:

- Reconciling its federal reports to supporting records and schedules.
- Ensuring report information is accurately accumulated and classified.

Further, the Administration should require supervisors to review expenditure transactions to help ensure that they are properly classified in its general ledger system.

This finding was similar to a prior-year finding.

Agency Response: Concur

Contact person: Leona Hodges, DBME Deputy Assistant Director, (602) 542-7596
Anticipated completion date: June 2010

Agency Corrective Action Plan: To help ensure the Disability Determination Services Administration (DDSA) captures accurate data for the SSA-4514 reports, DDSA now delays the timesheet data download from the Financial Management and Control System (FMCS) data warehouse for three weeks from the date of timesheet data entry. This delay allows for input of amended timesheet data. Also, an additional field is downloaded and used to calculate hours. This calculation acts like a control field and should agree with leave hours and worked hours for each record. As of January 10, 2010, DDSA reconciles entries for each record with timesheets and reviews any special entries for each pay period.

To ensure DDSA uses the correct percentage to calculate the SSA leave hours in the SSA-4514 report, DDSA changed procedures to require verification of the percentage as the first step in the process. In addition, DDSA added flags to the spreadsheet to alert the user to verify the percentage is correct. DDSA corrected the error for the quarter and contacted the Social Security Administration (SSA) regional office to establish that a revised SSA-4514 report was not necessary since the impact of the error was insignificant.

To ensure DDSA fiscal staff members accurately record expenditures in the accounting system, DDSA provided additional training to fiscal staff members regarding data validation and review. Staff members were also given a reference list of the case type codes to use when separating authorizations by case type. In addition, supervisors will randomly review transactions in the future.

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09-120

SNAP Cluster:

CFDA No.: 10.551 **Supplemental Nutrition Assistance Program, # 7AZ400AZ4**

10.561 **State Administrative Matching Grants for the Supplemental Nutrition Assistance Program, # 7AZ400AZ4**

10.561 **ARRA—State Administrative Matching Grants for the Supplemental Nutrition Assistance Program, # 7AZ400AZ4**

U.S. Department of Agriculture

Award Period: October 1, 2007 through September 30, 2008

October 1, 2008 through September 30, 2009

CFDA No.: 17.225 **Unemployment Insurance, #s UI-15108-06-55, UI-15785-07-55, UI-16733-08-55, and UI-18007-09-55**

17.225 **ARRA—Unemployment Insurance, # UI-18007-09-55**

U.S. Department of Labor

Award Period: October 1, 2005 through September 30, 2008

October 1, 2006 through September 30, 2009

October 1, 2007 through September 30, 2010

October 1, 2008 through September 30, 2011

Vocational Rehabilitation Cluster:

CFDA No.: 84.126 **Rehabilitation Services—Vocational Rehabilitation Grants to States, #s H126A070002, H126A080002, and H126A090002**

U.S. Department of Education

Award Period: October 1, 2006 through September 30, 2008

October 1, 2007 through September 30, 2009

October 1, 2008 through September 30, 2010

TANF Cluster:

CFDA No.: 93.558 **Temporary Assistance for Needy Families, #s G0802AZTANF and G0902AZTANF**

CCDF Cluster:

CFDA No.: 93.575 **Child Care and Development Block Grant, #s G0801AZCCDF and G0901AZCCDF**

93.596 **Child Care Mandatory and Matching Funds of the Child Care and Development Fund, #s G0801AZCCDF and G0901AZCCDF**

93.713 **ARRA—Child Care and Development Block Grant, # G0901AZCCDF7**

U.S. Department of Health and Human Services

Award Period: October 1, 2007 through September 30, 2008

October 1, 2008 through September 30, 2009

October 1, 2008 through September 30, 2010

Disability Insurance/SSI Cluster:

CFDA No.: 96.001 **Social Security—Disability Insurance, #s 040804AZD100 and 040904AZD100**

Social Security Administration

Award Period: October 1, 2007 through September 30, 2008

October 1, 2008 through September 30, 2009

Allowable Costs/Cost Principles

Questioned Cost: \$8,820

**Federal Award Findings, Questioned Costs and Corrective Action Plan
(Reformatted from FY 2009 Single Audit Report)**

Finding

Criteria: In accordance with 2 CFR §225, Appendix B, 15.b.(5), equipment and other capital expenditures are unallowable as indirect costs; however, they are allowable only through depreciation or use allowances.

Condition and context: The Department of Economic Security allocated a capital expenditure to federal programs. Specifically, auditors noted that for 1 of 55 expenditures tested, the Department charged \$8,820 for a vehicle to its modified direct total cost pool that was subsequently allocated to various federal programs.

Effect: Allocating capital expenditures to indirect cost pools can result in unallowable costs, duplication of costs if depreciation is also charged, and noncompliance with cost principles. It was not practical to extend our auditing procedures sufficiently to determine the amounts of questioned costs for each program affected or whether any additional questioned costs resulted from this finding. This finding results in noncompliance with allowable costs/cost principles requirements for the programs listed above.

Cause: The Department inadvertently charged a capital equipment item to a cost allocation pool that was subsequently allocated to federal programs.

Recommendation: The Department should ensure that the purchase costs of capital equipment items are not allocated to federal programs when purchased, but rather allocated through depreciation expense or use allowances over their useful lives.

Agency Response: Concur

Contact person: Tim Newton, DES Accounting Administrator, (602) 364-2350

Anticipated completion date: June 2010

Agency Corrective Action Plan: The Department of Economic Security is implementing additional policies and procedures that ensure capital equipment is not charged to indirect cost pools. Non-Leased Capital equipment purchases where the benefiting federal program(s) cannot be readily identified will be paid for with non-federal funds and allocated through depreciation over the useful life of the asset to the benefiting federal programs.

The Financial Services Administration (FSA) completed an expenditure correction that removed the charge of the identified vehicle from the indirect cost pool.

09-121

Child Nutrition Cluster:

CFDA No.: 10.553 **School Breakfast Program, # 7AZ300AZ3**

10.555 **National School Lunch Program, # 7AZ300AZ3**

10.556 **Special Milk Program for Children, # 7AZ300AZ3**

10.559 **Summer Food Service Program for Children, # 7AZ300AZ3**

CFDA No.: 10.558 **Child and Adult Care Food Program, # 7AZ300AZ3**

U.S. Department of Agriculture

Award Period: October 1, 2007 through September 30, 2008

October 1, 2008 through September 30, 2009

Title I, Part A Cluster:

CFDA No.: 84.010 **Title I Grants to Local Educational Agencies, #s S010A060003, S010A070003, and S010A080003**

84.389 **Title I Grants to Local Educational Agencies, Recovery Act, # S389A090003**

**Federal Award Findings, Questioned Costs and Corrective Action Plan
(Reformatted from FY 2009 Single Audit Report)**

Special Education Cluster (IDEA):

CFDA No.: 84.027 **Special Education—Grants to States, #s H027A060007, H027A070007, and H027A080007**

84.173 **Special Education—Preschool Grants, #s H173A060003, H173A070003, and H173A080003**

CFDA No.: 84.367 **Improving Teacher Quality State Grants, #s S367A060049, S367B060003, S367A070049, S367B070003, S367A080049, and S367B080003**

U.S. Department of Education

Award Period: July 1, 2006 through September 30, 2007

July 1, 2007 through September 30, 2008

July 1, 2008 through September 30, 2009

Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Reporting, and Subrecipient Monitoring

Questioned Cost: Unknown

Finding

Criteria: States should have effective computer access controls to prevent and detect unauthorized use, damage, loss, or modification of data, including sensitive and confidential information.

Condition and context: The Department of Education's Child Nutrition Program (CNP) Web application, Grants Management Enterprise System (Grants Management), the Arizona Local Education Agency Tracker (ALEAT), and the School Finance applications were used by internal and external users to apply for, approve, and disburse federal grant awards; record federal award expenditures and budget information; and report and monitor compliance with federal requirements. The Department granted logical access for these systems and applications to its users through a centralized gateway. Auditors tested access controls and determined that there were inadequate controls over logical access to these systems. Specifically, auditors noted the following deficiencies:

- For 5 of 15 employee users tested for Grants Management, the Department did not have documentation authorizing the user's access. Specifically, there was no documentation of approval and the access levels granted. Further, 4 of these employees had access rights that were incompatible with their job responsibilities or that allowed them to change data without supervisory review or approval.
- For 4 of 5 employee users tested for the CNP Web application, the Department did not have documentation authorizing the user's access. Specifically, there was no documentation of approval and the access levels granted.
- For 2 of 48 external users tested for the CNP Web application, the Department did not have documentation authorizing the user's access.
- The Department did not require users to periodically change passwords for the centralized gateway.
- The Department did not have procedures in place to obtain and retain documentation of access granted to external users of the ALEAT and School Finance applications, including the Student Accountability Information System (SAIS).

Effect: There is a risk of noncompliance with federal requirements and of theft, manipulation, or misuse of confidential or sensitive data by unauthorized users or by users who were not monitored. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a material weakness in internal control over compliance with the programs' and clusters' activities allowed or unallowed, allowable costs/cost principles, cash management, reporting, and subrecipient monitoring requirements. In addition, this finding could potentially affect other federal programs, including ARRA programs, the Department administered.

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from FY 2009 Single Audit Report)

Cause: The Department did not follow its policies and procedures or lacked policies and procedures for granting access to internal and external users for its significant applications and systems. Further, the Department did not ensure that employees' access to Grants Management was compatible with their assigned responsibilities. Further, while the current centralized gateway did not require periodic password changes, the Department was in the process of replacing this centralized gateway to its systems and will require periodic password changes.

Recommendation: To strengthen access controls over its applications and systems, and to help ensure compliance with federal requirements, the Department should:

- Ensure that access granted to internal and external users is documented and authorized. Internal users should only be granted access rights that are compatible with their job responsibilities.
- Periodically evaluate and update access granted to all of its applications and systems.
- Require users to periodically change passwords for the centralized gateway.
- Establish policies and procedures for granting access to external users for the ALEAT and School Finance applications.

This finding was similar to a prior-year finding.

Agency Response: Concur

Contact person: Gary Holland, Audit Manager, (602) 364-3518

Anticipated completion date: June 30, 2010

Agency Corrective Action Plan: The Arizona Department of Education (ADE) account management guideline states that all systems must have an auditable account management process for establishing identity, provisioning access levels and removing accounts. The Department will evaluate and improve the account management processes for the Arizona Local Education Agency Tracker (ALEAT), School Finance, Child Nutrition Program (CNP), and Grants Management Enterprise (GME) systems to comply with this guideline.

ADE is also currently implementing an enterprise-wide Identity Management System (IDMS). The IDMS will enable ADE to centrally manage access to all ADE applications and resources. The IDMS will be used to manage individual account holder attributes, including access privileges. Access control related benefits of the IDMS will include:

- Improved ability for administrators to promptly and accurately maintain user accounts, both when adding/removing access and when modifying privileges.
- Improved central audit trail for all account management activities. This information will include at least:
 - When an access privilege is changed/added
 - Who authorized the change/addition
 - Why the change/addition was requested
- Addition of automated workflows for account management activities. Workflows will be used to allow individual business units the ability to manage access privileges to their applications. Workflows will also ensure that all required information is provided and proper approvals are documented before any changes/additions are applied.
- Improved password self-service capabilities to allow users to easily change their passwords periodically.
- Enhanced access reports for authorized account administrators. This will better enable ADE to ensure that access is periodically evaluated. For example, the system could provide an authorized representative at a school district with a list of active accounts. The representative would be required to certify the accuracy of the list and request any necessary changes.

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from FY 2009 Single Audit Report)

In addition to the IDMS, ADE is also enhancing two additional systems:

CNPWeb Application:

Health and Nutrition Services (HNS) continues to utilize the current policy and procedures to ensure that CNP Web access permissions are assigned, monitored, and updated appropriately. In order to ensure compliance and address the 2 of 48 external users who did not have documentation authorizing their access, HNS will deploy the database tool that has been in production for the purposes of monitoring the accuracy of the access permissions provided to external users. This will be deployed prior to the end of fiscal year 2010.

In addition, to address the 4 of 5 employee users who did not have documentation authorizing their access, HNS will ensure the new database tool also tracks employee users in addition to external users. Moreover, HNS will create a new form that will mirror the current external user 'Common Logon Request Form', but be specific to employee users. This form will be managed and maintained by HNS to ensure compliance.

Grants Management Enterprise System:

Grants Management Office implemented GME user form (Electronic Signature User Form) to add/remove all internal user access in the Grants Enterprise System starting FY 2008. In order to add new user access, Grants Management Office requires two signatures from each unit/division preferably by a director of the unit and a deputy associate superintendent/or Associate Superintendent.

The Grants Management Office is also actively monitoring internal user access through a quarterly verification process. Units will receive a quarterly Internal User Access Report from the Grants Management Office in order to verify GME access for each continuing user. Quarterly verification process will be scheduled for July, October, January, and April starting FY 2011.

09-122

Title I, Part A Cluster:

CFDA No.: 84.010 **Title I Grants to Local Educational Agencies, #s S010A060003, S010A070003, and S010A80003**

84.389 **Title I Grants to Local Educational Agencies, Recovery Act, # S389A090003**

CFDA No.: 84.367 **Improving Teacher Quality State Grants, #s S367A060049, S367B060003, S367A070049, S367B070003, S367A080049, and S367B080003**

U.S. Department of Education

Award Period: July 1, 2006 through September 30, 2007

July 1, 2007 through September 30, 2008

July 1, 2008 through September 30, 2009

Subrecipient Monitoring

Questioned Cost: Unknown

Finding

Criteria: According to 34 CFR §80.40(a) and OMB Circular A-133, §.400(d)(3), grantees must monitor the activities of subrecipients to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements. Therefore, the Department of Education is responsible for identifying the federal award information, including applicable compliance requirements, and monitoring subrecipients' uses of federal awards through reporting, site visits, and regular contacts. As such, the Department requires each subrecipient to affirm in writing, through Statements of Assurance, that it is aware of the applicable compliance requirements and the Department's policies and procedures. The Department also performs monitoring reviews of subrecipients' activities on a 6-year cycle, each year reviewing a different aspect of the program.

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from FY 2009 Single Audit Report)

Condition and context: The Department of Education did not obtain Statements of Assurance and did not always monitor or maintain regular contact with its subrecipients during the year. In addition, the Department did not always follow up in a timely manner with subrecipients who were found to be in noncompliance with requirements. Specifically, auditors noted the following deficiencies:

- None of the 28 Local Education Agencies (LEAs) tested that were required to provide Statements of Assurance did so.
- For 5 of 40 LEAs tested, the Department did not perform the monitoring review.
- For 3 of 40 LEAs tested, the Department did not follow up in a timely manner on noncompliance issues

Effect: There is an increased risk of noncompliance with all applicable compliance requirements because the Department did not perform adequate monitoring procedures to determine whether LEAs complied. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a material weakness in internal control over compliance and material noncompliance with the cluster's or program's subrecipient monitoring requirements. This finding could also affect other federal programs, including ARRA programs, the Department administered.

Cause: The Department implemented the ALEAT system to track its monitoring reviews. However, due to the learning process and problems encountered with the system's implementation, the Department did not perform all of its monitoring reviews and follow up with LEAs. Further, the Department overlooked requesting the Statements of Assurance that provided written affirmation that subrecipients were aware of compliance requirements.

Recommendation: To help ensure that it complies with subrecipient monitoring requirements, the Department should follow its policies and procedures and:

- Maintain regular contact with subrecipients and ensure that they are aware of the applicable compliance requirements.
- Perform all monitoring reviews of its subrecipients annually.
- Follow up on noncompliance issues with subrecipients in a timely manner.

Agency Response: Concur

Contact person: Gary Holland, Audit Manager, (602) 364-3518

Anticipated completion date: June 30, 2010

Agency Corrective Action Plan: The Arizona Department of Education has revised its monitoring procedures to conform with the change to the use of ALEAT to track all monitoring processes. Also the Statement of Assurances will be added to the Annual Submissions for 2010-2011 in the Monitoring portion of ALEAT, so that evidence from all local education agencies (LEAs) will be received.

09-123

Title I, Part A Cluster:

CFDA No.: 84.010 **Title I Grants to Local Educational Agencies, #s S010A060003, S010A070003, and S010A80003**

84.389 **Title I Grants to Local Educational Agencies, Recovery Act, # S389A090003**

Special Education Cluster (IDEA):

CFDA No.: 84.027 **Special Education—Grants to States, #s H027A060007, H027A070007, and H027A080007**

**Federal Award Findings, Questioned Costs and Corrective Action Plan
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84.173 Special Education—Preschool Grants, #s H173A060003, H173A070003, and H173A080003

CFDA No.: 84.367 Improving Teacher Quality State Grants, #s S367A060049, S367B060003, S367A070049, S367B070003, S367A080049, and S367B080003

U.S. Department of Education

Award Period: July 1, 2006 through September 30, 2007

July 1, 2007 through September 30, 2008

July 1, 2008 through September 30, 2009

Cash Management and Subrecipient Monitoring

Questioned Cost: Unknown

Finding

Criteria: As required by 34 CFR §80.21, states should have procedures in place to minimize the time elapsing between the transfer of monies to and disbursement by the LEAs. The LEAs may be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the receipt of the monies and their disbursement.

Condition and context: The Department of Education required that LEAs request monies for federal grants by submitting monthly cash management reports through Grants Management. At the end of each award period, the Department required LEAs to submit completion reports, which were considered the projects' final cash management reports. Subrecipients that reported any cash balances on the completion reports were required to amend the subsequent year's project budgets for any cash balances. However, the Department did not require subrecipients to submit amendments immediately or spend their cash balances in a timely manner and still transferred monies to LEAs for subsequent projects. Specifically, auditors noted the following deficiencies:

- For 9 of 49 LEAs tested for the Title I, Part A Cluster, LEAs reported cash on hand ranging from \$730 to \$152,606.
- For 6 of 42 LEAs tested for the Improving Teacher Quality State Grants, LEAs reported cash on hand ranging from \$225 to \$252,189.
- For 2 of 50 LEAs tested for the Special Education Cluster, LEAs reported cash on hand ranging from \$8,826 to \$18,556.

Effect: LEAs had cash on hand and were still able to draw cash for the subsequent year's project. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a significant deficiency in internal control over compliance and noncompliance with the program's and clusters' cash management and subrecipient monitoring requirements and could potentially affect other federal programs, including ARRA programs, the Department administered.

Cause: The Department did not enforce its policy to require the LEAs to amend their subsequent year's projects for cash on hand within 60 days after it approved of their completion reports. In addition, Grants Management did not have an automatic check to prohibit disbursing cash to LEAs when they had cash on hand from a prior year's project.

Recommendation: The Department should require LEAs to amend their subsequent year's budgets for completion report cash balances immediately after the completion reports have been approved and should place current year projects on hold until their budgets have been amended, or require LEAs to remit unspent cash balances to the Department. In addition, the Department should ensure that all interest earned on unspent cash balances in excess of \$100 is returned at least quarterly.

This finding was similar to a prior-year finding.

**Federal Award Findings, Questioned Costs and Corrective Action Plan
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Agency Response: Concur

Contact person: Gary Holland, Audit Manager, (602) 364-3518

Anticipated completion date: June 30, 2011

Agency Corrective Action Plan: The existing Grants Management Enterprise system offers all program areas the ability to view a LEA's individual cash management report through the Intranet under Grants Management Reports. The program areas can select the fiscal year, their specific grant or specific entity when viewing their projects' cash management status online. All projects are linked to the LEA's individual cash management report receipt status. These online reports were created to assist the program areas in the monitoring of their subrecipients. On the 19th of each month the program area can place a programmatic hold on funds if necessary.

The Grants Management Office continuously offers a Monthly Cash Management Summary Report to provide the program areas a quick glance of their subrecipients' cash management status on the 19th of each month. This report outlines such information as whether a subrecipient is compliant, the extent of any existing holds or the amount of cash on hand or the amount of requested disbursement. The program area utilizes this report to assess their subrecipients' compliance status on the 19th of each month and take appropriate corrective action if needed. Any abnormal cash on hand is dealt with by the program areas via placing a programmatic hold or contacting the LEAs at that time.

The existing Grants Management Enterprise system will be modified to ensure that subrecipients amend their subsequent year's budget for completion report cash balances immediately after the completion report has been approved. Once a completion report is approved and LEAs are directed to amend prior-year monies, the carryover must be amended into the current-year project within 60 days. If LEAs fail to amend the carryover within 60 days after the completion report approval date, the Grants Management Enterprise system will place an amendment hold and no payment will be made for the current year project. The submission of an amendment will release this system hold.

The ADE Business Rules have been finalized including 60 days rules and carryover system hold. The ADE Grants Management Office is currently working on this system enhancement.

09-124

Title I, Part A Cluster:

CFDA No.: 84.010 **Title I Grants to Local Educational Agencies, #s S010A060003, S010A070003, and S010A80003**

84.389 **Title I Grants to Local Educational Agencies, Recovery Act, # S389A090003**

U.S. Department of Education

Award Period: July 1, 2006 through September 30, 2007

July 1, 2007 through September 30, 2008

July 1, 2008 through September 30, 2009

Subrecipient Monitoring

Questioned Cost: \$16,000

Finding

Criteria: As required by the American Recovery and Reinvestment Act of 2009, Section 1512(h) and 2 CFR §176.50(c), states should require LEAs applying for Title I Grants to Local Educational Agencies, Recovery Act, grant monies to have a current central contractor registration before awarding program monies.

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Condition and context: During fiscal year 2009, the Department disbursed ARRA monies totaling \$16,000. This entire amount was disbursed to one LEA; however, the LEA was awarded the ARRA monies without having a central contractor registration.

Effect: The Department awarded ARRA program monies without ensuring that the LEA met the requirements. However, auditors were able to determine that the Department awarded the monies for allowable activities. This finding is a significant deficiency in internal control over compliance and noncompliance with the Cluster's subrecipient monitoring requirements. This finding could also affect other federal programs that were subject to ARRA requirements that the Department administered.

Cause: The Department was unaware of the requirements prior to distributing the ARRA monies. The Department's existing policies and procedures required subrecipients to have a current central contractor registration prior to the ARRA, Section 1512, reporting. However, the Department's policies and procedures did not ensure that LEAs had a current registration prior to being awarded ARRA monies.

Recommendation: The Department should revise its policies and procedures to require LEAs to obtain a central contractor registration before ARRA monies are applied for and received.

Agency Response: Concur

Contact person: Gary Holland, Audit Manager, (602) 364-3518

Anticipated completion date: June 30, 2010

Agency Corrective Action Plan: The Arizona Department of Education did not confirm that subrecipients have a current central contract registration (CCR) prior to the awarding of ARRA funds. In order to correct this finding in our instruction to LEAs for quarterly reporting, we are requesting all LEAs to register with the CCR and are working to determine how we will identify that such registration has taken place.

09-125

Title I, Part A Cluster:

CFDA No.: 84.010 **Title I Grants to Local Educational Agencies, #s S010A060003, S010A070003, and S010A80003**

84.389 **Title I Grants to Local Educational Agencies, Recovery Act, # S389A090003**

CFDA No.: 84.367 **Improving Teacher Quality State Grants, #s S367A060049, S367B060003, S367A070049, S367B070003, S367A080049, and S367B080003**

U.S. Department of Education

Award Period: July 1, 2006 through September 30, 2007

July 1, 2007 through September 30, 2008

July 1, 2008 through September 30, 2009

Eligibility and Special Tests and Provisions

Questioned Cost: N/A

Finding

Criteria: The Department of Education should maintain internal controls over federal programs to provide reasonable assurance that it is managing federal awards in compliance with laws and regulations as required by OMB Circular A-133, §.300(b). Specifically, there should be an adequate separation of responsibilities between performing, reviewing, and recordkeeping. Internal control procedures should also require an independent employee to verify the accuracy of information used to determine eligibility and allocate federal award monies.

Condition and context: The Department of Education prepared the LEA eligibility determinations and funding allocations for the Improving Teacher Quality State Grants program using the prior year's total award amount,

**Federal Award Findings, Questioned Costs and Corrective Action Plan
(Reformatted from FY 2009 Single Audit Report)**

and therefore, allocated the wrong award amounts to LEAs for fiscal year 2009. Furthermore, there was no evidence that an independent review of the eligibility determinations and funding allocations had taken place. In addition, the Department could not locate the schedule prepared to calculate LEAs' eligibility and funding allocations to new or significantly expanded charter schools during fiscal year 2009 for the Title I, Part A Cluster and Improving Teacher Quality State Grants program.

Effect: As a result of using the prior year's award amount for allocating the Improving Teacher Quality State Grants program monies, \$215,493 was unallocated and not awarded to LEAs. In addition, there was no documentation supporting the amounts allocated to new or significantly expanded charter schools for the Title I, Part A Cluster and Improving Teacher Quality State Grants program, auditors were unable to verify whether LEAs were allocated the correct amounts of federal award monies. This finding is a significant deficiency in internal control over compliance and noncompliance with the cluster's and program's eligibility requirements and special tests and provisions. This finding could also affect other federal programs, including ARRA programs, the Department administered.

Cause: The Department assigned one employee to prepare the LEA eligibility determinations and funding allocations and had no policies and procedures in place to require an independent employee to review the work.

Recommendation: To help ensure that federal award monies are allocated to LEAs correctly and in accordance with the Cluster's and Program's eligibility requirements and special tests and provisions, the Department should assign an independent employee to review the LEA eligibility determinations and funding allocations before awarding and disbursing program monies to LEAs. In addition, the Department should retain documentation supporting eligibility determinations and funding allocations.

This finding was similar to a prior-year finding.

Agency Response: Concur

Contact person: Gary Holland, Audit Manager, (602) 364-3518
Anticipated completion date: June 30, 2010

Agency Corrective Action Plan: Arizona Department of Education has implemented procedures to ensure that the work of each employee, making allocation determinations, is reviewed by a program director responsible for the program. Additionally, all work files are kept in our archived folders for easy reference in the future.

In each of the cases cited the errors either have been adjusted or will be adjusted in a subsequent allocation process.

09-126

Special Education Cluster (IDEA):

CFDA No.: 84.027 **Special Education—Grants to States, #s H027A060007, H027A070007, and H027A080007**

84.173 **Special Education—Preschool Grants, #s H173A060003, H173A070003, and H173A080003**

U.S. Department of Education

Award Period: July 1, 2006 through September 30, 2007
July 1, 2007 through September 30, 2008
July 1, 2008 through September 30, 2009

Reporting

Questioned Cost: Unknown

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Finding

Criteria: According to 34 CFR §300.640, states must annually submit an unduplicated count of children with disabilities receiving special education and related services. Additionally, 34 CFR §300.645(c) requires states to obtain certifications from each agency and institution that it performed an unduplicated and accurate count.

Condition and context: The Department of Education prepared census reports of children with disabilities from ages 3 to 21 who received special education and related services within the State using data from its Student Accountability Information System (SAIS). To validate the SAIS data's accuracy, the Department required the LEAs to verify in letters to the Department by November 14, 2008, their unduplicated student counts as of October 1, 2008. However, the Department did not reconcile the verification letters to the SAIS data to validate the accuracy of the Report of Children with Disabilities Receiving Special Education, Part B, submitted on February 1, 2009, until after June 30, 2009. Specifically, auditors noted that for 27 of 50 LEAs tested, the counts in the verification letters did not match the SAIS data.

Effect: An incorrect count of children with disabilities could affect the funding the Department receives in future years. Auditors performed additional procedures and determined that the discrepancies between the SAIS data and the unduplicated student counts verified by LEAs would not result in material noncompliance with the Cluster's reporting requirements. However, it was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a significant deficiency in internal control over compliance and noncompliance with the cluster's reporting requirements.

Cause: Inconsistencies between counts in the verification letters and SAIS data were caused by missing or incorrect data in SAIS due to LEAs' not updating information when required or not submitting data corrections in a timely manner. The Department began contacting the LEAs in August 2009 to identify reasons for the differences.

Recommendation: To help ensure that an accurate, unduplicated count of children with disabilities receiving special education and related services is reported, the Department should resolve differences between data recorded on SAIS and data reported by LEAs in verification letters prior to reporting the data to the federal grantor.

This finding was similar to a prior-year finding.

Agency Response: Concur

Contact person: Gary Holland, Audit Manager, (602) 364-3518

Anticipated completion date: June 30, 2010

Agency Corrective Action Plan: The Arizona Department of Education (ADE)-Exceptional Student Services (ESS) has revised its policies and procedures to address the federal child count verification process in the following manner:

ESS requires local education agencies (LEAs) to verify their federal child count on October 1, effective FY 2009. This was a change from the previous federal child count date of December 1. A memo regarding this change was sent to the Special Education Directors, via the list-serv, on June 9, 2008, and again on August 21, 2008. By moving the child count date earlier in the year, LEAs will have more time to submit and correct their child count data in Student Accountability Information System (SAIS) well in advance of the federal child count due date, thus giving ADE-ESS accurate data to submit to Office of Special Education Programs (OSEP).

ADE has not yet initiated statutory changes to reduce the SAIS adjustment window. ESS will continue to pursue discussions within ADE, relative to initiating and completing this statutory change. Currently, A.R.S. §15-915

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allows school districts and charter schools to submit changes to their financial information and their student count to SAIS for a maximum of three years from the initial submission date.

ESS will continue to include accuracy of LEA SAIS data in the Individuals with Disabilities Act (IDEA) determinations in accordance with 34 CFR §300.600.

Through multiple, regional workshops, ESS Data Management has advised LEAs of the availability of ADE data support resources to assist in resolving SAIS discrepancies prior to the October 1, 2009, federal child count verification/reconciliation deadline. Previously, the System Training and Response (STaR) team has been available as resource; however, since the team was disbanded in August 2009, support will now be provided by the ADE Support Center and the ESS Data Management team. ADE data support resources will be available throughout the data submission process to assist LEAs in providing an accurate, unduplicated count of children with disabilities receiving special education and related services.

The ADE-ESS Census Verification application for FY 2010 (October 1, 2009, child count) will be made available to all LEAs on October 5, 2009. LEAs will have until November 13, 2009, to submit their signed verification letters. ESS will require LEA October 1 federal child count verification numbers to match SAIS student count numbers by January 15, 2010. On January 20, 2010, SAIS student count numbers will be retained to provide documentation showing how the LEA counts matched SAIS counts at that time. If the LEA's count does not reconcile, it will be the LEA's responsibility (overseen by ADE-ESS Data Management) to provide supporting documentation as to why the counts were not reconciled. For the FY 2010, October 1, 2009, child count, if an LEA's count did not reconcile, ESS Data Management will follow up to secure supporting documentation specifying the reason for non-reconciliation before June 30, 2010. In addition, if the SAIS student count is higher than the LEA verification count, the LEA may be subject to an Average Daily Membership audit.

09-127

Homeland Security Cluster:

CFDA No.: 97.067 **Homeland Security Grant Program, #s 2006-GE-T6-4007, 2007-SG-N6-0004, 2007-GE-T7-0006, 2007-SG-N6-0007, 2008-GE-T8-0021, and 2008-SG-T8-0007**

U.S. Department of Homeland Security

Award Period: November 1, 2006 through September 30, 2008
November 1, 2006 through October 31, 2008
July 1, 2007 through June 30, 2010
September 1, 2008 through August 31, 2011

Equipment and Real Property Management

Questioned Cost: Unknown

Finding

Criteria: In accordance with 44 CFR §13.32(d)(1), for equipment acquired with federal program monies, states must maintain property records that include the item's description; a serial number or other identification number; the acquisition date; the item cost; percentage of federal participation in the item's cost; the item's location, use, and condition; and any ultimate disposition data, including the item's disposal date and sale price.

Condition and context: The Department of Public Safety did not have a complete and accurate listing of the Cluster's equipment.

Effect: Inadequate controls over the cluster's equipment results in increased risks of loss, theft, or mismanagement of the items. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a significant deficiency in

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internal control over compliance and noncompliance with the Cluster's Equipment and Real Property Management compliance requirements.

Cause: The Department did not establish adequate policies and procedures to allow them to prepare an equipment listing.

Recommendation: To comply with 44 CFR §13.32(d)(1), the Department should prepare and maintain a complete and accurate listing of the Cluster's equipment that includes all required information.

Agency Response: Concur

Contact person: Chuck LeBlanc, Financial Services Manager, (602) 223-2480

Anticipated completion date: December 31, 2010

Agency Corrective Action Plan: The Department of Public Safety maintains property records for all equipment acquired under federal grants; however, the Department's inventory control system did not adequately identify the specific grant or CFDA # associated with each item. This limitation hampered our ability to produce a complete list of all equipment acquired under a specific CFDA # within the time constraints imposed by the audit. The Department's inventory control system is being modified to include grant and CFDA # as part of the property record. In conjunction with the Department's 2010 capital inventory, grant and CFDA numbers will be identified for all federally funded equipment and the property records will be populated with this information. This will enhance the Department's ability to respond to requests for lists of equipment by grant or CFDA #.

09-128

Research and Development Cluster

All Arizona State University Research and Development grants and contracts

Award Period: Various

Allowable Costs/Cost Principles

Questioned Cost: \$81,212

Finding

Criteria: In accordance with OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, Subpart C, §.21(b)(7), and OMB Circular A-21, *Cost Principles for Educational Institutions*, §A.2(e) and J.10(d), the University should ensure its financial management systems and records adequately support charges made to federal awards. Also, in accordance with OMB Circular A-21, §C.4 (b), costs may not be transferred to other sponsored projects in order to eliminate deficits caused by overruns or other funding considerations, to avoid restrictions imposed by law or by terms of the sponsored agreement, or for other reasons of convenience. Further, OMB Circular A-21, §J.10(c), indicates that charges should be promptly adjusted if significant differences occur, and university policies state that cost transfers should be requested within 90 days after the month in which the cost was originally recorded in the University's financial accounting system.

Condition and context: As discussed in financial statement finding 09-19, the University did not have adequate internal controls over payroll processing. In addition, auditors noted the following errors when testing payroll expenditures charged to the Research and Development Cluster during the fiscal year:

- For 7 of 77 employees tested, the University either did not have documentation supporting that the employee's compensation was an allowable charge to the Cluster, or the documentation did not adequately support that the employees were paid in accordance with the terms of their employment contracts. Specifically, the University did not always maintain current employment contracts or support for pay changes. As a result, auditors noted questioned costs in the amount of \$81,212.

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- For 3 of 23 employees tested whose payroll expenditures were transferred to another sponsored project, the transfers were not done in accordance with federal cost principles requirements or university policies. Specifically, one employee's payroll expenditures were transferred to eliminate a deficiency caused by budgetary overruns, and two employees' payroll expenditures were transferred between 8 and 13 months after the expenditures were originally recorded.

Effect: It was not practical to extend our auditing procedures sufficiently to determine whether any additional questioned costs resulted from this finding. This finding is a material weakness in internal control over compliance and material noncompliance with the Cluster's allowable costs/cost principles requirements. This finding could also potentially affect the Cluster's matching requirement for matching expenditures that are composed of employees' salaries and wages because they may not be adequately supported. In addition, this finding could potentially affect other federal programs the University administered.

Cause: The payroll processing function is highly decentralized at the University, and the University did not have comprehensive policies and procedures for the departments to follow. Further, the University did not effectively monitor the decentralized payroll functions creating additional internal control deficiencies.

Recommendation: The University should ensure its financial management systems and other documentation adequately support charges made to federal awards, and require all expenditure transfers to be done promptly, in accordance with federal cost principles and university policies. Further, the University should implement the recommendations described in financial statement finding 09-19.

This finding was similar to a prior-year finding.

Agency Response: Concur

Contact person: Marilyn Mulhollan, Executive Director Accounting Services, (480) 965-7236

Anticipated completion date: End of fiscal year 2010

Agency Corrective Action Plan: The University agrees that all charges made to federal awards, or any other University-funding source, should be properly supported by readily available documentation. The University has implemented all but one of the specific recommendations included in financial statement finding 09-19, with the final recommendation to be completed by the end of fiscal year 2010. Specifically related to finding 09-128 the University has enhanced previously existing policies and procedures for processing, monitoring, and verifying payroll related expenses. Included in these processes is the requirement for departments to complete monthly reconciliations of payroll expenses, which includes verification of salary/wage rates to supporting documentation (contract, offer letter or other official documentation). Financial Services is performing monthly reviews to ensure departments are complying with the payroll reconciliation requirement.

With regards to expenditure transfers, although in two cases payroll expenditures were not transferred within the time frame specified in university policy, the expenses were allowable charges to the sponsored projects. Likewise, the payroll expenditure transfer identified as related to budgetary concerns also represented an allowable charge to the sponsored project and was needed to correct a clerical error. The payroll expenditures in each case were reasonable, necessary and allocable to the sponsored projects to which they were transferred and fairly represented the effort expended in support of the project scope of work during the approved period of performance and, as such, are valid charges to the awards to which they were transferred.

To clarify expenditure transfer requirements and enhance compliance, the University held refresher training on federal cost principles and university policies governing expenditure transfers for central research administrators. Additionally, the governing University policy has been updated and published in the Research and Sponsored Projects Manual.

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09-129

Research and Development Cluster

All Arizona State University Research and Development grants and contracts

Award Period: Various

Matching

Questioned Cost: Unknown

Finding

Criteria: In accordance with OMB Circular A-110, Subpart C §.23(a), all contributions, including cash and third party in-kind contributions, can be used to meet the recipient's cost sharing or matching requirements when such contributions are supported by the recipient's records, not used as contributions for any other federally-assisted project or program, and not paid for by another federal program, except where authorized by federal statute to be used for cost sharing or matching. The specific requirements for matching are unique to each research and development contract and are found in the provisions of the contract.

Condition and context: For one of eight projects tested that had matching requirements, the required matching commitment was not documented by the University and auditors were unable to verify if the required matching contributions were made. Specifically, the award agreement for the National Institute of Child Health and Human Development project entitled *A Longitudinal Study of Mexican Origin Youth, Family, Culture, and Adjustment* required the University to pay percentages of certain employees' salaries each year with state or local monies. However, the University did not document how the matching requirements for the project were met in its grants management system and did not document in the effort certification reports for the project's employees that the cost sharing requirements were met.

Effect: It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a significant deficiency in internal control over compliance and noncompliance with the Cluster's matching requirements and the project's award agreement.

Cause: The University has policies and procedures in place requiring that matching contributions be documented in its grants management system and verified by the project's principal investigator. However, these policies and procedures were not adhered to.

Recommendation: To help ensure the propriety and accuracy of its matching contributions for individual project awards, the University should follow its policies and procedures to ensure that matching contributions are documented in its grants management system and verified by the principal investigator.

Agency Response: Concur

Contact person: Michele Wrapp, Associate Director for Research Administration, (480) 965-4771

Anticipated completion date: Fiscal year 2010

Agency Corrective Action Plan: The University understands the importance of compliance with OMB Circular A-110, Subpart C §.23(a), governing requirements for cost sharing or matching. Although the sponsor did not have a mandatory cost share requirement for the National Institute of Child Health and Human Development project entitled *A Longitudinal Study of Mexican Origin Youth, Family, Culture, and Adjustment*, the University did make a voluntary cost share commitment which should have been documented in the Coeus grants management system. Likewise, fulfillment of the voluntary cost share commitment was not documented in the effort certification reports of the project employees who contributed effort on behalf of the project.

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The voluntary cost share commitment was fulfilled, however, as committed on behalf of the project. This voluntary contribution of effort fulfilled the intended scope of work requirements as described in the project proposal. The voluntary cost share commitments for contributed effort on the referenced award have now been entered into the Coeus grants management system and into the effort reporting system commitment module to address the noted documentation deficiency. These commitments have been reflected on effort certification reports and certified by the employees who fulfilled the commitment. The record-keeping for the project effort is now aligned with the actual effort expended by project personnel.

Additionally, subsequent to the granting of this award, a new process for initial set-up of sponsored award accounts was implemented. This process reorganization included a segregation of duties and assignment of tasks exclusive to award set-up to a specialty team, the Award Set-up Team, with responsibility for ensuring that sponsored account parameters accurately reflect sponsor requirements, notice of award data elements and University voluntary cost share commitments as reflected in the proposal budget and budget justification. This account set-up process includes confirmation and input of both mandatory and voluntary cost share commitments for tracking and documentation purposes in the Coeus grants management system. Mandatory and voluntary cost share commitments which will be fulfilled via contribution of effort are tracked in the effort reporting system and certified by the employees who have made contributions of effort to the project.

This focused responsibility for accurate account set-up should serve to enhance internal controls and resultant compliance with OMB Circular A-110, Subpart C §.23(a).

09-130

Research and Development Cluster

All Arizona State University Research and Development grants and contracts

Award Period: Various

Reporting

Questioned Cost: N/A

Finding

Criteria: In accordance with 29 CFR §97.20(b)(1), accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the grant's financial reporting requirements.

Condition and context: The University did not have policies and procedures that required the review and approval of financial reports submitted to federal awarding agencies to ensure the reports contained accurate and current data. As a result, the expenditures reported on 4 of 40 financial reports tested did not agree to the University's records for the period indicated on the reports, and 1 of 40 reports tested was not signed or certified by a university official in accordance with the grant's financial reporting requirements.

Effect: This finding is a significant deficiency in internal control over compliance and noncompliance with the Cluster's reporting requirements. In addition, this finding could potentially affect other federal programs the University administered.

Cause: The University did not have comprehensive policies and procedures for the preparation, review, and submission of federal financial reports.

Recommendation: To help ensure that its federal financial reports are accurate, the University should establish comprehensive policies and procedures over financial reporting, including the review and approval of reports prior to submitting the reports.

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Agency Response: Concur

Contact person: Michele Wrapp, Associate Director for Research Administration, (480) 965-4771

Anticipated completion date: Fiscal year 2010

Agency Corrective Action Plan: The University acknowledges the importance of compliance with 29 CFR §97.20(b)(1), which requires accurate, current, and complete disclosure of the financial results of financially assisted activities in accordance with the grant's financial reporting requirements. At the time these reports were submitted, University policy and procedure guidance for the preparation of federal financial reports did not require review and approval of reports prior to submission to the federal awarding agency; however, the benefit of such reviews is acknowledged. The noted exceptions related to reported expenditures were the result of clerical errors. In each instance corrections were made with the routine filing of subsequent recurring reports for the affected sponsored projects. Expenditures reported and revenue received was accurate and correct at the time of audit.

In conjunction with a comprehensive reorganization of the University's central research operations functions, a project to improve documentation of processes and procedures and related work instructions is underway. Work instructions for the preparation of financial reports now include requirements for the review and approval of reports prior to submission to the federal awarding agency. This review and approval will be evidenced by initialing of the report by the reviewer. Staff responsible for this function have been provided with the updated work instruction and trained in the process. The occurrence of clerical errors and unsigned reports, if any, should be mitigated by this process improvement.

These work instruction revisions and related training should serve to enhance internal controls and resultant compliance with 29 CFR §97.20(b)(1).