

**Federal Award Findings, Questioned Costs and Corrective Action Plan
(Reformatted from the FY 2013 Single Audit Report)**

2013-101

Cluster Name:	Child Nutrition Cluster
CFDA No. and Name:	10.553 School Breakfast Program 10.555 National School Lunch Program 10.556 Special Milk Program for Children 10.559 Summer Food Service Program for Children
Award Numbers and Years:	7AZ300AZ3 and 7AZ300AZ4, 2012
CFDA No. and Name:	10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
Award Numbers and Years:	None, 2012 and 2013
CFDA No. and Name:	10.558 Child and Adult Care Food Program
Award Numbers and Years:	7AZ300AZ3 and 7AZ300AZ4, 2012
Federal Agency:	U.S. Department of Agriculture
CFDA No. and Name:	12.401 National Guard Military Operations and Maintenance (O&M) Projects
Award Numbers and Years:	Various
Federal Agency:	U.S. Department of Defense
Cluster Name:	Employment Service Cluster
CFDA No. and Name:	17.207 Employment Service/Wagner-Peyser Funded Activities 17.801 Disabled Veterans' Outreach Program (DVOP) 17.804 Local Veterans' Employment Representative Program (LVER)
Award Numbers and Years:	ES22050GW1, 2012; ES20735BG, 2011; ES22050FY, 2012; ES22982K, 2013; DV-19653-10-55-4, 2012 and 2013
Federal Agency:	U.S. Department of Labor
Cluster Name:	Highway Planning and Construction Cluster
CFDA No. and Name:	20.205 Highway Planning and Construction 20.219 Recreational Trails Program
Award Numbers and Years:	Various
Federal Agency:	U.S. Department of Transportation
CFDA No. and Name:	66.468 Capitalization Grants for Drinking Water State Revolving Funds
Award Numbers and Years:	Various
Federal Agency:	U.S. Environmental Protection Agency
CFDA No. and Name:	81.087 Renewable Energy Research and Development
Award Number and Year:	DE-EE002850, 2010
Federal Agency:	U.S. Department of Energy
Cluster Name:	Title I, Part A Cluster
CFDA No. and Name:	84.010 Title I Grants to Local Educational Agencies 84.389 Title I Grants to Local Educational Agencies, Recovery Act
Award Numbers and Years:	S389A090003, 2008; S010A090003, 2009; S010A100003, 2010; S010A110003, 2011; S010A120003, 2012
Cluster Name:	Special Education Cluster (IDEA)
CFDA No. and Name:	84.027 Special Education—Grants to States 84.173 Special Education—Preschool Grants 84.391 ARRA—Special Education Grants to States, Recovery Act
Award Numbers and Years:	H027A100007; 2010; H027A110007, 2011; H027A120007, 2012; H173A100003, 2010; H173A110003, 2011; H173A120003, 2012; H391A090007, 2009
CFDA No. and Name:	84.048 Career and Technical Education—Basic Grants to States
Award Numbers and Years:	V048A100003, 2010; V048A110003, 2011; V048A120003, 2012
CFDA No. and Name:	84.282 Charter Schools
Award Number and Year:	U282A09000, 2009

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CFDA No. and Name:	84.365 English Language Acquisition State Grants
Award Numbers and Years:	S365A100003, 2010; S365A110003, 2011; S365A120003, 2012
CFDA No. and Name:	84.367 Improving Teacher Quality State Grants
Award Numbers and Years:	S367A100049, 2010; S367A110049, 2011; S367A120049, 2012; S367B111113, 2010; S367B110003, 2011; S367B120003, 2012
Federal Agency:	U.S. Department of Education
Cluster Name:	Medicaid Cluster
CFDA No. and Name:	93.775 State Medicaid Fraud Control Units 93.777 State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare 93.778 Medical Assistance Program
Award Numbers and Years:	Various
CFDA No. and Name:	93.268 Immunization Cooperative Agreements
Award Numbers and Years:	5H23IP922545-09, 2011; 5H23IP922545-10, 2012; 1H23IP000733-01, 2013
CFDA No. and Name:	93.767 Children's Health Insurance Program
Award Numbers and Years:	Various
CFDA No. and Name:	93.959 Block Grants for Prevention and Treatment of Substance Abuse
Award Numbers and Years:	2B08TI010004-11, 2011; 3B08TI010004-11S1, 2011; 2B08TI010004-12, 2012; 3B08TI010004-12S1, 2012; 2B08TI010004-13, 2013; 3B08TI010004-13S1, 2013
Federal Agency:	U.S. Department of Health and Human Services
CFDA No. and Name:	97.067 Homeland Security Grant Program
Award Numbers and Years:	2009-SS-T9-0016, 2009; 2010-SS-T0-0086-S01, 2010; EMW-2011-SS- 00047-S01, 2011; EMW-2012-SS-00071-S01, 2012
Federal Agency:	U.S. Department of Homeland Security
Compliance Requirement:	Allowable Costs/Cost Principles
Questioned Cost:	\$45,725

Finding

Criteria: In accordance with 2 Code of Federal Regulations (CFR) §225, Appendix A, 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. Arizona Revised Statutes (A.R.S.) §41-191.09 created the Attorney General Legal Services Cost Allocation Fund (Fund) to reimburse the Attorney General's Department of Law for general agency counsel services. Beginning on July 1, 2006, all state agency funds, except for 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. In fiscal year 2012, the Legislature changed the statute to reflect that the funding sources may not include federal monies. This change was effective the first quarter of fiscal year 2013.

Effect: During fiscal year 2013, these charges totaled \$45,725, including \$16,342 for the major federal programs listed above and \$29,383 for all other federal programs. This amount is still subject to review and approval by the U.S. Department of Health and Human Services. This finding 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, was not caused by the federal programs' administration.

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Recommendation: The State's Department of Administration should continue to 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 a bill is enacted into law.

This finding is similar to a prior-year finding.

Agency Response: Concur

Agency Corrective Action Plan: We have an established process in place for monitoring legislation. In fact, a concern 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 was resolved in the 2012 legislative session, effective August 2, 2012.

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.

2013-102

Cluster Name:	Child Nutrition Cluster
CFDA No. and Name:	10.553 School Breakfast Program 10.555 National School Lunch Program 10.556 Special Milk Program for Children 10.559 Summer Food Service Program for Children
Award Numbers and Years:	7AZ300AZ3 and 7AZ300AZ4, 2012
CFDA No. and Name:	10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
Award Numbers and Years:	None, 2012 and 2013
CFDA No. and Name:	10.558 Child and Adult Care Food Program
Award Numbers and Years:	7AZ300AZ3 and 7AZ300AZ4, 2012
Federal Agency:	U.S. Department of Agriculture
CFDA No. and Name:	12.401 National Guard Military Operations and Maintenance (O&M) Projects
Award Numbers and Years:	Various
Federal Agency:	U.S. Department of Defense
Cluster Name:	Fish and Wildlife Cluster
CFDA No. and Name:	15.605 Sport Fish Restoration Program 15.611 Wildlife Restoration and Basic Hunter Education
Award Numbers and Years:	F12AP00567, 2013; AZ F-19-D, 2013; AZ FW-100-P-20, 2013
Federal Agency:	U.S. Department of the Interior
Cluster Name:	Employment Service Cluster
CFDA No. and Name:	17.207 Employment Service/Wagner-Peyser Funded Activities 17.801 Disabled Veterans' Outreach Program (DVOP) 17.804 Local Veterans' Employment Representative Program (LVER)
Award Numbers and Years:	ES22050GW1, 2012; ES20735BG, 2011; ES22050FY, 2012 ES22982K, 2013; DV-19653-10-55-4, 2012 and 2013;
Federal Agency:	U.S. Department of Labor
Cluster Name:	Highway Planning and Construction Cluster
CFDA No. and Name:	20.205 Highway Planning and Construction 20.205 ARRA—Highway Planning and Construction

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Award Numbers and Years: Federal Agency:	20.219 Recreational Trails Program Various U.S. Department of Transportation
CFDA No. and Name: Award Numbers and Years: Federal Agency:	66.468 Capitalization Grants for Drinking Water State Revolving Funds Various U.S. Environmental Protection Agency
CFDA No. and Name: Award Number and Year: Federal Agency:	81.087 Renewable Energy Research and Development 81.087 ARRA—Renewable Energy Research and Development DE-EE002850, 2010 U.S. Department of Energy
Cluster Name: CFDA No. and Name:	Title I, Part A Cluster 84.010 Title I Grants to Local Educational Agencies 84.389 ARRA—Title I Grants to Local Educational Agencies, Recovery Act
Award Numbers and Years:	S389A090003, 2008; S010A090003, 2009; S010A100003, 2010; S010A110003, 2011; S010A120003, 2012
Cluster Name: CFDA No. and Name:	Special Education Cluster (IDEA) 84.027 Special Education—Grants to States 84.173 Special Education—Preschool Grants
Award Numbers and Years:	84.391 ARRA—Special Education Grants to States, Recovery Act H027A100007, 2010; H027A110007, 2011; H027A120007, 2012; H173A100003, 2010; H173A110003, 2011; H173A120003, 2012; H391A090007, 2009
CFDA No. and Name: Award Numbers and Years: CFDA No. and Name:	84.048 Career and Technical Education—Basic Grants to States V048A100003, 2010; V048A110003, 2011; V048A120003, 2012 84.126 Rehabilitation Services—Vocational Rehabilitation Grants to States
Award Numbers and Years: CFDA No. and Name: Award Number and Year: CFDA No. and Name: Award Numbers and Years: CFDA No. and Name: Award Numbers and Years:	H126A110002, 2011; H126A120002, 2012; H126A130002, 2013 84.282 Charter Schools U282A09000, 2009 84.365 English Language Acquisition State Grants S365A100003, 2010; S365A110003, 2011; S365A120003, 2012 84.367 Improving Teacher Quality State Grants S367A100049, 2010; S367A110049, 2011; S367A120049, 2012; S367B100003, 2010; S367B110003, 2011; S367B120003, 2012
Federal Agency:	U.S. Department of Education
Cluster Name: CFDA No. and Name:	Aging Cluster 93.044 Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers 93.045 Special Programs for the Aging—Title III, Part C—Nutrition Services
Awards Numbers and Years:	93.053 Nutrition Services Incentive Program 11AAAZT3SP, 2011; 12AAAZT3SP and 2AAAZNSIP, 2012; 13AAAZT3SP and 13AAAZNSIP, 2013
Cluster Name: CFDA No. and Name:	TANF Cluster 93.558 Temporary Assistance for Needy Families 93.714 ARRA—Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Programs
Award Numbers and Years:	G1002AZTANF, 2010; G1102AZTANF, 2011; G1202AZTANF, 2012; G1302AZTANF, 2013
Cluster Name: CFDA No. and Name:	Medicaid Cluster 93.775 State Medicaid Fraud Control Units

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	93.777 State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare
	93.778 Medical Assistance Program
Award Numbers and Years:	Various
CFDA No. and Name:	93.268 Immunization Cooperative Agreements
Award Numbers and Years:	5H23IP922545-09, 2011; 5H23IP922545-10, 2012; 1H23IP000733-01, 2013
CFDA No. and Name:	93.563 Child Support Enforcement
Award Numbers and Years:	G1104AZ4004, 2011; G1204AZ4004, 2012; G1304AZ4004, 2013
CFDA No. and Name:	93.667 Social Services Block Grant
Award Numbers and Years:	G1101AZSOSR, 2011; G1201AZSOSR, 2012; G1301AZSOSR, 2013
CFDA No. and Name:	93.737 Children's Health Insurance Program
Award Numbers and Years:	Various
CFDA No. and Name:	93.959 Block Grants for Prevention and Treatment of Substance Abuse
Award Numbers and Years:	2B08TI010004-11, 2011; 3B08TI010004-11S1, 2011; 2B08TI010004-12, 2012; 3B08TI010004-12S1, 2012; 2B08TI010004-13, 2013; 3B08TI010004-13S1, 2013
Federal Agency:	U.S. Department of Health and Human Services
CFDA No. and Name:	Homeland Security Grant Program
Award Numbers and Years:	2009-SS-T9-0016, 2009; 2010-SS-T0-0086-S01, 2010; EMW-2011-SS-00047-S01, 2011; EMW-2012-SS-00071-S01, 2012
Federal Agency:	U.S. Department of Homeland Security
Compliance Requirement:	Allowable Costs/Cost Principles
Questioned Cost:	\$261,318

Finding

Criteria: In accordance with 2 CFR §225, Appendix A, 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 (State) did not comply with the allowable costs/cost principles requirements with respect to information technology service costs provided by the Arizona Strategic Enterprise Technology (ASET) Office that were charged to federal programs administered by various state agencies. A.R.S. §41-3505 created the Information Technology Fund (Fund) for ASET to provide information technology services. Beginning on July 1, 1997, all state agency funds were required to contribute to the Fund for the costs of information technology services. These contributions were obtained by charging 0.2 percent of each applicable agency's total payroll expenditures, including those paid with federal monies, each pay period. The information technology services ASET provided included information technology coordination, strategic planning, information security and privacy, technology project oversight services for all information technology projects costing more than \$25,000, and digital government services. The technology project oversight services were performed through a Project Investment Justification process, which allowed ASET to implement its strategic vision by requiring agencies to comply with state-wide policies and standards along with the strategic direction in the state-wide plan. The digital government services included developing strategies and deploying accessible, reliable, and cost-effective digital government services through the State's Web portal, such as application Web site development, hosting, and support services. The costs of these technology project oversight services and digital government services were determined to be unallowable because the services involved were not chargeable in accordance with relative benefits received.

Effect: The State's Department of Administration has determined these charges totaled \$261,318 during fiscal year 2013, including \$131,759 for the major federal programs listed above and \$129,559 for all other federal programs. It was not practical to extend our auditing procedures sufficiently to determine whether the amount was properly calculated and whether any additional questioned costs resulted from

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this finding. This amount is still subject to review and approval by the U.S. Department of Health and Human Services. This finding 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 technology project oversight services and digital government services and, therefore, was not caused by the federal programs' administration.

Recommendation: The State should ensure that technology project oversight services and digital government 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 technology project oversight 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 is similar to a prior-year finding.

Agency Response: Concur

Agency Corrective Action Plan: We have an established process in place for monitoring legislation. Although the majority of the fund is used for allowable purposes, we have advised that this specific portion was, in our opinion, not consistent with established federal cost principles and may be disallowed. However, 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 for these costs.

2013-103

CFDA No. and Name:	Various
Award Numbers and Years:	Various
Federal Agency:	Various
Compliance Requirement:	Allowable Costs/Cost Principles
Questioned Costs:	\$3,490,306

Finding

Criteria: In accordance with 2 CFR §225, Appendix A, C.1.b and 3.a, costs charged to federal programs should be based on the relative benefits received.

Condition and context: State of Arizona (State) Senate Bill 1523 of the 50th Legislature, Second Regular Session 2012, Chapter 24, §127, mandated transfers of fund balances from various state agencies to the State's General Fund to help provide adequate support and maintenance for state agencies. In addition, State Senate Bill 1532 of the 50th Legislature, Second Regular Session 2012, Chapter 303, §17, directed the transfer of monies from the State's Risk Management Revolving Fund to the Arizona Navigable Stream Adjudication Commission for unpaid legal obligations. Further, the State's Attorney General's Office transferred monies from its Risk Management Fund to a fund that was used to pay department-wide and administrative costs. A portion of these balances transferred included federal monies and was therefore unallowable since the transfers were not based on the relative benefits received. The State's Department of Administration (Department) has determined the federal portion of those transfers to be \$3,490,306 during fiscal year 2013. The Department has not compiled the information for the disallowed costs by federal program for each agency. In addition, this amount is still subject to review and approval by the U.S. Department of Health and Human Services.

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Effect: The State is responsible for reimbursing the federal agencies the amount of unallowable costs. It was not practical to extend our auditing procedures sufficiently to determine whether any additional questioned costs resulted from this finding or to identify all the federal programs that were affected by this finding. This finding could potentially affect all federal programs administered by state agencies that had legislatively mandated transfers of fund balances.

Cause: The noncompliance for the mandated transfers resulted from state legislation and, therefore, was not caused by the federal programs' administration. Further, for the other transfers, the Attorney General's Office was unaware that transfers that include federal monies should be based on the relative benefits received.

Recommendation: The State should ensure that legislatively mandated transfers of fund balances do not include federal program monies. In addition, the Department 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. Finally, the Department should ensure all agencies are aware that transfers that include federal monies should be used based on the relative benefits received.

This finding is similar to a prior-year finding.

Agency Response: Concur

Agency Corrective Action Plan: We have requested authority to pay the federal government its corresponding pro-rata share related to the transferred monies. This resolution is pending legislative authorization.

We have an established process in place for monitoring legislation. On multiple occasions we have advised that these transfers were, in our opinion, not consistent with established federal cost principles and would probably result in an obligation to the federal government. Until the State changes its approach to the transfer of monies, there will likely continue to be disallowed costs which will require repayment with applicable interest.

This issue is a cross-cutting finding and is appropriately being addressed with the DHHS-DCA, for the payment and appropriate resolution of the questioned costs. We agree and commit to continue to work with DHHS-DCA and appropriate bodies within the State, to the best of our ability, to find an equitable resolution to this issue.

2013-104

CFDA No. and Name:	84.126 Rehabilitation Services-Vocational Rehabilitation Grants to States
Award Numbers and Years:	H126A110002, 2011; H126A120002, 2012; and H126A130002, 2013
Federal Agency:	U.S. Department of Education
Compliance Requirement:	Eligibility
Questioned Cost:	None

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 60 days after the individual has submitted an application for the services unless the Department and the applicant agree to an extension.

Condition and context: The Department's Division of Employment and Rehabilitation Services, Rehabilitation Services Administration did not determine applicant eligibility within 60 days or within the extension period for 13 of 40 applications tested. Specifically, for 13 of 40 applications tested, it took the Administration between 62 and 545 days, or an average of 168 days, to either determine if the applicants were eligible for the program or close the case. For 1 of the 13 items tested, the Administration prepared a properly signed extension letter within the 60-day period, but it did not determine eligibility within the

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requested extension period. For 4 of the 13 items tested, the Administration included an extension letter in the applicant's case file; however, it lacked the applicant's signature evidencing that the individual agreed to a specific extension of time. Finally, for 8 of the 13 items tested, the extension letter was either not prepared or prepared after the 60-day period ended.

Effect: Failure to make timely eligibility determinations may result in delayed services.

Cause: The Administration did not always follow its policies and procedures and react to system alerts that open applications were close to the 60-day eligibility determination requirement or retain documentation of a specific extension of time signed by both the Administration and applicant.

Recommendation: The Administration should provide adequate supervision of its case workers and enforce the following policies and procedures to help ensure compliance with eligibility requirements:

- Determine an applicant's eligibility within 60 days of the application submission date.
- When eligibility cannot be determined within 60 days prepare a letter before the end of the 60-day eligibility period to establish a specific extension of time to justify exceeding the 60-day period. This letter should be signed by both the Administration and the applicant. Also, an applicant's eligibility should be determined within the extension period.

Further, the Administration should react to the computer information system alerts that open applications were close to the 60-day eligibility determination requirement and ensure all documentation to determine eligibility is retained in the applicant's case file.

This finding is similar to a prior-year finding.

Agency Response: Concur

Agency Corrective Action Plan: The Department of Economic Security Arizona Rehabilitation Services will improve determination of eligibility within the 60-day time frame with the following actions:

- Emphasize the new policies and procedures for acceptance of eligibility extension electronic signatures via electronic signature pads and email. The new policies and procedures should decrease barriers that delay receipt of signed extensions from clients who agree to extend their eligibility determination timeframe.
- Continue to train staff regarding eligibility timeframes, agency expectations, and time management methods that will assist with better planning for meeting eligibility determination requirements and the completion of eligibility extensions if they are required and appropriate.
- Continue to monitor alert lists related to eligibility determination timeframes at all agency levels to identify cases in need of immediate action and to identify individuals who may need assistance with meeting the timeframes for eligibility determination.

2013-105

CFDA No. and Name:	84.126 Rehabilitation Services-Vocational Rehabilitation Grants to States
Award Numbers and Years:	H126A110002, 2011; H126A120002, 2012; and H126A130002, 2013
Federal Agency:	U.S. Department of Education
Compliance Requirement:	Level of effort
Questioned Cost:	None

Finding

Criteria: In accordance with 29 U.S. Code §731(a)(2)(B)&(C), the Department of Economic Security (Department) is required to provide maintenance of effort by expending from nonfederal sources, in any given fiscal year under the vocational rehabilitation program state plan, an amount that is at least equal to the total of such expenditures from nonfederal sources that was made in the second previous fiscal year, unless a waiver or modification of the maintenance of effort requirement has been granted.

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Condition and context: The Department's Division of Employment and Rehabilitation Services, Rehabilitation Services Administration (Administration), did not maintain the required level of nonfederal expenditures and did not receive a waiver or modification of the maintenance of effort requirement. For the fiscal year 2011 award, the only award closed out during fiscal year 2013, the required maintenance of effort was based on fiscal year 2009 nonfederal expenditures of \$16,599,727. However, the Administration provided only \$15,356,710 of nonfederal expenditures, resulting in a \$1,243,017 maintenance of effort deficit.

Effect: The federal grantor can reduce the Administration's allotment of federal monies for the vocational rehabilitation program by the amount of the maintenance of effort deficit totaling \$1,243,017.

Cause: The maintenance of effort deficit was the result of decreased legislative appropriations.

Recommendation: The Administration should pursue the appropriate settlement with the U.S. Department of Education's, Rehabilitation Services Administration regarding the maintenance of effort deficit.

Agency Response: Concur

Agency Corrective Action Plan: The Department of Economic Security Rehabilitation Services Administration agrees there was a Maintenance of Effort deficit. The Arizona Rehabilitation Services Administration will pursue a mutually agreeable settlement with the U.S. Department of Education Rehabilitation Services Administration regarding the maintenance of effort deficit.

2013-106

Cluster Name:	TANF Cluster
CFDA No. and Name:	93.558 Temporary Assistance for Needy Families 93.714 ARRA—Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Programs
Award Numbers and Years:	G1002AZTANF, 2010; G1102AZTANF, 2011; G1202AZTANF, 2012; G1302AZTANF, 2013
Federal Agency:	U.S. Department of Health and Human Services
Compliance Requirement:	Eligibility
Questioned Cost:	\$4,516

Finding

Criteria: In accordance with 45 CFR §206.10(a)(8), each decision regarding eligibility or ineligibility must be supported by facts in the applicant's or recipient's case record.

Condition and context: The Department of Economic Security, Division of Benefits and Medical Eligibility, Family Assistance Administration (FAA), provided cash assistance to recipients who did not meet all of the Temporary Assistance for Needy Families eligibility requirements. Auditors tested 40 case records and identified four cases where the information used to calculate the benefit amount was not adequately supported. Specifically, auditors noted the following:

- In one case tested, the FAA issued benefits to a recipient at a rate where the recipient pays their shelter expenses. However, there was evidence in the case record that the recipient's mother was paying for rent and utility expenses for more than 3 months. Because the recipient did not submit additional information indicating changes in unearned income, benefits should have been paid at a lower rate. The FAA paid benefits at the incorrect rate for 4 months, resulting in a questioned cost of \$244.
- For another case tested, the FAA issued benefits to a recipient in which the guardian's income was not entered into the case record, resulting in the recipient's receiving cash assistance despite having adequate income. Although this was a child-only case, it did not meet any of the criteria under which only the child's income and resources would be considered. This resulted in a questioned cost of \$1,547.

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- For two cases tested, the FAA issued benefits to recipients in which there was no third-party documentation of the applicant's income or expenses in the case records to evidence that the recipients lacked adequate income or resources. This resulted in questioned costs of \$2,725.

Effect: Benefits were issued to recipients either at incorrect amounts or who may have been ineligible to receive benefits. It was not practical to extend our auditing procedures sufficiently to determine whether any additional questioned costs resulted from this finding.

Cause: FAA employees did not follow policies and procedures to ensure recipients of cash assistance received benefit payments at the proper amounts and document facts in the recipients' case record to support eligibility decisions.

Recommendation: The FAA should provide adequate supervision of its employees and enforce the following policies and procedures to help ensure compliance with eligibility requirements:

- Ensure that each decision regarding eligibility or ineligibility is supported by facts in the applicant's or recipient's case record.
- Ensure proper resources are considered in child-only cases.

This finding is similar to a prior-year finding.

Agency Response: Concur

Agency Corrective Action Plan: To ensure only recipients who meet all Temporary Assistance for Needy Families eligibility requirements receive cash assistance, the Department of Economic Security Family Assistance Administration (FAA) took the following actions. FAA reviewed each error with the local office manager, supervisor, and employee responsible for the error. Corrective action will be taken, as appropriate, with each employee responsible for causing an error. In addition, FAA issued a Flash Bulletin Broadcast (13-33) via electronic mail to all staff with a reminder to ensure the Household System Check and the Interface Inquiry screens are reviewed for receipt of income.

2013-107

Cluster Name:	TANF Cluster
CFDA No. and Name:	93.558 Temporary Assistance for Needy Families 93.714 ARRA-Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Programs
Award Numbers and Years:	G1002AZTANF, 2010; G1102AZTANF, 2011; G1202AZTANF, 2012; G1302AZTANF, 2013
Federal Agency:	U.S. Department of Health and Human Services
Compliance Requirement:	Special Tests and Provisions
Questioned Cost:	None

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 to identify ineligible recipients. In addition, the information used in supporting wage and unemployment compensation verification must be retained.

Condition and context: The Department of Economic Security, Division of Benefits and Medical Eligibility, recorded and stored eligibility information and supporting documents for recipients on a documentation management system, including the support obtained from using the Income Eligibility and Verification System (IEVS). However, auditors noted 3 of the 40 case records tested did not contain evidence that the IEVS was used when determining eligibility.

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Effect: Assistance may be granted to ineligible recipients, or incorrect benefit determinations may result in over- or underpayments. This finding did not result in questioned costs since the Division was able to provide documentation to support its eligibility determinations.

Cause: The Division did not always follow its policies and procedures to use the IEVS to determine eligibility and retain the documentation in the case record.

Recommendation: The Division should ensure that employees request and use income and benefit information from the IEVS when determining eligibility for all applicants applying for cash assistance. Additionally, employees should retain support in the case record to evidence the review.

This finding is similar to a prior-year finding.

Agency Response: Concur

Agency Corrective Action Plan: To ensure employees request, use, and retain income and benefit information from the Income Eligibility and Verification System (IEVS) when determining eligibility; the Department of Economic Security Division of Benefits and Medical Eligibility Policy Support Unit will issue a reminder broadcast to all field staff reminding them to access the IEVS and retain a screen print in the case record when any of these conditions are met.

2013-108

Cluster Name:	TANF Cluster
CFDA No. and Name:	93.558 Temporary Assistance for Needy Families 93.714 ARRA-Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Programs
Award Numbers and Years:	G1002AZTANF, 2010; G1102AZTANF, 2011; G1202AZTANF, 2012; G1302AZTANF, 2013
Federal Agency:	U.S. Department of Health and Human Services
Compliance Requirement:	Reporting
Questioned Cost:	None

Finding

Criteria: In accordance with 45 CFR §265.7(a), reporting for the ACF-199 TANF Data Report must be complete and accurate. Also, in accordance with 45 CFR §265.9(c)(5), each state must provide the average monthly total number or the total number of eligible families served for which the state claims Maintenance of Effort (MOE) expenditures as of the fiscal year-end in the ACF-204 Annual Report. In addition, in accordance with 2 CFR §170, Appendix A, and the Federal Funding Accountability and Transparency Act of 2006 (FFATA), for grant awards beginning on October 1, 2010, or later, the Department of Economic Security must report each subaward to a subrecipient of \$25,000 or more not including subawards of American Recovery and Reinvestment Act monies. Each subaward action must be reported no later than the end of the month following the month in which the obligation was made.

Condition and context: The Department of Economic Security did not accurately prepare various reports submitted during fiscal year 2013 for the TANF program. Auditors noted errors in three of the five reports tested. Specifically, auditors noted the following:

Family Assistance Administration (FAA)

- For the June 30, 2013, quarterly ACF-199 TANF Data Report, the FAA understated the reported number of months countable toward the federal time limit by 1 month each for 3 of the 14 case files examined.

Division of Aging and Adult Services (DAAS)

- For the fiscal year 2012 ACF-204 Annual Report, including the Annual Report on State Maintenance-of-Effort Programs, the DAAS overstated the number of families served by 73 families for the

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Domestic Violence Prevention Program and understated the number of families served by 8 families for the Short-Term Crisis Services Program.

Division of Employment and Rehabilitation Services (DERS)

- For the June 30, 2013, quarterly ACF-199 TANF Data Report, the DERS automatically reported zeroes for the Number of Deemed Core Hours for Overall Rate and the Number of Deemed Core Hours for the Two-Parent Rate questions for all cases involving work participation activities.
- For the June 30, 2013, quarterly ACF-199 TANF Data Report, the DERS reported unsubsidized employment for 5 of the 14 cases examined that did not have any employment activity during the report period.

Financial Services Administration (FSA)

- For fiscal year 2013, the FSA made a “good faith” effort to comply with the FFATA reporting requirements. However, the FSA reported actions related to only four TANF program subrecipients. The FSA did not evaluate all 60 TANF program subrecipients to determine if they met the reporting criteria.

Effect: Incorrect financial and nonfinancial data was submitted to the federal grantor that may result in potential errors in analysis or other determinations. In addition, obligations to subrecipients were not posted to the federal FSRs.gov Web site, resulting in a lack of information on USASpending.gov. It was not practical to extend our auditing procedures to determine the additional number of reports of subawards that should have been reported. This finding did not result in questioned costs since the reports were not used to request reimbursement of federal expenditures.

Cause: The Department did not have adequate controls in place over the preparation and submission of program reports in order to prevent or detect errors within their reports. In addition, the computer information system used to generate the quarterly ACF-199 TANF Data Report was programmed to report zero for each participant’s deemed core hours. Furthermore, the Department did not accurately apply the FFATA reporting instructions.

Recommendation: The Department should establish policies and procedures to help ensure compliance with reporting requirements. Specifically, the Department should establish sufficient procedures to identify how to accumulate data for federal reports, and supervisors should perform a follow-up review over federal reports to ensure accurate amounts are reported. In addition, the Department should program the computer information system used to generate the quarterly ACF-199 TANF Data Report to report each participant’s deemed core hours. Further, the Department should develop internal control policies and procedures to identify all subawards made to subrecipients from individual awards.

This finding is similar to a prior-year finding.

Agency Response: Concur

Agency Corrective Action Plan: To ensure the Department of Economic Security (DES) accurately prepares Temporary Assistance for Needy Families (TANF) program reports the following corrective actions have been or will be completed.

Family Assistance Administration (FAA)

To ensure TANF reports are accurately prepared, a team of Department of Economic Security employees from the Division of Benefits and Medical Eligibility and the Division of Technology Services has been working to identify the issues and determine appropriate corrective action. The team identified a series of errors within the eligibility system and completed a number of system fixes. For the past year, the team has monitored these fixes and confirmed their effectiveness. Separate from the system issues, the team identified assumptions regarding certain payments in the ACF-199 Report programming. The team is working to address these programming issues and anticipates completing the corrections by April 1, 2014.

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Division of Aging and Adult Services (DAAS)

DAAS reviewed the process used to calculate the ACF-204 report data entries for the Domestic Violence Prevention Program. Contractors that receive TANF funding report the number of TANF eligible individuals and families on a quarterly basis. These totals were entered into a spreadsheet used to report year-end numbers. The spreadsheet utilized an auto sum feature and a second column was created to verify data. The numbers from the original spreadsheet were not accurately transferred and this resulted in the error. DAAS added formulas to the spreadsheets for 2013 and subsequent years so a secondary verification method is not necessary. These changes were implemented as of February 13, 2013.

To ensure that the Short-Term Crisis Services Program reflects accurate data for the number of households assisted, DAAS developed a Case Management (CMT) Checklist. Service providers submit the number of households they assisted on monthly CMT Reports. The checklist will be used to review the monthly CMT Reports and will be initialed by the reviewing party. The checklist will provide documentation that DAAS correctly reviewed the monthly data entry. To ensure documentation is retained and can be located, the CMT spreadsheet will be saved in PDF format in a specified folder. These changes were implemented as of February 13, 2013.

Division of Employment and Rehabilitation Services (DERS)

To ensure the Department of Economic Security (DES) accurately prepares the quarterly ACF-199 TANF Data Report, the Division of Technology Services (DTS) identified the issue that caused the errors. By March 14, 2015, DTS will correct the issue and establish policies and procedures to ensure that the error does not occur again.

Financial Services Administration (FSA)

To help ensure compliance with reporting requirements, the Department of Economic Security (DES) Financial Services Administration (FSA) provides the DES programs assistance with keying and verifying information to populate the FFATA website. There is a collaborative effort within DES to automate, aggregate and standardize the sharing of FFATA related information from the various systems. FSA will work with the DES programs, the Office of Procurement, and the Office of Accounting to identify additional entities that meet the criteria for FFATA reporting. As FSA gathers this information, FSA will continue to provide support to DES to assist with migration of the information to the FFATA website. FSA anticipates completing these corrective actions by July 2015.

2013-109

Cluster Name:	The Aging Cluster
CFDA No. and Name:	93.044 Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers 93.045 Special Programs for the Aging-Title III, Part C-Nutrition Services 93.053 Nutrition Services Incentive Program
Award Numbers and Years:	11AAAZT3SP, 2011; 12AAAZT3SP and 12AAAZNSIP, 2012; 13AAAZT3SP, and 13AAAZNSIP, 2013
Cluster Name:	TANF Cluster
CFDA No. and Name:	93.558 Temporary Assistance for Needy Families 93.714 ARRA-Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Programs
Award Numbers and Years:	G1002AZTANF, 2010; G1102AZTANF, 2011; G1202AZTANF, 2012; G1302AZTANF, 2013
CFDA No. and Name:	93.563 Child Support Enforcement
Award Numbers and Years:	G1104AZ4004, 2011; G1204AZ4004, 2012; G1304AZ4004, 2013
CFDA No. and Name:	93.667 Social Services Block Grant
Award Numbers and Years:	G1101AZSOSR, 2011; G1201AZSOSR, 2012; G1301AZSOSR, 2013
Federal Agency:	U.S. Department of Health and Human Services

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Compliance Requirement:	Subrecipient Monitoring
Questioned Cost:	None

Finding

Criteria: In accordance with OMB Circular A-133 §.310 (b)(5), to the extent practical, pass through entities should identify in the Schedule of Expenditures of Federal Awards (SEFA) the total amount provided to subrecipients from each federal program. Further, subrecipient monitoring requirements require an entity to have procedures that allow it to identify the total amount provided to subrecipients from each federal program.

Condition and context: The Department of Economic Security did not accurately identify subrecipient activities for each of its federal programs. The Department used different account codes to track expenditures made to subrecipients for the federal programs they administered. Further, expenditures made to subrecipients and vendors were comingled in those account codes.

Effect: The Department could not report accurate subrecipient information on the SEFA. This finding has the potential to affect other programs the Department administered.

Cause: The Department did not have a uniform account code structure that is used for all programs to identify only subrecipient activities.

Recommendation: The Department should require that all programs use a uniform account code structure to identify only subrecipient activities.

Agency Response: Concur

Agency Corrective Action Plan: The Department of Economic Security (DES) Division of Business and Finance (DBF) and Financial Services Administration (FSA) are working together to improve the processes utilized within DES to identify, track, and report on subrecipient activity with the goal of accurate federal reporting. The corrective actions will include the following:

- Divisional meetings between DBF, FSA, and the DES programs to identify weaknesses and gaps within current processes and procedures used to identify, track, and report on subrecipient activity.
- Develop agency-wide policy and procedures for identifying, tracking, and reporting on subrecipients.
- Develop additional guidelines to assist DES programs identifying subrecipient relationships.
- Developing an accounting structure that will be utilized to track subrecipient activity within the new statewide accounting system.

2013-110

Cluster Name:	Special Education Cluster (IDEA)
CFDA No. and Name:	84.027 Special Education—Grants to States 84.173 Special Education—Preschool Grants 84.391 ARRA—Special Education—Grants to States, Recovery Act
Award Numbers and Years:	H027A100007, 2010; H027A110007, 2011; H027A120007, 2012; H173A100003, 2010; H173A110003, 2011; H173A120003, 2012; H391A090007, 2009
CFDA No. and Name:	84.048 Career and Technical Education—Basic Grants to States
Award Numbers and Years:	V048A100003, 2010; V048A110003, 2011; V048A120003, 2012
Federal Agency:	U.S. Department of Education
Compliance Requirements:	Procurement and Subrecipient Monitoring
Questioned Cost:	Unknown

Finding

Criteria: The Department of Education (Department) is responsible for awarding over \$1.1 billion in federal grant awards and contracts to local educational agencies consisting of school districts, charter schools, and various other educational organizations. Therefore, it is imperative that department

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management and employees who are involved in making award decisions comply with the State's personnel rules, Arizona Revised Statutes §38-501 et seq., and 34 CFR §80.36. These rules, laws, and regulations require that employees disclose conflicts of interest when employees or their relatives have a business interest or employment with another entity to which the Department awards grants and contracts, and abstain from any involvement in an award decision for which a conflict of interest exists.

Condition and context: The Department's management did not always follow conflict-of-interest requirements. Auditors found that \$80,000 in federal program monies were awarded to an educational organization whose chief executive officer was the wife of a management-level employee who approved the grant award application during the year. Also, the employee did not disclose this conflict of interest and had the authority and system access to award other federal program monies, although, auditors did not identify any other awards to this organization during the year.

Effect: Federal program monies were awarded to entities in violation of state rules and laws and 34 CFR §80.36. When conflict-of-interest requirements are not complied with, there is an increased risk that federal program monies could be used for personal gain and activities that are not allowed. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. In addition, this finding could potentially affect other federal programs that the Department administered.

Cause: Conflict-of-interest and disclosure statements are required to be completed by state employees when they are hired. Employees are also required to read and acknowledge their understanding of the State's policies and laws, and update disclosure statements for conflicts of interest as they arise. However, the Department did not provide regular communications to management and employees to remind them of the importance of conflict-of-interest rules and laws so that these statements were properly completed and updated, and to help ensure that federal award decisions are not made by employees when a conflict of interest exists. In this instance, the employee's most current conflict-of-interest and disclosure statement was filed in June 2011; however, it did not disclose conflicts of interest for close relatives who were employed by local educational agencies.

Recommendation: To help ensure that management and employees comply with conflict-of-interest rules, laws, and regulations, the Department should provide regular communications about the importance of conflict-of-interest requirements and remind all employees to complete and update disclosures for any conflicts of interest as they arise, and to abstain from making award and compliance decisions that involve entities for which conflicts of interest exist.

Agency Response: Concur

Agency Corrective Action Plan: For the specific employee identified by the auditors, a current conflict of interest form and a disclosure statement has been submitted by the employee. All new employees hired by ADE are required to sign a conflict of interest form and disclosure statement and ADE's Human Resources Unit maintains them in each employee's personnel file. Additionally, each new employee is required to review the Arizona State Personnel System Employee Handbook which includes information about conflict of interest. After they've reviewed this information, each new employee is required to sign an online acknowledgement that they have reviewed and understand this information. To further help ensure that management and staff comply with conflict of interest rules and laws, ADE's Human Resources Unit will annually notify current employees about conflict of interest rules and laws and remind all staff to complete and update disclosures for any conflicts of interest as they arise and to abstain from making award and compliance decisions that involve entities for which conflicts of interest exist.

2013-111

CFDA No. and Name:	84.048 Career and Technical Education—Basic Grants to States
Award Numbers and Years:	V048A100003, 2010; V048A110003, 2011; V048A120003, 2012
Federal Agency:	U.S. Department of Education
Compliance Requirements:	Subrecipient Monitoring
Questioned Cost:	Unknown

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Finding

Criteria: The U.S. Department of Education's Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments, 34 CFR §80.40 (a) and OMB Circular A-133 §400(d)3 requires grantees to monitor 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.

Condition and context: The Department of Education (Department) performed various types of monitoring of subrecipients, consisting of local educational agencies (LEAs). The monitoring performed included various fiscal reviews of initial grant budgets and grant reimbursement requests. The Department also performed desk reviews of LEAs' records of time and effort and capital outlay expenditures to ensure the costs and activities were allowable. However, the desk reviews were not performed for community college districts. Additionally, the Department did not review LEAs' professional development expenditures for compliance with allowable cost principles outlined in 2 CFR 225, Appendix B. Further, the Department did not perform a detailed review of LEAs' financial records or perform on-site visits.

Effect: Professional development costs and activities that may not be allowable could be charged to the program by LEAs. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding.

Cause: During the fiscal year, the Department reorganized the personnel overseeing the program, resulting in changes to the program's subrecipient monitoring procedures. Consequently, the review of detailed records of professional development costs and activities, desk reviews for community college districts, and onsite monitoring of LEAs did not occur during the fiscal year.

Recommendation: To help ensure that expenditures charged to the program by LEAs are allowable and to comply with subrecipient monitoring requirements, the Department should establish internal control policies and procedures that require reviewing LEA financial records for professional development costs and activities, expanding desk reviews to include community college districts, and performing site visits as necessary.

Agency Response: Concur

Agency Corrective Action Plan: To ensure the proper monitoring of subrecipients, Career and Technical Education (CTE) management, in consultation with Audit and Grants Management staff, will develop monitoring procedures for use by CTE staff during site visits of school districts and community college districts. These procedures will require reviewing LEA and community college districts' financial records for professional development costs and activities during site visits and will include information on allowable uses of funds and performing site visits as necessary. CTE staff who perform site visits will then be trained on these procedures.

2013-112

Cluster Name:	Child Nutrition Cluster
CFDA No. and Name:	10.553 School Breakfast Program 10.555 National School Lunch Program 10.556 Special Milk Program for Children 10.559 Summer Food Service Program for Children
Award Numbers and Years:	7AZ300AZ3, 2012; 7AZ300AZ4, 2012
CFDA No. and Name:	10.558 Child and Adult Food Care Program
Award Numbers and Years:	7AZ300AZ3 and 7AZ300AZ4, 2012
Federal Agency:	U.S. Department of Agriculture
Cluster Name:	Title I, Part A Cluster
CFDA No. and Name:	84.010 Title I Grants to Local Educational Agencies 84.389 ARRA—Title I Grants to Local Educational Agencies,

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Award Numbers and Years:	Recovery Act S010A090003, 2009; S010A100003, 2010; S010A110003, 2011; S010A120003, 2012; S389A090003, 2008
Cluster Name:	Special Education Cluster (IDEA):
CFDA No. and Name:	84.027 Special Education—Grants to States 84.173 Special Education—Preschool Grants 84.391 ARRA—Special Education Grants to States, Recovery Act
Award Numbers and Years:	H027A100007, 2010; H027A110007, 2011; H027A120007, 2012; H173A100003, 2010; H173A110003, 2011; H173A120003, 2012; H391A090007, 2009
CFDA No. and Name:	84.048 Career and Technical Education— Basic Grants to States
Award Numbers and Years:	V048A100003, 2010; V048A110003, 2011; V048A120003, 2012
CFDA No. and Name:	84.282 Charter Schools
Award Number and Year:	U282A09000, 2009
CFDA No. and Name:	84.365 English Language Acquisition State Grants
Award Numbers and Years:	S365A100003, 2010; S365A110003, 2011; S365A120003, 2012
CFDA No. and Name:	84.367 Improving Teacher Quality State Grants
Award Numbers and Years:	S367A100049, 2010; S367A110049, 2011; S367A120049, 2012; S367B100003, 2010; S367B110003, 2011; S367B120003, 2012
Federal Agency:	U.S. Department of Education
Compliance Requirement:	Subrecipient Monitoring
Questioned Cost:	N/A

Finding

Criteria: The Department of Education’s (Department) Grants Management Enterprise (GME) system and Child Nutrition Program (CNP) Web application are vital for approving and disbursing federal awards and monitoring subrecipients for compliance with various federal program requirements. Consequently, the Department should have effective policies and procedures in place to prevent and detect unauthorized use, damage, loss, or modification to these information systems and data, including confidential and sensitive information. In addition, the Department should have an updated and fully tested disaster recovery plan to help ensure that systems and data can be recovered in the event of a system or equipment failure or other interruption.

Condition and context: Auditors tested the Department's controls over these information systems and noted the following deficiencies related to access and recovery controls:

- *Access controls*—The Department did not always maintain documentation for access granted to employees and did not always grant access with the proper approvals. Specifically, for 3 of 25 users tested for GME, the system access granted was not authorized and supported by an authorization form. In addition, the Department did not remove GME system access for 3 terminated employees in a timely manner.
- *Recovery controls*—The Department did not have an up-to-date and tested disaster recovery plan for its information systems, including GME and CNP Web.

Effect: There is an increased risk of noncompliance with federal requirements and of theft, manipulation, or misuse of confidential or sensitive data due to unauthorized access. Additionally, the Department may not be able to recover systems and data or materially comply with compliance requirements in the event of system or equipment failure or other interruption. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. In addition, this finding could potentially affect other federal programs that the Department administered.

Cause: The Department did not consistently follow its policies and procedures for granting system access to users for its information systems. Additionally, the Department had not updated and tested the disaster recovery plan for its information systems due to a lack of resources.

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Recommendation: To help prevent and detect unauthorized access, use, damage, loss, or modification to its information systems and data, including confidential and sensitive information, and to help ensure that its systems and data can be recovered in the event of a system or equipment failure or other interruption, the Department should:

- Require that system access granted to all users is documented and authorized before access is granted, and immediately revoke access for terminated employees.
- Perform a comprehensive review of user access granted to all of its applications and systems annually, and remove inappropriate access.
- Perform a risk analysis identifying and prioritizing critical applications to be restored for its disaster recovery plan.
- Update the disaster recovery plan to include a current listing, including emergency telephone numbers, of employees assigned to disaster teams; hardware configurations; lists of backup data and storage locations; and any arrangements for a designated offsite facility.
- Communicate and distribute copies of the disaster recovery plan to all affected employees, ensuring a copy of the plan is kept offsite and that protocols for the notifications to key personnel are included.
- Update and test its disaster recovery plan annually and maintain documentation of testing procedures and results, including resolutions to problems encountered or failed tests.

This finding is similar to a prior year finding.

Agency Response: Concur

Agency Corrective Action Plan: The Arizona Department of Education (ADE) will perform the following in order to improve access, and recovery controls over the Grants Management Enterprise System (GMS) and the Child Nutrition Program (CNP Web):

Access Controls:

ADE will continue utilizing policies and procedures that were updated as corrective action specific to Finding 12-115 and will actively improve on the consistency of their implementation. Specifically:

- ADE IT, along with units responsible for their own software such as Grants Management and Health and Nutrition Services, will require that system access be documented and authorized before access is granted, and will immediately revoke access for terminated employees.
- ADE IT, along with units responsible for their own software such as Grants Management and Health and Nutrition Services, will periodically perform a comprehensive review of user access granted to all of their applications and systems, and remove inappropriate access.
- ADE Human Resources will continue to perform regular internal audits to ensure that permission changes for all employees have been done correctly.
- Because ADE has many temporary staff whose permissions may change on a more frequent basis, Human Resources will notify Grants Management and Health and Nutrition Services when temporary employees leave ADE.
- ADE will continue to use Microsoft Forefront Identity Manager (FIM) and Active Directory to ensure that all users have the appropriate level of permissions. FIM in turn updates Active Directory, which uses group memberships to manage the permissions assigned to users.

Recovery Controls:

- ADE IT currently maintains and will continue to update a disaster recovery plan and listing of employees assigned to disaster teams, including emergency telephone numbers, hardware configurations, lists of backup data and storage locations and any arrangements for a designated offsite facility.
- In February 2014, ADE IT performed a risk analysis identifying and prioritizing critical applications to be restored for its disaster recovery plan.

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- ADE IT currently uses the SWAT Critical Incident Management Process to assist with disaster recovery efforts. This process plan is distributed to all key disaster recovery team members. ADE IT ensures that a copy of the plan is kept offsite and that protocols for the notifications to key personnel are included. The disaster recovery team will use both the SWAT process and the disaster recovery plan to assist with recovery efforts. ADE IT plans to test its disaster recovery plan annually and maintain documentation of testing procedures and results, including resolutions to problems encountered or failed tests.

2013-113

Cluster Name:	Title I, Part A Cluster:
CFDA No. and Name:	84.010 Title I Grants to Local Educational Agencies 84.389 ARRA—Title I Grants to Local Educational Agencies, Recovery Act
Award Numbers and Years:	S010A090003, 2009; S010A100003, 2010; S010A110003, 2011; S010A120003, 2012; S389A090003, 2008
CFDA No. and Name:	84.282 Charter Schools
Award Number and Year:	U282A09000, 2009
CFDA No. and Name:	84.367 Improving Teacher Quality State Grants
Award Numbers and Years:	S367A100049, 2010; S367A110049, 2011; S367A120049, 2012; S367B100003, 2010; S367B110003, 2011; S367B120003, 2012
Federal Agency:	U.S. Department of Education
Compliance Requirements:	Cash Management and Subrecipient Monitoring
Questioned Cost:	\$55,540

Finding

Criteria: As required by 34 CFR §80.21, state educational agencies should have procedures in place to minimize the time elapsing between the transfer of monies to and disbursement by the local educational agencies (LEAs). LEAs may be paid in advance if they are able to minimize the time elapsing between the recipient of the monies and their disbursement so that they do not accumulate excess cash balances of federal monies. Excess cash balances may be carried forward to the next period's grant award project when requested, or returned to the grantor at the end of the grant award period. Interest earned on federal monies should be remitted to the federal awarding agency.

Condition and context: The Department of Education (Department) requires that LEAs request monies for federal grants by submitting monthly cash management reports through its Grants Management Enterprise (GME) system. At the end of the award period, the Department requires LEAs to submit completion reports, which are considered the projects' final cash management reports. Auditors tested a sample of LEAs' completion reports for each of the major federal programs administered through the GME and noted the following deficiencies related to the Department's monitoring of LEAs:

- The Department did not always ensure that prior-year completion reports were submitted and approved before disbursing monies for the subsequent year's grant award project, which resulted in some LEAs having unspent cash balances from the prior-year award while receiving monies for the next year's award. This was noted for 2 of 45 LEAs tested for the Improving Teacher Quality State Grants program and 1 of 5 LEAs tested for the Charter Schools program.
- The Department did not always review and approve completion reports in a timely manner. This was noted for 11 of 45 LEAs tested for the Title I, Part A Cluster, and 19 of 31 LEAs tested for the Improving Teacher Quality State Grants program.
- The Department did not follow its policies and procedures and verify that interest earned on excess cash balances was remitted back to the Department for 1 of 45 LEAs tested for Title I, Part A Cluster. Auditors identified questioned costs totaling \$55,540 in interest earned by LEAs that should have been remitted to the federal awarding agency.

Effect: The Department disbursed monies for the subsequent period's grant award when LEAs had excess cash balances from the previous grant award. However, auditors were able to extend auditing procedures to determine that excess cash balances were amended to the subsequent year's grant award

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once completion reports were finally approved. Further, auditors determined that interest was earned on excess cash balances that was not remitted, which resulted in a questioned cost of \$55,540 for the Title I, Part A Cluster. This finding could also potentially affect other federal programs that the Department administered.

Cause: The Department's GME system automatically places a hold on a subsequent year's funding if the LEA does not submit a completion report within 90 days after the end of the current program year or if the LEA does not resubmit a completion report within 30 days of rejection as a result of the Department's review. However, these controls do not preclude the disbursement of a subsequent period's grant award when completion reports have not yet been reviewed and approved by the Department. Therefore, the Department's monitoring of LEAs' cash balances must be done manually. Further, the Department has no specific policy addressing when completion reports should be reviewed; therefore, the Department may not review LEAs' completion reports before the next year's grant award is approved and disbursed.

Recommendation: To help ensure compliance with federal program requirements related to cash management and subrecipient monitoring, the Department should:

- Improve its policies and procedures for monitoring completion report submissions; including reviewing completion reports in a timely manner.
- Retain documentation of communications with LEAs who have not submitted their completion reports.
- Enforce existing policies to ensure future grant awards are suspended until LEAs submit complete and accurate completion reports and remit interest earned on excess cash balances.

This finding is similar to a prior year finding.

Agency Response: Concur

Agency Corrective Action Plan: The Grants Management Division will take several actions to improve compliance with its major federal programs' requirements related to cash management and subrecipient monitoring:

- 1) The Grants Management Division will develop policies and procedures for the approval of completion reports within 28 days of submittal and the subsequent reporting (which Grants Management Division is responsible for producing at least monthly) to notify Program Areas of those completion reports that are overdue or that have been submitted but not yet approved.
- 2) The Grants Management Division will, for FY2014 completion reports, centralize communication delivered to all grantees who have not submitted their completion reports beginning the first day that completion reports for certain grantees are considered "overdue." i.e. Completion Reports are due for Title II grantees no later than September 30, 2014, notice will be delivered (and electronically stored) to all grantees who have yet to submit a Completion Report.
- 3) Through the transition to the new Grants Management Enterprise system, the Grants Management Division will have better reporting capabilities to quickly verify those grantees who have yet to submit a completion report or have not yet had a completion report approved. The Division will use this information to place individual "Holds" on subsequent year projects (within the same grant program) to ensure no monies can be requested by the grantee until the completion report is approved.

2013-114

CFDA No. and Name:	84.365 English Language Acquisition State Grants
Award Numbers and Years:	S365A100003, 2010; S365A110003, 2011; S365A120003, 2012
Federal Agency:	U.S. Department of Education
Compliance Requirement:	Special Tests and Provisions
Questioned Cost:	N/A

Finding

Criteria: As required by 34 CFR §76.785, the Department of Education (Department) should take measures to ensure that each charter school in the State receives program funding for which it is eligible

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during its first year of operation and during subsequent years in which the charter school expands its enrollment.

Condition and context: The Department did not have policies and procedures to identify new or expanding charter schools and determine whether they were eligible to receive program monies for the English Language Acquisition State Grants program.

Effect: During the year, new or expanding charter schools were not provided the opportunity to apply and receive program funding for the English Language Acquisition State Grants program.

Cause: The Department's employees administering the program were unaware of the requirement to identify charter schools that were newly operating or expanding enrollment during the year to determine whether the schools were eligible to receive program monies for the English Language Acquisition State Grants program.

Recommendation: To help ensure compliance with the program's special test and provisions, the Department should develop policies and procedures to identify new or expanding charter schools and determine whether they are eligible to receive program monies based on enrollment and eligibility data for the English Language Acquisition State Grants program.

Agency Response: Concur

Agency Corrective Action Plan: ADE's Office of English Language Acquisition Services (OELAS) will develop policies and procedures to identify any new or significantly expanded charter schools that have English language learner (ELL) students participating in an ELL program in the current school year. Once OELAS has verified the number of ELL students who are participating in an ELL program at the eligible new charter school, OELAS will formally notify the charter school by letter of their Title III allocation amount and their Title III reporting responsibilities. As a verification mechanism, OELAS will also update the ADE Grants Management Enterprise system so that the respective charter school may apply for the Title III funds accordingly.

2013-115

CFDA No. and Name:	84.048 Career and Technical Education—Basic Grants to States
Award Numbers and Years:	V048A100003, 2010; V048A110003, 2011; V048A120003, 2012
Federal Agency:	U.S. Department of Education
Compliance Requirement:	Period of Availability
Questioned Cost:	\$11,780

Finding

Criteria: In accordance with 34 CFR §76.703 (d), obligations for program expenditures that the Department of Education (Department) made can be incurred starting on the date that program monies are first made available, and must be obligated and paid with program monies within a 27-month period.

Condition and context: The Department charged the program for internal printing services totaling \$47,301 and \$282,627 for the 2011 and 2012 grant award years, respectively. For six of ten invoices tested, auditors identified charges totaling \$11,780 for printing services that were made before the 2011 award was made available on July 1, 2011.

Effect: Program expenditures that were obligated before program monies were available resulted in questioned costs. It was not practical to extend our auditing procedures sufficiently to determine whether any additional questioned costs resulted from this finding. This finding could also potentially affect other federal programs that the Department administered.

Cause: The Department experienced delays in invoicing federal programs for internal printing services, and did not have policies to ensure that these expenditures were obligated and paid within the program's period of availability.

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Recommendation: The Department should review internal invoices for service costs to ensure that charges to the program are obligated and paid within the program's period of availability.

Agency Response: Concur

Agency Corrective Action Plan: ADE will ensure that Career and Technical Education (CTE) grant obligations occur after grant funds become available. During FY2014, the ADE Audit Unit will perform an internal service review of the ADE Print Shop. This review will evaluate the Print Shop's processes and make recommendations to ensure that all program areas, including CTE, have sufficient documentation to properly review and approve transfers made by the ADE Print Shop.

2013-116

CFDA No. and Name:	81.087 Renewable Energy Research and Development 81.087 ARRA—Renewable Energy Research and Development
Award Number and Years:	DE-EE0002850, 2010
Federal Agency:	U.S. Department of Energy
Compliance Requirement:	Cash Management
Questioned Cost:	\$51,840

Finding

Criteria: According to 31 CFR §205.12(b)(5), the Arizona Geological Survey (AZGS) is not allowed to receive federal reimbursement prior to spending money for the Renewable Energy Research and Development program. Additionally, OMB Circular A-133 §.300(b), requires the AZGS to maintain appropriate internal control over the program by providing reasonable assurance that the AZGS is spending money for the program prior to requesting federal reimbursement. Also, an important part of this required system of internal control is an independent review and approval of the program's cash reimbursement requests.

Condition and context: To receive federal reimbursement for program expenditures, the AZGS prepared and submitted cash reimbursement requests approximately once a month. The AZGS' internal control policies and procedures allowed a program official to prepare and submit these cash reimbursement requests without an independent review and approval. As a result, for one of the six cash reimbursement requests tested, auditors noted that the AZGS requested reimbursement twice for the same expenditures. The duplicated expenditures totaled \$51,840.

Effect: The AZGS received \$51,840 in federal reimbursements prior to spending it for the program. It was not practical to extend our auditing procedures to determine whether any additional questioned costs resulted from this finding.

Cause: AZGS officials stated that duplicate expenditures were reported on cash reimbursement requests because of preparation errors and that review and approval procedures were not implemented because sufficient resources were not available.

Recommendation: To help ensure compliance with federal cash management requirements for its Renewable Energy Research and Development Program, the AZGS should take more care when preparing cash reimbursement requests and develop and implement procedures that require an independent review and approval of cash reimbursement requests.

Agency Response: Concur

Agency Corrective Action Plan: AZGS has corrected the missing internal control by immediately amending the authorization and approval procedure. The change in procedure, for ensuring that no more federal funds are drawn down than necessary, was implemented immediately after the error was highlighted and found.

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Staff now has three separate people/positions or designees that plan, prepare, review, authorize and draw down federal funds. All three staff members are required to sign an authorization and review verification document that will be filed monthly as federal funds are drawn down to ensure compliance with audit findings.

2013-117

CFDA No. and Name:	81.087 Renewable Energy Research and Development 81.087 ARRA—Renewable Energy Research and Development
Award Number and Years:	DE-EE0002850, 2010
Federal Agency:	U.S. Department of Energy
Compliance Requirement:	Reporting
Questioned Cost:	None

Finding

Criteria: OMB Circular A-133, §.300(b) requires the Arizona Geological Survey (AZGS) to maintain internal control over its Renewable Energy Research and Development program that provides reasonable assurance that federal program reports are accurate and reliable. An important part of this system of internal controls is to have reports reviewed and approved by a knowledgeable employee other than the preparer prior to submission to ensure the reports are mathematically accurate and supported.

Condition and context: AZGS officials prepared and submitted required quarterly financial reports without a documented independent review and approval by a knowledgeable person.

Effect: The AZGS did not maintain an adequate system of internal controls to ensure compliance with the reporting requirements and the required quarterly financial reports were at risk of being unreliable and unsupported.

Cause: AZGS officials stated that review and approval controls were not implemented because sufficient resources were not available.

Recommendation: To help ensure that the AZGS maintains adequate internal controls over federal reports for its Renewable Energy Research and Development Program, the AZGS should implement policies and procedures that include an independent review and approval of the required quarterly financial reports prior to submission.

Agency Response: Concur

Agency Corrective Action Plan: Amendment to Cause: AZGS did implement review of quarterly report submissions by a knowledgeable individual, but at the time of audit, AZGS had not formalized a written review and approval procedure.

AZGS has since developed a written verification form to ensure that the system of internal control is documented through an independent review by a knowledgeable individual and to also ensure that the reports are mathematically accurate and adequately supported by standard financial data from the state's financial mainframe system.

2013-118

CFDA No. and Name:	81.087 Renewable Energy Research and Development 81.087 ARRA—Renewable Energy Research and Development
Award Number and Years:	DE-EE0002850, 2010
Federal Agency:	U.S. Department of Energy
Compliance Requirement:	Subrecipient Monitoring and Special Tests and Provisions
Questioned Cost:	Unknown

Finding

Criteria: In accordance with 31 U.S. Code §7502(f)(2)(C) and OMB Circular A-133, §.400(d), the Arizona

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Geological Survey (AZGS) must ensure that subrecipients expending \$500,000 or more in federal awards obtain the required audits within 9 months of the end of the subrecipients' audit periods. In addition, the AZGS must review the audits, issue management decisions on audit findings within 6 months after the receipt of audit reports, and ensure that prompt and appropriate corrective action has been taken with respect to audit findings. In addition, in accordance with 2 CFR §176.210(c), the AZGS must require subrecipients to identify in their respective Schedule of Expenditures of Federal Awards (SEFA) the federal award number, CFDA number, and amount of Recovery Act monies.

Condition and context: During fiscal year 2013, the AZGS disbursed approximately \$5.8 million in program monies to 44 subrecipients; however, the AZGS did not obtain audit reports from subrecipients expending \$500,000 or more in federal awards. Auditors obtained audit reports from subrecipients and noted for three of ten subrecipients tested that the subrecipients did not properly identify all required elements on their SEFAs.

Effect: The AZGS' subrecipients may not have had single audits performed, or a subrecipient's single audit may not have been reviewed so that the AZGS could issue management decisions and otherwise follow up on findings. It was not practical to extend our auditing procedures to determine the amount of questioned costs, if any, that resulted from this finding.

Cause: AZGS officials stated that existing policies and procedures relating to providing required information to subrecipients and monitoring subrecipient performance were not followed because sufficient resources were not available.

Recommendation: The AZGS should enforce existing policies and procedures and obtain the required audits of subrecipients expending more than \$500,000 in federal awards each fiscal year. The AZGS should use these audit reports to help ensure that subrecipients took corrective action on findings and that subrecipients are properly including all required information on their respective SEFAs.

Agency Response: Concur

Agency Corrective Action Plan: AZGS is in the process of reviewing audit findings for all subrecipient organizations that receive funds greater than \$500,000 from the federal government. Subrecipient audit findings will be reviewed annually. AZGS will create a form to comply with this finding that will verify that subrecipients have been reviewed for compliance and to attest that subrecipients are being monitored. Further, subrecipients will be queried to provide information related to audit findings to expedite the process, to attest to the fact that either findings were or were not identified for their organization, and to attest that either corrective action has or has not been implemented.

While staff were aware of this provision, staff misinterpreted the requirements of the threshold triggering the mandatory review of audit findings.

2013-119

CFDA No. and Name:	93.959 Block Grants for Prevention and Treatment of Substance Abuse
Award Number and Years:	2B08TI010004-11 and 3B08TI010004-11S1, 2011; 2B08TI010004-12 and 3B08TI010004-12S1, 2012; 2B08TI010004-13 and 3B08TI010004-13S1, 2013
Federal Agency:	U.S. Department of Health and Human Services
Compliance Requirement:	Activities Allowed or Unallowed and Allowable Costs/Cost Principles
Questioned Cost:	Unknown

Finding

Criteria: In accordance with 2 CFR §225, Appendix B, 8.h, the Department of Health Services (Department) should maintain records that certify or confirm on an after-the-fact basis that employee compensation charged to the federal program represents a reasonable distribution of employees' actual time and effort worked on the program. The records supporting salaries and wages should be signed by

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY 2013 Single Audit Report)

the employee and approved by a supervisor having firsthand knowledge of the work the employee performed.

Condition and context: During the fiscal year, the Department spent approximately \$36 million of program monies, with \$1.5 million being spent on salaries and wages. For those employees who worked on several federal programs, salaries and wages were charged to the program using distribution percentages that were determined before the services were performed. However, the distribution percentages were not compared to actual costs, at least quarterly, or revised to reflect actual time spent working on the program.

Effect: The employee salaries and wages charged to the program did not reflect an accurate after-the-fact distribution of hours and activities worked, which could result in unallowed costs being charged to the program. It was not practical to extend our auditing procedures to determine questioned costs, if any, that may have resulted from this finding. This finding could potentially affect other federal programs that the Department administered.

Cause: The Department did not have internal controls in place to ensure that salaries and wages reflect the actual time spent working on the program. Specifically, the Department's procedures were to assign payroll distribution percentages before services were performed without comparing those percentages to reflect actual time worked at least quarterly. In addition, the actual time worked on an activity by employees was not always documented.

Recommendation: The Department should implement internal controls to help ensure that salaries and wages reflect actual time spent working on the federal program. For employees who work on several programs, documentation should be prepared at least monthly reflecting an after-the-fact distribution of the hours and activities worked. The records supporting salaries and wages should be signed by the employee and reviewed and approved by a supervisor having firsthand knowledge of the work the employee performed. Further, if the Department continues to use distribution percentages that were determined before the services were performed, it should compare the distribution percentages to the actual time worked, at least quarterly, and make any necessary correcting adjustment to the amounts charged to the program.

This finding is similar to a prior-year finding.

Agency Response: Concur

Agency Corrective Action Plan: The Agency's Division for Planning and Operations, Business and Financial Services, and the Division of Behavioral Health Services, Bureau of Financial Operations has developed a substitute system as per OMB Circular A-87, Attachment B item 6, for allocating salaries and wages in place of individual labor activity reports. The allocation is based on Title 19, Title 21 and non-Title 19 enrollments. Non-Title 19 is further split using RBHA direct service expenditures. The allocation plan will be submitted for approval to Substance Abuse and Mental Health Services Administration by March 31, 2014. Until this can be accomplished, for those individuals currently preparing Labor Activity Reports (LARs), ADHS will make quarterly comparisons to actual costs. Any necessary adjustments that are greater than 10% will be made on a quarterly basis. Adjustments less than 10% will be made on an annual basis. This will be implemented by July 1, 2014.

2013-120

CFDA No. and Name:	10.557 Special Supplemental Nutrition Program for Women, Infants and Children
Award Number and Years:	None, 2012 and 2013
Federal Agency:	U.S. Department of Agriculture
Compliance Requirement:	Reporting
Questioned Cost:	None

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY 2013 Single Audit Report)

Finding

Criteria: In accordance with 2 CFR §170, Appendix A, and the Federal Funding Accountability and Transparency Act (FFATA) of 2006, for grant awards beginning on October 1, 2010, or later, the Arizona Department of Health Services (Department) must report to the FFATA Subaward Reporting System each subaward to a subrecipient that amounts to \$25,000 or more, not including subawards of American Recovery and Reinvestment Act monies. Each subaward action must be reported no later than the end of the month following the month in which the obligation was made.

Condition and context: The Department did not submit the required FFATA reports listing subawards of \$25,000 or more for the program. Additionally, the Department did not request or obtain permission from the Office of Management and Budget to deviate from this requirement and could not provide evidence of communication with the federal awarding agency to attempt a "good faith" effort to comply with this requirement.

Effect: Awards to subrecipients were not submitted to the FFATA Subaward Reporting System, resulting in a lack of information being posted on the USASpending.gov Web site. This finding has the potential to affect other federal programs the Department administered.

Cause: The Department did not have policies and procedures to ensure compliance with the FFATA reporting requirements for the program.

Recommendation: To comply with the FFATA reporting requirements, the Department should develop internal control policies and procedures to ensure that employees compile, review, and submit the required reports in a timely manner.

Agency Response: Concur

Agency Corrective Action Plan: The Agency's Division for Planning and Operations, Business and Financial Services has begun the process of hiring an employee that will fill a critical role in FFATA reporting. This new employee will be responsible for developing, implementing and monitoring procedures that will ensure timely and accurate FFATA reporting. This employee is expected to start by the end of April 2014.

2013-121

CFDA No. and Name:	12.401 - National Guard Military Operations and Maintenance (O&M) Projects
Award Numbers and Years:	Various
Federal Agency:	U.S. Department of Defense
Compliance Requirements:	Cash Management
Questioned Cost:	Unknown

Finding

Criteria: In accordance with National Guard Regulation 5-1, effective May 28, 2010, grantees should limit the time elapsing between the transfer of monies from the U.S. Treasury and their disbursement to 45 days or less.

Condition and context: The Department of Emergency and Military Affairs (Department) did not have effective internal control procedures in place to minimize the time elapsing between the transfer of monies from the U.S. Treasury and their disbursement. Specifically, the Department had cash balances that exceeded the allowable disbursement time period for 53 days out of the 216 days analyzed during the fiscal year.

Effect: The Department could incur an interest liability on cash balances that exceed the required time frames. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding.

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Cause: The Department has internal control procedures in place to estimate expenditures prior to requesting advancement of funds; however, in some instances, expenditures did not occur as estimated, creating excess cash balances over the 45 days allowed.

Recommendation: The Department should develop additional control procedures to minimize the time elapsing between the transfer of monies from the U.S. Treasury and their disbursement in accordance with program regulations.

Agency Response: Concur

Agency Corrective Action Plan: To ensure proper fiscal management, to include cash management, the Department follows a process by which cash flow is projected and managed for each grant throughout the fiscal year. The process ensures sufficient funds are available to meet disbursement requirements yet not exceed the 45 days between the transfer of monies from the U.S. Treasury and their disbursement. The Department is instituting a process whereby grants are closed out within 30 days of the end of the grant period and any excess advance funds are returned immediately.

Monthly cash flow projections are developed at the beginning of the federal fiscal year for each grant. The projections are based upon staffing, reoccurring and known operational costs and any estimated costs such as repair, maintenance and operational supplies. These cash flow projections are updated monthly reflecting actual expenditures and revenues from the prior month. During the monthly reconciliations with program managers, any necessary adjustments to the remaining monthly projections are made. After adjustments are made, the Department requests advance funds for the next 60 days. The request is based upon cumulative expenditures up to the next 60 days, minus advance funds already requested. Because it takes approximately 15 days from the close of a month to receive the request for advance funds, the agency will maintain no more than 45 days cash on hand.

2013-122

Cluster Name:	Research and Development Cluster
CFDA No. and Name:	Various
Award Number and Years:	Various
Federal Agency:	Various
Compliance Requirement:	Allowable Costs/Cost Principles
Questioned Cost:	\$91,909

Finding

Criteria: 2 CFR §220, Appendix A, G.2, allows the University of Arizona (University) to request reimbursement for indirect costs related to its research and development programs. This reimbursement, called indirect cost recovery, is calculated as a percentage of certain allowed direct costs, such as expenses for payroll, supplies, travel, and the first \$25,000 of subgrants. These allowed direct costs are known as the modified total direct costs (MTDC). The University is not allowed to recover indirect costs on expenses that are to be excluded from the MTDC, such as expenditures for equipment purchases, rent, scholarships, and subgrants in excess of the first \$25,000.

Condition and context: By using the incorrect account codes, the University overcharged indirect costs to seven separate research and development programs for a total of \$91,909. For 2 of 30 sample items tested, the University recovered indirect costs on expenses that should have been excluded from the MTDC. As a result, the University requested and received \$3,194 more in indirect costs than it was allowed. It was not practical to extend our auditing procedures to determine the amount of additional questioned costs, if any, that may have resulted from this portion of the finding. In addition, the University used separate account codes to track payments to subgrantees to determine the amount of indirect cost recovery. For 5 of the 429 research and development programs with subgrants, the University recovered indirect costs based on the MTDC that included subgrants in excess of \$25,000. Because of this, the University requested and received \$88,715 more indirect costs than it was allowed.

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY 2013 Single Audit Report)

Effect: The University did not fully comply with the indirect cost recovery rules of 2 CFR §220, Appendix A, G.2, and overcharged certain federal programs by \$91,909 for indirect cost recovery.

Cause: Payment requests were not always classified in the correct account code; therefore, indirect costs were not calculated correctly based on the applicable MTDC.

Recommendation: To help ensure that the University does not overcharge indirect costs to its research and development programs, the University should implement policies and procedures requiring program officials to thoroughly review grant agreements and general ledger account codes to ensure that the MTDC is correctly calculated. In addition, the University should implement procedures to ensure that research and development program expenses are recorded in the correct account codes so that only the first \$25,000 of subgrants are included in the MTDC.

Agency Response: Concur

Agency Corrective Action Plan: All questioned costs were resolved by moving subcontract costs over the first \$25,000 to the correct object code. Overcharged indirect costs were credited to grant accounts and therefore returned to the federal government via reducing the amount of current cash requests. The University has addressed the importance of using correct object codes during various training workshops and will continue doing so in future training. The subcontract payment approval form was improved to include two account codes as a reminder for fiscal officers when they initiate payments. Sponsored Projects Services will implement central review of subcontract payment requests to ensure the first \$25,000 and the rest of the payment be posted to the correct object codes.

Other auditors' findings and corrective action plans:

The other auditors who audited the Highway Planning and Construction Cluster and Transit Services Programs Cluster administered by the Arizona Department of Transportation reported the following findings:

2013-123

Cluster Name:	Highway Planning and Construction Cluster
CFDA No. and Name:	20.205 Highway Planning and Construction 20.205 ARRA—Highway Planning and Construction 20.219 Recreational Trails Program
Award Numbers and Years:	Various
Cluster Name:	Transit Services Programs Cluster
CFDA No. and Name:	20.513 Capital Assistance Program for Elderly Persons and Persons with Disabilities 20.516 Job Access-Reverse Commute Program 20.521 New Freedom Program
Award Numbers and Years:	Various
Federal Agency:	U.S. Department of Transportation
Compliance Requirement:	Subrecipient Monitoring
Questioned Cost:	None

Finding

Condition and context: Arizona Department of Transportation (ADOT) does not explicitly identify the CFDA number, grant name in the award letter to subrecipients for both Highway Planning and Construction Cluster and Transit Services Programs Cluster programs.

Criteria: OMB Circular A-133 – Subrecipient Monitoring. ADOT must have adequate controls in place to ensure all aspects of subrecipient monitoring are in compliance with federal requirements.

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Effect: Noncompliance with OMB Circular A-133 – Subrecipient Monitoring. There is increased risk of noncompliance with applicable compliance requirements by the subrecipients of Federal Highway Administration and Federal Transit Authority administered by the ADOT.

Cause: ADOT has not included the CFDA numbers in the award letter to subrecipients.

Recommendation: In order to comply with OMB Circular A-133 – Subrecipient Monitoring, ADOT should include the CFDA numbers in the award letters to subrecipients.

Agency Response: Concur

Agency Corrective Action Plan: Effective October 2, 2013, FMS (Financial Management Services) collaborated with JPA (Joint Project Agreement) to identify and add the CFDA (Catalog of Federal Domestic Assistance) number to any agreement that receives Federal Funds. Each agreement goes through a finance review in which agreements are reviewed for accuracy and to verify that each agreement lists the appropriate CFDA number before being approved.

Multimodal Planning Division (MPD), in state fiscal year 2011, added CFDA numbers to all agreements relative to federal funding that were created from that point forward.

The Comprehensive Agreement Resource (CAR), a relatively new software application, is used to review and house ADOT (Arizona Department of Transportation) agreements. CAR requires that any federally funded project have a CFDA number. The CAR software will be used to determine which agreements, for JPA prior to October 2, 2013, and MPD prior to fiscal year 2011, do not have CFDA numbers. The correct CFDA number will be identified and added to CAR along with notifying the recipient.

2013-124

Cluster Name:	Transit Services Programs Cluster
CFDA No. and Name:	20.513 Capital Assistance Program for Elderly Persons and Persons with Disabilities 20.516 Job Access—Reverse Commute Program 20.521 New Freedom Program
Award Numbers and Years:	Various
Federal Agency:	U.S. Department of Transportation
Compliance Requirement:	Subrecipient Monitoring
Questioned Cost:	None

Finding

Condition and context: For the Transit Services Programs Cluster, Arizona Department of Transportation (ADOT) does not have a formal set of policies and procedures in place or perform any procedures for monitoring subrecipients after the award has been made, including the determination of subrecipients expending \$500,000 or more in Federal awards received in a timely single audit.

Criteria: OMB Circular A-133 – Subrecipient Monitoring. ADOT must have adequate controls in place to ensure all aspects of subrecipient monitoring are in compliance with federal requirements.

Effect: Noncompliance with OMB Circular A-133 – Subrecipient Monitoring. There is an increased risk of noncompliance with applicable compliance requirements by the subrecipients of Federal Transit Authority administered by the ADOT.

Cause: ADOT has not formally documented subrecipient monitoring policies and procedures.

Recommendation: In order to comply with OMB Circular A-133 – Subrecipient Monitoring, ADOT should draft and adopt a set of written policies and procedures that ensure that subrecipient monitoring procedures are performed as required by Federal requirements.

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY 2013 Single Audit Report)

Agency Response: Concur

Agency Corrective Action Plan: FMS (Financial Management Services) has partnered with A&A (Audit and Analysis) and a timeline for single audit monitoring has been developed.

FMS and A&A have created a shared e-mail address/box for audit reports to be sent to directly from the recipients. Additionally, a single audit folder to house the audit reports will be set up on the mainframe that both FMS and A&A will be able access.

FMS will pull lists of subrecipients that have received in excess of \$500,000 or more (prior to 12/26/14) and \$750,000 or more (after 12/26/14) which will be provided to A&A.

A&A will use these lists to identify missing/late audits. A&A will notify the responsible areas within ADOT and recipients will be notified in order for corrective action to be taken.

Effective, December 12, 2013, the joint project agreement area added verbiage to the agreements to reiterate the single audit requirements and where to send the audits to within ADOT.

2013-125

CFDA No. and Name:	66.468 Capitalization Grants for Drinking Water State Revolving Funds
Award Numbers and Years:	Various
Federal Agency:	U.S. Environmental Protection Agency
Compliance Requirement:	Reporting
Questioned Cost:	N/A

Finding

Criteria or Specific Requirement: WIFA is a direct recipient of federal funds granted from the United States Environmental Protection Agency's (EPA) and deposited into a Drinking Water State Revolving Fund (DWSRF).

In accordance with the Federal Funding Accountability and Transparency Act (Transparency Act or FFATA), Public Law 109-282 as amended, direct recipients of non-American Reinvestment and Recovery Act (ARRA) federal dollars are required to report sub-recipient information to the FFATA Sub-award Reporting System (FSRS) by the end of the month following sub-recipient award for any amount equaling \$25,000 or greater, beginning October 1, 2010.

In accordance with EPA's memorandum titled Guidance on Federal Funding Accountability and Transparency Act (FFATA) Reporting through Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (DWSRF) Data Systems dated March 23, 2011, states may use the Project Benefit Reporting (PBR) system to supplement the FFATA reporting process by first reporting sub-award information through PBR before entering information into FSRS. Based on this guidance, WIFA reports equivalency subaward (loan) information in PBR based on loans awarded to local borrowers in an aggregate amount equal to its DWSRF annual grant.

Condition: Based on guidance from WIFA's EPA contacts, WIFA has consistently completed the equivalency reporting in PBR; however, WIFA did not enter sub-award information into FSRS to complete the FFATA reporting process.

Effect: WIFA did not complete the FFATA reporting process in FSRS for the DWSRF grant in fiscal year 2013.

Cause: In an e-mail sent on October 19, 2012 as a clarification of FFATA reporting requirements for the DWSRF, WIFA's EPA Program Manager affirmed to WIFA management that the FFATA reporting process would be fully satisfied through the equivalency reporting in PBR. Henceforth, during fiscal year 2013, WIFA did not enter any sub-award information into FSRS.

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY 2013 Single Audit Report)

Recommendation: We recommend that WIFA establish and implement formal procedures to ensure that proper FFATA reporting is completed as prescribed by the written federal requirements.

Agency Response: Concur

Agency Corrective Action Plan: WIFA management had been told by EPA management that the FFATA reporting would be satisfied through reporting in PBR for the Federal Drinking Water Capitalization Grant. WIFA took immediate steps to enter the information into FSRs when it was brought to our attention that to complete the reporting, WIFA would also need to manually enter the information into FSRs. Management has already completed the process to report the appropriate equivalency information in FSRs for the Federal Drinking Water Capitalization Grant, and staff is currently documenting procedures to comply with ongoing FFATA reporting requirements in both PBR and FSRs.