

## Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY2021 Single Audit Report)

### 2021-101

Assistance Listings number and name: 21.019 COVID-19 Coronavirus Relief Fund (CRF)  
Award number and year: None  
Federal agency: U.S. Department of the Treasury  
Compliance requirements: Subrecipient monitoring  
Questioned costs: \$277,438

**Condition**—The Arizona Governor’s Office of Strategic Planning and Budgeting (Office) awarded \$567 million to 807 subrecipients during fiscal year 2021, or 53 percent of the Office’s \$1.06 billion total federal expenditures for this federal program, but did not perform all the required monitoring of the subrecipients’ activities or compliance with the award terms and program requirements. Specifically, the Office performed some monitoring during the year, which consisted only of reviewing financial and activity reports if submitted by the subrecipient; however, those monitoring procedures alone were not sufficient to evaluate whether subrecipients used program monies in accordance with the award terms and program requirements. Further, the Office did not always follow up with subrecipients to obtain missing documentation to support that their costs were allowable, contrary to the Office’s procedures to do so.

**Effect**—The Office’s lack of required monitoring increased the risk that the \$567 million of program monies the Office awarded to subrecipients may not have been spent in accordance with the award terms and program requirements. Further, the Office’s failure to perform all the required monitoring resulted in the Office reimbursing 3 local government subrecipients for \$833,067 of payroll expenditures that were incurred prior to March 1, 2020, which was before the time period the costs were allowed to be incurred. The Office subsequently worked with these local governments to replace these unallowed costs with other allowable costs totaling the same amount, as permitted by federal regulations; therefore, we noted no questioned costs since the Office took corrective action for this noncompliance.<sup>1,3</sup> Lastly, the Office’s failure to obtain documentation from 1 nonprofit organization subrecipient to support monies totaling \$277,438 had been used only for authorized purposes, may result in the Office being required to return these monies to the federal agency in accordance with Uniform Guidance requirements.<sup>2</sup>

**Cause**—Office management reported that it did not have enough staff to perform its monitoring procedures and instead the Office performed only limited monitoring procedures. Specifically, the Office had policies and procedures to follow for performing the monitoring procedures for its subrecipients, including how it should consider and assess risk of each subrecipient and carry out required and various other monitoring procedures based on those risk assessments. However, Office management reported that its staffing levels were not sufficient to perform all the required procedures, including following up with subrecipients to obtain missing or incomplete documentation.

**Criteria**—Federal regulations require the Office to monitor subrecipients, which includes required monitoring procedures for assessing the risk of each subrecipient’s noncompliance and monitoring activities based on those risk assessments; verifying single audits were conducted timely; following up on and ensuring corrective action is taken on audit findings that could potentially affect the program; and issuing a management decision for audit findings pertaining to the federal award. Those federal regulations also provide that monitoring procedures may include reviewing financial and performance reports, providing training or technical assistance on program-related matters, and performing on-site reviews, selective audits, and/or other monitoring procedures (2 CFR §§200.332[b] and [d – e]). Further, federal regulation requires CRF monies to be spent for only necessary expenditures incurred because of the COVID-19 public health emergency during the performance period of March 1, 2020 through December 31, 2021. <sup>3</sup> However, this federal guidance permits the State and local governments to replace unallowable costs for allowable expenditures they incurred during the period of performance.<sup>1</sup> Lastly, federal regulation requires establishing and maintaining effective internal control over federal awards that provides reasonable assurance that the federal program is being managed in compliance with all applicable laws, regulations, and award terms (2 CFR §200.303).

**Recommendations**—The Office should:

1. Ensure it performs required monitoring of its subrecipients and their compliance with the award terms and program requirements by following their established policies and procedures to:

- a. Assess the risk of each subrecipient’s noncompliance and carry out monitoring activities based on those risk assessments such as reviewing financial and performance reports, providing training or technical assistance on program-related matters, and performing on site reviews, selective audits, and/or other monitoring procedures.
  - b. Verify subrecipients receive timely single audits, follow up on and ensure that corrective action is taken on audit findings that could potentially affect the program, and issue management decisions for audit findings pertaining to the federal award.
  - c. Maintain documentation of monitoring procedures demonstrating they were performed, including the monitoring procedures’ results and any Office actions taken, if appropriate.
2. Allocate sufficient resources, such as staffing, to comply with the award terms and program requirements, and designate an individual to perform necessary subrecipient monitoring procedures.
  3. Work with the federal agency and the subrecipient to resolve the \$277,438 of program monies the Office spent in violation of its federal award terms, which may involve returning monies to the federal agency.<sup>2</sup>

The State’s corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

<sup>1</sup>The CARES Act established the CRF and was enacted March 27, 2020. Federal guidance for implementing the CRF was established by the U.S. Treasury in April 2020, revised in June 2020, and further updated by frequently asked questions starting May 4, 2020 through October 19, 2020. All the U.S. Treasury’s CRF guidance was finalized in the Federal Register (FR) on January 15, 2021 (FR Vol. 86, No. 10, Doc. 2021-00827). In addition, the U.S. Department of the Treasury, Office of the Inspector General issued frequently asked questions regarding reporting (U.S. Department of the Treasury, Office of Inspector General. [2021.]. Coronavirus Relief Fund Frequently Asked Questions Related to Reporting and Recordkeeping [Revised], retrieved on 10/5/2022 at <https://oig.treasury.gov/sites/oig/files/2021-03/OIG-CA-20-028R.pdf>).

<sup>2</sup> Federal Uniform Guidance requires federal awarding agencies to follow up on audit findings and issue a management decision to ensure the recipient, the Office, takes appropriate and timely corrective action (2 CFR §200.513[c]). Further, it requires that federal awarding agencies’ management decisions clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other action, as directed by the federal awarding agencies (2 CFR §200.521).

<sup>3</sup> The CARES Act, which established the CRF, and federal guidance define the required use of CRF funds, including that costs are necessary expenditures incurred due to the public health emergency with respect to COVID-19 and defines the period of performance period as March 1, 2020 through December 31, 2021, meaning this is the time period during which costs resulting from the COVID-19 public health emergency can be incurred for which CRF monies can be spent (CARES Act of 2020, Public Law 116-135, Title V, section 5001; U.S. Department of the Treasury [2021.]. Coronavirus Relief Fund—Revision to Guidance Regarding When a Cost is Considered Incurred, retrieved on 10/5/2022 at [https://home.treasury.gov/system/files/136/CRF-Guidance\\_Revision-Regarding-Cost-Incurred.pdf](https://home.treasury.gov/system/files/136/CRF-Guidance_Revision-Regarding-Cost-Incurred.pdf)).

## Agency Response: Concur

Agency: Arizona Governor’s Office of Strategic Planning and Budgeting (Office)

Name of contact person and title: Andrea Hightower, Grants and Federal Resources Team Manager

Anticipated completion date: July 31, 2023

The Office agrees with this finding and has already taken significant corrective action including:

- Requiring prospective grantees who are non-state agencies to submit a financial systems survey and grants management data information form as part of the pre-award process and incorporating such documents into the grant file;
- Requiring prospective grantees who are non-state agencies to submit copies of prior single audits (if applicable) or certified financial statements as part of the pre-award process and incorporating such documents into the grant file;
- Subcontracting with an external entity to routinely check on the status of grantee reporting and aid in the preparation of communications with grant recipients who are not in compliance with post-award requirements;
  - All grant agreements and ISA’s include adequate information outlining the source of funding, agreed upon scope of work and program/project activities, deliverables, period of performance, and post-award financial and programmatic reporting deadlines. Any such modifications to these are made in writing between the parties which may include formal amendments and/or electronic communications which record date and time of written communications.
  - The office has been working with the Treasury as part of Cycle 10 expenditure reporting to make corrections and adjustments to ensure all expenditures reflected are allowable and accurately reported. The office has Cycle 11 to finish a complete 100% reconciliation of all CARES activity.

During the time frame corresponding to this audit, the Office’s limited personnel resources were focused on ensuring that funding was disbursed in the timeliest manner possible to alleviate the negative impacts on Arizona’s most vulnerable communities and

impacted areas. The pace and volume of resulting grant agreements and interagency agreements needing to be executed, exceeded staffing capacity which contributed to the findings noted. As of this date, the Grants and Federal Resources Team has achieved stability in both Manager and staff positions and the influx of new federal relief funding has slowed.

#### 2021-102

Assistance Listings number and name:	21.019 COVID-19 Coronavirus Relief Fund
Award number and year:	None
Federal agency:	U.S. Department of the Treasury
Compliance requirement:	Activities allowed or unallowed and allowable costs/cost principles
Questioned costs:	\$978,864

**Condition**—Contrary to federal laws, regulations, and guidance, the Arizona Governor’s Office of Strategic Planning and Budgeting (Office), which is responsible for administering the State’s Coronavirus Relief Fund (CRF), approved and reimbursed other State agencies for costs totaling \$15,167,357 that were not incurred in response to the Coronavirus Disease 2019 (COVID-19) public health emergency and, therefore, were unallowable. Of the over \$1.06 billion of total CRF monies the Office spent during fiscal year 2021, the Office specifically approved and reimbursed:

- \$10,838,756 for 2 State agencies’ payroll costs they were already reimbursed for in the prior fiscal year.
- \$3,351,045 for 5 State agencies’ indirect costs that were specifically disallowed by the program’s requirements.
- \$977,556 for 1 State agency’s information technology payroll costs that lacked documentation to support that the costs were incurred in response to the COVID-19 public health emergency.

Once we notified the Office of instances of the them approving and reimbursing unallowable costs, which we identified in our audit samples, the Office began working with the State agencies to calculate and resolve their unallowable costs described above and replaced the majority of these costs, totaling \$14,188,493, with allowable costs incurred, as permitted by federal guidance. However, the CRF program ended and was closed-out on September 30, 2022 and \$978,864 of the unallowable costs remained as CRF monies and we consider these questioned costs.

**Effect**—The U.S Department of the Treasury may require the Office to repay \$978,864 of CRF monies the State expended for unallowable costs since the State agency did not replace them with other allowable costs incurred by December 31, 2021.<sup>1</sup>

**Cause**—Because the Office relied on State agencies to properly use and account for CRF monies provided, the Office did not detect unallowable costs at several State agencies. Further, several State agencies failed to detect and correct the unallowable costs—or, in the case of 1 State agency, failed to detect that documentation was missing to support that costs were allowable—in their reviews prior to submitting documentation to the Office for reimbursement from CRF monies.

**Criteria**—Federal laws and regulations require the State to spend CRF monies for only necessary expenditures they incurred because of the COVID-19 public health emergency during the performance period of March 1, 2020 through December 31, 2021.<sup>2</sup> Federal guidance prohibits the State from using CRF monies to cover certain administrative costs, such as indirect costs. However, this federal guidance permits the State to replace unallowable costs for allowable expenditures they incurred during the period of performance.<sup>3</sup> Further, federal regulation also requires establishing and maintaining effective internal control over federal awards that provides reasonable assurance that federal programs are being managed in compliance with all applicable laws, regulations, and award terms (2 CFR §200.303).

**Recommendation**—The Office should provide oversight of State agencies’ spending of CRF monies and develop and implement policies and procedures to:

1. Perform after-the-fact reviews of State agencies’ reimbursement requests for CRF monies already disbursed to detect unallowable costs, including indirect costs and other unallowable expenditures incurred outside of the period of performance.
2. Require State agencies to prepare and maintain documentation to support that costs are allowed by federal laws, regulations, and guidance.
3. Work with the U.S Department of the Treasury to resolve the \$978,864 of unallowable costs that had not been replaced with allowable costs incurred before the program’s ending and close-out, which may involve the State repaying these monies to the federal agency.<sup>1</sup>

The State’s corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

This finding is similar to prior-year finding 2020-101.

<sup>1</sup>Federal Uniform Guidance requires federal awarding agencies to follow up on audit findings and issue a management decision to ensure the recipient, the Office, takes appropriate and timely corrective action (2 CFR §200.513[c]). Further, it requires that federal awarding agencies’ management decisions clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other action, as directed by the federal awarding agencies (2 CFR §200.521).

<sup>2</sup>The CARES Act, which established the CRF, and federal guidance define the required use of CRF funds, including that costs are necessary expenditures incurred due to the public health emergency with respect to COVID-19 and defines the period of performance period as March 1, 2020 through December 31, 2021, meaning this is the time period during which costs resulting from the COVID-19 public health emergency can be incurred and CRF monies can be spent (CARES Act of 2020, Public Law 116-135, Title V, section 5001; U.S. Department of the Treasury [2021.]. Coronavirus Relief Fund—Revision to Guidance Regarding When a Cost is Considered Incurred, retrieved on 10/5/2022 at [https://home.treasury.gov/system/files/136/CRF-Guidance\\_Revision-Regarding-Cost-Incurred.pdf](https://home.treasury.gov/system/files/136/CRF-Guidance_Revision-Regarding-Cost-Incurred.pdf)).

<sup>3</sup>The CARES Act established CRF and was enacted March 27, 2020. Federal guidance for implementing the CRF was established by the U.S. Treasury in April 2020, revised in June 2020, and further updated by frequently asked questions starting May 4, 2020 through October 19, 2020. All the U.S. Treasury’s CRF guidance was finalized in the Federal Register (FR) on January 15, 2021 (FR Vol. 86, No. 10, Doc. 2021-00827). In addition, the U.S. Department of the Treasury, Office of the Inspector General issued frequently asked questions regarding reporting (U.S. Department of the Treasury, Office of Inspector General. [2021.]. Coronavirus Relief Fund Frequently Asked Questions Related to Reporting and Recordkeeping [Revised], retrieved on 10/5/2022 at <https://oig.treasury.gov/sites/oig/files/2021-03/OIG-CA-20-028R.pdf>).

### Agency Response: Concur

Agency: Arizona Governor’s Office of Strategic Planning and Budgeting (Office)

Name of contact person and title: Andrea Hightower, Grants and Federal Resources Team Manager

Anticipated completion date: July 31, 2023

The Office agrees with this finding and although it relies on the State agencies it manages to properly execute State accounting policies, has already taken significant corrective action to review and monitor State agencies’ use of CRF monies. The office has been working with the Treasury as part of Cycle 10 expenditure reporting to make corrections and adjustments to ensure all expenditures reflected are allowable and accurately reported. The office has Cycle 11 to finish a complete 100% reconciliation of all CARES activity.

In addition, the Office will develop and implement process changes to specifically address the findings noted.

During the time frame corresponding to this audit, the Office’s limited personnel resources were focused on ensuring that funding was disbursed in the timeliest manner possible to alleviate the negative impacts on Arizona’s most vulnerable communities and impacted areas. The pace and volume of resulting grant agreements and interagency agreements needing to be executed, exceeded staffing capacity which contributed to the findings noted. As of this date, the Grants and Federal Resources Team has achieved stability in both Manager and staff positions and the influx of new federal relief funding has slowed.

### 2021-103

Assistance Listings number and name: 21.019 COVID-19 Coronavirus Relief Fund

Award number and year: None

Federal agency: U.S. Department of Treasury

Compliance requirements: Reporting

Questioned costs: Not applicable

**Condition**—The Arizona Governor’s Office of Strategic Planning and Budgeting Office’s (Office) administration reported inaccurate program information to the federal agency in its quarterly reports when compared to the State’s records. Specifically, our testing of 2 quarterly reports found the following inaccuracies:

- An understatement of \$21,330,080 or 1.3 percent of the total \$1.6 billion of program expenditures, which is the combined cumulative amount reported as of March 31, 2021.
- A misclassification of \$78,329,790 of contract expenditures that should instead have been reported as loans, resulting in cumulative contract expenditures being overstated by 57 percent and the cumulative loans being understated by 100 percent as of March 31, 2021.

- A misclassification of \$20,333,935 of grant expenditures that should instead have been reported as contract expenditures, resulting in cumulative grant expenditures being overstated by 2.1 percent and cumulative contract expenditures being understated by 14.8 percent as of March 31, 2021.

**Effect**—The Office’s reporting inaccurate program information results in the federal agency being unable to rely on the reports to effectively monitor the Office’s program administration, including its compliance with program requirements and ability to prevent and detect fraud, and to evaluate the program’s success.

**Cause**—The Office staff members who initially prepared and reviewed the reports and were no longer employed by the Office, did not follow the Office’s established policies and procedures to prepare the reports and did not document the methodology used to compile them, which resulted in some of these errors. Additionally, those former staff members were not adequately trained on what information to gather to correctly classify the expenditures, and the Office’s policies and procedures did not require them to reconcile the expenditure amounts to the Office’s accounting records, a procedure which could have detected the errors before the reports were submitted to the federal agency.

**Criteria**—Federal law, regulation, and guidance requires the Office to report quarterly its cumulative obligations and expenditures by type, such as contracts, grants, loans, direct payments, and transfers to other governmental entities, beginning December 2020.<sup>1</sup> Accordingly, the Office’s policies and procedures, including federal reporting templates, provide instructions for employees to follow to meet these reporting requirements and require an independent review of the reports prior to submitting them to the federal agency. Also, federal regulation requires establishing and maintaining effective internal control over federal awards that provides reasonable assurance that the federal program is being managed in compliance with all applicable laws, regulations, and award terms and conditions (2 CFR §200.303).

**Recommendations**—The Office should improve its policies and procedures to report accurate and complete program information to the federal agency that include:

1. Requiring employees to follow the established policies and procedures for preparing reports and to document the methodology used to compile and report program information.
2. Reconciling expenditure amounts reported to the Offices’ accounting records.
3. Continuing to require an independent review of all reports prior to submitting them to the federal agency.
4. Adjusting or resubmitting reports for errors detected on reports the Office already submitted to the federal agency, if practicable, or work with the federal agency so that it is informed of errors on previously submitted reports.
5. Training those employees responsible for preparing and reviewing reports on what information to gather to prepare the reports and on the Office’s policies and procedures.

The State’s corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

<sup>1</sup>The CARES Act established the CRF and was enacted March 27, 2020. Federal guidance for implementing the CRF was established by the U.S. Treasury in April 2020, revised in June 2020, and further updated by frequently asked questions starting May 4, 2020 through October 19, 2020. All the U.S. Treasury’s CRF guidance was finalized in the Federal Register (FR) on January 15, 2021 (FR Vol. 86, No. 10, Doc. 2021-00827). In addition, the U.S. Department of the Treasury, Office of the Inspector General issued frequently asked questions regarding reporting (U.S. Department of the Treasury, Office of Inspector General. [2021.]. Coronavirus Relief Fund Frequently Asked Questions Related to Reporting and Recordkeeping (Revised), retrieved on 10/5/2022 at <https://oig.treasury.gov/sites/oig/files/2021-03/OIG-CA-20-028R.pdf>).

**Agency Response: Concur**

Agency: Arizona Governor’s Office of Strategic Planning and Budgeting (Office)  
Name of contact persons and titles: Andrea Hightower, Grants and Federal Resources Team Manager  
Anticipated completion date: July 31, 2023

The Office agrees with this finding and has already taken significant corrective action. Increased personnel resources at both grants analyst and manager levels have allowed for appropriate separation of duties, independent review of preparation of federal reporting

prior to submission, and documentation of such review and approval. Specifically, as part of completing the quarterly report to the U.S. Treasury for the period of 7/1/2022 through 9/30/2022, the Office conducted a reconciliation of the information in the Treasury portal and corrected several entries.

During the time frame corresponding to this audit, the Office's limited personnel resources were focused on ensuring that funding was disbursed in the timeliest manner possible to alleviate the negative impacts on Arizona's most vulnerable communities and impacted areas. The pace and volume of resulting grant agreements and interagency agreements needing to be executed, exceeded staffing capacity which contributed to the findings noted. As of this date, the Grants and Federal Resources Team has achieved stability in both Manager and staff positions and the influx of new federal relief funding has slowed.

#### 2021-104

Assistance Listings number and name:	84.425C COVID-19 Education Stabilization Fund—Governor's Emergency Education Relief (GEER) Fund
Award number and year:	S425C200052, June 2, 2020 through September 30, 2021
Federal agency:	U.S. Department of Education
Compliance requirement:	Cash Management
Questioned costs:	Unknown

**Condition**—Contrary to the federal regulations as outlined in the State's agreement with the U.S. Department of Education (U.S. ED), the Governor's Office of Strategic Planning and Budgeting (Office) requested \$19,632,098 in total reimbursements from the U.S. ED earlier than allowed on behalf of the Arizona Department of Education (ADE) and other entities. Specifically, our review of the Office's reimbursements from July 1, 2020 through June 30, 2021 found that the Office submitted 1 of 22 requests for \$18,850,000 in total federal monies to pay the Arizona Department of Education (ADE) 72 to 168 days early and 8 of 22 requests for \$782,098 in total federal monies to pay a nonprofit organization 44 to 226 days early for the GEER Fund program. The Office reported despite assurances to the Office that costs had been incurred for approved programs, ADE and the nonprofit organization had unspent federal assistance totaling \$18,116,963 as of June 30, 2021.

**Effect**—Because the Office had unspent federal assistance, it returned unspent monies to U.S. ED on June 28, 2022. The Office can resubmit for federal reimbursement with the U.S. ED once expenditures have been incurred.

**Cause**—The Office's existing procedures established all subawards to be made on a reimbursement basis; however, when disbursing these program monies, the Office did not follow its established procedures and instead disbursed the monies in advance of incurred costs to ensure monies were available to recipients in response to the public health emergency caused by the COVID-19 pandemic.

**Criteria**—Federal regulations and the State's agreement with the U.S. ED require the Office to minimize the time lapsing between the disbursement of federal monies and their being spent for program purposes (31 CFR §205.33). Also, federal regulation requires establishing and maintaining effective internal control over federal awards that provides reasonable assurance that the federal program is being managed in compliance with all applicable laws, regulations, and award terms (2 CFR §200.303).

**Recommendations**—The Office should:

1. Minimize the time lapsing between the disbursement of federal monies and their being spent for program purposes.
2. Follow its existing procedures to disburse program monies to recipients on a reimbursement basis for actual costs incurred.

The State's corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

#### Agency Response: Concur

Agency: Arizona Governor's Office of Strategic Planning and Budgeting (Office)  
Name of contact person and title: Andrea Hightower, Grants and Federal Resources Team Manager  
Anticipated completion date: July 1, 2022

The Office agrees with this finding and has in place existing policy and procedure to follow federal cash management requirements. The non-compliance identified was a situational response to the health emergency caused by the Covid-19 pandemic and a decision was made to rapidly disburse funding to recipients who could quickly meet the needs of the community. Prior to monies being disbursed the recipients (including State agency recipients) had made assurances that costs were incurred and funds would be promptly spent. The Office does follow its established policy and procedure for cash management to minimize the time lapsing between the disbursement of federal monies and their being spent for program purposes. It is the Office's standard procedure to disburse program monies to recipients on a reimbursement basis for actual costs incurred.

During the time frame corresponding to this audit, the Office's limited personnel resources were focused on ensuring that funding was disbursed in the timeliest manner possible to alleviate the negative impacts on Arizona's most vulnerable communities and impacted areas. The pace and volume of resulting grant agreements and interagency agreements needing to be executed, exceeded staffing capacity which contributed to the findings noted. As of this date, the Grants and Federal Resources Team has achieved stability in both Manager and staff positions and the influx of new federal relief funding has slowed.

#### 2021-105

Assistance Listings number and name:	84.425C COVID-19 Education Stabilization Fund—Governor's Emergency Education Relief (GEER) Fund
Award number and year:	S425C200052, June 2, 2020 through September 30, 2021
Federal agency:	U.S. Department of Education
Compliance requirement:	Subrecipient monitoring
Questioned costs:	\$164,221

**Condition**—The Arizona Governor's Office of Strategic Planning and Budgeting (Office) awarded \$3.2 million to 4 subrecipients during fiscal year 2021, or 27 percent of the Office's \$11.7 million total federal expenditures for this federal program, but did not perform all the required monitoring of the subrecipients' activities or compliance with the award terms and program requirements. Specifically, the Office performed some monitoring during the year, which consisted only of reviewing financial and activity reports if submitted by the subrecipient; however, those monitoring procedures alone were not sufficient to evaluate whether subrecipients used program monies in accordance with the award terms and program requirements.

Further, for 1 of 4 subrecipients tested, the Office did not include in the award terms accurate information necessary for the subrecipient to administer the program in accordance with federal requirements. Specifically, the Office included only a broad federal award project description to be performed by the subrecipient and listed an incorrect start date for incurring expenditures that was 12 days earlier than the date allowed by the Office's federal award terms with the federal agency.

**Effect**— The Office's lack of required monitoring increased the risk that the \$3.2 million of program monies the Office awarded to subrecipients may not have been spent in accordance with the award terms and program requirements.

Further, the Office's failure to perform all the required monitoring resulted in the Office reimbursing 1 nonprofit organization subrecipient for \$113,850 of potential unallowable costs related to financial audit and advertising services. Lastly, the Office's failure to include accurate information in the 1 subrecipient's award terms resulted in the Office reimbursing the subrecipient for \$50,371 of expenditures that were incurred prior to the federal award term's start date. Consequently, the Office may be required to return these monies to the federal agency in accordance with Uniform Guidance requirements.<sup>1</sup>

**Cause**—Office management reported that it did not have enough staff to perform its various monitoring procedures and instead the Office performed only limited monitoring procedures. Specifically, the Office had policies and procedures to follow for performing the various monitoring procedures for its subrecipients, including how it should consider and assess risk of each subrecipient and carry out required and various other monitoring procedures based on those risk assessments. However, Office management reported that its staffing levels were not sufficient to perform all the required procedures.

Further, for the subrecipient with inaccurate award terms, when the Office switched the funding source from the Coronavirus Relief Fund to GEER, it did not update all the award terms, such as the federal award project description and start date for incurring expenditures.

**Criteria**—Federal regulation requires the Office to monitor subrecipients, which includes required monitoring procedures for assessing the risk of each subrecipient’s noncompliance and monitoring activities based on those risk assessments; verifying single audits were conducted timely; following up on and ensuring corrective action is taken on audit findings that could potentially affect the program; and issuing a management decision for audit findings pertaining to the federal award. Those federal regulations also provide that monitoring procedures may include reviewing financial and performance reports, providing training or technical assistance on program-related matters, and performing on-site reviews, selective audits, and/or other monitoring procedures (2 CFR §200.332[b] and [d – e]).

Further, federal regulation requires the Office to include in its award terms with subrecipients accurate information necessary for the subrecipient to administer the program in accordance with federal requirements, such as a detailed project description and a start date for incurring project expenditures that aligns with the Office’s award terms with the federal agency (2 CFR §200.332[a]). Finally, federal regulation requires establishing and maintaining effective internal control over federal awards that provides reasonable assurance that the federal program is being managed in compliance with all applicable laws, regulations, and award terms (2 CFR §200.303).

**Recommendations**—The Office should:

1. Ensure it performs required monitoring of its subrecipients and their compliance with the award terms and program requirements by following their established policies and procedures to:
  - a. Assess the risk of each subrecipient’s noncompliance and carry out monitoring activities based on those risk assessments such as reviewing financial and performance reports, providing training or technical assistance on program-related matters, and performing on site reviews, selective audits, and/or other monitoring procedures.
  - b. Verify subrecipients receive timely single audits, follow up on and ensure that corrective action is taken on audit findings that could potentially affect the program, and issue management decisions for audit findings pertaining to the federal award.
  - c. Maintain documentation of monitoring procedures demonstrating they were performed, including the monitoring procedures’ results and any Office actions taken, if appropriate.
2. Allocate sufficient resources, such as staffing, to comply with the award terms and program requirements, and designate an individual to perform necessary subrecipient monitoring procedures.
3. Work with the federal agency to resolve the \$50,371 of program monies the Office spent in violation of its federal award terms, which may involve returning monies to the federal agency.<sup>1</sup>
4. Include accurate federal program information within the subrecipient agreement such as the program’s period of performance and a detailed project description to be performed by the subrecipient.

The State’s corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

<sup>1</sup>Federal Uniform Guidance requires federal awarding agencies to follow up on audit findings and issue a management decision to ensure the recipient, the Office, takes appropriate and timely corrective action (2 CFR §200.513[c]). Further, it requires that federal awarding agencies’ management decisions clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other action, as directed by the federal awarding agencies (2 CFR §200.521).

**Agency Response: Concur**

Agency: Arizona Governor’s Office of Strategic Planning and Budgeting (Office)  
Name of contact person and title: Andrea Hightower, Grants and Federal Resources Team Manager  
Anticipated completion date: July 31, 2023

The Office agrees with this finding and has already taken significant correction action including:

- Requiring prospective grantees to submit a financial systems survey and grants management data information form as part of the pre-award process and incorporating such documents into the grant file;



- Requiring prospective grantees to submit copies of prior single audits (if applicable) or certified financial statements as part of the pre-award process and incorporating such documents into the grant file;
- Subcontracting with an external entity to routinely check on the status of grantee reporting and aid in the preparation of communications with grant recipients who are not in compliance with post-award requirements;
- All grant agreements and ISA's include adequate information outlining the source of funding, agreed upon scope of work and program/project activities, deliverables, period of performance, and post-award financial and programmatic reporting deadlines. Any such modifications to these are made in writing between the parties which may include formal amendments and/or electronic communications which record date and time of written communications.

During the time frame corresponding to this audit, the Office's limited personnel resources were focused on ensuring that funding was disbursed in the timeliest manner possible to alleviate the negative impacts on Arizona's most vulnerable communities and impacted areas. The pace and volume of resulting grant agreements and interagency agreements needing to be executed, exceeded staffing capacity which contributed to the findings noted. As of this date, the Grants and Federal Resources Team has achieved stability in both Manager and staff positions and the influx of new federal relief funding has slowed.

**2021-106**

Assistance Listings number and name:	84.425C COVID-19 Education Stabilization Fund—Governor's Emergency Education Relief (GEER) Fund
Award number and year:	S425C200052, June 2, 2020 through September 30, 2021
Federal agency:	U.S. Department of Education
Compliance requirement:	Reporting
Questioned costs:	Not applicable

**Condition**—Contrary to federal laws and regulations and the State's accounting manual, the Governor's Office of Strategic Planning and Budgeting (Office) failed to report certain information on the federal government's reporting system for \$28.9 million subawards it made to 4 subrecipients and 2 other State agencies under this program. Specifically, the Office awarded federal monies to these entities to provide education-related entities with emergency assistance to prevent, prepare for, and respond to COVID-19. However, the Office had not reported any required information about the subawards, including the subaward organization names and subaward amounts and terms, during fiscal year 2021 when the Office began awarding program monies.

During fiscal year 2021, the Office spent \$10.1 million of federal monies related to these subawards, or 86.3 percent of the Office's \$11.7 million total federal expenditures for this federal program.

**Effect**—The State's stakeholders and the public did not have access to transparent and timely information about the Office's federal award spending decisions on the USAspending.gov website as required by federal laws and regulations.

**Cause**—Although the program's reporting requirements were provided as additional award terms and conditions on the federal agency's website, the Office was aware of the requirements, and the State's accounting manual instructed State departments to follow them, the Office reported that the 2 employees who were responsible for preparing, submitting, and reviewing the report left the Office (i.e., 100 percent turnover in the program), and the replacement staff could not locate any documentation to support that the subaward data was reported on the federal government's subaward reporting system during fiscal year 2021.

**Criteria**—The Federal Funding Accountability and Transparency Act (FFATA) and federal Uniform Guidance regulations require the Office, as a direct recipient of federal awards, to report certain information about each subaward action exceeding \$30,000 in federal monies on the FFATA Subaward Reporting System no later than month-end of the month following the subaward action so that the information can be displayed to the public on the website, USAspending.gov.<sup>1</sup> Specifically, the federal Uniform Guidance requires the Office to report the subrecipient organization's name, award amount, award term, and other information about the subaward, if applicable, for each subaward action exceeding the \$30,000 threshold (2 CFR 170.320 and Appendix A to Part 170). Additionally, the State's accounting manual requires the Office to perform this reporting for federal awards (State of Arizona Accounting Manual, Topic 70: Grants, Section 45). Further, federal regulation requires establishing and maintaining effective internal control over federal awards that provides reasonable assurance that the federal program is being managed in compliance with all applicable laws, regulations, and award terms (2 CFR §200.303).

**Recommendations**—The Office should:

1. Immediately report on the FFATA Subaward Reporting System the required information for its subawards for this program.
2. Follow the State’s accounting manual for reporting subaward actions exceeding \$30,000 no later than month-end of the month following the subaward action, as required by the FFATA and federal Uniform Guidance.
3. Allocate resources to ensure reporting requirements are met and appropriate supporting documentation is maintained.

The State’s corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

<sup>1</sup> The FFATA of 2006 (Public Law 109-282), as amended by section 6202 of Public Law 110-252, was enacted to provide the public with transparency on federal award spending to hold the recipient government accountable for each spending decision and to help reduce wasteful spending of federal monies. As such, federal Uniform Guidance requires reporting on the FFATA Subaward Reporting System at FSRS—Federal Funding Accountability and Transparency Act Subaward Reporting System.

**Agency Response: Concur**

Agency: Arizona Governor’s Office of Strategic Planning and Budgeting (Office)  
 Name of contact person and title: Andrea Hightower, Grants and Federal Resources Team Manager  
 Anticipated completion date: July 31, 2023

The Office agrees with this finding and will begin to take corrective action to bring the program in full compliance with FFATA reporting requirements under federal and state guidelines.

Although the Office did not report under the FFATA reporting system in a timely manner, it did comply with all US Department of Education GEER reporting requirements within required timeframes. That information was, and remains, available to the public on the US Department of Education federal relief funding website.

During the time frame corresponding to this audit, the Office’s limited personnel resources were focused on ensuring that funding was disbursed in the timeliest manner possible to alleviate the negative impacts on Arizona’s most vulnerable communities and impacted areas. The pace and volume of resulting grant agreements and interagency agreements needing to be executed, exceeded staffing capacity which contributed to the findings noted. As of this date, the Grants and Federal Resources Team has achieved stability in both Manager and staff positions and the influx of new federal relief funding has slowed.

<b>2021-107</b>	
Assistance Listings number and name:	84.425C COVID-19 Education Stabilization Fund—Governor’s Emergency Education Relief (GEER) Fund
Award number and year:	S425C200052, June 2, 2020 through September 30, 2021
Federal agency:	U.S. Department of Education
Compliance requirement:	Reporting
Questioned costs:	Not applicable

**Condition**—Contrary to its policies and procedures, the Arizona Governor’s Office of Strategic Planning and Budgeting (Office) did not maintain documentation to support subawards’ performance data, consisting of their full-time equivalent (FTE) positions, that the Office reported in its annual report to the federal agency during fiscal year 2021.

**Effect**—There is an increased risk that the Office could report inaccurate information, affecting the federal agency’s ability to rely on the reports to effectively monitor the Office’s program administration, including its compliance with program requirements and ability to prevent and detect fraud, and to evaluate the program’s success.

**Cause**—The Office staff members who initially prepared, reviewed and submitted the program’s annual report and were no longer employed by the Office, did not follow the Office’s established policies and procedures for maintaining documentation supporting the performance data in its annual report. Additionally, because documentation was not always maintained, the replacement employees

could not find evidence that the annual report had been reviewed and approved by a person independent of its preparation prior to the Office’s submitting it to the federal agency.

**Criteria**—The Office’s policies and procedures require it to maintain documentation supporting financial and performance data and other information it reports to the federal agency and to have reports reviewed by someone who is independent of their preparation prior to submitting them to the federal agency. In addition, federal regulation requires the Office to report annual information for amounts the State expended in total and for various uses as well as performance data, such as the number of the State’s and subawards’ FTE positions as of the report dates, regardless of whether the positions were funded by federal, State, local, or other resources (34 CFR §76.720).<sup>1</sup> Also, federal regulation requires establishing and maintaining effective internal control over federal awards that provides reasonable assurance that the federal program is being managed in compliance with all applicable laws, regulations, and award terms (2 CFR §200.303).

**Recommendations**—The Office should follow its existing policies and procedures to:

1. Maintain documentation to support financial and performance data and other information it reports to the federal agency.
2. Perform an independent review of reports for accuracy prior to submitting them to the federal agency.

The State’s corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

<sup>1</sup>The annual reporting that is required by 34 CFR §76.720 is prescribed by and submitted to the U.S. Department of Education using the Education Stabilization Fund—Governor’s Emergency Education Relief Fund (GEER) Recipient Data Collection Form retrieved from Office of Management and Budget (OMB) report website at <https://omb.report/icr/202007-1810-001/doc/103092901>.

**Agency Response: Concur**

Agency: Department of Economic Security (DES)

Name of contact person and title: Bryce A. Barraza, DERS Deputy Assistant Director

Anticipated completion date: June 30, 2023

The Office agrees with this finding and has already taken significant correction action. Increased personnel resources at both grants analyst and manager levels have allowed for appropriate separation of duties, independent review of preparation of federal reporting prior to submission, and documentation of such review and approval.

During the time frame corresponding to this audit, the Office’s limited personnel resources were focused on ensuring that funding was disbursed in the timeliest manner possible to alleviate the negative impacts on Arizona’s most vulnerable communities and impacted areas. The pace and volume of resulting grant agreements and interagency agreements needing to be executed, exceeded staffing capacity which contributed to the findings noted. As of this date, the Grants and Federal Resources Team has achieved stability in both Manager and staff positions and the influx of new federal relief funding has slowed.

**2021-108**

Assistance Listings number and name: 17.225 COVID-19 Unemployment Insurance

Award numbers and years: None

Federal agency: U.S. Department of Labor

Compliance requirement: Eligibility

Questioned costs: \$61,140

**Condition**—As reported in financial statement findings 2021-01 and 2021-03, the Department of Economic Security (DES) did not comply with 2 areas of eligibility requirements, including not implementing 2 of the 3 mandated and 1 of the 8 strongly recommended identity theft and anti-fraud measures for the Coronavirus Aid, Relief, and Economic Security (CARES) Act unemployment insurance (UI) benefits programs before paying federal benefits through its new UI benefits system beginning in May 2020 through the fiscal year ended June 30, 2021, and as of October 2022. Specifically, DES:

- Did not implement 2 mandated requirements to cross-match claimants with (1) quarterly wage records and (2) the National Directory of New Hires until May 2022.
- Did not implement 1 strongly recommended measure to cross-match with the State Directory of New Hires until May 2022.

DES reported to us that it made payments of CARES Act UI benefits to fraudsters due to identity theft totaling \$4.3 billion<sup>1</sup> during fiscal years 2020 and 2021, and such payments are not considered benefit payments to valid claimants. Accordingly, these claimants are not subject to our eligibility tests and, although considered as improper payments, are not reported as questioned costs for the purpose of this finding.

In addition, DES reported to us that it paid valid claimants \$218.4 million, during fiscal years 2020 and 2021, of federally funded PUA benefits above the State's \$117-minimum weekly UI benefit, up to \$240 weekly, as allowed by federal regulations.<sup>2</sup> However, DES did not determine whether claimants who were eligible to receive the weekly UI benefit were also qualified to receive the additional weekly UI benefits provided under the CARES Act UI benefits programs. Specifically, DES did not determine whether those claimants had submitted the wage documentation within 21 days of applying, as required, and immediately reduce the claimants' future weekly benefit payments to the \$117-minimum weekly UI benefit and determine how much it had overpaid those claimants. In addition, for those claimants who submitted wage documents, DES did not evaluate the wage documents to determine if and how much in benefits it overpaid those claimants above the weekly minimum.

Our tests of 120 valid claimants for eligibility identified noncompliance for 6 of those claimants who were qualified to receive the \$117-minimum weekly UI benefit but received weekly benefits exceeding the minimum when they did not qualify for them. Consequently, we questioned the costs associated with those 6 claimants for which DES paid more than the minimum weekly UI benefit amount. Specifically, DES:

- Overpaid \$34,080 to 2 claimants who did not submit wage documentation and were ultimately disqualified for Pandemic Unemployment Assistance (PUA) and Federal Pandemic Unemployment Compensation (FPUC) benefits.
- Overpaid \$27,060 to 4 claimants who submitted wage documentation that was incomplete or did not support the additional weekly UI benefit amount DES paid to them.

Of the total \$218.4 million DES paid to 108,377 valid UI claimants in PUA benefits above the State's \$117- weekly minimum, as of October 2022, DES reported to us that, for those claimants who submitted wage documentation, it had not yet completed evaluating the claimants' information to determine if and how much of the \$218.4 million in PUA benefits above the weekly minimum it overpaid those claimants between May 18, 2020 and September 4, 2021, the end of the CARES Act UI benefits programs. After doing that, if DES chooses to apply waivers to the CARES Act programs, it would then be able to determine which overpayments it may be allowed to waive.

**Effect**—As reported in financial statement finding 2020-01, DES reported to us that it paid over \$4.3 billion, or 37 percent, of federal CARES Act UI benefits during fiscal years 2020 and 2021 to alleged fraudsters who had stolen identities of 1.1 million unique claimants. DES disbursed these monies beginning on May 18, 2020, and retroactively covering the benefit weeks beginning January 27, 2020, through September 4, 2021, the date when the CARES Act UI programs ended. According to DES, although it expects to recover through the help of law enforcement agencies some of the \$4.3 billion in fraudulent identify theft claims paid, it does not expect to be required to return any unrecovered monies to the federal government. The following illustrates the monies, number of claimants, and number of claims DES paid because of fraudulent identify theft in relation to total CARES Act UI benefits paid using the new UI benefits system:

	CARES Act			Fraudulent identity theft		
	Total amount of CARES Act UI benefits paid	Total number of unique CARES Act UI claimants	Total number of CARES Act UI claims	Total amount of CARES Act UI benefits paid to alleged fraudsters/stolen identities	Total number of unique claimants/stolen identities	Total number of paid claims with stolen identities
Fiscal year 2020	\$2.1 billion		\$ 5.9 million	\$1.6 billion		\$ 3.8 million
Fiscal year 2021	<u>5.0 billion</u>		<u>16.5 million</u>	<u>2.7 billion</u>		<u>8.6 million</u>
Total	<u>\$7.1 billion</u>	1.5 million	<u>\$22.4 million</u>	<u>\$4.3 billion</u>	1.1 million	<u>\$12.4 million</u>

Source: DES-provided schedules and reports. The table above excludes information for the CARES Act programs from DES' regular UI information system (Legacy UI information system). DES reported due to the limitations of its Legacy UI information system, it was unable to provide this information. The fiscal years 2020 and 2021 schedule of expenditures of federal awards (SEFA) reported \$5.9 billion and \$7.6 billion, respectively, in total CARES Act UI expenditures, which is composed of benefits paid to claimants, program administrative costs, and U.S. generally accepted accounting principles (GAAP) adjustments.

An undeterminable portion of these fraudulent payments may have been prevented if DES had implemented all the critical identity-verification and other anti-fraud measures before making any CARES Act UI benefits payments.

Based on our sample of testing valid claimants for eligibility, we identified \$61,140 of known questioned costs, as described above; however, the amount DES potentially overpaid to valid claimants cannot be determined based on the information DES provided to us. As of October 2022, DES was unable to estimate an amount for CARES Act UI benefits it paid to valid claimants exceeding the \$117-minimum weekly UI benefit that could potentially be considered overpayments, which DES would be required to investigate, recover to the extent possible, and return to the federal government. In addition, this backlog affects DES' ability to pursue timely collection of the specific overpayments that are required to be returned by claimants, and delays DES' returning recovered overpayments to the federal government.

The fraudulent identity-theft payments and the potential overpayments to valid claimants affected only the CARES Act UI benefits programs. They had no effect on the State's regular UI program, which the State has jointly administered with the federal government for over 30 years, because these same issues were not identified in that program.

**Cause**—As described in finding 2020-01, DES reported that the speed with which it needed to process an increased volume of CARES Act UI benefits claims and confusion regarding federal laws, requirements, and guidance initially contributed to it not putting into place all critical identity verification and anti-fraud measures before it started paying benefits. In addition, in fiscal year 2020, DES contracted to use a new UI benefits system to quickly implement the new federal CARES Act UI benefits programs, which took time to get online and ready to process its first UI benefits claims. At that time, DES reported that it encountered computer programming issues interfacing with other State systems and federal databases to be able to conduct all the federally mandated and strongly recommended identity verification and other anti-fraud measures. Further, the system did not have an alert to notify it of claimants who were receiving more than the minimum weekly UI benefit amount but who had not submitted wage documentation within 21 days of applying. Finally, DES also reported it did not initially have the staff needed to process the volume of CARES Act UI benefits claims.

**Criteria**—On April 5, 2020, the U.S. Department of Labor (U.S. DOL) issued PUA implementation instructions reminding states that they were required to take reasonable and customary precautions to deter and detect fraud, and on May 11, 2020, the U.S. DOL issued guidance specifying 3 mandated and 8 strongly recommended identity theft and anti-fraud measures for CARES Act UI benefits.<sup>3,4</sup> Also, federal regulations prescribe the PUA program requirements that apply to claimants and that DES must follow.<sup>5</sup> Specifically, federal regulation states that claimants who are eligible to participate in the PUA program are entitled to receive the State's \$117-minimum weekly UI benefit and claimants may receive an increased PUA weekly benefit amount up to a maximum—\$240 in Arizona—if the claimant submits wage documentation within 21 days of applying.<sup>6,7</sup> Federal regulations require states to determine and immediately pay a weekly benefit amount based on the claimants' self-certification of eligibility and wages contained in the claimants' application. Claimants who self-certify for more than the minimum weekly benefit amount are required to submit wage documentation within 21 days of applying for the additional weekly PUA benefit, and states are then required to immediately determine the accuracy of each claimant's weekly benefit amount based on the claimant's submitted wage documentation.<sup>6,7</sup> For

claimants who did not submit the required wage documentation within 21 days of applying, federal regulation requires states to immediately reduce the claimants' future benefit payments to the minimum weekly benefit amount and consider PUA payments exceeding the minimum weekly benefit as overpayments.<sup>7</sup> In addition, federal regulation requires states to take all reasonable measures under state and federal laws to recover overpayments to claimants, regardless of whether the overpayment resulted from error or fraud on the claimant's part.<sup>8</sup> However, in February 2022, federal regulation was issued that lists 7 scenarios under which states may waive recovery of CARES Act programs overpayments from claimants if the state determines specific criteria have been met, including that the claimant was not at fault.<sup>9</sup> Finally, federal regulation requires establishing and maintaining effective internal control over federal awards that provides reasonable assurance that federal programs are being managed in compliance with all applicable laws, regulations, and award terms. (2 CFR §200.303).

**Recommendations—DES should:**

1. Continue to evaluate the CARES Act UI benefits it has paid to identify any additional fraudulent claims payments, using all necessary critical identity verification and other anti-fraud measures.
2. Continue its efforts working with law enforcement agencies to recover improper payments to the extent practicable for fraudulent claims it paid due to identity theft.
3. Repay any recovered improper payments to the federal government.
4. Develop and implement a plan to ensure that for any future new UI benefits programs or regular UI benefits program PUA changes, it puts critical identity verification and other anti-fraud measures in place prior to paying any UI benefits claims.
5. Continue to perform wage verifications for all claimants who received an increased PUA weekly benefit payment to determine the weekly benefit amount they qualify for and identify overpayments and when establishing overpayments determine if DES will apply a waiver. This would include the 6 claimants from our test work who we identified received a total of \$61,140 in overpayments.
6. Bill claimants for overpayments and arrange payment plans with claimants, where required, and repay any recovered overpayments to the federal government, as required.

The State's corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

This finding is similar to prior-year finding 2020-102.

<sup>1</sup> In the State of Arizona June 30, 2020, Report on Internal Control and on Compliance DES estimated it paid over \$4.4 billion of federal CARES Act UI benefits during fiscal years 2020 and 2021 to alleged fraudsters who had stolen identities of claimants. As of October 2022, DES reported the actual amount to be \$4.3 billion.

<sup>2</sup> In response to the Novel Coronavirus Disease of 2019 (COVID-19) pandemic, the United States Congress passed several laws that essentially expanded unemployment insurance through new federally funded programs for a period of time to provide economic relief to individuals who were unable to work because of the COVID-19 pandemic and established the Pandemic Unemployment Assistance (PUA), Pandemic Emergency Unemployment Compensation (PEUC), and Federal Pandemic Unemployment Compensation programs (FPUC). The PUA program, which provided unemployment compensation through September 6, 2021—or September 4, 2021, for the State of Arizona—to individuals who were not traditionally eligible for benefits under regular UI programs, such as those who were self-employed workers, independent contractors, and gigeconomy workers, those with limited work history, and certain other workers whose employment was affected by the COVID-19 pandemic. These programs provided claimants with a minimum weekly benefit, pursuant to each state's unemployment compensation law, and anything above Arizona's minimum weekly benefit of \$117—up to \$240 total per week in Arizona—would require wage verification. In addition, the FPUC program supplemented \$600 to the weekly benefits an individual may receive under regular UI or PUA through July 31, 2020, provided they were eligible to participate in the UI programs. Again on December 26, 2020, the FPUC program supplemented \$300 to the weekly benefits an individual may receive under regular UI or PUA through September 6, 2021, or September 4, 2021, in Arizona (Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020 [Public Law 116-136], Division N, Title II, Subtitle A (2020); as amended by the Consolidated Appropriations Act of 2021 [Pub. L. 116-260], Title II, Subtitle A; as amended by the American Rescue Plan Act of 2021 [Pub. L. 117-2], Title IX, Subtitle A, Sec. 9011 (2021).

<sup>3</sup> U.S. Department of Labor, Office of the Inspector General (April 5, 2020). Unemployment Insurance Program Letter No. 16-20. [https://wdr.doleta.gov/directives/attach/UIPL/UIPL\\_16-20.pdf](https://wdr.doleta.gov/directives/attach/UIPL/UIPL_16-20.pdf).

<sup>4</sup> U.S. Department of Labor, Office of the Inspector General (May 11, 2020). Unemployment Insurance Program Letter No. 23-20. [https://wdr.doleta.gov/directives/attach/UIPL/UIPL\\_23-20.pdf](https://wdr.doleta.gov/directives/attach/UIPL/UIPL_23-20.pdf).

<sup>5</sup> On March 27, 2020, the CARES Act, Section 2102(a)(3)(A), provided the criteria for which an individual self-certifies eligibility for PUA under the Presidentially declared public health emergency resulting from the COVID-19 pandemic. The self-certification required claimants to self-declare that they were eligible for the PUA program and were able to work and available for work but unable to do so because of at least 1 specific, qualifying COVID-19-related reason. In addition, the CARES Act, §2102(h), applied the Disaster Unemployment Assistance program's administrative requirements to PUA since PUA was similar to unemployment compensation provided under Presidentially declared disasters.

<sup>6</sup> 20 CFR §625.6(e).

<sup>7</sup> U.S. Department of Labor, Office of the Inspector General (April 27, 2020). Unemployment Insurance Program Letter No. 16-20, Change 1, Attachment I, Question 20. [https://wdr.doleta.gov/directives/attach/UIPL/UIPL\\_16-20\\_Change\\_1.pdf](https://wdr.doleta.gov/directives/attach/UIPL/UIPL_16-20_Change_1.pdf).

<sup>8</sup> 20 CFR §625.14[a].

<sup>9</sup>On February 7, 2022, U.S. Department of Labor (DOL) issued updated guidance that lists 7 scenarios under which states may waive recovery of CARES Act programs overpayments if they choose to apply waivers to the CARES Act programs. The list includes 2 previously identified scenarios from the DOL guidance issued on May 5, 2021. U.S. Department of Labor, Office of the Inspector General (February 7, 2022). Unemployment Insurance Program Letter No. 20-21, Change 1. [https://wdr.doleta.gov/directives/attach/UIPL/UIPL\\_20-21\\_Change\\_1.pdf](https://wdr.doleta.gov/directives/attach/UIPL/UIPL_20-21_Change_1.pdf).

## **Agency Response: Concur**

Agency: Department of Economic Security (DES)

Name of contact persons and titles: Bryce A. Barraza, DERS Deputy Assistant Director

Anticipated completion date: June 30, 2023

The Department of Economic Security (DES) will address the audit recommendations, as follows:

1. Continue to evaluate the CARES Act UI benefits it has paid to identify any additional fraudulent claims payments, using all necessary critical identity verification and other anti-fraud measures.

The Department will continue efforts to identify any additional Pandemic Unemployment Assistance (PUA) fraudulent claim payments. On May 16, 2022, the Department migrated the PUA to the Benefit Audit Reporting and Tracking System (BARTS) interface to production. The Department has also started establishing the pending overpayments from the new hire (State Directory and National Directory) wage crossmatch produced on October 20, 2021.

The Department continues to participate in a number of integrity crossmatches, which include, but are not limited to, the Arizona Department of Corrections and Maricopa County Jail, to detect individuals filing for Unemployment Insurance (UI) benefits while incarcerated. In addition, the DES Office of Inspector General (OIG) provides additional information regarding local, state, and federal incarceration records to the DES Division of Employment & Rehabilitation Services for processing.

The Department conducts identity verification through ID.me, a Social Security Crossmatch, Motor Vehicle Division (MVD) Verification, Social Security Number (SSN) check via the UI Interstate Connection Network (ICON), and a U.S. Department of Health and Human Services (DHHS) and Social Security Administration (SSA) Mortality record check. The Department utilizes the Integrity Data Hub (IDH) through the OnPoint Fraud Detection Solution which consists of IDH Suspicious Actor Repository (SAR) crossmatch, ID Theft, and Fictitious Employer.

The Department put in place a number of upfront measures that check for repetitive information, trends, and cross-claimant repetition used to identify potentially fraudulent activity. The Department will continue to utilize these successful anti-fraud measures to identify any additional fraudulent claim payments.

2. Continue its efforts working with law enforcement agencies to recover improper payments to the extent practicable for fraudulent claims it paid due to identity theft.

The Department continues to partner with federal, state, and local law enforcement agencies and financial institutions across the country to recover losses and aggressively pursue legal action against perpetrators of fraud. Throughout the pandemic, the Department has partnered with more than 220 financial institutions and over 100 law enforcement agencies that include the FBI, the U.S. Department of Labor (DOL), the U.S. Secret Service, and the U.S. Department of Homeland Security. The Department has also developed internal fraud indicators, investigated over 140,000 identity theft fraud complaints received from the DES OIG fraud hotline/website, developed a fraud scoring model in partnership with Google Analytics and Spring ML data analytics, and implemented the OPTimum Aware fraud detection software solution.

3. Repay any recovered improper payments to the federal government.

The Department initiated the formal establishment and issuance of PUA overpayments, inclusive of Federal Pandemic Unemployment Compensation (FPUC), in January, 2022. The interface between the PUA program system and existing accounts receivable system was in place effective February, 2022. Recovery efforts are occurring per normal procedures.

4. Develop and implement a plan to ensure that for any future new UI benefits programs or regular UI benefits program changes, it puts critical identity verification and other anti-fraud measures in place prior to paying any UI benefits claims.

In addition to other integrity measures already in use, the Department continues to utilize a third-party identity verification application and will leverage the identity verification tool across any future new UI Benefit programs. In addition, any new UI benefit programs will be implemented in alignment with federal law and guidance, and where applicable, anti-fraud measures identified as successful during the CARES Act program will be adopted in our standard work and put in place prior to paying any UI benefit claims.

5. Continue to perform wage verifications for all claimants who received an increased PUA weekly benefit payment to determine the weekly benefit amount they qualify for and identify overpayments, and when establishing overpayments determine if DES will apply a waiver. This would include the 6 claimants from our test work who we identified received a total of \$61,140 in overpayments.

The Department is currently conducting the review of claims with a Weekly Benefit Amount (WBA) higher than \$117, and where appropriate, issuing determinations for adjusted benefit amounts. Any identified overpayments will be established per standard process.

The Department has an established process to consider debt resulting from the establishment of an overpayment for waiver, as permitted under state law and federal rule. Note, overpayments categorized as fraud are not permitted to be waived per state and federal rule.

6. Bill claimants for overpayments and arrange payment plans with claimants, where required, and repay any recovered overpayments to the federal government, as required.

In accordance with federal and state rules and regulations, the Department has a well-established business practice of performing the detection, recovery, and repayment functions as required for the regular UI program.

The Department initiated the formal establishment and issuance of PUA overpayments, inclusive of FPUC, in January, 2022. The interface between the PUA program system and existing accounts receivable system was in place effective February, 2022. Recovery and reimbursement efforts are occurring per normal procedures.

#### 2021-109

Assistance Listings number and name:	17.225 COVID-19 Unemployment Insurance
Award number and year:	None
Federal agency:	U.S. Department of Labor
Compliance requirement:	Special tests and provisions—Program integrity
Questioned costs:	Not applicable

**Condition**—Contrary to federal requirements, the Department of Economic Security (DES) had not begun a program integrity process for establishing and collecting overpayments for its Coronavirus Aid, Relief, and Economic Security (CARES) Act unemployment insurance (UI) benefit programs until February 2022. DES has a similar program integrity process in place for its regular UI benefit programs, which is necessary for DES to bill claimants and recover overpayments through various means, such as establishing claimant payment plans and recovering overpayments through offsets against claimants’ subsequent UI benefit payments, State income tax refunds, or State lottery winnings. As of October 2022, DES determined that it had made \$111.6 million in overpayments; however, it had not yet completed evaluating the information of an additional 108,377 claimants who submitted wage documentation to determine if and how much of the \$218.4 million paid in benefits above the State’s \$117-weekly minimum it may have overpaid those claimants between May 18, 2020 and September 4, 2021, the end of the CARES Act UI benefits programs. After doing that, if DES chooses to apply waivers to the CARES Act programs, it would then be able to determine which overpayments it may be allowed to waive.

**Effect**—DES’ not establishing a program integrity process for its CARES Act UI benefit programs impedes its ability to pursue timely collection of the specific overpayments that are required to be returned by claimants, which could be a burden to these claimants, and delays DES’ returning recovered overpayments to the federal government.

**Cause**—When DES began using a contractor’s UI benefits system to manage the federal CARES Act UI programs in May 2020, it reported having encountered computer programming issues between its new UI benefits system and its accounts receivable system



that prevented it from recovering overpayments for its CARES Act UI program claimants. DES has since reported that it resolved these programming issues in February 2022 and, also established receivables and payment plans for some claimants' accounts to recover overpayments based on its review of their wage documents. However, to fully establish a program integrity process for its CARES Act UI benefit programs, DES needs to first complete its wage verification of all CARES Act UI program claimants to identify and recover all such overpayments, as described in federal finding 2021-108.

**Criteria**—Federal regulation requires DES to take all reasonable measures under state and federal laws to recover overpayments, regardless of whether they resulted from error or fraud on the claimant's part (20 CFR §625.14[a]). However, in February 2022, federal regulation was issued that lists 7 scenarios under which states may waive recovery of CARES Act programs overpayments from claimants if the state determines specific criteria have been met, including that the claimant was not at fault.<sup>1</sup> In addition, federal regulation requires establishing and maintaining effective internal control over federal awards that provides reasonable assurance that federal programs are being managed in compliance with all applicable laws, regulations, and award terms (2 CFR §200.303).

**Recommendations**— DES should:

1. Establish a program integrity process for its CARES Act UI benefit programs, similar to its regular UI benefit programs, and continue reviewing all CARES Act UI program claimants' wage documents to identify overpayments, and when establishing overpayments determine if DES will apply a waiver, as described in our recommendations to federal finding 2021-108.
2. Bill claimants for overpayments and arrange payment plans with claimants, where required, and repay any recovered overpayments to the federal government, as required.

The State's corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

This finding is similar to prior-year finding 2020-105.

<sup>1</sup> On February 7, 2022, U.S. Department of Labor (DOL) issued updated guidance that lists 7 scenarios under which states may waive recovery of CARES Act programs overpayments if they choose to apply waivers to the CARES Act programs. The list includes 2 previously identified scenarios from the DOL guidance issued on May 5, 2021. U.S. Department of Labor, Office of the Inspector General (February 7, 2022). Unemployment Insurance Program Letter No. 20-21, Change 1. [https://wdr.doleta.gov/directives/attach/UIPL/UIPL\\_20-21\\_Change\\_1.pdf](https://wdr.doleta.gov/directives/attach/UIPL/UIPL_20-21_Change_1.pdf).

**Agency Response: Concur**

Agency: Department of Economic Security

Name of contact persons and titles: Jacqueline Butera, Quality Assurance and Integrity Administrator and Sandra Canez, Unemployment Insurance Program Administrator

Anticipated completion date: March 31, 2023

The Department of Economic Security (DES) will address the audit recommendations, as follows:

1. Establish a program integrity process for its CARES Act UI benefit programs, similar to its regular UI benefit programs, and continue reviewing all CARES Act UI program claimants' wage documents to identify overpayments, and when establishing overpayments determine if DES will apply a waiver, as described in our recommendations to federal finding 2021-108.

The Department initiated the formal establishment and issuance of Pandemic Unemployment Assistance (PUA) overpayments, inclusive of Federal Pandemic Unemployment Compensation (FPUC), in January, 2022. The interface between the PUA program system and existing accounts receivable system was in place effective February, 2022. Recovery efforts are occurring per normal procedures.

The Department has an established process to consider debt resulting from the establishment of an overpayment for waiver, as permitted under state law and federal rule. Note, overpayments categorized as fraud are not permitted to be waived per state and federal rule.

The Department is currently conducting the review of claims with a Weekly Benefit Amount (WBA) higher than \$117, and where appropriate, issuing determinations for adjusted benefit amounts. Any identified overpayments will be established per standard process.

2. Bill claimants for overpayments and arrange payment plans with claimants, where required, and repay any recovered overpayments to the federal government, as required.

The Department initiated the formal establishment and issuance of PUA overpayments, inclusive of FPUC, in January, 2022. The interface between the PUA program system and existing accounts receivable system was in place effective February, 2022. Recovery efforts are occurring per normal procedures.

<b>2021-110</b>	
Assistance Listings number and name:	17.225 Unemployment Insurance
Award numbers and years:	None
Federal agency:	U.S. Department of Labor
Compliance requirements:	Special tests and provisions—Benefits payments
Questioned costs:	Not applicable

**Condition**—Contrary to federal regulation, the Department of Economic Security (DES) did not meet the minimum percentage completion rates for its Benefit Accuracy Measurement (BAM) program to investigate cases of its regular unemployment insurance (UI) program’s paid claims for the fiscal year ended June 30, 2021. Specifically, for batches 202027 through 202126 of paid claims we tested, DES’ percentage completion rates for its paid claims case investigations were as follows.

Percentage of paid claims case investigations completed within:	Required minimum percentage completed	DES percentage completed
60 days of the batches’ week ending date	70.0%	31.28%
90 days of the batches’ week ending date	95.0%	60.49%
120 days of calendar year-end	98.0%	63.79%

**Effect**—By not completing the required minimum percentage of paid claims case investigations, DES’ BAM unit, which performs the investigations, is at an elevated risk of not detecting and reporting accurate error rates and the types and causes of benefit payment errors to DES’ management and the federal agency. Consequently, lacking complete and accurate information, DES management may not develop and implement plans for corrective actions to improve its benefit accuracy rates, as required by the federal agency.

**Cause**—DES reported that it failed to meet the required minimum percentage completion rates for its paid claims case investigations because it lost 50 percent of its staff and had delays in training new staff in its BAM unit.

**Criteria**— The BAM program is the federal agency’s quality control system designed to assess the accuracy of UI program paid and denied claims, and states are required to investigate paid and denied claims as part of this program unless exempted from these requirements by the federal agency.<sup>1</sup> Federal regulation requires DES to complete prompt and in-depth case investigations of paid and denied claims to determine if its administration of the UI benefit program is consistent with State and federal law (20 CFR §602.21[d]). In addition, federal guidance requires DES to complete its paid claims case investigations as follows: complete a minimum of 70 percent of cases within 60 days of the batches’ week ending date; complete a minimum of 95 percent of cases within 90 days of the batches’ week ending date; and complete a minimum of 98 percent of cases for the year within 120 days of calendar year-end.<sup>2</sup>

**Recommendations**—DES should meet the required minimum percentage rates for completing UI program paid claims case investigations by DES management allocating sufficient staffing and providing training to new staff of its BAM unit.

The State’s corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

<sup>1</sup> In accordance with federal regulation, DES had an approved waiver from the federal agency that exempted it from the requirement to investigate cases of its regular UI program's denied claims for the fiscal year ended June 30, 2021 (20 CFR 602.22). However, DES was still required to investigate its regular UI program's paid claims for the fiscal year ended June 30, 2021.

<sup>2</sup> U.S. Department of Labor. (2014.) Employment Training Handbook, No. 395, 5th Edition, Chapter VI, Completion of Cases and Timely Data Entry, page VI-11. Microsoft Word - ET Handbook 395, 5th Edition.doc (doleta.gov) or [https://wdr.doleta.gov/directives/attach/ETHandbook\\_395\\_Ch5\\_acc.pdf](https://wdr.doleta.gov/directives/attach/ETHandbook_395_Ch5_acc.pdf).

## Agency Response: Concur

Agency: Department of Economic Security (DES)

Name of contact person and title: Jacqueline Butera, Quality Assurance and Integrity Administrator

Anticipated completion date: June 30, 2023

The Department of Economic Security (DES) will address the audit recommendations, as follows:

The Department redirected existing team resources, as a result of the unprecedented increase in demand, to support other areas of pandemic-related unemployment benefit processing. The Department will recruit for remaining staff vacancies by December 31, 2022. The Department will make efforts to improve staff retention by focusing on recruiting individuals with a strong knowledge and understanding of Unemployment Insurance (UI) laws, policy and procedures, proper case management, and by enhancing the delivery of existing BAM training.

### 2021-111

Assistance Listings number and name: 97.050 COVID-19 Presidential Declared Disaster Assistance to Individuals and Households—  
Other Needs

Award number and year: 4524DRAZSPLW, 2020

Federal agency: Federal Emergency Management Agency (FEMA)

Compliance requirements: Reporting

Questioned costs: Not applicable

**Condition**—For 2 quarterly financial reports we tested, DES reported inaccurate and unsupported information. Specifically, on its December 31, 2020, and March 31, 2021, quarterly financial reports submitted to the Federal Emergency Management Agency (FEMA), DES incorrectly reported cash receipts on the line item for cash disbursements. In addition, DES did not retain documentation to support the federal share of program expenditures reported.

Further, DES did not retain documentation to support amounts it reported on all the weekly reports it submitted to FEMA for the program; therefore, we were unable to verify whether the information was correct for any of the weekly reports.

**Effect**—DES' reporting inaccurate and unsupported program information results in the federal agency being unable to rely on the reports to effectively monitor DES' program administration, including its compliance with program requirements and ability to prevent and detect fraud, and to evaluate the program's success.

**Cause**—DES did not follow all FEMA reporting instructions when preparing the quarterly financial reports. In addition, DES did not have written policies and procedures to save system-generated information used for reporting purposes for this federal program.

**Criteria**—Federal regulation requires accurate, current, and complete disclosure of the financial results of each federal program in accordance with reporting requirements (2 CFR, §200.302[b][2]). DES also must establish and maintain effective internal control over federal awards that provides reasonable assurance that federal programs are being managed in compliance with all applicable laws, regulations, and award terms (2 CFR §200.303).

**Recommendations**— DES should:

1. Follow all FEMA reporting instructions to accurately prepare quarterly financial reports.
2. Develop and implement written policies and procedures to retain all documentation supporting program information it submits to the federal agency.

The State’s corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

**Agency Response: Concur**

Agency: Department of Economic Security (DES)

Name of contact person and title: Angelica Garcia, DERS Business Administrator

Anticipated completion date: December 1, 2022

The Department of Economic Security (DES) will address the audit recommendations, as follows:

1. Follow all FEMA reporting instructions to accurately prepare quarterly financial reports.

The Department will develop a Standard of Work (SOW) that clearly identifies the roles and responsibilities of team members who prepare quarterly financial reports following Federal Emergency Management Agency (FEMA) (and other applicable federal) reporting instructions.

2. Develop and implement written policies and procedures to retain all documentation supporting program information it submits to the federal agency.

The Department will include a process for retaining all documentation supporting program information submitted to the federal agency, following applicable retention and disposition schedules, in the standard work.

**2021-112**

Cluster name:	Aging Cluster
Assistance Listings numbers and names:	93.044 Special Programs for the Aging—Title III, Part B— Grants for Supportive Services and Senior Centers 93.044 COVID-19 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 93.045 COVID-19 Special Programs for the Aging—Title III, Part C—Nutrition Services 93.053 Nutrition Services Incentive Program
Award numbers and years:	18AAAZT3CM, 18AAAZT3HD, and 18AAAZT3SS, 2018; 1901AZOACM-04, 1901AZOAHD-03, 1901AZOANS-03, and 1901AZOASS-04, 2019; 2001AZOACM-05, 2001AZCMC2-02, 2001AZOAHD-05, 2001AZHDC2-00, 2001AZHDC3-00, 2001AZOANS-04, 2001AZOASS-04, and 2001AZSSC3-02, 2020; 2101AZOACM-03, 2101AZOAHD-03, 2101AZHDC5-00, 2101AZOANS-02, and 2101AZOASS-03, 2021
Federal agency:	U.S. Department of Health and Human Services
Compliance requirements:	Activities allowed or unallowed and allowable costs/cost principles
Questioned costs:	\$26,623

**Condition**—Contrary to federal law, the Department of Economic Security (DES)—Division of Aging and Adult Services (Division) misspent \$26,623 of the programs’ total \$1,069,334 administrative expenditures for an unallowable purpose. Specifically, Division management authorized the administrative monies to be spent to improve a workspace used for another program, instead of using them for the intended purpose of covering the programs’ administrative costs related to carrying out the State’s plan for providing supportive and nutrition services to aging residents who rely on such services. This finding was noted for the Special Programs for the Aging—Title III, Part C—Nutrition Services program, for award number and year 2101AZOACM-03, 2021.

**Effect**—The Division’s misspending \$26,623 of the programs’ administrative monies for an unallowable purpose means that the Division was noncompliant with federal requirements and less monies were available for the programs’ intended purpose of covering

administrative costs related to preparing the State’s plan, evaluating activities carried out under the plan, and performing other administrative activities related to the plan. In addition, the U.S. Department of Health and Human Services may require the State to repay the misspent monies in accordance with Uniform Guidance requirements.<sup>1</sup>

**Cause**—Although the Division followed proper procurement procedures to approve the project and had policies and procedures for reviewing and approving expenditures related to the programs’ administrative monies, Division management reported the assigned reviewer did not perform a sufficiently detailed review of the invoice and failed to identify that an incorrect funding source code was used to pay for the workspace improvements.

**Criteria**—Federal law limits the types of administrative costs that are allowable to only those costs that the Division incurs administering the State’s plan to provide supportive and nutrition services to aging residents under the Aging Cluster of programs. Accordingly, the Division is limited to those costs related to the State plan’s administrative activities, such as preparing the plan; evaluating activities carried out under the plan; collecting data and conducting analyses to assess the need for supportive services, nutrition services, and multi-purpose senior centers within the State; and disseminating information, providing short-term training, and carrying out other demonstrative projects related to the State’s plan (42 United States Code [USC] 3028[a]). In addition, the Division must establish and maintain effective internal control over federal awards that provides reasonable assurance that federal programs are being managed in compliance with all applicable laws, regulations, and award terms (2 CFR §200.303).

**Recommendations**—Division management should:

1. Evaluate and improve the Division’s existing policies and procedures for reviewing and approving expenditures related to the programs’ administrative monies to ensure the review is sufficiently detailed to authorize only those costs and activities that are allowable to be charged to the programs.
2. Consult with the U.S. Department of Health and Human Services about repaying the misspent monies to the programs and then proceed, accordingly.

The State’s corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

<sup>1</sup> Federal Uniform Guidance requires federal awarding agencies to follow up on audit findings and issue a management decision to ensure the recipient, DES, takes appropriate and timely corrective action (2 CFR §200.513[c]). Further, it requires that federal awarding agencies’ management decisions clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other action, as directed by the federal awarding agencies (2 CFR §200.521).

**Agency Response: Concur**

Agency: Department of Economic Security (DES)

Name of contact person and title: Scott Schlageter, DAAS Business Administrator

Anticipated completion date: November 1, 2022

As of August 1, 2022, the Department of Economic Security (DES), Division of Aging and Adult Services (DAAS) has largely completed the implementation of the recommendations. DAAS fully implemented recommendations by November 1, 2022. Specifically:

1. *Evaluate and improve the Division’s existing policies and procedures for reviewing and approving expenditures related to the programs’ administrative monies to ensure the review is sufficiently detailed to authorize only those costs and activities that are allowable to be charged to the programs.*

DAAS has made multiple changes to policies and processes to ensure thorough review of all costs and activities; the Division now requires a specific funding stream identification (10-digit Function Code) to be clearly written on the original approval email and is carried through communication until the procurement requisition is established. This process change will allow DAAS to ensure the appropriate funding source is identified from project inception all the way through payment of invoices once services are rendered.

Additionally, during the COVID-19 Pandemic, DAAS created the position of the DAAS Finance Manager to address the expansion of both programs and funding. This position serves as an additional resource and layer of review for all fiscal reporting items. The Finance Manager directly oversees the DAAS Operations and Fiscal Units and ensures consistent continuity of operations between the two teams.

Finally, DAAS added additional budget detail to the planned expenditures view that is reviewed monthly with the DES Division of Financial Operations/Financial Services Administration. This specified detail will ensure DAAS has consistent review and alignment of project funding as well as ensure historical costs have been allocated correctly.

2. *Consult with the U.S. Department of Health and Human Services about repaying the misspent monies to the programs and then proceed, accordingly.*

On July 28, 2022, DAAS processed an expenditure correction for \$26,623 so that the program initially impacted was reimbursed the monies.

### 2021-113

Assistance Listings number and name:	93.658 Foster Care—Title IV-E 93.658 COVID-19 Foster Care—Title IV-E
Award numbers and years:	2001AZFOST, October 1, 2019 through September 30, 2020; 2101AZFOST, October 1, 2020 through September 30, 2021
Federal agency:	U.S. Department of Health and Human Services
Compliance requirements:	Eligibility
Questioned costs:	Unknown

**Condition**—The Department of Child Safety (DCS) paid 3 childcare institutions that provided foster care services \$1,326,307 in federal monies for foster care maintenance payments despite their ineligibility for payments and, contrary to federal regulations, allowed them to care for children before DCS completed all required child safety considerations, which included performing background checks on the childcare institutions’ employees. Specifically, for 3 of 9 childcare institutions tested, DCS did not complete 9 of 87 employee name-based criminal records background checks, also referred to as central registry background checks, until 1 to 20 days after the employees’ hire dates.

**Effect**—Although none of the 9 employees' name-based criminal records checks returned a criminal record, DCS placed children in State care at potential risk by allowing some childcare institutions’ employees to care for children despite DCS not having completed the employees’ name-based criminal records background checks. Further, DCS violated federal regulations by making foster care maintenance payments to these 3 childcare institutions even though they were not eligible to receive the payments.

**Cause**—DCS misapplied guidance from the federal grantor that allowed it to delay fingerprint background checks until it was safely able to do so due to the COVID-19 pandemic to the name-based criminal records background checks. However, the federal guidance did not allow DCS to delay the name- based criminal records background checks.<sup>1</sup> In addition, DCS’ checklist tools it used to ensure compliance with these background checks did not align with the DCS’ policies and federal and State requirements for completing them, making it difficult for DCS to ensure the background checks were conducted as required.

**Criteria**—DCS’ policies and procedures require it to complete background checks on childcare institutions’ employees and ensure the background checks are conducted prior to the employees’ hire date (Department of Child Safety, Administrative Policy 15-32). Federal regulation requires DCS to address safety considerations of a childcare institution’s employees before the childcare institution can be considered eligible to receive maintenance payments under the program (45 CFR §1356.30). Specifically, federal and State laws require DCS to complete the following 2 background checks on all childcare institution employees, whether paid or unpaid: (1) name-based criminal records background checks (the central registry background checks) and (2) fingerprint-based background checks of national crime information databases. The federal grantor allowed a delay for the fingerprint-based background check requirement during the public health emergency resulting from the COVID-19 pandemic.<sup>1</sup> Federal regulation also requires establishing and maintaining effective internal control over federal awards that provides reasonable assurance that federal programs are being managed in compliance with all applicable laws, regulations, and award terms (45 CFR §75.303).

**Recommendations—DCS should:**

1. Complete the required name-based criminal records background checks on all childcare institutions’ employees before allowing employees to care for children and making foster care maintenance payments to childcare institutions.
2. Review and improve its existing procedures, including its checklist tools, to ensure they are consistent with DCS’ policies and federal and State requirements.
3. Seek additional guidance from the federal grantor, as needed, to implement administrative flexibilities to federal requirements and ensure that policies and procedures are modified and communicated to DCS employees accordingly.

The State’s corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

<sup>1</sup> Federal and State laws require DCS to perform both central registry background checks and fingerprint-based background checks of all childcare institutions’ employees, respectively (42 USC §671[a][20] and A.R.S. §§8-804 and 41-141). During the public health emergency resulting from the COVID-19 pandemic, the federal grantor issued a letter dated April 15, 2020, granting flexibility for the fingerprinting requirement, which allowed DCS to complete the fingerprint-based background checks as soon as it could safely do so, providing that it conducted all available name-based criminal background checks in accordance with federal and State laws (U.S. Department of Health and Human Services, Administration for Children And Families. [2020, April 15]. Stafford Act Flexibility for Criminal Background Checks and Monthly Caseworker Visits in Childs Residence. [https://www.acf.hhs.gov/sites/default/files/documents/cb/stafford\\_act.pdf](https://www.acf.hhs.gov/sites/default/files/documents/cb/stafford_act.pdf)).

**Agency Response: Concur**

Agency: Department of Child Safety (DCS)

Name of contact person and title: Kimberly Pender, Program Administrator

Anticipated completion date: June 30, 2023

Department’s Corrective Action Plan:

- The Department will review and amend DCS 15-32 Background Checks – Child Welfare Agency Staff to clarify that Child Welfare Agencies shall request and receive results for DCS Central Registry background checks prior to employment/date of hire.
- The Department will review and amend the Personnel File Monitoring Tool for licensing to include language that background checks needs to be completed prior to hire and ensure all Child Welfare Licensing staff are utilizing the updated checklist.
- The Department will implement, as part of the Quarterly Site Visit Process for childcare institutions, a process to review backgrounds checks to identify opportunities for improvement, trends and establish actions (countermeasures) to resolve any areas of concern. Hiring processes for each agency will also be reviewed during the quarterly site visits.
- The Department will provide updates related to policies and procedures during Quarterly Provider Meetings for childcare institutions, implementing monthly provider calls/meetings and conducting monthly unit/team meetings for Department.
- The Department will present the safety requirement expectations related to background checks for employees to childcare institutions and how the safety requirements are necessary for foster care maintenance payments at a quarterly meeting.
- The Department will conduct monthly monitoring of childcare institutions’ compliance with safety requirement expectations (background checks) for new and existing employees for FY23.

**2021-114**

Assistance Listings numbers and names:	93.658 Foster Care—Title IV-E 93.658 COVID-19 Foster Care—Title IV-E
Award numbers and years:	2001AZFOST, October 1, 2019 through September 30, 2020; 2101AZFOST, October 1, 2020 through September 30, 2021
Federal agency:	U.S. Department of Health and Human Services
Compliance requirements:	Activities allowed or unallowed, allowable costs/cost principles,

**Condition**—The Department of Child Safety (DCS) paid incorrect amounts to foster care service providers for 22 of 106 maintenance payments we tested. The incorrect payments ranged from underpayments of \$26.35 to overpayments of \$35.65 totaling \$282 in net overpayments for our sample.

**Effect**—Some foster care service providers received more monies than they were legally entitled to while others received less monies than they were legally entitled to provide services for the foster children in their care. Those providers who were underpaid may have struggled to provide the appropriate level of services for children in their care. Further, as discussed in federal finding 2021-115, although DCS forgave a portion of the overpayments to foster care service providers, because it did so without prior written federal approval, it is at risk of having to repay the federal government these monies. Therefore, DCS could potentially have to recover these monies from the foster care service providers, which could be a burden to them and impact the services they provide to children in their care.

**Cause**—DCS' newly implemented case management system was not accurately programmed to calculate the correct maintenance payment rate to pay service providers for service periods ranging from January 1, 2021 through June 30, 2021. Specifically, the system calculated the maintenance payment rate to pay service providers based on the child's age on the date the system generated the invoice but instead it should have calculated the maintenance payment rate based on the child's age at the beginning of the service period. This programming error was not prevented, detected, and corrected timely by DCS during system development.

**Criteria**—Federal regulations require DCS to establish payment rates and other amounts for foster care maintenance and adoption assistance payments under a state plan approved by the U.S. Department of Health and Human Services (45 CFR §1356.60[a],[1]. DCS' administrative policies and procedures guide it in calculating and making maintenance payments to service providers and set the rates and other amounts that can be paid as allowed by federal regulations.<sup>1</sup> Further, for any significant information technology system's development and implementation, DCS should follow a credible industry source, such as the National Institute of Standards and Technology to establish policies and procedures to help ensure that it effectively develops and implements new systems to achieve operational and compliance objectives.<sup>2</sup> Finally, federal regulation requires establishing and maintaining effective internal control over federal awards that provides reasonable assurance that the federal program is being managed in compliance with all applicable laws, regulations, and award terms (45 CFR §75.303).

**Recommendations**—DCS management should:

1. Ensure that it pays the correct maintenance payment amounts to foster care service providers by following its established policies and procedures for making system programming changes and testing the changes to ensure that the system operates as intended and in compliance with DCS' policies for setting maintenance payment rates consistent with federal requirements.
2. Investigate and resolve the system's programming issues that resulted in maintenance payments not being calculated correctly consistent with the policies and procedures as described in recommendation 1.
3. Evaluate maintenance payments made to foster care service providers for service periods ranging from January 1, 2021 through June 30, 2021, and make appropriate adjustments to correct all underpayments and overpayments.
4. Develop written policies and procedures for system development and implementation to help prevent, detect, and correct programming errors in any future system upgrades or new system implementations.

The State's corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

<sup>1</sup>Arizona Department of Child Safety. (2021). Administrative Policy, Chapter 4, Section 10—Foster Care Rates, Allowances & Payments. [https://extranet.azdcs.gov/DCSPolicy/Content/Program%20Policy/04\\_Out\\_of\\_Home\\_Care/CH4\\_S10%20Foster%20Care%20Rates,%20Allowances%20&%20Payments.htm](https://extranet.azdcs.gov/DCSPolicy/Content/Program%20Policy/04_Out_of_Home_Care/CH4_S10%20Foster%20Care%20Rates,%20Allowances%20&%20Payments.htm).

<sup>2</sup>U.S. Department of Commerce, National Institute of Standards and Technology. (2020). Special Publication 800-53, Security and Privacy Controls for Federal Systems and Organization (NIST SP 800-53), Revision 5. <https://nvlpubs.nist.gov/nistpubs/SpecialPublications/NIST.SP.800-53r5.pdf>.



**Agency Response: Concur**

Agency: Department of Child Safety (DCS)

Name of contact person and title: Reynaldo Saenz, Assistant Director of Finance and Accounting

Anticipated completion date: June 30, 2023

To ensure correct payment amounts to foster care providers, the Department will:

1. Solely utilize post “Go-Live” date in Guardian and will no longer utilize migrated data from CHILDS.
2. Implement positive and negative software testing strategies. The positive testing determines if the application is working as expected. Negative testing ensures the application can maintain acceptable levels of performance when invalid input or unexpected user behavior is encountered.
3. Develop a program report that compares generated payments to Guardian configuration tables. The configuration tables will provide the baseline for payment amount appropriateness and provide the necessary adjustments to the generated payments.
4. Explore a permanent solution for payment adjustments to help prevent, detect, and correct programming errors. Written policies and procedures for any future system development and implementation will be developed.

**2021-115**

Assistance Listings numbers and names:	93.658 Foster Care—Title IV-E 93.658 COVID-19 Foster Care—Title IV-E 93.659 Adoption Assistance 93.659 COVID-19 Adoption Assistance
Award numbers and years:	2001AZFOST, October 1, 2019 through September 30, 2020; 2101AZFOST, October 1, 2020 through September 30, 2021; 1901AZADPT, October 1, 2019 through September 30, 2020; 2001AZADPT, October 1, 2020 through September 30, 2021
Federal agency:	U.S. Department of Health and Human Services
Compliance requirements:	Activities allowed or unallowed, allowable costs/cost principles, and special tests and provisions—Payment Rate Setting and Application
Questioned costs:	\$424,598

**Condition**—During fiscal year 2021, the Department of Child Safety (DCS) discovered it overpaid foster care service providers for maintenance payments and adoptive parents for assistance payments totaling \$465,402 and \$113,575, respectively, contrary to the federally allowed payment rates and other amounts. However, instead of attempting to recover the entirety of these overpayments, DCS management chose to forgive and write off overpayments of up to \$1,500 it made to individual foster care service providers and adoptive parents without seeking the federal agency’s prior written approval to ensure the costs of the write off amounts were reasonable and necessary for the performance of the grant award. Specifically, DCS management forgave and wrote off overpayments totaling \$331,896 and \$92,702 for the foster care and adoption assistance programs, respectively.

**Effect**—DCS’ overpayments put it at risk of not having sufficient resources for future payments to foster care service providers and adoptive parents and/or needing to recover the overpayments from the foster care service providers and adoptive parents, which could be a burden to them and impact their ability to provide services to children in their care. Further, DCS’s writing off \$424,598 of the overpayments without prior written federal approval could result in it potentially having to return this amount of monies to the federal government, which could impact its ability to provide future services.

**Cause**—To ensure timely payments to foster care service providers, DCS’ management reported it temporarily suspended established policies and procedures requiring the providers to verify information on the system-generated invoices prior to receiving maintenance payments. DCS’ suspension of these policies and procedures was effective for the service periods of January 1, 2021 through March 31, 2021, affected approximately \$4,326,964 of foster care maintenance payments, and resulted in the bulkapproval of these payments, some of which DCS subsequently determined were overpayments. This decision was in response to some new system implementation issues, including the migration of data from the legacy system as well as the new system’s programming for calculating maintenance and assistance payments for foster care service providers and adoptive parents, respectively, and generating invoices for them, all of which caused payment errors and delays.

DCS management reported that its decision to forgive and write off a portion of the overpayments was based on its priority to avoid interruption of maintenance and assistance payments to foster care service providers and adoptive parents, respectively, in support of the placement and stability of the children in their care.

**Criteria**—Federal regulations require DCS to establish payment rates and other amounts for foster care maintenance and adoption assistance payments under a state plan approved by the U.S. Department of Health and Human Services (45 CFR §1356.60[a],[1]. DCS’ administrative policies and procedures guide it in calculating and making maintenance and assistance payments to foster care service providers and adoptive parents, respectively, and correcting payment errors.<sup>1,2</sup> Further, to be allowable, costs under federal awards must be necessary and reasonable for the performance of the grant award and adequately documented (45 CFR §75.403[a],[g]). Lastly, federal regulation requires establishing and maintaining effective internal control over federal awards that provides reasonable assurance that the federal program is being managed in compliance with all applicable laws, regulations, and award terms (45 CFR §75.303).

**Recommendations**—DCS management should:

1. Ensure that it makes accurate maintenance payments to foster care service providers and assistance payments to adoptive parents.
2. Follow its established policies and procedures requiring foster care service providers to verify information on system-generated invoices prior to DCS’ making maintenance payments to them.
3. Implement the recommendations described in federal finding 2021-114 and investigate and resolve the system’s migration and programming issues that resulted in maintenance and assistance payments not being calculated correctly.
4. Not forgive and write off any overpayments to foster care service providers or adoptive parents in the future without obtaining prior written approval from the federal agency.
5. Consult with legal counsel and the federal agency regarding the maintenance and assistance overpayments DCS has not yet recovered and whether DCS will be required to repay the overpayments.

The State’s corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

<sup>1</sup> Arizona Department of Child Safety. (2021). Administrative Policy, Chapter 4, Section 10—Foster Care Rates, Allowances & Payments. [https://extranet.azdcs.gov/DCSPolicy/Content/Program%20Policy/04\\_Out\\_of\\_Home\\_Care/CH4\\_S10%20Foster%20Care%20Rates,%20Allowances%20&%20Payments.htm](https://extranet.azdcs.gov/DCSPolicy/Content/Program%20Policy/04_Out_of_Home_Care/CH4_S10%20Foster%20Care%20Rates,%20Allowances%20&%20Payments.htm).

<sup>2</sup> Arizona Department of Child Safety. (2021). Administrative Policy, Chapter 5, Section 21—Eligibility, Application, Review & Appeals. [https://extranet.azdcs.gov/DCSPolicy/Content/Program%20Policy/05\\_Child\\_Permanency/03%20Adoption%20Subsidy/CH5\\_S21%20Eligibility,%20Application,%20Review%20&%20Appeals.htm](https://extranet.azdcs.gov/DCSPolicy/Content/Program%20Policy/05_Child_Permanency/03%20Adoption%20Subsidy/CH5_S21%20Eligibility,%20Application,%20Review%20&%20Appeals.htm).

### **Agency Response: Concur**

Agency: Department of Child Safety (DCS)

Name of contact person and title: Reynaldo Saenz, Assistant Director of Finance and Accounting

Anticipated completion date: June 30, 2023

To ensure accurate maintenance payments to foster care providers and assistance payments to adoptive parents, the Department will:

- Reinforce existing policies and procedures for invoice completion and approval by the provider.
- Implement a process to validate payment rate by comparing the associated service approvals to approved standard rates for placement type, severity and child’s age.
- Develop protocol for contacting the required federal agency regarding re-payment forgiveness.
- Consult with legal counsel and the federal agency regarding the recovery and repayment of the maintenance and assistance overpayments.

**2021-116**

Assistance Listings number and name:	93.658 Foster Care—Title IV-E 93.658 COVID-19 Foster Care—Title IV-E
Award numbers and years:	2001AZFOST, October 1, 2019 through September 30, 2020; 2101AZFOST, October 1, 2020 through September 30, 2021
Federal agency:	U.S. Department of Health and Human Services
Compliance requirements:	Subrecipient monitoring
Questioned costs:	Unknown

**Condition**—The Department of Child Safety (DCS) awarded \$5,798,495 to 15 subrecipients during fiscal year 2021, or 4.0 percent of DCS’ \$145,391,201 total federal expenditures for this federal program, but did not perform the required monitoring of the subrecipients’ activities or of their compliance with the award terms and program requirements. DCS performed some monitoring during the year, which consisted only of reviewing annual progress reports; however, those monitoring procedures alone were not sufficient to evaluate whether subrecipients used program monies in accordance with the award terms and program requirements.

**Effect**—There is an increased risk that the \$5,798,495 of program monies DCS awarded to the 15 subrecipients may not have been spent in accordance with the award terms and program requirements. Also, since DCS’ award terms require subrecipients to use program monies to supplement, and not supplant, costs of legal representation in child welfare court cases, the lack of monitoring could potentially have increased the risk that these monies may have supplanted these legal costs or may not have been spent to obtain adequate legal representation.

**Cause**—Despite the subrecipient monitoring requirements being included in the federal regulations, DCS management reported it was not aware of these requirements. Further, DCS had not developed written policies and procedures for performing the various monitoring procedures for its subrecipients, including how it considers and assesses risk of each subrecipient and carries out required and various other monitoring procedures based on those risk assessments.

**Criteria**—Federal regulations require DCS to monitor subrecipients, which includes required monitoring procedures for assessing the risk of each subrecipient’s noncompliance and monitoring activities based on those risk assessments; verifying single audits were conducted timely; following up on and ensuring corrective action is taken on audit findings that could potentially affect the program; and issuing a management decision for audit findings pertaining to the federal award. Those federal regulations also provide that monitoring procedures may include reviewing financial and performance reports, providing training or technical assistance on program-related matters, and performing onsite reviews, selective audits, and/or other monitoring procedures (45 CFR §§75.352[b] and [d – e]). Also, federal regulation requires establishing and maintaining effective internal control over federal awards that provides reasonable assurance that the federal program is being managed in compliance with all applicable laws, regulations, and award terms (45 CFR §75.303).

**Recommendations**—DCS should ensure it performs required monitoring of its subrecipients and their compliance with the award terms and program requirements by developing and implementing policies and procedures to:

1. Assess the risk of each subrecipient’s noncompliance and carry out monitoring activities based on those risk assessments such as reviewing financial and performance reports, providing training or technical assistance on program-related matters, and performing on-site reviews, selective audits, and/or other monitoring procedures.
2. Verify subrecipients receive timely single audits, follow up on and ensure that corrective action is taken on audit findings that could potentially affect the program, and issue management decisions for audit findings pertaining to the federal award.
3. Maintain documentation of monitoring procedures demonstrating they were performed, including the monitoring procedures’ results and any DCS actions taken, if appropriate.

The State’s corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

**Agency Response: Concur**

Agency: Department of Child Safety (DCS)

Name of contact person and title: Emilio Gonzales, Audit Administrator

Anticipated completion date: June 30, 2023

The Department will assess the risk of each subrecipient's noncompliance and carry out monitoring activities based on those risk assessments by:

- Modifying the current interagency agreement to include requirements for subrecipient risk assessments and monitoring activities.
- Conducting annual subrecipient risk assessments.
- Completing and monitoring plans for low, high and moderate subrecipients in accordance with the Department's established monitoring procedures.
- Providing quarterly training to subrecipients specific to areas of concern identified in the risk assessment.

The Department will verify subrecipients receive timely single audits, follow up on and ensure that corrective action is taken, and issue management decisions for audit findings pertaining to the federal award by:

- Reviewing the findings of the subrecipients' single audits.
- Notifying subrecipients of the single audit review results.
- Requesting subrecipients complete a corrective action plan for any identified areas of concern as a result of identified findings.
- Providing training to subrecipients specific to the identified areas of concern.
- Monitoring subrecipients corrective action plans to determine if the areas of concern were resolve and if continued funding is appropriate.

The Department will maintain documentation of monitoring procedures demonstrating they were performed, including the monitoring procedures' results and any Department actions taken, if appropriate by:

- Following the Department's grant policies and procedures for risk evaluation, monitoring requirements, actions and subrecipient follow up requirements.
- Ensuring grant policies and procedures are available to all subrecipients.
- Maintaining risk assessments and monitoring procedures.

**2021-117**

Assistance Listings number and name:	93.658 Foster Care—Title IV-E 93.658 COVID-19 Foster Care—Title IV-E
Award numbers and years:	2001AZFOST, October 1, 2019 through September 30, 2020; 2101AZFOST, October 1, 2020 through September 30, 2021
Federal agency:	U.S. Department of Health and Human Services
Compliance requirements:	Reporting
Questioned costs:	Not applicable

**Condition**—Contrary to federal laws and regulations and the State's accounting manual, the Department of Child Safety (DCS) failed to report certain information on the federal government's reporting system for \$14.3 million in subawards it made to 13 Arizona counties under this program. Specifically, DCS awarded federal monies to the Arizona counties to supplement, but not supplant, costs of legal representation in child welfare court cases. However, DCS had not reported any required information about the subawards, including subaward organization names and subaward amounts and terms, during fiscal year 2021 or in the prior year when DCS began awarding program monies.

During fiscal year 2021, DCS spent \$5.8 million of federal monies related to these subawards, or 4 percent of DCS' \$145.4 million total federal expenditures for this federal program. It spent \$8.5 million of federal monies related to these subawards in the prior fiscal year.

**Effect**—The State's stakeholders and the public did not have access to transparent and timely information about DCS' federal award spending decisions on the USAspending.gov website as required by federal laws and regulations.

**Cause**—Although the program’s reporting requirements were provided as additional award terms and conditions on the federal agency’s website, and the State’s accounting manual instructed State departments to follow them, DCS staff reported they were not aware of the program’s reporting requirements because of an oversight.

**Criteria**—The Federal Funding Accountability and Transparency Act (FFATA) and federal Uniform Guidance regulations require DCS, as a direct recipient of federal awards, to report certain information about each subaward action exceeding \$30,000 in federal monies on the FFATA Subaward Reporting System no later than month-end of the month following the subaward action so that the information can be displayed to the public on the website, USAspending.gov.<sup>1</sup> Specifically, the federal Uniform Guidance requires DCS to report the subrecipient organization’s name, award amount, award term, and other information about the subaward, if applicable, for each subaward action exceeding the \$30,000 threshold (2 CFR 170.320 and Appendix A to Part 170). Additionally, the State’s accounting manual requires DCS to perform this reporting for federal awards (State of Arizona Accounting Manual, Topic 70: Grants, Section 45). Further, federal regulation requires establishing and maintaining effective internal control over federal awards that provides reasonable assurance that the federal program is being managed in compliance with all applicable laws, regulations, and award terms (45 CFR §75.303).

**Recommendations**—DCS should:

1. Immediately report on the FFATA Subaward Reporting System the required information for its subawards for this program.
2. Follow the State’s accounting manual for reporting subaward actions exceeding \$30,000 no later than month-end of the month following the subaward action, as required by the FFATA and federal Uniform Guidance, and ensure DCS employees are aware of all program requirements.

The State’s corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

<sup>1</sup>The FFATA of 2006 (Public Law 109-282), as amended by section 6202 of Public Law 110-252, was enacted to provide the public with transparency on federal award spending to hold the recipient government accountable for each spending decision and to help reduce wasteful spending of federal monies. As such, federal Uniform Guidance requires reporting on the FFATA Subaward Reporting System at FSRS—Federal Funding Accountability and Transparency Act Subaward Reporting System.

**Agency Response: Concur**

Agency: Department of Child Safety (DCS)

Name of contact person and title: Emilio Gonzales, Audit Administrator

Anticipated completion date: June 30, 2023

The Department will report on the FFATA Subaward Reporting System by:

- Identifying all subrecipient expenditure reports required for Federal Funding Accountability and Transparency Act (FFATA) reporting into the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS).
- Developing expenditure template for FSRS accessibility.
- Reporting on the subrecipient expenditures for this program within FSRS.
- Confirming FSRS submission.

The Department will follow the State’s accounting manual for reporting subaward actions exceeding \$30,000 no later than month-end of the month following the subaward action and ensure Department employees are aware of all program requirements by:

- Providing initial and annual training(s) to identified staff about FFATA Subaward expenditure submission.
- Reporting on the subrecipient expenditures for this program within the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) no later than month-end of the month following the subaward action.
- Confirming FSRS submission.

**2021-118**

Assistance Listings number and name: 84.425D COVID-19 Education Stabilization Fund—Elementary and Secondary School  
Emergency Relief (ESSER) Fund

Award numbers and years: S425D200038, March 13, 2020 through September 30, 2022;  
S425D210038, March 13, 2020 through September 30, 2023

Federal agency: U.S. Department of Education

Compliance requirements: Reporting

Questioned costs: Not applicable

**Condition**—Contrary to federal laws and regulations and the State’s accounting manual, the Department of Education failed to report complete and accurate information on the federal government’s reporting system related to its \$257.7 million in subawards it made to Local Education Agencies (LEA) under the ESSER I and ESSER II parts of this program during fiscal year 2021. The Department awarded these federal monies to the LEAs to help address local relief, prevention and preparation, and recovery efforts relative to responding to COVID-19. Specifically, as shown in the table below, the Department failed to report:

- Any required information about the subawards, including the subaward organization names and subaward amounts and terms, for 22 of 60 subaward transactions we tested, totaling almost \$9.9 million of the \$38.1 million we tested.
- Required information within the required time frame for 6 of 60 subaward transactions we tested, totaling \$9.4 million, resulting in reports submitted between 1 to 4 months late.
- An accurate subaward obligation date, which is a required key element, for 8 of 60 subaward transactions tested, totaling \$5.6 million.

Finally, the Department did not meet its quarterly reporting requirements for ESSER I and ESSER II monies it spent during fiscal year 2021, since the ESSER reporting requirements were fulfilled through this same reporting on the federal government’s reporting system.

During fiscal year 2021, the Department spent \$257.7 million of federal monies related to subawards, or 97.5 percent of the Department’s \$264.2 million total federal expenditures for this federal program. It spent \$0.5 million of federal monies related to subawards in the prior fiscal year.

The table below describes results for the transactions we tested.

Number of transactions					
Transactions tested	Subaward not reported	Report not timely	Subaward amount incorrect	Subaward missing key elements	Subaward with other incorrect key elements
60	22	6	0	0	8
Dollar amount of transactions					
Transactions tested	Subaward not reported	Report not timely	Subaward amount incorrect	Subaward missing key elements	Subaward with other incorrect key elements
\$38,104,555	\$9,885,957	\$9,413,231	\$0	\$0	\$5,600,001

**Effect**—The State’s stakeholders and the public did not have access to transparent and timely information about the Department’s federal subaward spending decisions on the USAspending.gov website as required by federal laws and regulations. Further, the federal grantor, which relies on the Department’s data on the federal government’s reporting system for quarterly reports, lacked all needed information to effectively monitor the Department’s program administration. Therefore, the Department put the contractor at risk of not being able to carry out its oversight responsibilities and effectively evaluate the program’s success and prevent and detect fraud.

**Cause**—Although the program’s reporting requirements were provided as additional award terms and conditions on the federal agency’s website, and the State’s accounting manual instructed State departments to follow them, the Department did not require independent reviews of the reports for accuracy and completeness prior to uploading subaward data to the federal government’s

reporting system. In addition, the Department did not require a post review to verify that the subaward data it uploaded to the federal government's reporting system was complete and correctly displayed. Therefore, the Department was unaware of the errors.

**Criteria**—The Federal Funding Accountability and Transparency Act (FFATA) and federal Uniform Guidance regulations require the Department, as a direct recipient of federal awards, to report certain information about each subaward action exceeding \$30,000 in federal monies on the FFATA Subaward Reporting System no later than month-end of the month following the subaward action so that the information can be displayed to the public on the website, USAspending.gov.<sup>1</sup> Specifically, the federal Uniform Guidance requires the Department to report the subrecipient organization's name, award amount, award term, and other information about the subaward, if applicable, for each subaward action exceeding the \$30,000 threshold (2 CFR 170.320 and Appendix A to Part 170). Additionally, the State's accounting manual requires the Department to perform this reporting for federal awards (State of Arizona Accounting Manual, Topic 70: Grants, Section 45). Also, federal laws require the Department to submit quarterly reports to the federal grantor unless the Department fulfills that requirement with more frequent reporting.<sup>2</sup> Further, federal regulation requires establishing and maintaining effective internal control over federal awards that provides reasonable assurance that the federal program is being managed in compliance with all applicable laws, regulations, and award terms (2 CFR §200.303).

**Recommendations**—The Department should:

1. Immediately report on the FFATA Subaward Reporting System the required information for its subawards for this program.
2. Follow the State's accounting manual for reporting subaward actions exceeding \$30,000 no later than month-end of the month following the subaward action, as required by the FFATA and federal Uniform Guidance, and implement procedures requiring independent reviews to:
  - a. Ensure the subaward data is complete and accurate prior to uploading it to the federal government's reporting system.
  - b. Verify that the subaward data it uploaded to the federal government's reporting system was complete and correctly displayed.

The State's corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

<sup>1</sup> The FFATA of 2006 (Public Law 109-282), as amended by section 6202 of Public Law 110-252, was enacted to provide the public with transparency on federal award spending to hold the recipient government accountable for each spending decision and to help reduce wasteful spending of federal monies. As such, federal Uniform Guidance requires reporting on the FFATA Subaward Reporting System at FSRS—Federal Funding Accountability and Transparency Act Subaward Reporting System.

<sup>2</sup> For ESSER I, the Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020 (Public Law 116-136), Section 15011, requires the Department to submit quarterly reports to the U.S. Department of Education if it received more than \$150,000 in federal awards under the CARES Act, although the quarterly reporting requirements are met if more frequent monthly reporting is performed, such as under the FFATA. These same reporting requirements applied to ESSER II in accordance with the Department's award terms and conditions and Division M, Section 303(f), of the Consolidated Appropriations Act of 2021 (Public Law 116-260).

#### **Agency Response: Concur**

Agency: Department of Education (ADE)

Name of contact person and title: Deirdre Mai, Deputy Associate Superintendent of Grants Management

Anticipated completion date: June 30, 2023

1. ADE Grants Management will continue to generate FFATA data from the GME system and report monthly per required process.
2. Prior to uploading FFATA reports into FSRS.gov, a two-step review process will be taken by the ADE Grants Management Technology team.
3. On upload to FSRS.gov, any unforeseen FSRS.gov errors received during the process will be noted on an internal Service Request documenting the need for review and subsequent action to correct by the Grants Management Technology Team.
  - a. Errors which cannot be corrected will be escalated via support request to the General Services Administration team
  - b. FFATA upload/reporting errors for which we have the inability to correct on our end will continue to be reported to the General Services Administration via support request ticket. All documentation including tickets submitted and responses received will be retained.
4. We will also meet with the FSRS.gov/General Services Administration teams to confirm all required report parameters and elements. This will enable us to ensure that the raw data report pulled from the GME system is properly aligned to reporting requirements and thus reduce potential for errors in the FSRS.gov system.

5. ADE Grants Management will review all report parameters, elements, and process with GME system vendor to ensure that report, reporting process and upload time stamp meet monthly requirements.
6. ADE Grants Management will retain all raw data FFATA reports from GME, formatted reports used for upload to FSRS.gov, FSRS.gov error reports and other documentation, as well as all communications relating to FFATA reporting to/from FSRS.gov, General Services Administration or other Federal agencies as relates to FFATA reporting.
7. A log will be utilized for all tickets submitted to the General Services Administration due to the issues ADE Grants Management has had with obtaining accurate and/or timely responses to our requests for assistance.

**2021-119**

Assistance Listings numbers and names:	10.558 Child and Adult Care Food Program 10.558 COVID-19 Child and Adult Care Food Program
Award numbers and years:	6AZ300003 Amendment 16, October 1, 2019 through September 30, 2020; 6AZ300003 Amendment 21, October 1, 2020 through September 30, 2021; 6AZ3000411, March 27, 2020 through September 30, 2020; 6AZ300004, October 1, 2020 through September 30, 2022
Federal agency:	U.S. Department of Agriculture
Compliance requirements:	Eligibility
Questioned costs:	None

**Condition**—Contrary to federal law, the Arizona Department of Education (Department) did not review grant applications from applicants such as childcare centers, adult care centers, family daycare homes, and emergency centers, and notify them within 30 days of their applications’ completion date as to whether they were eligible to participate in the federal program and receive assistance for grants-in-aid and donated food. Specifically, for 4 of 49 grant applications tested, the Department did not notify the applicants of their eligibility status until between 36 to 47 days after receiving the completed application, which was between 6 and 17 days past the required time period.

**Effect**—Although the Department determined these applicants were eligible, the Department’s lack of timeliness in reviewing grant applications and notifying applicants of their eligibility status delayed the applicants’ ability to request a reimbursement claim by between 6 and 15 days<sup>1</sup> of when they should have been able to request the reimbursement.

**Cause**—Department employees reported that they were unaware of the federal requirement to notify applicants within 30 days. Further, the Department did not have written policies and associated procedures specifying that Department employees must complete the grant application reviews and notify applicants of their eligibility within the required 30-day time period.

**Criteria**—Federal law requires the Department to notify the applicant no later than 30 days after their completing an application as to whether they are eligible to participate in the program (42 U.S.C. 1766[d][1][D]). Also, federal regulation requires establishing and maintaining effective internal control over federal awards that provides reasonable assurance that the federal program is being managed in compliance with all applicable laws, regulations, and award terms (2 CFR §200.303).

**Recommendations**—The Department should:

1. Review grant applications and notify applicants within 30 days of their application completion date as to whether they are eligible to participate in the federal program.
2. Develop and implement policies and procedures requiring Department employees to review grant applications and notify applicants within 30 days of their application completion date as to whether they are eligible to participate in the federal program, and ensure employees are aware of these requirements.

The State’s corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.



<sup>1</sup> Applicants are eligible to submit reimbursement claims on the first day of the month following the month that reimbursements are being claimed for. In this case, the center submitted their application on September 29, 2020, requiring the Department to provide a response by October 29, 2020. The Department did not approve the application until November 15, 2020, or 17 days late. Therefore, as the center would not have been eligible to submit a reimbursement request for October expenses until November 1, 2020, we excluded October 30 and 31, 2020, from the calculation to determine the number of days the center was delayed from being able to submit a reimbursement request.

**Agency Response: Concur**

Agency: Department of Education (ADE)

Name of contact person and title: Cara Alexander, Deputy Associate Superintendent of Health and Nutrition  
and Melissa Conner, Associate Superintendent of Health and Nutrition

Anticipated completion date: August 31, 2023

The Health and Nutrition Services division’s leadership team will review and update the existing procedures document to more clearly outline actions to be taken by staff, including conditions to deem an application complete and to ensure applicants are notified of their eligibility within 30 days. The conditions that deem an application ‘complete’ will be clearly identified to ensure the timeframe for processing applications within 30 days is based upon a complete application.

A new tracking system for CACFP Renewal Application processing has been implemented for the Federal Fiscal Year 2023 and it will be evaluated by Senior leadership management in early 2023 for its effectiveness as an internal control for the timeliness of processing applications. The tracker automatically indicates the latest status of an application and calculates days for various statuses including number of days in submitted status and number of days for an application to be approved. If any modifications are deemed necessary, they will be implemented prior to the start of the Federal Fiscal Year 2024.

Senior leadership management will ensure current and new staff receive annual training on both the procedures to be followed and the tracking system associated with the processing of CACFP Applications. Senior leadership management will also be responsible for implementing new internal controls where necessary.

**2021-120**

Assistance Listings number and name:	17.002 Labor Force Statistics
Award numbers and years:	LM-33077-20-75-J-04, October 1, 2019 through September 30, 2020; LM-34561-21-75-J-04, October 1, 2020 through September 30, 2021
Cluster name:	Employment Service Cluster
Assistance Listings number and name:	17.207 Employment Service/Wagner-Peyser Funded Activities
Award number and year:	ES-35329-20-55A-4, July 1, 2020 through June 30, 2021
Cluster name:	WIOA Cluster
Assistance Listings numbers and names:	17.258 WIOA Adult Program 17.259 WIOA Youth Activities 17.278 WIOA Dislocated Worker Formula Grants
Award number and year:	AA-34755-20-55-A-4, July 1, 2020 through June 30, 2021
Federal agency:	U.S. Department of Labor
Compliance requirements:	Allowable costs/cost principles
Questioned costs:	\$330,489

**Condition**—In our performance audit and sunset review of the Arizona Office of Economic Opportunity (Office) issued September 30, 2022, we identified and reported potential unallowable costs for 3 nonmajor programs that the Office administers.<sup>1</sup> Contrary to federal regulations, the Office allocated \$330,489 of costs to 3 federal programs during July 1, 2019 through March 31, 2022 without documenting that the costs were commensurate with the services and benefits those programs received and allowable based on the programs’ requirements and award terms. These costs consisted of various Arizona Commerce Authority (Commerce Authority) administrative and technical services, including human resources and public relations functions and services, provided to the Office by various Commerce Authority executive staff.

We did not audit the Labor Force Statistics, Employment Service Cluster, and WIOA Cluster programs for fiscal year 2021, since these programs/clusters did not meet the major federal program criteria. However, the State reported on its schedule of expenditures of

federal awards for the year ended June 30, 2021, that it spent a total of \$934,482, \$12,309,790, and \$72,370,234 for these programs, respectively. Of these amounts, the Office spent a total of \$934,482, \$550,285, and \$1,058,481 for these programs, respectively, during fiscal year 2021.

**Effect**—By allocating costs to its various federal programs without ensuring the costs were allowable and commensurate with the services and benefits each federal program received, the Office risks that at least some of the administrative and technical services costs it allocated to these programs, which totaled \$330,489, may be unallowable costs for which the federal government may seek repayment.<sup>2</sup>

**Cause**—The Office and the Commerce Authority are separate legal entities that have integrated their operations together, and the Office lacked written policies and procedures for its employees to follow to ensure that it complied with federal program requirements for the federal awards it administered. Specifically, the Office lacked processes for determining what costs were allowable for the federal programs it administered, allocating allowable costs to them in a manner provided by federal regulations, and requiring its employees to prepare documentation to support that the costs it allocated to federal programs, such as administrative and technical services the Commerce Authority provided to the Office, were allowable and commensurate with the services and benefits those federal programs received.

**Criteria**—Federal Uniform Guidance requires the State to use federal program monies for only those costs allowed by federal regulations and that provide a benefit directly or indirectly to the program's purposes (2 CFR §200.405[a]).<sup>3</sup> Federal Uniform Guidance also requires establishing and maintaining effective internal control over federal awards that provides reasonable assurance that the federal program is being managed in compliance with all applicable laws, regulations, and award terms (2 CFR §200.303).

**Recommendations**—The Office should:

1. Develop and implement written policies and procedures for administering federal programs to ensure it complies with each federal program's requirements and award terms that include processes to:
  - a. Determine costs that are allowable for the federal programs it administers.
  - b. Allocate allowable costs to federal programs in a manner provided by federal regulations.
  - c. Require its employees to prepare documentation to support that costs allocated to federal programs are allowable and commensurate with the services and benefits those federal programs received.
2. Consult with the federal agency or state pass-through agency and legal counsel as necessary regarding the allowability of the costs it allocated to federal programs for the Commerce Authority's administrative and technical services.

The State's corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

<sup>1</sup>Arizona Auditor General. (2022). Performance Audit and Sunset Review of Arizona Office of Economic Opportunity, September 2022, Report 22- 113, Phoenix, AZ.

<sup>2</sup>Federal Uniform Guidance requires federal awarding agencies to follow up on audit findings and issue a management decision to ensure the recipient, the Office, takes appropriate and timely corrective action (2 CFR §200.513[c]). Further, Federal Uniform Guidance requires that federal awarding agencies' management decisions clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other action, as directed by the federal awarding agencies (2 CFR §200.521).

<sup>3</sup>Federal Uniform Guidance sets the general criteria for the allowability of costs for federal programs; although, federal agency regulations and federal award terms may further specify the allowability of costs for a particular federal program. Generally, costs must meet the following criteria to be considered allowable for federal awards. Costs must (1) be necessary and reasonable for the performance of the federal award and allocable under the Uniform Guidance's costs principles requirements, (2) conform to any limitations or exclusions set for in the Uniform Guidance's costs principles or federal award as to types or the amount of cost items, (3) be consistent with the entity's policies and procedures that apply uniformly to both federal and nonfederal activities of the entity, (4) be consistently applied as either a direct cost or an indirect cost, such that a cost may not be assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the federal award as an indirect cost, (5) be deemed a cost in accordance with generally accepted accounting principles, (6) not be included as a cost or used to meet the cost-sharing requirement for another federal award, (7) be adequately documented and supported in accordance with 2 CFR 200.300 through .309, and (8) be incurred during the federal award's approved budget period (2 CFR §200.403). Federal Uniform Guidance further specifies criteria for costs to be considered reasonable and allocable to federal programs (2 CFR §§200.404-405).

## Agency Response: Concur

Agency: Arizona Office of Economic Opportunity (OEO)

Name of contact person and title: Angelica Romero, Finance Manager  
Anticipated completion date: June 30, 2023

The Office of Economic Opportunity agrees with this finding and will implement the following:

- Develop and implement a process to ensure it complies with each federal program’s requirements and award terms that include processes to:
  - Determine costs that are allowable for the federal programs it administers.
  - Allocate allowable costs to federal programs in a manner provided by federal regulations.
  - Ensure proper documentation is maintained to demonstrate costs allocated to federal programs are allowable and commensurate with the services and benefits those federal programs received.
- Require payees to provide supporting documentation for services and deliverables, including but not limited to a breakdown of costs for expenditures to be paid with federal program funds.
- Consult with federal partners, state pass-through agencies, legal counsel, and accounting professionals as necessary regarding the allowability of the costs allocated to federal programs.

**2021-121**

Assistance Listings numbers and names:	Various
Award numbers and years:	Various
Federal agencies:	Various
Compliance requirements:	Activities allowed or unallowed and allowable costs/cost principles
Questioned costs:	Unknown

**Condition**—The Arizona Department of Administration (ADOA) reported to us that during fiscal year 2021, the State may have used an estimated \$550,000 of restricted federal program monies, including interest, for unallowable purposes, contrary to federal regulations.

**Effect**—Similar to prior years, ADOA will be required to repay the U.S. Department of Health and Human Services (U.S. HHS) the total amount of restricted federal program monies the State spent for unallowable purposes once U.S. HHS finalizes its review of ADOA’s estimate and either approves or adjusts it. For example, previously in fiscal year 2020, ADOA reported that the State may have similarly used an estimated \$1.2 million of restricted program monies contrary to federal regulations. As a result, in July 2021, ADOA worked with U.S. HHS to repay \$1.5 million from the State’s Risk Management Fund monies. Additionally, this finding could potentially affect any federal programs the State administers through its various agencies that have State legislatively mandated transfers that include restricted federal program monies.

**Cause**—Despite ADOA having informed us that the State may have used restricted federal program monies for unallowable purposes, and our having included this finding in the State’s Single Audit Report for at least the past 11 years, during the 2020 legislative session, laws were enacted that mandated or directed transfers of monies from specific State agency account balances that included restricted federal program monies. These laws directed the transferred monies to be used for general operating expenses or other specific purposes, such as child safety litigation services. For example, Laws 2020, Ch. 58, §76, transferred unused monies from the State’s Risk Management Revolving Fund, which included a proportional share of monies from restricted federal program sources to the Department of Public Safety (DPS) for general operating expenses. When the State transferred and DPS spent the monies, which included the restricted federal program monies to pay for the legislatively mandated uses, it did not have a basis to show the relative benefits for each specific federal program’s objectives.

**Criteria**—Federal regulation requires the State to use federal program monies for only those costs allowed by federal regulations and that provide a benefit directly or indirectly to the program’s purposes (2 CFR §200.405[a]). In addition, federal regulation prohibits the State from using federal monies to cover the general costs of government, such as police and litigation services, or the costs of prosecutorial activities having no direct benefit to a federal program (2 CFR §§200.444[a][4-5]).

**Recommendations**—ADOA should:

1. Continue to work with U.S. HHS for remittance of any disallowed costs identified, including disallowed costs identified in prior fiscal years.

2. Continue to inform the Legislature, the Arizona Governor’s Office of Strategic Planning and Budgeting, and other State agencies of the State agency funds that include restricted federal program monies in their fund balance.
3. Continue to monitor legislative bills being considered during legislative sessions and recommend bill revisions to help prevent transferring restricted federal program monies.

The State’s corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

This finding is similar to prior-year finding 2020-110.

**Agency Response: Concur**

Agency: Arizona Department of Administration (ADOA)  
 Name of contact person and title: Ashley Ruiz, Assistant Director  
 Anticipated completion date: Unknown

We have an established process in place for monitoring legislation. On multiple occasions, we have advised that these transfers were not consistent with established Federal cost principles and would 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 is a cross-cutting finding and is appropriately being addressed with the U.S. Department of Health and Human Services, Cost Allocation Services (U.S. HHS) for the payment and appropriate resolution of the questioned costs. We agree and commit to continue to work with the DHHS-CAS and appropriate bodies within the State, to the best of our ability, to find an equitable resolution to this issue.

<b>2021-122</b>	
Assistance Listings numbers and names:	Not applicable
Questioned costs:	Not applicable

**Condition**—Contrary to federal regulations and guidance, the Arizona Department of Administration (ADOA) submitted the State’s June 30, 2021, Single Audit Report to the federal audit clearinghouse on November 29, 2022, which was 60 days later than allowed by the COVID-19-related single audit extension of September 30, 2022.

**Effect**—The State’s late Single Audit Report submission may have prevented the U.S. Department of Health and Human Services, which is the State’s federal cognizant agency, as well as the U.S. Department of Education, which oversees the State’s 3 universities’ student financial aid programs, and other federal agencies that oversee the State’s federal programs from having timely information to effectively monitor federal programs and impose corrective actions for any findings we report. Further, the State, including its 3 universities, could potentially face actions taken by federal agencies that may affect the State’s and universities’ future federal awards, such as additional cash monitoring, other compliance monitoring, and funding restrictions or penalties.

**Cause**—The State’s Single Audit Report was late because State agencies continued to experience resource challenges caused by reduced staffing from retirements and other employee turnover and increased workloads due to carrying out additional responsibilities and administering new federal funding in response to the COVID-19 pandemic as described in financial statement findings 2021-01 through 2021-04 and federal award findings 2021-108 and 2021-109. Further, the Arizona Health Care Cost Containment System (AHCCCS), the Department of Health Services (DHS), and the Department of Economic Security (DES), did not finalize program expenditures for ADOA to include on the Schedule of Expenditures of Federal Awards (SEFA) until August 9, 2022, September 14, 2022, and September 14, 2022, respectively. Consequently, ADOA was unable to finalize the SEFA until October 14, 2022.

Lastly, as described in federal award finding 2021-102, the Arizona Governor’s Office of Strategic Planning and Budgeting (Office) had deficiencies in administering the State’s Coronavirus Relief Fund program monies, including seeking after-the-fact information from State agencies to determine unallowable costs, which should have been completed at the time of expenditure reimbursement.

**Criteria**—Federal regulations normally require the State to submit its Single Audit Report to the federal audit clearinghouse no later than 9 months after fiscal year-end (2 CFR §200.512). However, due to the COVID-19 pandemic, the U.S. Office of Management and Budget (OMB) extended this deadline by allowing an additional 6 months—until September 30, 2022—for the State to file its June 30, 2021, Single Audit Report.<sup>1</sup>

**Recommendations**—ADOA should submit all future Single Audit Reports on or before the federally required submission deadline, which is normally no later than 9 months after fiscal year-end, or by March 31 of the subsequent year.

In addition, those individuals in management who are responsible for AHCCCS’, DHS’, DES’, and the Office’s federal program administration should:

1. Ensure they allocate the appropriate resources to timely submit the necessary accurate and final program expenditures for the SEFA to ADOA and for the audit to meet the State’s single audit submission requirements.
2. Coordinate and communicate directly with ADOA any difficulties they are having and to seek guidance and assistance when needed.

Further, DES and the Office should take corrective action on our recommendations described in findings 2021-108 and 2021-109 for DES and 2021-102 for the Office.

The State’s corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

This finding is similar to prior-year finding 2020-111

<sup>1</sup>Executive Office of the President, OMB. (March 19, 2021). OMB Memorandum M-21-20, Promoting Public Trust in the Federal Government through Effective Implementation of the American Rescue Plan Act and Stewardship of the Taxpayer Resources. Grants Policies & Regulations. U.S. Department of Health and Human Services. Retrieved on August 18, 2022. <https://www.hhs.gov/grants/grants/grants-policiesregulations/index.html>.

**Agency Response: Concur**

Agency: Arizona Department of Administration (ADOA)  
Arizona Governor’s Office of Strategic Planning and Budgeting (Office)  
Department of Health Services (DHS)  
Arizona Health Care Cost Containment System (AHCCCS)  
Department of Economic Security (DES)

Name of contact persons and titles: Ashley Ruiz, ADOA, Assistant Director  
Andrea Hightower, Office Grants and Federal Resources Team Manager  
Lora Andrikopoulos, DHS Grants Administrator  
Karen MacLean, AHCCCS DBF Finance Administrator  
Roberta Harrison, DES Chief Financial Officer

Anticipated completion date: See below

ADOA anticipated completion date: March 31, 2026

The Department of Administration agrees timely submittal of the Single Audit is vital for Federal oversight and decision making purposes. We strive to comply with the Federal timelines and will continue to actively work with the state agencies to submit a timely Single Audit.

Office anticipated completion date: July 31, 2023

The Governor's Office of Strategic Planning and Budgeting agrees with this finding and has already taken significant correction action. Increased personnel resources at both grants analyst and manager levels have allowed for more timely review of federally-funded grant awards' expenditure data and other programmatic information, supervisory reviews, appropriate separation of duties, and more frequent coordination and communication with State agencies.

During the time frame corresponding to this audit, the Governor's Office of Strategic Planning and Budgeting limited personnel resources were focused on ensuring that federal relief funding was disbursed in the timeliest manner possible to alleviate the negative impacts on Arizona's most vulnerable communities and impacted areas. The pace and volume of resulting grant agreements and interagency agreements needing to be executed exceeded staffing capacity, which contributed to the findings noted. As of this date, the Grants and Federal Resources Team has achieved stability in both Manager and staff positions and the influx of new federal relief funding has slowed.

DHS anticipated completion date: July 1, 2023

The Department of Health Services will review its standard work on the SEFA and make the necessary improvements. The process moving forward will include a communication plan, pulling of additional financial reports and calendar reminders.

AHCCCS anticipated completion date: June 30, 2025

AHCCCS agrees with this finding and will implement the following:

- Staffing
  - AHCCCS hired an Accountant IV to assist with the financial statements and Schedule of Expenditures of Federal Awards toward the end completing the FY 21 audit. This person is assisting with the FY 22 audit while still being trained and learning her duties and responsibilities. It is anticipated she will add more value and have an impact on the preparation of the FY 23 financial statements.
  - Management of the unit is providing comprehensive cross training to other team members who are already helping with the current FY 22 audit.
- Pre-Audit Preparation
  - On a quarterly basis, prepare a draft of the financial statements with no accruals based only on AFIS data. The purpose is to ensure all transactions have the appropriate chart of accounts elements and are mapped correctly to the respective accounting lines.
  - On a quarterly basis, prepare a draft Schedule of Expenditures of Federal Awards to reduce the time and effort of creating the final version at the end of the fiscal year. In addition, this will help identify at an earlier stage of the audit any additional major programs that will be audited besides Medicaid and CHIP.
  - Negotiate with AHCCCS outside auditors, if possible, to begin audit work earlier, April/May. AHCCCS would provide preliminary reports for testing of program payments as well as payroll made in the first 3 quarters of the fiscal year. AHCCCS would also provide any MCO oversight documentation that is available.
- Overall Efficiencies
  - Over the next few years, redesign and automate other internal processes to increase efficiency and provide the audit team members additional time to address the financial statements.

DES anticipated completion date: November 30, 2023

- The DES concurs that the timely submission of the Single Audit is vital for oversight and strategic decision making purposes. While we will always strive to comply with the federal timelines, articulating the complexities of the various federal regulations and how they interacted with one another, and in some cases, changed within the reporting period, proved to be time consuming and exceedingly challenging. The DES will actively work with our partners to help ensure timely reporting of future Single Audits.