

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY2018 Single Audit Report)

2018-101

CFDA numbers and names:	Various
Award numbers and years:	Various
Federal agencies:	Various
Compliance requirement:	Allowable costs/cost principles
Questioned costs:	Unknown

Finding

Condition and Context -- The State did not comply with various federal programs' allowable costs/cost principles requirements with respect to the following legislatively mandated transfers that involved transferring monies from State funds that contained federal program monies:

- Laws 2016, Chapter 117, §113, and Laws 2017, Chapter 305, §19: mandated monies to be transferred from the State's Risk Management Revolving Fund to be spent on Department of Child Safety litigation expenses.
- Laws 2017, Chapter 305, §141: mandated monies to be transferred from various State funds to the State's Automation Projects Fund.
- Laws 2017, Chapter 305, §80: mandated monies to be transferred from the State's Risk Management Revolving Fund to the Department of Public Safety to be spent on general government services it normally provides.
- Laws 2018, Chapter 276, §12: mandated monies to be transferred from the State's Risk Management Revolving Fund to be spent on election litigation expenses.

When the State transferred and spent the monies to pay for the mandated uses, there was no basis to show the relative benefits for each specific federal program's objectives. The Arizona Department of Administration (ADOA) has evaluated the federal monies that were included in the transferred amounts and has worked with the applicable federal agencies to determine the questioned costs and whether monies need to be repaid.

Criteria—In accordance with 2 U.S. Code of Federal Regulations (CFR) §200.405(a), costs charged to federal programs should be based on the relative benefits received. Further, in accordance with 2 CFR §200.444(a), federal awards must not be used for the general costs of State government, such as police services, litigation, and information technology systems.

Effect—We were unable to determine the amount of questioned costs that resulted from this finding or identify all the federal programs affected because ADOA has not finalized the calculation for the federal portion of these transfers that occurred during fiscal year 2018. However, we estimated that questioned costs exceeded \$25,000. Once calculated, this amount will be subject to the U.S. Department of Health and Human Services' review and approval. This finding could potentially affect all federal programs administered by State agencies that had State legislatively mandated transfers.

Cause—During the legislative session when the State's Legislature determines and approves its mandated transfers through many and various bills that must be voted on and approved by the full House and Senate, it is not always possible for ADOA or other State agencies to intervene to recommend bill revisions to avoid transferring monies from sources with federal program monies.

Recommendation— To help ensure the State complies with federal programs' allowable costs/cost principles requirements, ADOA should:

- Continue to monitor bills being considered in the Arizona State Legislature to help ensure that unallowable costs to federal programs will not be incurred in the future
- Continue to work with the U.S. Department of Health and Human Services for remittance of any unallowable costs identified.

The State's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

The finding is similar to prior-year finding 2017-101.

Agency Response: Concur

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

This is a cross-cutting finding and is appropriately being addressed with the U.S. Department of Health and Human Services, Cost Allocation Services (DHHS-CAS) 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.

2018-102

CFDA number and name:	84.126 Rehabilitation Services Vocational Rehabilitation Grants to States
Award numbers and years:	H126A160002, 2016; H126A170002, 2017; and H126A180002, 2018
Federal agency:	U.S. Department of Education
Cluster name:	TANF Cluster
CFDA number and name:	93.558 Temporary Assistance for Needy Families
Award numbers and years:	1602AZTANF, 2016; 1702AZTANF and 1702AZTAN3, 2017; and 1802AZTANF and 1802AZTAN3, 2018
Federal agency:	U.S. Department of Health and Human Services
Compliance requirement:	Cash management
Questioned costs:	Not applicable

Finding

Condition and context—The Department of Economic Security’s (DES) Financial Services Administration did not follow the agreed-upon Treasury-State Agreement (TSA) funding technique that requires the State to request monies to be received on Thursday of the week that payroll is paid. We audited 9 cash drawdowns that contained payroll costs and found that for 1 of 5 Rehabilitation Services Vocational Rehabilitation Grants to States cash drawdowns of \$516,336 and 3 of 4 Temporary Assistance for Needy Families cash drawdowns of \$3,051,142, \$8,329,412, and \$12,525,900, the federal monies were deposited a day early.

Criteria—In accordance with 31 CFR §§205.11 and 205.12(b), DES must request federal monies in accordance with the funding techniques agreed to in the TSA. In addition, in accordance with the TSA, Section 7.3, when applying funding techniques that require federal monies to be deposited in a State account on the average clearance day of payroll, the State shall request to receive the monies on Thursday of the week the payroll is paid. Also, DES must establish and maintain effective internal control over its federal awards that provides reasonable assurance that it is managing them in compliance with all applicable laws, regulations, and award terms (2 CFR §200.303 and 45 CFR §75.303(a)).

Effect—DES’ drawing of federal monies earlier than when needed increases the risk that federal monies may remain idle or that interest may be earned on them, which would be required to be remitted to the federal grantor. This finding could potentially affect all federal programs that DES administers covered by the TSA.

Cause—The State’s average clearance day for payroll changed, but the TSA was not amended to meet DES’ immediate cash needs.

Recommendation—To help ensure compliance with cash management compliance requirements, DES should work with Arizona Department of Administration’s General Accounting Office and the U.S. Department of the Treasury to revise its TSA to meet its cash needs.

The State’s responsible officials’ views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2017-118.

Agency Response: Concur

In response to this finding, the Department met with the State General Accounting Office to discuss the Treasury State Agreement (TSA) and the unsustainable cash flow issue it created for the agency. The General Accounting Office submitted a new TSA agreement for fiscal year 2019 that meets the agency's cash flow needs, and the Department has modified its draw patterns in accordance.

2018-103

CFDA number and name:	84.126 Rehabilitation Services Vocational Rehabilitation Grants to States
Award numbers and years:	H126A160002, 2016; H126A170002, 2017; and H126A180002, 2018
Federal agency:	U.S. Department of Education
Compliance requirements:	Activities allowed or unallowed and allowable costs/cost principles
Questioned costs:	\$2,859

Finding

Condition and context—The Department of Economic Security's (DES) Division of Employment and Rehabilitation Services, Rehabilitation Services Administration, did not retain adequate documentation in the recipients' case records for 2 of 25 program expenditures tested. Specifically, for 1 expenditure tested, DES did not document in the recipients' case records how monies spent for 3 months' rent, utilities, gasoline, and moving costs, totaling \$2,699, assisted in an employment outcome. These questioned costs apply to the H126A170002 award. Further, DES did not document how it determined these costs were allowable since they occurred after the recipient had obtained full-time employment in a chosen field meeting the recipient's employment objective. For another expenditure tested, DES advanced the recipient \$160 to purchase a textbook on the basis the recipient would reimburse DES upon receiving Pell Grant monies from registering and attending summer school. However, the recipient exited the program, and DES could not provide documentation that it received reimbursement. This questioned cost applies to the H126A180002 award.

Criteria—In accordance with 34 CFR §361.48(b), vocational rehabilitation services are any services described in an individualized plan for employment necessary to help an individual with a disability prepare for, secure, retain, or regain an employment outcome that is consistent with the individual's strengths, resources, priorities, concerns, abilities, capabilities, interests, and informed choice. In addition, 34 CFR §361.46 requires each individualized plan for employment to include the specific rehabilitation services needed to achieve the employment outcome. Also, DES must establish and maintain effective internal control over its federal awards that provides reasonable assurance that it is managing them in compliance with all applicable laws, regulations, and award terms (2 CFR §200.303).

Effect—Without strict adherence to adequate policies and procedures, vocational rehabilitation monies may be used to pay for unallowed services.

Cause—DES' policies and procedures required the recipients' individualized plans for employment to document the rehabilitation services needed but did not require documentation of how the specific rehabilitation services helped to achieve the employment outcomes. In addition, DES did not follow up with a recipient who exited the program to seek reimbursement for monies that were advanced for a textbook purchase.

Recommendation—To help ensure compliance with activities allowed or unallowed and allowable costs/cost principles compliance requirements, DES should improve its policies and procedures by requiring its employees to:

- Prepare and maintain documentation in all recipients' case records that explain how services will assist individuals with a disability in preparing for, securing, retaining, or regaining an employment outcome
- Avoid advancing program monies to recipients for items, such as textbooks, that can be paid for using other federal sources.

The State's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2017-119.

Agency Response: Concur

The Department agrees with this finding and will implement the following:

- Distribute audit findings to staff and reiterate importance and requirements related to:
 - linking purchases with employment outcomes;
 - collecting and reconciling receipts for purchases;

- Conduct quality assurance testing monthly. Auditors from the Quality Assurance and Integrity Administration will randomly select open and closed cases for audit each month and use a predefined rubric to evaluate compliance.
- Supervisors will review the Pass/Fail items with counselors. Coaching and mentoring discussions will take place to change behaviors. Disciplinary action will be pursued as appropriate if issues are not resolved after coaching and mentoring.

2018-104

CFDA number and name:	84.126 Rehabilitation Services Vocational Rehabilitation Grants to States
Award numbers and years:	H126A160002, 2016; H126A170002, 2017; and H126A180002, 2018
Federal agency:	U.S. Department of Education
Compliance requirement:	Eligibility
Questioned costs:	Not applicable

Finding

Condition and context—For 2 of 40 applications tested, the Department of Economic Security’s (DES) Division of Employment and Rehabilitation Services, Rehabilitation Services Administration, did not determine applicant eligibility within 60 days. Specifically, for 1 applicant, it took DES 89 days to determine eligibility, and it did not obtain an extension. For the other applicant, it took DES 102 days to obtain an extension.

Criteria—In accordance with 29 U.S. Code §722(a)(6), DES must determine whether an applicant is eligible for vocational rehabilitation services within 60 days after the applicant has submitted an application for the services unless DES and the applicant agree to an extension. Also, DES must establish and maintain effective internal control over its federal awards that provides reasonable assurance that it is managing them in compliance with all applicable laws, regulations, and award terms (2 CFR §200.303).

Effect—Failure to make timely eligibility determinations may result in DES providing delayed services.

Cause—DES did not follow its policies and procedures and react to information system alerts that open applications were close to the 60-day eligibility determination requirement.

Recommendation—To help ensure eligibility determinations are made within 60 days after the applicant has submitted an application or the applicant has agreed to an extension, DES should provide adequate supervision of its case workers and enforce its policies and procedures to follow up on information system alerts that open applications are approaching the 60-day eligibility determination requirement. If the eligibility determination cannot be completed within the 60-day period, the applicant and DES should agree to an extension.

The State’s responsible officials’ views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2017-120.

Agency Response: Concur

The Department agrees with this finding and will implement the following:

- Distribute audit findings to staff and reiterate the importance of and requirements related to completing the Eligibility determination within 60 calendar days from the date of application or to have a signed extension in place prior to the 60th calendar day;
- Release eligibility compliance report weekly to managers and supervisors;
- Develop and implement countermeasures to address cases noted as out of compliance;
- Conduct quality assurance testing monthly. Auditors from the Quality Assurance and Integrity Administration will randomly select open and closed cases for audit each month and use a predefined rubric to evaluate compliance; and
- Supervisors will review the Pass/Fail items with counselors. Coaching and mentoring discussions will take place to change behaviors. Disciplinary action will be pursued as appropriate if issues are not resolved after coaching and mentoring.

2018-105

CFDA number and name:	84.126 Rehabilitation Services Vocational Rehabilitation Grants to States
Award numbers and years:	H126A160002, 2016; H126A170002, 2017; and H126A180002, 2018
Federal agency:	U.S. Department of Education

Compliance requirement:	Special tests and provisions
Questioned costs:	Not applicable

Finding

Condition and context—The Department of Economic Security’s (DES) Division of Employment and Rehabilitation Services, Rehabilitation Services Administration, did not develop an individualized plan for employment (IPE) within 90 days of the eligibility determination date or the agreed-upon extension date for 1 of 40 case files tested. Specifically, it took DES 112 days to complete the IPE. In addition, for another 1 of 40 case files tested, the IPE was completed; however, it was not signed by the eligible individual or the individual’s representative.

Criteria—In accordance with 29 U.S. Code §722(b)(3)(F), DES must develop an IPE for an eligible individual as soon as possible, but no later than 90 days after the date of eligibility determination, unless DES and the eligible individual agree to extend that deadline to a specific date the IPE will be completed. In addition, 29 U.S. Code §722(b)(3)(C) requires an IPE to be approved and signed by both the eligible individual or individual’s representative, and a qualified vocational rehabilitation (VR) counselor.

Effect—Failure to develop a timely IPE may result in DES providing delayed services.

Cause—DES’ counselors did not follow established policies and procedures and respond to information system alerts that the deadline was approaching. In addition, DES counselors did not follow established policies and procedures to ensure the IPE was signed by either the eligible individual or the individual’s representative.

Recommendation—To help ensure compliance with program requirements, DES should:

- Provide adequate supervision of its counselors and enforce its policies and procedures to follow up on information system alerts for completing IPEs no later than 90 days after the eligibility determination date or within the extension period or to prepare a letter before the end of the 90-day period to establish a specific extension of time when an IPE cannot be completed within 90 days. Both DES and the program participant should sign this letter
- Ensure that IPEs are approved and signed by both the eligible individual, or the individual’s representative, and a qualified VR counselor.

The State’s responsible officials’ views and planned corrective action are in its corrective action plan included at the end of this report.

Agency Response: Concur

The Department agrees with this finding and will implement the following:

- Distribute audit findings to staff and reiterate the importance of and requirements related to completing the Individualized Plan for Employment (IPE) within 90 calendar days from the date of eligibility or to have a signed extension in place prior to the 90th calendar day;
- Release IPE compliance report weekly to managers and supervisors;
- Develop and implement countermeasures to address cases noted as out of compliance; and
- Conduct quality assurance testing monthly. Auditors from the Quality Assurance and Integrity Administration will randomly select open and closed cases for audit each month and use a predefined rubric to evaluate compliance.
- Supervisors will review the Pass/Fail items with counselors. Coaching and mentoring discussions will take place to change behaviors. Disciplinary action will be pursued as appropriate if issues are not resolved after coaching and mentoring.

2018-106

Cluster name:	TANF Cluster
CFDA Numbers and Names:	93.558 Temporary Assistance for Needy Families
Award Numbers and Years:	1602AZTANF, 2016; 1702AZTANF and 1702AZTAN3, 2017; and 1802AZTANF and 1802AZTAN3, 2018
Federal agency:	U.S. Department of Health and Human Services
Compliance requirement:	Eligibility
Questioned costs:	\$1,803

Finding

Condition and context—The Department of Economic Security’s (DES) Division of Benefits and Medical Eligibility, Family Assistance Administration, did not always have adequate policies and procedures in place to comply with eligibility requirements for 2 of 40 case records tested. Specifically, for 1 case record tested, DES did not reduce or halt the applicant’s benefit payments when the applicant did not comply with the Job Opportunities and Basic Skills (JOBS) training services working requirements. The applicant was issued a 100 percent noncompliance JOBS sanction notice; however, DES did not properly reduce the applicant’s benefits by \$440 for the following month. Additionally, for another 1 case record tested, DES provided cash assistance to an applicant without adequately supporting its decision regarding eligibility requirements. Specifically, DES could not provide required documentation supporting the applicant was a child’s legal caretaker. Because the case record did not adequately support eligibility determination facts, the applicant’s cash assistance payments totaling \$1,363 are questioned costs. These questioned costs apply to the 1802AZTANF award.

Criteria— In accordance with 42 U.S. Code §607(e), if an individual in a family receiving assistance refuses to engage in required work, DES must reduce assistance to the family, at least pro rata, with respect to any period during the month in which the individual so refuses. Also, as required by 45 CFR §206.10(a)(8), DES must document each decision regarding eligibility or ineligibility as supported by facts in the applicant’s or recipient’s case record. Also, DES must establish and maintain effective internal control over its federal awards that provides reasonable assurance that it is managing them in compliance with all applicable laws, regulations, and award terms (2 CFR §200.303 and 45 CFR §75.303(a)).

Effect— DES may issue excess benefits to recipients and may provide benefits to applicants who are not eligible to receive them.

Cause— JOBS training services is administered by a subrecipient, and DES cannot reduce a participant’s benefits until JOBS issues a notice of adverse action on the participant’s account. JOBS failed to issue this notice by the 10th day of the month, DES’s deadline for processing the subsequent month’s benefit payments. In addition, DES’s case worker believed all supporting documentation was accounted for in the case file to support the recipient was the child’s legal caretaker.

Recommendation— To help ensure DES makes accurate benefit payments and complies with eligibility compliance requirements, it should work with the JOBS training services administrator to ensure that any notices of adverse action are issued on participants’ accounts by the 10th day of the month, as required by DES’ policies and procedures. In addition, DES should ensure that facts regarding eligibility determinations are properly supported and the support is retained in the recipients’ case records.

The State’s responsible officials’ views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2017-123.

Agency Response: Concur

The Department agrees with this finding and implemented the following:

- The Jobs Contract Provider re-trained all staff to ensure understanding of the sanction process, with emphasis on the Notice of Adverse Action (NOAA). The training focused on the NOAA being sent timely and giving the individual 10 days advance notice of TANF Cash Assistance being decreased or stopped (Jobs Program Policy, Section 800). The training also emphasized best practices to ensure NOAA’s are sent accurately, timely, and that the sanction is imposed; and
- The Division of Benefits and Medical Eligibility coached the individual case worker on the programmatic requirements for all TANF eligibility decisions related to determining a child’s relationship to the caretaker, which includes legal and blood relation; it was stressed that the case record must include documentation that supports this requirement. The individual case worker’s Supervisor reviewed the TANF policy and procedures specific to mandatory relationship requirements and documentation standards, with staff during their team huddle and team meeting. Program Administrators reminded Regional Program Management of the requirement to verify and document the relationship of the adult applying for TANF benefits to each dependent child included in the budgetary unit and ask that they share this information with their regions during the next monthly meeting. This information was also shared with the Training Unit requesting they review their TANF training materials to ensure the verification and documentation requirements include the details required to support the TANF eligibility determinations.

2018-107

CFDA number and name: 93.658 Foster Care Title IV-E
Award numbers and years: 1701AZFOST, 2017; 1801AZFOST, 2018
Federal agency: U.S. Department of Health and Human Services

Compliance requirement:	Eligibility
Questioned costs:	Unknown

Finding

Condition and context—The Department of Child Safety (DCS) paid 7 child care institutions an estimated \$3,043,338 in federal monies for foster care maintenance payments when the institutions did not have all the required safety background checks to be considered eligible for the payments. Specifically, DCS did not always follow its policies and procedures to ensure that it completed background checks of its contracted and subcontracted child care institutions' employees within a reasonable period after their hire date. For 2 of the 13 child care institutions tested, DCS did not complete 16 of 312 employees' background checks until 2 to 98 months after the employees' hire date. In addition, we identified an additional 5 child care institutions that had outdated background checks for part of the year. DCS subsequently performed background checks on all child care institution employees between December 2017 and March 2018. However, there is increased risk that there may have been additional child care institutions that were not in compliance during the fiscal year.

Criteria— In accordance with 45 CFR §1356.30(f), for a child care institution such as a foster care group home to be eligible for Title IV-E funding, DCS must address safety considerations associated with employees who have direct contact with children. The State's safety consideration standards are outlined in A.R.S. §8-804(B)(3) and require DCS to complete a background check using the State's central registry for all employees of contracted and subcontracted child care institutions that provide direct services to children. The background check must be completed within a reasonable period after their hire date. Further, DCS must establish and maintain effective internal control over the federal award that provides reasonable assurance it is managing the federal award in compliance with all applicable laws, regulations, and the award terms (45 CFR §75.303).

Effect— Child care institutions may have employees who directly care for children, but who have not received required background checks or have not had them updated, and therefore DCS could make foster care maintenance payments to child care institutions that are not eligible to receive them.

Cause— DCS did not maintain documentation for long-term employees who were previously verified and did not enforce its existing policies and procedures to perform background checks of new hires at child care institutions within a reasonable period after their hire date.

Recommendation— To comply with federal regulations and State laws and to help ensure that foster care maintenance payments are not made to child care institutions that are ineligible to receive them, DCS should follow its existing policies and procedures to perform safety background checks for child care institutions in a timely manner. Specifically, DCS should ensure that child care institutions submit new hire information within 5 business days and DCS performs and completes background checks of the new hires at child care institutions within 2 weeks of receiving the documentation.

The State's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2017-114.

Agency Response: Concur

The Department of Child Safety (Department) will implement the following action items:

The Department implemented new internal control procedures and verified all group home employees had the proper background checks by March 2018. During the time of non-compliance, there were no children who were placed in the identified group homes who were in danger as a result of the delayed safety checks. As of March 2018, the finding was fully corrected, and new procedures include the following:

In early 2018, the Office of Licensing and Regulation (OLR) implemented database (Quick Connect) enhancements to permit Child Welfare Providers to enter employees and volunteers into the Department's electronic database within 5 days of hire to request the Central Registry check and to document the fingerprint card request/card number. The Department's electronic database has the ability to interface with the Department of Public Safety on a daily basis. This enhancement enables OLR to receive notification of any denied, suspended, revoked, and expired Level I Fingerprint Clearance Cards for any staff or volunteers. The database issues a daily report to OLR with pending requests for Central Registry background checks. An OLR designee completes the safety checks and enters

the results into the database within two weeks. The database auto generates electronic updates to the Child Welfare Agency requestor when the request is made, and the results are completed and entered by OLR.

In April 2018, all contracted Child Welfare Agencies were issued a contract amendment requiring each Agency to utilize two standard forms, Agency Roster and Background Check Authorization Form, to report all employees and volunteers on the first of each month to OLR and obtain authorization from the staff or volunteer to complete a background check. At implementation of the contract amendment, OLR began tracking the timeliness of Agency Roster Submissions. OLR identified timely submission by Child Welfare Agencies was not occurring. In September 2018, a process was developed to track and monitor each Child Welfare Agency without timely submissions. This process increased the timeliness of agency roster submissions.

In June 2018, a process was developed by the Department to notify Child Welfare Agencies when a Level I Fingerprint Clearance Card is denied, suspended, revoked or expired or a substantiated DCS finding is entered into the Central Registry. This notification serves as a courtesy notice to the Child Welfare Agency to follow up and does not disclose details of charge or reason.

On a quarterly basis, OLR staff review agency roster reports to ensure employees and volunteers identified on the rosters are entered in the Quick Connect database. In addition, OLR staff audit Child Welfare Agency's personnel files during on-site monitoring visits.

OLR will continue to monitor and evaluate the current process. Reviews occur quarterly to ensure continuous improvement. OLR is in the process of identifying a designee to complete monthly audits of the rosters to ensure consistency and thoroughness of the review process. OLR is developing a notification process for the Child Welfare Agencies when an invalid Level I Fingerprint Clearance Card status is identified. The Child Welfare Agency's response will include a formal plan to ensure child safety.

2018-108

CFDA number and name:	93.658 Foster Care Title IV-E
Award numbers and years:	1701AZADPT, 2017; 1801AZADPT, 2018
CFDA number and name:	93.659 Adoption Assistance
Award numbers and years:	1701AZADPT, 2017; 1801AZADPT, 2018
Federal agency:	U.S. Department of Health and Human Services
Compliance requirements:	Cash management
Questioned costs:	None

Finding

Condition and context—The Department of Child Safety (DCS) did not have adequate internal controls to comply with the Treasury-State Agreement (TSA) and did not always request federal reimbursements according to the funding technique patterns as agreed to by both the State of Arizona and U.S. Department of Treasury for the audit period July 1, 2017 through June 30, 2018. Specifically, for 7 of 15 cash drawdowns we tested, DCS requested monies to pay its payroll costs between 1 and 13 days earlier than what was authorized for both the Foster Care Title IV-E and Adoption Assistance programs. In addition, included for 3 of these cash drawdowns, DCS drew down more monies than were required to meet its expected cashmanagement needs to pay vendors and service providers for the Adoption Assistance program. Further, for 3 of 15 cash drawdowns we tested, there was no evidence the reimbursement request was reviewed and approved for accuracy and compliance with the TSA prior to the request being made. Consequently, DCS maintained positive cash balances throughout the period of July 1, 2017 through June 30, 2018, that averaged \$1,621 to \$5,614,601 for the Adoption Assistance program. DCS maintained the largest balance of \$5,614,601 for 6 days. We did not identify significant cash balances for the Foster Care program.

Criteria—In accordance with 31 CFR §§205.11, 205.12(b) and 205.33(a), DCS must request federal monies in accordance with the funding techniques outlined in the TSA. DCS is required to use the biweekly estimation-allocation methodology for payroll payments and the average clearance methodology for payments to vendors and service providers to obtain reimbursement of federal expenditures. For example, when requesting monies for payroll, DCS should request monies to be deposited the same day it pays its employees. For payments to vendors and service providers, DCS should request monies for only the exact amount of disbursements to be paid in 2 days. Additionally, DCS must establish and maintain effective internal controls over the federal award that provides reasonable assurance it is managing the program in compliance with laws, regulations, and award terms (45 CFR §75.303).

Effect— DCS' drawing of federal monies earlier than when needed and as provided in the TSA increase the risk that federal monies may remain idle or that interest may be earned on them, which would be required to be remitted to the federal grantor. DCS remitted

interest earned back to the federal government of \$1,004 and \$19,260 for the Foster Care Title IV-E and Adoption Assistance programs, respectively, because of these positive cash balances. This finding could potentially affect all federal programs DCS administers covered by the TSA.

Cause— DCS’ policies and procedures for requesting federal reimbursement were not properly designed to comply with the TSA in effect for the audit period, which resulted in DCS not following the proper funding methodologies.

Recommendation— To help ensure compliance with the TSA, DCS should:

- Evaluate and modify as appropriate its policies and procedures for federal reimbursement requests to ensure that cash drawdown requests are calculated and made based on the approved funding Arizona Auditor General State of Arizona— Schedule of Findings and Questioned Costs | Year Ended June 30, 2018 PAGE 29 techniques. Also, future cash drawdown requests should be reduced for any positive cash balances to ensure monies requested are for the DCS’ immediate cash needs.
- Require a person who is knowledgeable about the TSA’s funding techniques to review and approve cash drawdown requests for accuracy and compliance with the TSA prior to submitting them to the federal agency. This review should include a comparison of the cash drawdown requests to the programs’ cash balances.

The State’s responsible officials’ views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2017-115.

Agency Response: Concur

The Department will implement the following action items:

During fiscal year 2019, the Department strengthened procedures and protocols for cash processing. The improvement in cash management is evident in the Department’s performance for fiscal year 2018. Effective December 2018, the Department implemented and tested procedures to ensure cash is received to cover payroll costs only on the Wednesday of payroll week, per fiscal year 2019 Treasury State Agreement (TSA). The desktop procedures were also updated immediately to reflect this change.

The Department draws in a large portion of Adoption Assistance at the beginning of each month using an estimate for expenses scheduled to post during the monthly CHILDS’ interface. Sometimes the estimate is too high and requires a return. However, when check cancellations and other adjustments are concurrent to the high estimate the \$1,000 minimum return requirement is typically not met. To assist in easily identifying instances in which a return did not meet the \$1,000 minimum, the Department has designed a tracking tool that is updated and monitored daily. The tool was implemented in June 2018.

The Department requires staff to perform the draw down process on a daily basis. On the top left corner of the Daily Draw Down Packet cover page, there is an automated formula that displays the current date. Upon review and approval, the manager is responsible for checking the date to ensure it is the current day. Therefore, it is implied that the signature date is the date shown on the cover page. The Department implemented this process in June 2018.

2018-109	
Cluster Name:	TANF Cluster
CFDA number and name:	93.558 Temporary Assistance for Needy Families
Award numbers and years:	1702AZTAN3, 2017; 1801AZTANF, 2018
CFDA number and name:	93.658 Foster Care Title IV-E
Award numbers and years:	1701AZFOST, 2017; 1801AZFOST, 2018
CFDA number and name:	93.659 Adoption Assistance
Award numbers and years:	1701AZADPT, 2017; 1801AZADPT, 2018
CFDA number and name:	93.667 Social Services Block Grant
Award numbers and years:	G1701AZSOSR, 2017; G1801AZSOSR, 2018
Federal agency:	U.S. Department of Health and Human Services

Compliance requirement:	Allowable costs/cost principles
Questioned costs:	None

Finding

Condition and context— The Department of Child Safety (DCS) did not have adequate internal controls over its allocation of indirect costs to federal programs. Specifically, DCS did not properly review and reconcile its monthly allocations to ensure that indirect costs were allocated correctly. As a result, for the period July 1, 2017 through April 30, 2018, DCS over-requested \$2,636,702 and \$1,860,578 in federal monies for the Foster Care Title IV-E and Social Services Block Grant (SSBG) programs, respectively, and under-requested \$3,858,427 in federal monies for the Temporary Assistance for Needy Families (TANF) program. Based on a prior-year audit finding, DCS modified its controls in May 2018, reexamined its cost allocation reports, and corrected the errors to properly record the allocation of indirect costs by program in August 2018 but did not make up for the overdrawn monies by requesting less federal monies than needed on future reimbursement requests until September 2018.

Criteria—In accordance with 45 CFR §95.507, costs allocated to federal programs should be in accordance with DCS’ approved cost-allocation plan. DCS uses the Arizona Random Moment Sampling (ARMS) and Title IV-E Population Factors cost-allocation processes to allocate indirect costs to its programs. Accordingly, expenditures processed through the ARMS cost-allocation method should be allocated based on the percentage of services employees provided when surveyed at a random moment in time. Costs allocated through the Title IV-E Population Factors method should be allocated based on the number of children served who are classified as Title IV-E or non-Title IV-E. Further, DCS must establish and maintain Arizona Auditor General State of Arizona—Schedule of Findings and Questioned Costs | Year Ended June 30, 2018 PAGE 30 effective internal controls over federal awards that provide reasonable assurance it is managing them in compliance with laws, regulations, and award terms (2 CFR §200.303).

Effect— DCS incorrectly allocated indirect costs to federal programs, and consequently, drew down excess federal monies totaling a net amount of \$638,853 for the audit period.

Cause— DCS did not have written policies and procedures in place to reconcile its indirect cost allocations on a monthly basis.

Recommendation— To help ensure compliance with federal requirements, DCS should develop and implement written policies and procedures for reviewing and reconciling indirect cost allocations on a monthly basis. This process should include recalculating the ARMS and Title IV-E Population Factor percentages used to allocate indirect costs.

The State’s responsible officials’ views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2017-117.

Agency Response: Concur

The Department implemented the following action items:

After modifying controls to the Department’s cost allocation process in May 2018 and correcting errors to its expenditures and revenues in August and September 2018, respectively, the Department went a step further in November 2018 and implemented a monthly post cost allocation process to monitor, review, and reconcile the ARMS and Population Factor percentages allocated to indirect costs. An analyst has been assigned this standard work task and the desktop procedure was updated in the same month.

2018-110

CFDA number and name:	93.917 HIV Care Formula Grants
Award numbers and years:	2 X07HA00080-27-00, 4 X07HA00080-27-01, and 6 X07HA00080-27-02, 2017; 5 X07HA00080-28-00, 2018
Federal agency:	U.S. Department of Health and Human Services
Compliance requirement:	Period of performance
Questioned costs:	\$90,935

Finding

Condition and context— The Department of Health Services (DHS) received rebates from pharmaceutical companies for medications purchased with program monies. However, DHS did not have adequate procedures in place to ensure that rebate monies it received

were spent within the award period they were received. Specifically, for 13 of 60 expenditures tested, rebate monies expenditures totaling \$90,935 were incurred after the award period had ended. This questioned cost applies to the 6 X07HA00080- 27-02 award. Criteria—In accordance with the HIV/AIDS Bureau Policy Clarification Notice 15-04, rebate monies must be spent on allowable program costs within the award period to which the rebates relate. Also, DHS must establish and maintain effective internal control over its federal awards that provides reasonable assurance that it is managing them in compliance with all applicable laws, regulations, and award terms (2 CFR §200.303 and 45 CFR §75.303(a)).

Effect— The \$90,935 of rebate monies expended were questioned program costs, and DHS risks having to repay these and any future similar questioned costs.

Cause— DHS’ procedure was to apply rebate monies toward expenditures of the oldest award, if monies were available, and was not aware of the program’s requirement.

Recommendation— To help ensure it complies with the program’s period of performance requirements, DHS should evaluate and revise its policies and procedures to ensure it is spending rebate monies received on allowable program costs within the award period to which the rebates relate.

Agency Response: Concur

The Ryan White Part B/ADAP Program is addressing the issue of spending pharmaceutical rebates outside of the period in which they were received by developing policies and procedures to govern our charging of rebate funds.

These pharmaceutical rebates policies will ensure the following:

- Rebate funds spent by the program will be spent only during the period of performance in which those funds were earned for expenses incurred during that period of performance.
- Compliance will be tested quarterly in AFIS to ensure that rebate funds earned in a period of performance are only utilized for expenses incurred during that period of performance.

This testing will add an additional level of review to help identify and correct errors prior to the closure of a period of performance. This will allow errors to be corrected promptly and will help us determine early on if our policies are effective rather than waiting until the end of the project period.

These policies will ensure our matching requirements through the HIV AIDS Care Formula Grant are fully complied with and ensure that we spend pharmaceutical rebates in the period which they were incurred.

These policies will be written in consultation with the Grants and Finance offices. They will be completed and implemented by April 30, 2019.

2018-111	
CFDA number and name:	93.917 HIV Care Formula Grants
Award numbers and years:	2 X07HA00080-27-00, 4 X07HA00080-27-01, and 6 X07HA00080-27-02, 2017; 5 X07HA00080-28-00, 2018
Federal agency:	U.S. Department of Health and Human Services
Compliance requirement:	Matching
Questioned costs:	None

Finding

Condition and context—The Department of Health Services (DHS) did not have adequate internal control policies and procedures in place to monitor its compliance with matching requirements. DHS used pharmaceutical company rebates and State monies to satisfy its matching requirement. However, DHS based the rebate matching amount on rebate monies received rather than rebate monies expended. Additionally, DHS reported other nonrebate matching expenditures that were not incurred during the award period. Therefore, these expenditures were not allowable to be used to meet the matching requirements. We performed further auditing procedures and determined that DHS had sufficient allowable expenditures to meet its matching requirements from additional nonfederal sources. Therefore, no questioned costs were identified.

Criteria— In accordance with the grant agreement and 45 CFR §75.306, DHS was required to match at a ratio of 2 to 1 of the program’s total expenditures for the award period. Also, DHS must establish and maintain effective internal control over its federal awards that provides reasonable assurance that it is managing them in compliance with all applicable laws, regulations, and award terms (2 CFR §200.303 and 45 CFR §75.303(a)).

Effect— There is an increased risk that DHS will report incorrect matching amounts to the federal grantor or will not comply with the matching requirements and be required to return federal monies to the federal awarding agency.

Cause— DHS was not aware that the expenditure amounts used for matching should occur within the award period. Further, for the rebate portion of the match, DHS felt that basing the amount on rebates received was appropriate because rebate monies were usually fully expended.

Recommendation— To help ensure that the program’s reported match is adequately supported and correctly reported, DHS should improve its policies and procedures to monitor its actual matching costs incurred throughout the award period by ensuring that they are allowable, comparable to the approved program budget, verifiable from DHS’ records, necessary and reasonable for accomplishing the program’s objectives, and not composed of costs related to other federal programs.

The State’s responsible officials’ views and planned corrective action are in its corrective action plan included at the end of this report.

Agency Response: Concur

The Ryan White Part B/ADAP Program is addressing the issue of not having in place proper internal controls and policies and procedures to review and monitor our matching requirement under the HIV AIDS Care Formula Grants requirements by developing policies and procedures to govern our monitoring of the state matching contribution. These matching policies will ensure the following:

- Will utilize rebate moneys expended as part of the match contribution and will not utilize rebate funds received as match; and
- Will align the matching funds used as match with the award period of the Ryan White Part B/ADAP program.

These policies will ensure our matching requirements through the HIV AIDS Care Formula Grant are fully complied with.

These policies will be written in consultation with the Grants and Finance offices. They will be completed and implemented by April 30, 2019.

2018-112	
CFDA number and name:	93.917 HIV Care Formula Grants
Award numbers and years:	2 X07HA00080-27-00, 4 X07HA00080-27-01, and 6 X07HA00080-27-02, 2017; 5 X07HA00080-28-00, 2018
Federal agency:	U.S. Department of Health and Human Services
Compliance requirement:	Subrecipient monitoring
Questioned costs:	None

Finding

Condition and context—The Department of Health Services (DHS) did not evaluate its 16 subrecipients’ risk of noncompliance to determine the appropriate monitoring procedures to be performed to ensure they were complying with program requirements. DHS’ established policies and procedures were to perform the same level of monitoring on each subrecipient; however, for 2 of 16 subrecipients tested, DHS did not perform a site visit and did not ensure that the subrecipient received a single audit. However, DHS reviewed the 2 subrecipients’ monthly reimbursement requests for allowability of costs incurred and found no unallowable costs. DHS disbursed over \$13 million to its 16 subrecipients during fiscal year 2018.

Criteria— In accordance with 2 CFR §200.331, DHS must evaluate each subrecipient’s risk of noncompliance with federal statutes, regulations, and the subaward’s terms and conditions for purposes of determining the appropriate monitoring to perform to help ensure that the subaward is used for only authorized purposes and that the subaward’s performance goals are achieved. Also, DHS must establish and maintain effective internal control over its federal awards that provides reasonable assurance that it is managing them in compliance with all applicable laws, regulations, and award terms (2 CFR §200.303 and 45 CFR §75.303(a)).

Effect— Noncompliance with federal regulations requiring the evaluation and monitoring of subrecipients’ activities and performance to help ensure subawards are used for only authorized purposes and meet performance goals. Without proper evaluation and monitoring policies and procedures in place, subrecipients could spend program monies on unauthorized purposes or fall below expected performance levels.

Cause— DHS was unaware that it was required to monitor the subrecipients because the 2 subrecipients also received direct funding from the same federal agency.

Recommendation— To comply with the federal regulations, DHS should:

- Modify its written policies and procedures to evaluate each subrecipient’s risk of noncompliance and determine the appropriate monitoring to be performed rather than perform the same level of monitoring on every subrecipient for the program.
- Monitor subrecipients’ activities, based on each subrecipient’s risk of noncompliance evaluation, to help ensure that subawards are spent for only authorized purposes and that subrecipients comply with federal statutes, regulations, and the subawards’ terms and conditions.

The State’s responsible officials’ views and planned corrective action are in its corrective action plan included at the end of this report.

Agency Response: Concur

The Ryan White Part B/AIDS Drug Assistance Program had previously identified in the fall of 2018 that monitoring was required of all subrecipients, including those that had previously been exempted: the Maricopa Integrated Health System (MIHS) and Maricopa County Ryan White Part A program.

As such in fiscal year 2019 the Ryan White Part B/AIDS Drug Assistance Program has already begun monitoring that site visits are conducted of both the Maricopa Integrated Health System and Maricopa County Ryan White Part A program. ADHS will issue reports to both organizations on any findings identified and both subrecipients will submit quality improvement plans to address any issues identified. ADHS will then work with our jurisdictional planner, to implement any quality improvements identified as being needed.

We expect this monitoring process and quality improvements to be completed by April 30, 2019.

2018-113

Cluster name:	Special Education Cluster (IDEA)
CFDA numbers and names:	84.027 Special Education—Grants to States 84.173 Special Education—Preschool Grants
Award numbers and years:	H027A150007, 2015; H027A16007, 2016; H027170007, 2017; H173A150003, 2015; H173A160003, 2016; H173A170003, 2017
Federal agency:	U.S. Department of Education
Compliance requirements:	Activities allowed or unallowed, allowable costs/cost principles, cash management, and reporting
Questioned costs:	None

Finding

Condition and context—The Arizona Department of Education (ADE) requested and received a total advance of \$785,226 during the fiscal year from this program’s available monies to temporarily cover another federal program’s costs. Spending federal monies on another program’s costs is not allowable. ADE did not receive reimbursement for the costs from the other federal program until 3 to 6 months after the initial expenditures and requests for monies occurred.

Criteria— In accordance with 2 CFR §200.405, ADE should charge costs to a federal award only if the cost is incurred specifically for the federal award. Further, according to 31 CFR §§205.11, 205.12(b)(4), 205.15(a), and 205.33(a), ADE must request federal monies from the federal awarding agency in accordance with the funding technique agreed to in the Treasury-State Agreement. The technique agreed upon for the program is a pre-issuance methodology where ADE should request monies not more than 3 business days before ADE makes a disbursement for program purposes. An interest liability may accrue if ADE receives federal monies prior to the day it pays out the funds for federal assistance program purposes. Also, ADE must establish and maintain effective internal control over its federal awards that provides reasonable assurance that it is managing them in compliance with all applicable laws, regulations, and award terms (2 CFR §200.303).

Effect— ADE ultimately reimbursed the Cluster’s special education programs for monies spent on another federal program. However, using special education program monies for another federal program reduced the monies available for the Cluster’s special education programs’ use while monies were essentially loaned for an unallowable purpose. Accordingly, ADE may be responsible for repaying interest to the federal awarding agency for the monies advanced but not used for program purposes.

Cause— ADE did not have internal controls in place to ensure that only costs that were for the benefit of the special education programs were charged and that requests for monies from the federal awarding agency were used to pay only special education program costs.

Recommendation— To comply with the federal requirements and the Treasury-State Agreement, ADE should:

- Establish policies and procedures that ensure the special education programs are charged for only costs incurred specifically for the federal award.
- Request program monies for only allowable special education program purposes.

The State’s responsible officials’ views and planned corrective action are in its corrective action plan at the end of this report.

The finding is similar to prior-year finding 2017-106.

Agency Response: Concur

The Arizona Department of Education (ADE) agrees with this finding and has worked to arrange an advance payment methodology to ensure that funds exist before expenditures are incurred for the Federal program. Exceptional Student Services (ESS) requests one month of expenditures in advance from the Governor’s Office, ensuring there is enough funding to operate on. As of May 2019, this Federal project will no longer exist, however we will apply this methodology to other programs as applicable.

2018-114

CFDA number and name:	10.558 Child and Adult Care Food Program
Award numbers and years:	7AZ300AZ3, 2016, 2017, 2018 7AZ300AZ4, 2016, 2017, 2018
Federal agency:	U.S. Department of Agriculture
Compliance requirement:	Eligibility
Questioned costs:	Unknown

Finding

Condition and context—The Arizona Department of Education (ADE) did not collect all the eligibility information required to demonstrate its 332 subrecipients were capable of operating the program in accordance with federal regulations. Specifically, for 319 subrecipients, which were child or adult day care centers, at-risk afterschool programs, and emergency shelters, ADE’s application form did not include a question for subrecipients to identify the source of nonprogram monies that could be used to pay for program costs that would be unallowable uses of federal monies. ADE disbursed over \$53 million to its 332 subrecipients during fiscal year 2018

Criteria— In accordance with 7 CFR §226.6, ADE must establish application review procedures to determine the eligibility of subrecipients awarded program monies. Further, in accordance with 7 CFR §226.15-19, subrecipients must submit specific required eligibility information with their application to ADE demonstrating their capability to operate the program in accordance with federal regulations. Additionally, in accordance with 7 CFR §226.7(g), if a subrecipient intends to use nonprogram resources to meet program requirements, these monies must be accounted for in the subrecipient’s budget, and the subrecipient must identify the source of nonprogram monies that could be used to pay overclaims of federal awards or other unallowable costs.

Effect— ADE risks awarding federal monies to subrecipients who were ineligible to participate in the program. Because ADE’s records were incomplete, it was not practical to extend our auditing procedures sufficiently to identify all ineligible subrecipients and determine questioned costs, if any, that may have resulted from this finding.

Cause— ADE’s application form and review procedures did not contain enough detail to ensure that all eligibility requirements were met prior to awarding federal monies to its subrecipients.

Recommendation— ADE should revise its application form and reevaluate its existing policies and procedures for determining whether all eligibility requirements are met prior to awarding federal monies to its subrecipients.

The State's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2017-110.

Agency Response: Concur

The Arizona Department of Education (ADE) agrees with this finding and has implemented the recommendations. An online Management Plan and Budget was created that allows sponsors to indicate additional funding sources that could be used to pay for any program costs that may be unallowable with federal monies. Due to the timing of the most recent audit for period ending June 30, 2017, this was a repeat finding. Community Nutrition trained sponsors on the online Management Plan and Budget in July 2018 and went live for fiscal year 2019 renewals and new applicants.

2018-115

CFDA number and name:	84.048 Career and Technical Education—Basic Grants to States
Award numbers and years:	V048A150003, 2015; V048A160003, 2016; V048A170003, 2017
Federal agency:	U.S. Department of Education
Compliance requirement:	Subrecipient monitoring
Questioned costs:	Unknown

Finding

Condition and context—The Arizona Department of Education (ADE) did not monitor its 10 postsecondary institution subrecipients to ensure they were using subawards for authorized purposes. Specifically, for 8 subrecipients, ADE did not evaluate each subrecipient's risk of noncompliance to determine the appropriate monitoring procedures to be performed and did not perform any monitoring of these subrecipients' activities. Further, for all 10 subrecipients, the ADE did not annually evaluate the performance of the subrecipients' career and technical education activities as required by federal regulations. ADE disbursed over \$3 million to its 10 postsecondary institution subrecipients during fiscal year 2018.

Criteria— In accordance with 2 CFR §200.331, ADE must evaluate each subrecipient's risk of noncompliance with federal statutes, regulations, and the subaward's terms and conditions for purposes of determining the appropriate monitoring to perform to help ensure that the subaward is used for only authorized purposes and that the subaward's performance goals are achieved. Additionally, in accordance with section 123(b) of the Carl D. Perkins Career and Technical Education Act of 2006 (Perkins IV), ADE must annually evaluate the career and technical education activities of each subrecipient using the local adjusted levels of performance as described in section 113(b)(4) of Perkins IV. Lastly, ADE must establish and maintain effective internal control over its federal awards that provides reasonable assurance that it is managing them in compliance with all applicable laws, regulations, and award terms (2 CFR §200.303).

Effect— There is an increased risk that ADE's subrecipients could spend program monies on unauthorized purposes or fall below expected performance levels. Because ADE did not perform and document evaluation and monitoring procedures and results for its subrecipients, it was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding.

Cause— ADE did not have written policies and procedures in place to evaluate and monitor subrecipients as required by federal regulations to help ensure that subawards were being used for only authorized purposes and met performance goals.

Recommendation— To comply with the federal regulations, ADE should:

- Establish and implement written policies and procedures for evaluating each subrecipient's risk of noncompliance to determine the appropriate monitoring to be performed.
- Monitor subrecipients' activities, based on each subrecipient's risk of noncompliance evaluation, to help ensure that subawards are spent for only authorized purposes and that subrecipients comply with federal statutes, regulations, and the subawards' terms and conditions.
- Annually evaluate subrecipients using the local adjusted levels of performance described in Perkins IV to help ensure that subrecipients are meeting performance goals.

The State's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

Agency Response: Concur

The Arizona Department of Education (ADE) agrees with this finding and will implement the recommendations. During the 2017-2018 school year, ADE-CTE worked on developing a postsecondary monitoring document to be utilized for local subrecipient monitoring visits. During the federal monitoring visit from the Office of Career, Technical & Adult Education (OCTAE) during March 2018, ADE-CTE had a chance to review the instrument with federal program staff to secure their feedback. Subsequently, changes were made to the postsecondary instrument based on their suggestions. Two monitoring visits were completed prior to the end of the school year at the Coconino Community College and the Mohave Community College. By the end of the 2018-2019 school year, the remaining eight community colleges will have received a monitoring visit and be provided technical assistance. Future monitoring visits will occur on a five-year rotation, with two community colleges being visited on an annual basis. Staff will also remain available to postsecondary subrecipients for needed technical assistance and to provide support for follow-up on the recent monitoring visits. In addition, the ADE-CTE will add the ten community college subrecipients to the pool of entities included on the "At-Risk Evaluation" completed on an annual basis. This evaluation includes an assessment of whether or not subrecipients are meeting the State Adjusted Levels of Performance (SALP) and whether or not they are in compliance with the federal Perkins requirements. .

2018-116

Cluster name:	Fish and Wildlife Cluster
CFDA number and name:	15.605 Sport Fish Restoration
Award numbers and years:	F13AF008941, 2013; F14AF01035, 2014
CFDA number and name:	15.611 Wildlife Restoration and Basic Hunter Education
Award numbers and years:	F13AF01047, 2013; F14AF01082, 2014
Federal agency:	U.S. Department of the Interior
Compliance requirements:	Activities allowed or unallowed and allowable costs/cost principles, cash management, matching, period of performance, procurement, reporting, subrecipient monitoring, and special tests and provisions
Questioned costs:	\$3,948,965

Finding

Condition and context—The Department of Game and Fish received an audit by the U.S. Fish and Wildlife Service (FWS) covering the grants it was awarded from July 1, 2013 through June 30, 2015. We became aware of this audit in March 2019. According to FWS' Final Audit Report – U.S. Fish and Wildlife Service Wildlife and Sport Fish Restoration Program Grants (Report No. 2016-EXT-001) dated August 2018, Game and Fish had the following deficiencies:

- Unallowable payroll charges totaling \$3,098,517 related to payroll for supervision of nonprogram projects, payroll based on predetermined work estimates, payroll for the incorrect grant period, and payroll for excessive employee leave.
- Improper charges of \$709,699 for services beyond the grant end dates.
- Insufficient tracking of subaward-related expenditures by 5 subrecipients, and FWS auditors could not determine whether the subrecipients used the federal monies totaling \$107,250 for appropriate purposes or obtained the best price for goods and services.
- Inadequate documentation of volunteer hours used as in-kind contributions totaling \$22,639.
- Inadequate procedures to comply with the State's procurement requirement to obtain written quotes from 3 different vendors for the purchase of goods totaling \$10,856.
- Inadequate documentation to support the reasons for writing off license revenues totaling \$21,276, indicating the license revenue may have been potentially diverted.
- Deficient procedures over subawards, as follows: 1) awarded funds to subrecipients for projects that were already completed, 2) did not perform required risk assessments for 2 subrecipients, 3) did not include all required information within the subaward agreements for the 2 subrecipients subject to the requirement, and 4) did not report 8 subawards totaling \$290,456 to the Federal Funding Accountability and Transparency Act Subaward Reporting System.
- Incomplete operational plan that did not contain all the elements required by the FWS for states that use a comprehensive management system (CMS) to administer their program grants.
- Improper draw down of \$23,425 in federal monies for awards to 2 subrecipients that did not expend the federal monies. Game and Fish reimbursed the FWS after this was brought to its attention.

Criteria— As specified within the FWS' Final Audit Report, Game and Fish should comply with various sections of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

Effect— Federal monies could have been used on unallowed activities, granted to ineligible subrecipients, and reported incorrectly to the U.S. Department of the Interior.

Cause— Game and Fish did not have adequate policies and procedures in place, was not aware of all of requirements for the program, and did not ensure new employees were properly trained on the program requirements.

Recommendation— Game and Fish should work with FWS to ensure it adequately develops and implements the Final Audit Report's recommendations. Further, Game and Fish should timely communicate all relevant matters to the Arizona Department of Administration and the Auditor General's Office for consideration in the State's single audit.

The Department's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

Agency Response: Do Not Concur

The Department's Federal Aid Coordinator, Budget Control Staff, and other Department employees are working collaboratively with the Department of Interior's Office of Inspector General and U.S. Fish and Wildlife Service Wildlife and Sport Fish Restoration (WSFR) Policy Staff at their Headquarters and with WSFR's Region 2 office to initiate and draft a Corrective Action Plan (CAP). Department staff and WSFR staff met in person on March 7, 2019, to discuss a preliminary draft CAP. It is anticipated that the draft CAP will be finalized in late April or early May 2019.