

**Federal Award Findings, Questioned Costs and Corrective Action Plan
(Reformatted from the FY 2014 Single Audit Report)**

2014-101

Cluster Name:	SNAP Cluster
CFDA No. and Name:	10.551 Supplemental Nutrition Assistance Program 10.561 State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
Award Number and Years:	7AZAZ4S2514, 2013 and 2014
Cluster Name:	Child Nutrition Cluster
CFDA No. and Name:	10.553 School Breakfast Program 10.555 National School Lunch Program 10.556 Special Milk Program for Children 10.559 Summer Food Service Program for Children
Award Number and Years:	7AZ300AZ3, 2011, 2012, 2013, 2014
CFDA No. and Name:	10.558 Child and Adult Care Food Program
Award Numbers and Years:	7AZ300AZ3, 2011, 2012, 2013, 2014 7AZ300AZ4, 2011, 2012, 2013, 2014
CFDA No. and Name:	10.560 State Administrative Expenses for Child Nutrition
Award Number and Years:	7AZ300AZ2, 2012, 2013, 2014
Federal Agency:	U.S. Department of Agriculture
CFDA No. and Name:	12.401 National Guard Military Operations and Maintenance (O&M) Projects
Award Numbers and Years:	Various
Federal Agency:	U.S. Department of Defense
CFDA No. and Name:	14.267 Continuum of Care Program
Award Numbers and Years:	Various
Federal Agency:	U.S. Department of Housing and Urban Development
Cluster Name:	WIA Cluster
CFDA No. and Name:	17.258 WIA Adult Program 17.259 WIA Adult Activities 17.278 WIA Dislocated Worker Formula Grants
Award Numbers and Years:	AA-21382, 2011; AA-22922, 2012; AA-24079, 2013
Federal Agency:	U.S. Department of Labor
Cluster Name:	Highway Planning and Construction Cluster
CFDA No. and Name:	20.205 Highway Planning and Construction 20.205 ARRA-Highway Planning and Construction 20.219 Recreational Trails Program
Award Numbers and Years:	Various
CFDA No. and Name:	20.233 Border Enforcement Grants
Award Numbers and Years:	FM-BEG-0029-13-01-00, 2013; FM-BEG-0044-14-01-00, 2014
Federal Agency:	U.S. Department of Transportation
Cluster Name:	Special Education Cluster (IDEA)
CFDA No. and Name:	84.027 Special Education—Grants to States 84.173 Special Education—Preschool Grants
Award Numbers and Years:	H027A110007, 2011; H027A120007, 2012; H027A130120, 2013; H173A110003, 2011; H173A120003, 2012; H173A130003, 2013
Cluster Name:	Teacher Incentive Fund Cluster
CFDA No. and Name:	84.374 Teacher Incentive Fund 84.385 ARRA—Teacher Incentive Fund, Recovery Act

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Award Numbers and Years:	S385A100163, 2010; S374A110163, 2011
CFDA No. and Name:	84.010 Title I Grants to Local Educational Agencies
Award Numbers and Years:	S010A090003, 2009; S010A110003, 2011; S010A120003, 2012; S010A130003, 2013
CFDA No. and Name:	84.126 Rehabilitation Services—Vocational Rehabilitation Grants to States
Award Numbers and Years:	H126A110002, 2011; H126A120002, 2012; H126A130002, 2013; H126A140002, 2014
CFDA No. and Name:	84.184 Safe and Drug-Free Schools and Communities— National Programs
Award Numbers and Years:	Q184Y100027-13, 2014
CFDA No. and Name:	84.367 Improving Teacher Quality State Grants
Award Numbers and Years:	S367A110049, 2011; S367A120049, 2012; S367A130049, 2013
CFDA No. and Name:	84.369 Grants for State Assessments and Related Activities
Award Number and Years:	S369A110003; 2012, 2013, 2014
Federal Agency:	U.S. Department of Education
Cluster Name:	TANF Cluster
CFDA No. and Name:	93.558 Temporary Assistance for Needy Families
Award Numbers and Years:	G1202AZTANF, 2012; G1302AZTANF, 2013; G1402AZTANF, 2014
Cluster Name:	Medicaid Cluster
CFDA No. and Name:	93.775 State Medicaid Fraud Control Units
	93.777 State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare
	93.778 Medical Assistance Program
Award Numbers and Years:	Various
CFDA No. and Name:	93.283 Centers for Disease Control & Prevention— Investigations and Technical Assistance
Award Numbers and Years:	Various
CFDA No. and Name:	93.563 Child Support Enforcement
Award Numbers and Years:	G1304AZ4004, 2013; G1404AZ4004, 2014
CFDA No. and Name:	93.658 Foster Care—Title IV-E
Award Numbers and Years:	1201AZ1401, 2012; 1301AZ1401, 2013; 1401AZ1401, 2014
CFDA No. and Name:	93.667 Social Services Block Grant
Award Numbers and Years:	G1201AZSOSR, 2012; G1301AZSOSR, 2013; G1401AZSOSR, 2014
CFDA No. and Name:	93.719 ARRA—State Grants to Promote Health Information Technology
Award Numbers and Years:	90HT0023/01-13, 2011
Federal Agency:	U.S. Department of Health and Human Services
Cluster Name:	Disability Insurance/SSI Cluster
CFDA No. and Name:	96.001 Social Security—Disability Insurance
Award Numbers and Years:	04-1104AZDI00, 2011; 04-1304AZDI00, 2013; 04-1404AZDI00, 2014
Federal Agency:	U.S. Social Security Administration
CFDA No. and Name:	97.042 Emergency Management Performance Grants
Award Numbers and Years:	EMW-2012-EP-00003, 2012; EMW-2013-EP-00024, 2013
Federal Agency:	U.S. Department of Homeland Security
Compliance Requirement:	Allowable Costs/Cost Principles
Questioned Costs:	\$191,267

Finding

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY 2014 Single Audit Report)

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

Condition and context: The State of Arizona (State) did not comply with the allowable costs/cost principles requirements with respect to Arizona Strategic Enterprise Technology (ASET) Office information technology service costs charged to federal programs administered by various state agencies. Arizona Revised Statutes §41-3505 created the Information Technology Fund for ASET to provide information technology services and for state agencies to pay for these services by contributing 0.2 percent of the agency's total payroll each pay period. A portion of the charge is for technology project oversight services ASET provides. However, these services were determined to be unallowable because the services involved were not chargeable in accordance with relative benefits received.

Effect: The State's Department of Administration has determined these charges totaled \$191,267 during fiscal year 2014, including \$109,629 for the major federal programs listed above and \$81,638 for all other federal programs. It was not practical to extend our auditing procedures sufficiently to determine whether the amount was properly calculated and whether any additional questioned costs resulted from this finding. This amount is still subject to review and approval by the U.S. Department of Health and Human Services. This finding could potentially affect all federal programs administered by the affected state agencies that incurred payroll costs.

Cause: The noncompliance resulted from a statutory requirement that these programs be charged for technology project oversight services and, therefore, was not caused by the federal programs' administration.

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

This finding is similar to a prior-year finding.

Agency Response: Concur

We have an established process in place for monitoring legislation. The unallowable services provided through the State's Web portal are no longer incurred within this fund. The methodology of the charge is controlled by statute and cannot be resolved without a legislative change. Until the methodology is acceptably modified, there will likely continue to be disallowed costs which will require repayment with applicable interest. We will continue efforts to develop a solution to this issue.

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

2014-102

CFDA No. and Name:	Various
Award Numbers and Years:	Various
Federal Agency:	Various
Compliance Requirement:	Allowable Costs/Cost Principles
Questioned Costs:	\$11,339,618

Finding

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY 2014 Single Audit Report)

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

Condition and context: The State of Arizona (State) did not comply with the allowable costs/cost principles requirements with respect to the following legislatively mandated fund transfers:

- House Bill 2001 of the 51st Legislature, First Special Session, Chapter 1, §125, mandated a fund balance transfer from the Special Employees Health Insurance Trust Fund to the State's General Fund to help provide adequate support and maintenance for state agencies.
- House Bill 2001 of the 51st Legislature, First Special Session, Chapter 1, §126, mandated fund balance transfers from the Automation Operation Fund and Information Technology Fund to the State's Automation Project Fund.
- House Bill 2001 of the 51st Legislature, First Special Session, Chapter 1, §127, mandated fund balance transfers from various state funds into the Automation Projects Fund for the purpose of state-wide information technology and automation projects.
- House Bill 2004 of the 51st Legislature First Special Session, Chapter 4, §7, directed the transfer of monies from the State's Risk Management Revolving Fund to the Arizona Navigable Stream Adjudication Commission for unpaid legal obligations.

A portion of these balances transferred included federal monies and was therefore unallowable because the transfers were not based on the relative benefits received.

Effect: The State's Department of Administration (Department) has determined these transfers' total federal portion to be \$11,339,618 during fiscal year 2014. The Department has not compiled the information for the disallowed costs by federal program for each agency. In addition, this amount is still subject to review and approval by the U.S. Department of Health and Human Services. It was not practical to extend our auditing procedures sufficiently to determine whether any additional questioned costs resulted from this finding or to identify all the federal programs this finding affected. This finding could potentially affect all federal programs administered by state agencies that had legislatively mandated fund balance transfers.

Cause: The noncompliance for the mandated transfers resulted from state legislation and, therefore, was not caused by the federal programs' administration.

Recommendation: The State should ensure that legislatively mandated fund balance transfers do not include federal program monies. In addition, the Department should monitor bills being considered in the Arizona State Legislature to help ensure that unallowable costs to federal programs will not be incurred in the future.

This finding is similar to a prior-year finding.

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

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2014-103

CFDA No. and Name:	Not applicable
Questioned Costs:	N/A

Finding

Criteria: In accordance with OMB Circular A-133, §.300, the State is required to identify, in its accounts, all federal awards received and expended and the federal programs under which they were received, and prepare appropriate financial statements, including a Schedule of Expenditures of Federal Awards (SEFA). The SEFA should report federal award expenditures in accordance with OMB Circular A-133 §.205. In addition, OMB Circular A-133, §.310(b), requires the SEFA to include the Catalog of Federal Domestic Assistance (CFDA) title and number, amount expended, federal awarding agency name, and, if applicable, pass-through grantor name and identifying number for each of the State's federal awards.

Condition and context: The State's fiscal year 2014 SEFA is comprised of 48 state agencies with federal award expenditures totaling \$12,852,039,662. The State's Department of Administration (Department) is responsible for compiling the State's SEFA based on data obtained from the State's financial system or information provided by certain state agencies. However, the Department did not always ensure that it obtained all the necessary information to accurately report those agencies' federal expenditures on the SEFA. In addition, the information received was not always analyzed to ensure that any federal monies transferred between state agencies were properly presented on the SEFA under the agency that expended the monies. As a result, the Department reported federal program expenditures under the incorrect CFDA number or incorrect state agency. In addition, the Department did not include one agency's federal expenditures on the SEFA, which resulted in an understatement of \$1.7 million. The State's SEFA was adjusted for these errors.

Effect: The State's SEFA did not always accurately identify federal award expenditures by CFDA number or responsible state agency, or report correct amounts. This finding also has the potential to impact the correct identification of major programs for the Single Audit based on the expenditures reported.

Cause: The Department's procedures for compiling the SEFA were not sufficient to ensure that all federal award expenditures are properly reported.

Recommendation: The Department should revise its SEFA compilation procedures to obtain all necessary information and properly analyze the transfer of federal monies between state agencies to help ensure federal award expenditures are properly reported on the State's SEFA.

Agency Response: Concur

The State understands the importance of properly stating expenditures of Federal grants and other Federal Financial Assistance. In conjunction with implementation of the State's financial system, we will review and update policies and procedures as appropriate.

2014-104

CFDA No. and Name:	84.126 Rehabilitation Services—Vocational Rehabilitation Grants to States
Award Numbers and Years:	H126A120002, 2012; H126A130002, 2013; and H126A140002, 2014
Federal Agency:	U.S. Department of Education
Compliance Requirement:	Eligibility
Questioned Costs:	None

Finding

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY 2014 Single Audit Report)

Criteria: In accordance with 29 U.S. Code 722(a)(6), the Department of Economic Security (Department) must determine whether an individual is eligible for vocational rehabilitation services within 60 days after the individual has submitted an application for the services unless the Department and the applicant agree to an extension.

Condition and context: The Department's Division of Employment and Rehabilitation Services, Rehabilitation Services Administration (Administration), did not determine applicant eligibility within 60 days or within the extension period for 9 of 40 applications tested. Specifically, for 9 of 40 applications tested, it took the Administration between 67 and 707 days, or an average of 182 days, to either determine if the applicants were eligible for the program or close the case. For 3 of the 9 applications tested, the Administration included an extension letter in the applicant's case file; however, it lacked the applicant's signature evidencing that the individual agreed to a specific extension of time. For 5 of the 9 applications tested, an extension letter was not prepared. Finally, for one application tested, the Administration included an extension letter in the applicant's case file; however, it was prepared after the 60-day period ended and lacked the applicant's signature evidencing that the individual agreed to a specific extension of time.

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

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

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

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

Further, the Administration should react to the computer information system alerts that open applications were close to the 60-day eligibility determination requirement.

This finding is similar to a prior-year finding.

Agency Response: Concur

While the acceptable error rate for client signatures on extensions to the 60 day eligibility determination timeframe is 0%, RSA has shown significant improvement on this issue, reducing this error rate from 58% in 2012 to 33% in 2013 and to 23% in 2014. The following corrective actions will be or have been implemented to ensure the Department of Economic Security, Rehabilitation Services Administration (RSA) staff is aware of and follows applicable eligibility policies and procedures.

Provide a mandatory Eligibility Compliance training statewide to all supervisors and counselors. The course will be followed by a mandatory Eligibility Compliance Test with a requirement to pass the test with a 100%.

- Revise policy and procedure specific to obtaining signatures on eligibility extensions.
- Provide training to all staff on digital signature pads which will facilitate obtaining signatures.
- Include a performance measure on the supervisor and counselor MAP to track compliance.
- Set action alert message to alert staff at 30 days if eligibility has not been completed.
- Begin an aging tracking report which will alert counselors, supervisors, managers, Deputies, and Administrator of timeliness of eligibility determination.

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- Conduct a random sample audit on a monthly basis and alert counselors, supervisors, managers, Deputies, and Administrators of results.

2014-105

CFDA No. and Name:	84.126 Rehabilitation Services—Vocational Rehabilitation Grants to States
Award Numbers and Years:	H126A120002, 2012; H126A130002, 2013; and H126A140002, 2014
Federal Agency:	U.S. Department of Education
Compliance Requirement:	Level of effort
Questioned Costs:	None

Finding

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

Condition and context: The Department's, Division of Employment and Rehabilitation Services, Rehabilitation Services Administration (Administration), did not maintain the required level of nonfederal expenditures and did not receive a waiver or modification of the maintenance of effort requirement. For the fiscal year 2012 award, the only award closed out during fiscal year 2014, the required maintenance of effort was based on fiscal year 2010 nonfederal expenditures of \$17,447,545. However, the Administration provided only \$17,002,420 of nonfederal expenditures, resulting in a \$445,125 maintenance of effort deficit.

Effect: The federal grantor can reduce the Administration's allotment of federal monies for the vocational rehabilitation program by the amount of the maintenance of effort deficit totaling \$445,125.

Cause: The maintenance of effort deficit was the result of decreased legislative appropriations in the current and previous year.

Recommendation: The Administration should analyze the adequacy of its nonfederal revenue sources and consider requesting a waiver or modification of its maintenance of effort requirement from the U.S. Department of Education's, Rehabilitation Services Administration when it cannot meet the required level of effort. In addition, the Administration should pursue a settlement with the U.S. Department of Education's Rehabilitation Services Administration regarding its current-year maintenance of effort deficit.

This finding is similar to a prior-year finding.

Agency Response: Concur

The Department of Economic Security Rehabilitation Services Administration agrees there was a Maintenance of Effort deficit. The Arizona Rehabilitation Services Administration will pursue a mutually agreeable settlement with the U.S. Department of Education Rehabilitation Services Administration regarding the maintenance of effort deficit. While the Department of Economic Security agrees there was a Maintenance of Effort deficit, the current deficit is 280% lower than the deficit identified in 2013.

2014-106

Cluster Name:	TANF Cluster
CFDA No. and Name:	93.558 Temporary Assistance for Needy Families
Award Numbers and Years:	G1202AZTANF, 2012; G1302AZTANF, 2013; and G1402AZTANF, 2014
Federal Agency:	U.S. Department of Health and Human Services
Compliance Requirement:	Eligibility

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Questioned Costs: \$867

Finding

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

Condition and context: The Department of Economic Security, Division of Benefits and Medical Eligibility, Family Assistance Administration (FAA), provided cash assistance to applicants without adequately supporting each decision regarding the Temporary Assistance for Needy Families' (TANF) eligibility requirements. Auditors tested 40 case records and identified 2 cases where the information used to calculate the benefit amount was not adequately supported. Specifically, auditors noted the following:

- In one case, the FAA issued benefits for a dependent child who was 18 years old, without maintaining evidence of the verification that the child was enrolled in school. Because there was no documentation for this eligibility requirement, benefits should have been paid at a lower rate from December, 2013 to June, 2014, resulting in a questioned cost of \$383.
- For another case, the FAA issued benefits without maintaining documentation that a member of the applicant's family had assigned the State any other benefit rights that the family member may have. Because there was no documentation for this eligibility requirement, no benefits should have been issued in May or June of 2014, resulting in a questioned cost of \$484.

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

Cause: FAA employees did not follow policies and procedures to document facts in the applicants' or recipients' case record to support eligibility decisions.

Recommendation: The FAA should ensure that each decision regarding eligibility or ineligibility is supported by documentation maintained in the applicant's or recipient's case record.

This finding is similar to a prior-year finding.

Agency Response: Concur

The Division concurs with the finding and will implement strategies to help prevent these types of errors from occurring in the future. In both instances, documentation was necessary to ensure eligibility, but does not indicate definitively that benefits were erroneously issued.

Regarding the first bullet, this scenario is included in the training curriculum for staff performing cash assistance eligibility. In order to refresh staff on the policy, the Division will send out a policy directive to all staff reiterating the process for children who are 18 and required to attend school. Additionally, the Division will follow up with the specific worker in this case to ensure the worker understands the policy.

Regarding the second bullet, the need for this documentation is included in training for all staff. The Division will send out a specific bulletin regarding the signature of assignment of rights when necessary. Additionally, the Division will follow up with the individual employee to ensure compliance.

2014-107

Cluster Name: TANF Cluster
CFDA No. and Name: 93.558 Temporary Assistance for Needy Families

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Award Numbers and Years:	G1202AZTANF, 2012; G1302AZTANF, 2013; and G1402AZTANF, 2014
Federal Agency:	U.S. Department of Health and Human Services
Compliance Requirement:	Reporting
Questioned Costs:	None

Finding

Criteria: In accordance with 45 CFR §265.7(a), reporting for the ACF-199 TANF Data Report must be complete and accurate. Also, in accordance with 45 CFR §265.9(c)(5), reporting for the ACF-204 Annual Report, each state must provide the average monthly total number or the total number of eligible families served for which the state claims maintenance of effort expenditures as of the fiscal year-end. In addition, in accordance with 2 CFR §170, Appendix A, and the Federal Funding Accountability and Transparency Act of 2006 (FFATA), the Department of Economic Security (Department) must report each subaward to a subrecipient that amounts to \$25,000 or more.

Condition and context: The Department did not accurately prepare various reports submitted during fiscal year 2014 for the TANF program. Auditors noted errors in three of the five reports tested. Specifically, auditors noted the following:

Family Assistance Administration (FAA)

- For the March 31, 2014, quarterly ACF-199 TANF Data Report, for 1 of the 7 case files examined, the FAA incorrectly reported the recipient's "parent with minor child" status, indicating that the recipient was a parent with no minor children, while the case file indicated that the recipient had minor children.
- For the federal fiscal year 2013 ACF-204 Annual Report including the Annual Report on State Maintenance-of-Effort Programs, the FAA overstated the number of families served by 45 families for the Cash Assistance Program.

Division of Aging and Adult Services (DAAS)

- For the federal fiscal year 2013 ACF-204 Annual Report including the Annual Report on State Maintenance-of-Effort Programs, DAAS understated the number of families served by 6 families for the Domestic Violence Prevention Program, overstated the number of families served by 107 families for the Short-Term Crisis Services Program, and overstated the number of families served by 23 for the Coordinated Homeless Program.

Division of Employment and Rehabilitation Services (DERS)

- For the March 31, 2014, quarterly ACF-199 TANF Data Report, DERS understated the number of unsubsidized employment hours for 2 of the 7 case files examined. The hours were understated by 77 hours for one case, and 8 hours for the other.

Financial Services Administration (FSA)

- The FSA informed auditors that they sometimes reported TANF program actions based on amounts expended by subrecipients rather than reporting obligations to subrecipients as required. In addition, because auditors were unable to verify a complete FFATA reporting population, no further auditing procedures were performed.

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

Cause: The Department did not have adequate controls in place over the preparation and submission of program reports in order to prevent or detect errors within its reports. Furthermore, the Department does not have detailed policies and procedures to help ensure compliance with FFATA reporting requirements.

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Recommendation: The Department should establish policies and procedures to help ensure compliance with reporting requirements. Specifically, the Department should establish sufficient procedures to identify how to accumulate data for federal reports, and supervisors should perform a follow-up review over federal reports to ensure accurate amounts are reported. Further, the Department should develop internal control policies and procedures to accurately and consistently identify all subaward obligations to subrecipients from individual awards.

This finding is similar to a prior-year finding.

Agency Response: Concur

FAA-

Regarding the first bullet, this case was an anomaly that did not fit into one of the routine categories that would normally be reported on. The Division has amended the report process to ensure that any cases that do not match existing routine criteria are reviewed individually to ensure that the reporting of each specific case is appropriate. Additionally, the Division has added a business administrator and a data administrator to the chain of review for this report prior to submission.

Regarding the second bullet, the Division has reviewed the data provided and determined that the initial information was accurate at the time it was developed. However, retroactive changes are continually made in the AZTECS case management system which causes issues with reports that are produced with the initial data. The new eligibility system, HEAPlus, will help alleviate this issue but in the interim, until eligibility is moved into that system, the Division has amended the report process to ensure that the information pulled is consistent with the reporting timeframe. Additionally, the Division will maintain the data extract in order to demonstrate the information that was included in the final submission of the report.

DAAS-

In order to prevent future discrepancies between the annual MOE Report and data collected from the contractors, DAAS will implement a more thorough review of the backup documentation compared to the numbers submitted for the report, and include a validation process through the DAAS Information Resources Unit. Supervisory and upper management review will be incorporated into this process.

FSA-

•Anticipated Completion Date: With the Implementation of a new accounting system that will go live on July 1st, FSA tentatively anticipates that the completion date for the corrective action plan below will fall between the 6 to 9 month timeframe. However, the correct FFAFTA reporting instructions as it is defined by the online guidelines will be implemented immediately and will be reflected in the February 2015 Report.

Corrective Action Plan: FSA has identified the following corrective actions that will be implemented in the near term to ensure that FFAFTA reporting policies and procedures are in compliance with the requirements.

1. Coordinate with divisions that are TANF subrecipients to develop universal FFATA reporting standards to ensure that true obligation monitoring is occurring on a month by month basis.
2. Work with supervisors during the report input process to verify that accurate amounts of TANF Obligations are being reported within the FFAFTA Reporting subsystem.
3. Create and document electronic copies of submitted reports within the FSA file structure to expedite the review of submitted reports.
4. Once policies and procedures have been establish, share the best practices with the rest of FSA to ensure that there is a universal reporting pattern between all teams on FFAFTA eligible grants.
5. Conduct random internal audits on an intermittent basis to ensure compliance and inform supervisors and managers of the results.

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2014-108

CFDA No:

Not applicable

Finding

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

Condition and Context: The Department of Economic Security (Department) does not have detailed policies and procedures for compiling, reconciling reported amounts to the underlying accounting records, and reviewing amounts provided to subrecipients from each federal program for SEFA reporting. In addition, the Department did not have a uniform account code structure that it uses for all programs to identify amounts provided to subrecipient from each federal program.

Effect: The Department may not consistently or accurately compile amounts provided to subrecipients from each federal program for SEFA reporting.

Cause: The Department's various divisions did not consistently account for amounts provided to subrecipients from each federal program within the accounting system. Also, amounts provided to subrecipients and vendors from federal programs were comingled in the Department's accounting system.

Recommendation: The Department should develop detailed policies and procedures for compiling, reconciling reported amounts to the underlying accounting records, and reviewing the amounts provided to subrecipient from each federal program for SEFA reporting. In addition, the Department should require that all programs use a uniform account code structure to identify amounts provided to subrecipients from federal programs.

This finding is similar to a prior-year finding.

Agency Response: Concur

Program and Support Divisions within the Department of Economic Security (DES) have made substantial progress in the past year collaborating together to improve processes to identify, track and report on subrecipient activity. New guidelines for subrecipient relationships were established by support divisions and implemented by DES programs during the fiscal year. With conversion to a new state-wide accounting system for fiscal year 2016, DES has developed a robust, uniform accounting structure that will capture and track subrecipient activity beginning in fiscal year 2016. While procedures were in place to identify, track and report on subrecipient activity, a formal agency-wide policy is still in the development stage. Corrective action to finalize the formal policy for subrecipient tracking and SEFA reporting is estimated to be completed during fiscal year 2016.

2014-109

Cluster Name:

SNAP Cluster

CFDA No. and Name:

10.551 Supplemental Nutrition Assistance Program

10.561 State Administrative Matching Grants for the Supplemental Nutrition Assistance Program

Award Numbers and Years:

7AZAZ4S2514, 2013 and 2014

Federal Agency:

U.S. Department of Agriculture

Cluster Name:

WIA Cluster

CFDA No. and Name:

17.258 WIA Adult Program

17.259 WIA Youth Activities

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Award Numbers and Years:	17.278 WIA Dislocated Workers Formula Grants AA-21382, 2011; AA-22922, 2012; and AA-24079, 2013
Federal Agency:	U.S. Department of Labor
CFDA No. and Name:	84.126 Rehabilitation Services—Vocational Rehabilitation Grants to States
Award Numbers and Years:	H126A110002, 2011; H126A120002, 2012; H126A130002, 2013; and H126A140002, 2014
Federal Agency:	U.S. Department of Education
Cluster Name:	TANF Cluster
CFDA No. and Name:	93.558 Temporary Assistance for Needy Families
Award Numbers and Years:	G1202AZTANF, 2012; G1302AZTANF, 2013; and G1402AZTANF, 2014
CFDA No. and Name:	93.563 Child Support Enforcement
Award Numbers and Years:	G1304AZ4004, 2013 and G1404AZ4004, 2014
CFDA No. and Name:	93.658 Foster Care—Title IV-E
Award Numbers and Years:	1201AZ1401, 2012; 1301AZ1401, 2013; and 1401AZ1401, 2014
CFDA No. and Name:	93.667 Social Services Block Grant
Award Numbers and Years:	G1201AZSOSR, 2012; G1301AZSOSR, 2013; and G1401AZSOSR, 2014
Federal Agency:	U.S. Department of Health and Human Services
Cluster Name:	Disability Insurance/SSI Cluster
CFDA No. and Name:	96.001 Social Security—Disability Insurance
Award Numbers and Years:	04-1104AZDI00, 2011; 04-1304AZDI00, 2013; and 04-1404AZDI00, 2014
Federal Agency:	U.S. Social Security Administration
Compliance Requirements:	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Eligibility, Matching, Level of Effort, Earmarking, Reporting, and Special Tests and Provisions
Questioned Costs:	N/A

Finding

Criteria: It is critical that the Department of Economic Security (Department) have a comprehensive, up-to-date disaster recovery plan for its information technology (IT) systems to provide for the continuity of operations and to ensure that it can recover information and data in the event of a system or equipment failure or other system interruption. Also, the plan should be evaluated, tested, and updated annually.

Condition and context: The Department had a disaster recovery plan for its IT systems; however, the Department did not evaluate or test its plan annually.

Effect: The Department risks the ability to recover financial information and data and conduct daily operations in the event of a system or equipment failure or other system interruption. This finding could potentially affect all federal programs the Department administers.

Cause: The Department did not follow its policies and procedures to ensure its disaster recovery plan is sufficiently tested and evaluated annually.

Recommendation: To help ensure the continuity of the Department’s operations and to help ensure that electronic information and data are not lost in the event of a system or equipment failure or other system interruption, the Department should test, evaluate, and update its disaster recovery plan annually and retain documentation of all disaster recovery plan tests and those tests’ results.

This finding was also reported as a financial reporting finding. See finding 2014-05.

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Agency Response: Concur

Contingency Planning is comprised of both a Continuity of Operations Plan (COOP) focused on process continuity and a Disaster Recovery Plan (DRP) focused on the supporting technology. This Corrective Action Plan addresses the disaster recovery findings of the OAG audit.

The current DES Disaster Recovery Plan has been in place since 1999. There was a formal review of the Plan in 2006 and it was last updated in 2011. The last failover test was completed in 2010 and included a failover to an IBM mainframe located in Boulder, Colorado. Currently data from the mainframe is simultaneously stored in a secondary secured location. The backup tapes from the mainframe are stored off-site at a facility specifically designed for storing data. For SFY 2015, DES received funding for moving the DES Data Center into a purpose built, Tier III data center operated by a third party. The facility risk of outages is anticipated to be greatly reduced by this move.

Milestones	Anticipated Completion Date	
	SFY16	SFY17
A. Migrate the data center to new location	✓	
B. Review and modify Recovery Plan	✓	
C. Perform annual test	✓	
D. Document overall testing strategies, testing frequencies, and test results		✓
E. Implement technology appropriate to ensure continuity of operations		✓

2014-110

CFDA No. and Name:	84.010 Title I Grants to Local Educational Agencies
Award Numbers and Years:	S010A090003, 2009; S010A110003, 2011; S010A120003, 2012; S010A130003, 2013
Federal Agency:	U.S. Department of Education
Compliance Requirement:	Special Tests and Provisions
Questioned Costs:	Unknown

Finding

Criteria: In accordance with 20 United States Code (U.S.C.) §6321, a local educational agency (LEA) may receive program monies only if state and local monies will be used in schools to provide services that, taken as a whole, are at least comparable to services in schools that are not receiving program monies. A state may consider an LEA that has only one building for each grade span as exempt from this requirement.

Condition and context: The Arizona Department of Education (Department) provides LEAs with guidance on calculating comparability and requires LEAs to submit a written assurance of comparability every 2 years. The Department's guidance allowed LEAs with fewer than 1,000 students to be exempt from the comparability requirements without considering the federal exemptions, which did not allow exceptions for LEAs with less than 1,000 students.

Effect: The Department provided guidance allowing LEAs with fewer than 1,000 students but with more than one building for each grade span to claim exempt status, resulting in 22 of 85 LEAs that did not comply with the comparability of services required by federal regulations. While auditors were able to determine that a total of 85 LEAs were subject to the comparability requirements, it was not practical to extend auditing procedures sufficiently to determine the amount of questioned costs, if any, that may have resulted from this finding.

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Cause: The Department incorrectly prescribed guidance related to federal comparability requirements. The Department then provided this guidance to LEAs, and the LEAs used this guidance to determine if they were required to perform federal comparability requirements.

Recommendation: To help ensure that LEAs comply with federal comparability requirements outlined in 20 U.S.C. §6321, the Department should evaluate the guidance it provides to LEAs to ensure it is aligned with federal regulations. In addition, the Department should disseminate revised guidance to all LEAs.

Agency Response: Concur

The Arizona Department of Education (ADE) agrees with this finding. To help ensure that local educational agencies (LEAs) comply with federal comparability requirements, the Title I Deputy Associate Superintendent has ensured that the written guidance provided to all LEAs regarding comparability is now accurate and aligned with federal regulations. The written guidance regarding the determination of comparability was revised by Title I in September 2014 and removed the incorrect exemption. This guidance was posted in September 2014 within the resources tab of ALEAT, the web-based system that LEAs use to upload their assurances and their evidence of compliance for FY15. The guidance is also accessible from the Document Library on the Title I web page of ADE's website at www.azed.gov. Additionally, Title I staff presented a training session on comparability that included the changes to the guidance at the Mega Conference in November 2014.

2014-111

CFDA No. and Name:	84.010 Title I Grants to Local Educational Agencies
Award Numbers and Years:	S010A090003, 2009; S010A110003, 2011; S010A120003, 2012; S010A130003, 2013
CFDA No. and Name:	84.367 Improving Teacher Quality State Grants
Award Numbers and Years:	S367A110049, 2011; S367A120049; 2012; S367A130049; 2013
Federal Agency:	U.S. Department of Education
Compliance Requirements:	Level of Effort and Subrecipient Monitoring
Questioned Costs:	\$64,326

Finding

Criteria: In accordance with 34 Code of Federal Regulations (CFR) §299.5, a school district or charter school may receive its full allocation of program monies only after the State determines that the local educational agency (LEA) has maintained its required level of effort. In the LEA's level of effort determination, the State should not include expenditures for community services, capital outlay, or debt service.

Condition and context: For 11 of 40 LEA level-of-effort calculations tested, the Arizona Department of Education (Department) incorrectly included debt service expenditures in its formula for calculating the LEAs' level of effort. In addition, for the 12 LEAs with revised annual financial reports on which the level of effort is based, the Department improperly calculated the LEAs' level of effort for 2 LEAs.

Effect: Auditors recalculated all of the Department's LEAs' level-of-effort calculations and found that a total of 8 LEAs received excess funding allocations of \$62,886 and \$1,440 for the Title I Grants to Local Educational Agencies and Improving Teacher Quality State Grants programs, respectively. This finding has the potential to affect other federal programs the Department administers. This finding has the potential to affect other federal programs the Department administers.

Cause: The Department's level-of-effort calculation formula incorrectly included debt service payments and were not independently reviewed for propriety.

Recommendation: To help ensure that LEAs comply with 34 CFR §299.5 and that LEA funding allocations, which are based on the Department's LEAs' level of effort calculations, are correct, the Department should require and

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perform independent reviews of its LEA level-of-effort calculations it performs to ensure that they are accurate and comply with federal regulations.

Agency Response: Concur

The Arizona Department of Education (ADE) agrees with this finding. To help ensure that local educational agencies (LEAs) comply with federal regulations and that LEA funding allocations, which are based on LEAs' level of effort are correct, ADE will require and perform independent reviews of its LEA level of effort calculations to ensure that they are accurate and comply with federal regulations. The Title I Deputy Associate Superintendent (DAS) will ensure that these calculations for FY15 are reviewed and any corrections made by June 30, 2015 and that the calculations are performed accurately for FY16. Additionally, the Title I DAS will develop procedures to ensure that these calculations are reviewed by a knowledgeable staff member from a non-Title I federal program.

2014-112

CFDA No. and Name:	84.010 Title I Grants to Local Educational Agencies
Award Numbers and Years:	S010A090003, 2009; S010A110003, 2011; S010A120003, 2012; S010A130003, 2013
Federal Agency:	U.S. Department of Education
Compliance Requirement:	Earmarking
Questioned Costs:	\$435,831

Finding

Criteria: In accordance with 34 CFR §200.100, the State should earmark 4 percent of program monies to carry out school improvement activities authorized under sections 1116 and 1117 of the Elementary and Secondary Education Act (ESEA), provided that the earmarking reservation does not reduce the sum of the allocation an local educational agency (LEA) receives under ESEA §1002(a) below the allocation the LEA received in the previous year.

Condition and context: The Arizona Department of Education (Department) calculated the amount of program monies that should have been earmarked for school improvement activities for each LEA. However, for 23 of 490 LEAs, the Department's formulas to calculate this amount contained errors, which resulted in inaccurate earmarking calculations. Consequently, the Department incorrectly concluded that the earmarking requirement was met for these LEAs. In addition, for one of three journal entries tested to record the Department's transfer of monies for school improvement activities, the Department did not maintain adequate documentation to determine that the LEAs spent the monies for school improvement activities.

Effect: Noncompliance with the program's earmarking requirements. Auditors determined that the amount earmarked for school improvement activities for the 23 LEAs was approximately \$435,831 less than the required amount. Consequently, the LEAs may have inappropriately spent monies reserved for school improvement activities on other activities.

Cause: The Department did not have policies and procedures to independently review calculations used to determine how much program monies should have been reserved for school improvement activities. In addition, the Department did not follow its policies and procedures to maintain sufficiently detailed documentation to support transfers of program monies spent for school improvement activities.

Recommendation: To help ensure the Department complies with 34 CFR §200.100 and ESEA requirements, it should develop policies and procedures requiring an independent review of its calculations used to determine the amount of program monies LEAs earmark for school improvement activities to ensure the calculations are accurate. In addition, to demonstrate that LEAs appropriately spend program monies earmarked for school improvement activities, the Department should follow its policies and procedures for maintaining written justification and approvals supporting that transfers of program monies were proper and in compliance with the program's requirements.

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Agency Response: Concur

The Arizona Department of Education (ADE) agrees with this finding. To help ensure that it complies with federal regulations, ADE will develop policies and procedures requiring an independent review of the calculations used to determine the amount of program monies earmarked by LEAs for school improvement activities to ensure that the calculations are accurate and this will occur by June 30, 2015. The Title I Deputy Associate Superintendent (DAS) will ensure that these calculations for FY15 are reviewed and any corrections made by June 30, 2015, and that the calculations are performed accurately for FY16. Title I has developed procedures for the FY16 allocation of federal funds that are a part of the Elementary and Secondary Education Act (ESEA) Consolidated Application to include Title I-A, Title I-D, Title II-A and Rural Low-Income Schools programs. Also, the procedures include implementation of the ESEA Section 1003(a) requirement of a 4% set aside of funds for school improvement purposes. Moreover, the procedures include a review by a designee of the DAS from each of the included programs. In the case of the regular Title I-A allocations a review will also be conducted by a financial staff member of one of the other federal programs, e.g., Career and Technical Education. To address the second part of this recommendation that ADE follow its policies and procedures for maintaining sufficient documentation supporting transfers of program monies, the Title I DAS will follow the established procedures for documenting transfer information and maintaining this documentation.

2014-113

CFDA No. and Name:	84.010 Title I Grants to Local Educational Agencies
Award Numbers and Years:	S010A090003, 2009; S010A110003, 2011; S010A120003, 2012; S010A130003, 2013
Federal Agency:	U.S. Department of Education
Compliance Requirement:	Cash Management and Subrecipient Monitoring
Questioned Costs:	\$9,156

Finding

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

Condition and context: The Arizona Department of Education (Department) required LEAs to request monies for reimbursement of federal award expenditures by submitting cash management requests through its Grants Management Enterprise (GME) system. At the end of the award period, the Department required LEAs to submit completion reports, which are considered the projects' final cash management reports. Auditors tested a sample of 40 LEAs to test the reimbursement requests and completion reports for each of the major federal programs administered through the GME system and noted deficiencies related to the Department's monitoring of LEAs. Specifically, for 2 of 40 LEAs tested, the Department disbursed federal award monies when the LEA reported cash on hand. Further, the Department mistakenly released payment for the amount of the cash on hand, instead of requesting the LEA to return the excess cash, resulting in additional cash on hand for these LEAs.

Effect: Auditors extended auditing procedures and determined that the excess cash balances were not amended to the subsequent year's grant award after the completion reports were approved. It was not practical to extend auditing procedures sufficiently to determine additional questioned costs, if any, that may have resulted from this finding. This finding could potentially affect other federal programs that the Department administered.

Cause: There are certain automated controls to hold the release of payments on the GME system. However, certain manual reviews and approvals are required to prevent releasing payment when cash balances exist and

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completion reports are being finalized and approved. The Department's procedures for the manual review and approval of completion reports was not properly performed, resulting in the Department improperly releasing additional payments and not requesting the return of excess cash. In addition, the LEAs did not request that the excess cash be carried forward to the next period's grant award project, nor did the Department adjust the subsequent grant award or request the excess cash to be returned.

Recommendation: To help ensure the Department complies with federal program requirements related to cash management and subrecipient monitoring, it should follow its policies and procedures for manually reviewing reimbursement requests and completion reports for excess cash LEAs reported prior to approving the release of payment and requesting the return of excess cash or reducing the subsequent grant award as appropriate.

This finding is similar to a prior-year finding.

Agency Response: Concur

The Arizona Department of Education (ADE) agrees with this finding. To help ensure that ADE complies with federal program requirements related to cash management and subrecipient monitoring, the ADE Deputy Associate Superintendent (DAS) of Grants Management will ensure that procedures are developed for manually reviewing reimbursement requests and completion reports for excess cash reported by local educational agencies (LEAs) prior to approving the release of payment, and requesting the return of excess cash or reducing the subsequent grant award as appropriate. Beginning in March 2015, the Grants Technology Director will provide a report to each program area to show which LEA's are required to send in a refund (cash on hand). Additionally, by June 30, 2015, a dashboard will be implemented to store this information with every LEA identified that has cash on hand. Designated program area staff will be responsible for manually reviewing this information on the dashboard and making a determination as to whether a particular LEA's funding will then be put on hold.

Additionally, by June 30, 2015, the DAS of Grants Management will develop specific criteria for the threshold regarding the amount of cash on hand the LEAs will be allowed to have and not have their funding placed on hold. Finally, by June 30, 2015 and going forward, LEAs with cash on hand exceeding the established threshold will have their funding withheld and this information will be documented in the Grants Management Enterprise system.

2014-114

CFDA No. and Name:	84.010 Title I Grants to Local Educational Agencies
Award Numbers and Years:	S010A090003, 2009; S010A110003, 2011; S010A120003, 2012; S010A130003, 2013
Federal Agency:	U.S. Department of Education
Compliance Requirement:	Special Tests and Provisions
Questioned Costs:	N/A

Finding

Criteria: In accordance with 34 CFR §200.19, the State should calculate and report graduation rate data for all public high schools in the State's annual report card. The graduation rate is defined as the total number of students who graduate with a regular high school diploma divided by the number of students who entered high school 4 years earlier, considering transfers, such as students who transfer high schools, relocate to another country, or are deceased. Further, in accordance with the State's approved application for the Elementary and Secondary Education Act (ESEA) waiver, the State should identify and report on at least three categories of schools, consisting of reward schools, priority schools, and focus schools in the State's annual report card.

Condition and context: The Arizona Department of Education (Department) did not verify that local educational agencies (LEAs) maintained proper documentation to support student transfer information that they reported, which was used in the Department's graduation rate calculation for the State's annual report card. Further, the

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Department reported only 87 of the 100 schools that met the criteria to be classified as reward schools in the State's annual report card.

Effect: Noncompliance with the program's special tests and provisions. Also, the information required to be reported in the State's annual report card could be incorrect because information LEAs reported was not verified and because of errors in reporting reward schools.

Cause: The Department's policies and procedures did not require the verification of student transfer information LEAs reported or whether LEAs maintained the documentation supporting this information. In addition, the Department failed to independently review or maintain support used to identify reward schools reported in the State's annual report card.

Recommendation: To help ensure the Department accurately reports graduation rate data on the State's annual report card, it should develop policies and procedures to verify documentation supporting the student transfer information LEAs reported as part of the Department's LEA monitoring. In addition, an independent person should review reward school data the Department compiled to ensure the data is accurate, and the Department should maintain documentation supporting this data. Accordingly, all information the Department compiled for the State's annual report card should be reviewed by a person who is independent of its preparation to help ensure its accuracy.

Agency Response: Concur

The Arizona Department of Education (ADE) agrees with this finding. To help ensure that it complies with the program's special tests and provisions and to correctly report information on the State's annual report card, ADE has developed a procedure to verify documentation supporting the student transfer information reported by local educational agencies (LEAs) as part of ADE's monitoring of LEAs. Specifically, beginning in December, 2014 the ADE Title I Unit developed a procedure for reviewing student withdrawal forms and comparing the codes used on the forms to the data reported by the LEAs in SAIS. The same month, the ADE Audit Unit began performing a review of a sample of student withdrawal forms and comparing the withdrawal codes in those forms to the code in SAIS for those students going forward on every LEA's average daily membership (ADM), or student attendance, audit performed. These reviews verify the documentation that LEAs complete and maintain and support student transfer information that is used for graduation calculations by ADE.

Additionally, to help ensure that reward school data compiled by ADE is accurate and adequate supporting documentation maintained, the ADE Research and Evaluation Unit in FY14 established a 5-step peer review procedure to maintain and review the support documentation used to identify reward schools reported in the State's Annual Report Card. The Title I Deputy Associate Superintendent (DAS) will coordinate with the ADE DAS of Research and Evaluation and will review and document each of these reviews after they are performed to ensure that all schools are accurately classified.

2014-115

CFDA No. and Name:	84.010 Title I Grants to Local Educational Agencies
Award Numbers and Years:	S010A090003, 2009; S010A110003, 2011; S010A120003, 2012; S010A130003, 2013
CFDA No. and Name:	84.367 Improving Teacher Quality State Grants
Award Numbers and Years:	S367A110049, 2011; S367A120049; 2012; S367A130049; 2013
Federal Agency:	U.S. Department of Education
Compliance Requirement:	Subrecipient Monitoring
Questioned Costs:	None

Finding

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Criteria: In accordance with 34 CFR §200.62-.63, local educational agencies (LEAs) receiving program monies must obtain a written affirmation, signed by an appropriate private school official, documenting that the LEA conducted timely consultations with private school officials to determine the educational services to be provided to eligible private school children.

Condition and context: The Arizona Department of Education (Department) requires each LEA to submit written affirmations regarding private schools with the application for program monies. However, for 2 of 44 LEAs tested, the Department did not ensure that the LEA's application included the required affirmations for all applicable private schools. In addition, for 1 of 44 LEAs tested, the Department did not ensure that the LEA's application included a statement signed by an appropriate LEA official certifying that there were no private schools within the LEA's boundaries as required by the Department's policies.

Effect: The Department provided federal funding to LEAs without ensuring they had properly documented consultations with private school officials and provided other written affirmations regarding private schools required by the Department's policies regarding private schools required by the Department's policies.

Cause: The Department did not follow its procedures for ensuring that LEAs' applications included the required private school written affirmations.

Recommendation: To help ensure that LEAs comply with 34 CFR §200.62-.63 and Department policies, it should follow its established procedures for ensuring that LEAs' applications include the private school written affirmations.

Agency Response: Concur

The Arizona Department of Education (ADE) agrees with this finding. To help ensure that all local educational agencies (LEAs) comply with federal requirements and its policies, ADE will follow its established procedures for ensuring that LEAs' applications include the private school written affirmations. Specifically, the Elementary and Secondary Education Act (ESEA) Consolidated Application Checklist in the grant application requires that the reviewing specialist confirm that the appropriate private school documentation is submitted prior to approval. The Title I Deputy Associate Superintendent (DAS) will be reviewing all of the FY15 year applications to ensure that all of the documentation is current and that all specialists have been trained appropriately by March 31, 2015. In addition, the Title I DAS will review its guidance to the LEAs that need to submit affirmations so that discrepancies do not occur and that the directions for uploading and maintaining the forms are consistent and this will be performed by June 30, 2015. Finally by June 30, 2015, the Title I DAS will ensure that the data base of private schools is accurate.

2014-116

Cluster Name:	Child Nutrition Cluster
CFDA No. and Name:	10.553 School Breakfast Program 10.555 National School Lunch Program 10.556 Special Milk Program for Children 10.559 Summer Food Service Program for Children
Award Numbers and Years:	7AZ300AZ3, 2011, 2012, 2013, 2014; 7AZ300AZ4, 2011, 2012, 2013, 2014
CFDA No. and Name:	10.558 Child and Adult Care Food Program
Award Numbers and Years:	7AZ300AZ3, 2011, 2012, 2013, 2014; 7AZ300AZ4, 2011, 2012, 2013, 2014
Federal Agency:	U.S. Department of Agriculture
Cluster Name:	Special Education Cluster (IDEA)
CFDA No. and Name:	84.027 Special Education—Grants to States

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Award Numbers and Years:	84.173 Special Education—Preschool Grants H027A110007, 2011; H027A120007, 2012; H027A130120, 2013; H173A110003, 2011; H173A120003, 2012; H173A130003, 2013
CFDA No. and Name:	84.010 Title I Grants to Local Educational Agencies
Award Numbers and Years:	S010A090003, 2009; S010A110003, 2011; S010A120003, 2012; S010A130003, 2013
CFDA No. and Name:	84.184 Safe and Drug-Free Schools and Communities—National Programs
Award Number and Year:	Q184Y100027-13, 2014
CFDA No. and Name:	84.367 Improving Teacher Quality State Grants
Award Numbers and Years:	S367A110049, 2011; S367A120049; 2012; S367A130049; 2013
Federal Agency:	U.S. Department of Education
Compliance Requirement:	Subrecipient Monitoring
Questioned Costs:	None

Finding

Criteria: In accordance with OMB Circular A-133 §400(d)(4), pass-through entities should ensure that a subrecipient expending \$500,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements for that fiscal year.

Condition and context: The Arizona Department of Education (Department) did not always ensure that subrecipients expending \$500,000 or more in federal monies met the OMB Circular A-133 audit requirements. Specifically, for 1 of 40 subrecipients tested, the Department did not obtain the subrecipient's single audit report information and did not notify the subrecipient regarding the noncompliance.

Effect: The Department did not follow OMB Circular A-133 requirements for ensuring that subrecipients expending \$500,000 or more in federal awards submit single audit report information to the Department. This finding could potentially affect other federal programs that the Department administered.

Cause: The Department recently reassigned this monitoring function to personnel who were not familiar with the OMB Circular A-133 requirements. In addition, the Department's procedures were not followed to include federal awards passed through the Department, as well as sources external to the Department, in its calculation used to determine if subrecipients met the threshold requiring a single audit. Further, the Department did not have procedures to check whether those entities not considered in its single audit threshold calculation were subject to single audit requirements

Recommendation: To help ensure the Department complies with OMB Circular A-133 §400(d)(4), it should ensure that personnel responsible for monitoring subrecipients are trained on OMB Circular A-133 requirements. In addition, the Department should evaluate and update, as appropriate, its policies and procedures to ensure that it can determine which subrecipients are subject to the single audit requirements and ensure those subrecipients receive a single audit in accordance with OMB Circular A-133.

Agency Response: Concur

The Arizona Department of Education (ADE) agrees with this finding. To help ensure that ADE complies with OMB Circular A-133 audit requirements, the Deputy Associate Superintendent (DAS) of Grants Management will develop a procedure by June 30, 2015 to ensure that all subrecipients required to have a Single Audit performed actually have one. Also by June 30, 2015, the Grants Technology Director will acquire a complete listing of all entities from both grants systems to verify if there was \$500,000 in federal expenditures and request a copy of the audits. Entities will be compared to a list from the previous year and Grants Management staff will follow up with those LEAs that have history of having a single audit performed but did not forward one to ADE. The Grants Technology Director will then compare the list of entities to those listed on the Federal Clearinghouse website and send emails to those entities that are required to have one, but did not submit one. Finally, the DAS of Grants Management will

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ensure that all staff responsible for monitoring subrecipients are trained on OMB Circular A-133 requirements. All of these activities will be performed by the end of FY15 and will be performed going forward for FY16.

2014-117

CFDA No. and Name:	84.367 Improving Teacher Quality State Grants
Award Numbers and Years:	S367A110049, 2011; S367A120049, 2012; S367A130049; 2013
Federal Agency:	U.S. Department of Education
Compliance Requirement:	Eligibility
Questioned Costs:	\$6,579

Finding

Criteria: In accordance with 20 U.S. Code (U.S.C.) §6621(a), the State should disburse federal program monies to local educational agencies (LEAs) in accordance with formulas specified in the regulations.

Condition and context: For 2 of 25 LEAs tested, the Department of Education's (Department) funding allocation formulas contained errors. Auditors analyzed nine counties that received approximately 91 percent of the Improving Teacher Quality State Grants program monies and determined that funding errors occurred totaling \$6,579.

Effect: The Department did not comply with the program's eligibility requirements for allocating federal program monies to LEAs because of formula errors. This control deficiency had the potential to result in larger errors that may not have been detected by the Department. As a result of the errors, schools in Coconino County received a combined total of \$4,936 less than they should have been allocated. All other counties' schools received more funding than they should have totaling this same amount. Additionally, Gila County charter schools were allocated \$1,643 more than they should have, and Gila County school districts received \$1,643 less than they should have. It was not practical to extend auditing procedures sufficiently to determine additional questioned costs, if any, that may have resulted from this finding.

Cause: The Department failed to require and perform an independent review of spreadsheet calculations used to determine the LEA funding allocations.

Recommendation: To help ensure the Department complies with 20 U.S.C. §6621(a), it should establish policies and procedures that require all spreadsheet calculations used to determine LEA funding allocations to be independently reviewed and approved prior to disbursing federal awards.

Agency Response: Concur

The Arizona Department of Education (ADE) agrees with this finding. To help ensure that it complies with federal requirements, the Title I Deputy Associate Superintendent (DAS) will establish policies and procedures that require all spreadsheet calculations used to determine LEA funding allocations to be independently reviewed and approved prior to disbursing federal awards and this will occur by June 30, 2015. These procedures will ensure that all calculations for FY15 are reviewed and any corrections made by June 30, 2015 and that the calculations are performed accurately for FY16. Moreover, the procedures include a review by a designee of the DAS from each of the included programs. In the case of the regular Title I – A allocations, a review will also be conducted by a financial staff member of one of the other federal programs.

2014-118

Cluster Name:Child:	Nutrition Cluster
CFDA No. and Name:	10.553 School Breakfast Program
	10.555 National School Lunch Program
	10.556 Special Milk Program for Children
	10.559 Summer Food Service Program for Children

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Award Number and Years:	7AZ300AZ3, 2011, 2012, 2013, 2014
Federal Agency:	U.S. Department of Agriculture
Compliance Requirements:	Subrecipient Monitoring and Special Test and Provisions
Questioned Costs:	Unknown

Finding

Criteria: In accordance with OMB Circular A-133 §400(d), a pass-through entity is required to perform certain subrecipient monitoring activities for compliance with federal program requirements. Specifically, as outlined in 7 CFR §210.18(l-k), a pass-through entity should withhold federal award payments to a subrecipient if the subrecipient does not provide a documented corrective action for critical findings within 30 days of the deadline as determined by the pass-through entity; although, the pass-through entity may grant an extension upon the subrecipient's written request. In addition, the pass-through entity should provide written notification to the subrecipient of any findings and corrective action, deadlines for completion of corrective action, and potential fiscal action to be taken by the pass-through entity resulting from its monitoring reviews, in accordance with 7 CFR §210.18(j). Finally, the pass-through entity should reconcile records of subrecipients identified as high risk by the federal agency's guidelines to the food processor's performance reports as part of the pass-through entity's monitoring reviews, as required by 7 CFR §250.16 (a)(4).

Condition and context: Auditors noted the following deficiencies related to subrecipient monitoring. Specifically, for 1 of 14 subrecipients tested, the Department of Education (Department) did not require written request from the subrecipient for an extension for documenting and submitting a corrective action plan beyond the established deadline. Additionally, for 1 of 6 subrecipients tested, the Department did not provide written notification, or otherwise communicate, its review findings for the Summer Food Service Program, resulting in uncorrected subrecipient findings. Finally, for 1 of 5 subrecipients tested, the Department did not reconcile the subrecipient's records, which was identified as high risk by the federal agency's guidelines, to the food processor's performance reports as part of the Department's monitoring review.

Effect: The Department did not comply with subrecipient monitoring requirements. It was not practical to extend auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding.

Cause: The Department's policies and procedures for monitoring did not always align with the federal agency's regulations, and were not always followed and communicated to those responsible for those performing the monitoring reviews.

Recommendation: To help ensure the Department complies with subrecipient monitoring requirements it should evaluate and update, as appropriate, its existing policies and procedures to ensure they are aligned with the federal agency's regulations and that all personnel performing and approving monitoring reviews are adequately trained on them as well as the federal requirements.

Agency Response: Concur

The Arizona Department of Education (ADE) agrees with this finding. ADE's Health and Nutrition unit has evaluated its existing policies and procedures related to subrecipient monitoring requirements specific to the Child Nutrition Cluster and has implemented the following procedures to ensure that federal requirements are met for all administrative reviews. On October 14, 2014, all personnel responsible for conducting administrative reviews were provided training pertaining to the requirement of either receiving the request for a due date extension or providing the local educational agency (LEA) an on-hold notice no later than the 20th day past the due date. Additionally, Health and Nutrition currently has 2 program project specialists tracking the corrective action due dates to ensure an on-hold notice is sent to LEAs no later than the 20th day past the due date if ADE has not received corrective action. The Health and Nutrition unit is in the process of updating the written policy and procedure to encompass these changes and anticipates a completion date of April 30, 2015.

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Regarding the record reconciliation for high risk subrecipients, this was an administrative review requirement for only one school year, which ended on June 30, 2014. The USDA memorandum SP 61-2014 updated the School Meal Programs Administrative Review Manual, Tools, Forms and Instructions for School Year (SY) 2014-2015 by removing the USDA Foods from Off-site Assessment and Resource Management (RM) Risk Indicator Tools. The memorandum states the USDA Foods information will be added to the Local Agency Procurement Review Tool to be released. For SY 15, USDA Foods Processing was not reviewed, as it is not a requirement, however, the Health and Nutrition unit has addressed the underlying issue of ineffective, inter-unit communication by implementing a system to facilitate reviewers from all units communicating with each other in a timely manner.

2014-119

Cluster Name:	Special Education Cluster (IDEA)
CFDA No. and Name:	84.027 Special Education—Grants to States 84.173 Special Education—Preschool Grants
Award Numbers and Years:	H027A110007, 2011; H027A120007, 2012; H027A130120, 2013; H173A110003, 2011; H173A120003, 2012; H173A130003, 2013
CFDA No. and Name:	84.010 Title I Grants to Local Educational Agencies
Award Numbers and Years:	S010A090003, 2009; S010A110003, 2011; S010A120003, 2012; S010A130003, 2013
CFDA No. and Name:	84.184 Safe and Drug-Free Schools and Communities—National Programs
Award Number and Year:	Q184Y100027-13, 2014
CFDA No. and Name:	84.367 Improving Teacher Quality State Grants
Award Numbers and Years:	S367A110049, 2011; S367A120049, 2012; S367A130049, 2013
Federal Agency:	U.S. Department of Education
Compliance Requirement:	Subrecipient Monitoring
Questioned Costs:	N/A

Finding

Criteria: The Arizona Department of Education (Department), should have a process in place to either monitor internal controls or request and review service organizations' internal control audit reports of significant outsourced service providers when the contractor's internal controls may impact the State's financial reporting or federal compliance. Specifically, a service organization's audit report on internal controls should outline both the service organization's and Department's responsibilities over internal controls, including any internal control weaknesses of the service organization, that could affect the Department's ability to accurately process vital grant information, including awards, disbursements of federal awards, and subrecipient monitoring.

Condition and context: The Department outsourced certain o (IT) functions, such as change management, storage, and backup and recovery of its Grants Management Enterprise (GME) System and related data for processing federal grants. The Department relies on the service organization's internal controls to ensure that vital grant information is properly backed up and secured, and that systems and data can be recovered in the event of a disaster, system or equipment failure, or other system interruption. However, the Department did not monitor the service organization's internal controls, and the service organization had not had an audit in accordance with Statement on Standards for Attestation Engagements (SSAE) No. 16 to demonstrate that its internal controls were operating effectively. In addition, the Department did not ensure that the service organization's contract required such audits or access to the service organization's records for the Department to perform its own monitoring of internal controls.

Effect: There is an increased risk that the Department's service organization did not have adequate internal controls in place and that changes to the Department's GME system could be unauthorized or inappropriate, or could have unintended results without proper documentation, authorization, review, testing, and approval prior to implementation. In addition, there is an increased risk that vital grant information and data are not properly backed up and secured, and that systems and data may not be recovered in the event of a disaster, system or

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY 2014 Single Audit Report)

equipment failure, or other system interruption. This finding could potentially affect other federal programs that the Department administered.

Cause: The Department recently outsourced these functions. The department personnel responsible for procuring and contracting these services were not familiar with the aspects of due diligence on the Department's part necessitating either an SSAE No. 16 audit or the Department's ongoing monitoring of internal controls over the outsourced functions.

Recommendation: To help ensure the Department has assurances to rely on a service organization's internal controls, the Department should require the service organization to have an SSAE No. 16 audit to demonstrate that the service organization's internal controls were operating effectively. Such audits should be performed on a periodic basis and should be submitted to and reviewed by the Department. Alternatively, the Department should perform monitoring of the service organization's internal controls on a periodic basis. The Department should document and follow up on such monitoring, including any internal weaknesses identified. In addition, the Department should establish policies and procedures for procuring and monitoring service providers when significant functions that may impact the State's financial reporting or federal compliance are outsourced.

Agency Response: Concur

The Arizona Department of Education (ADE) agrees with this finding. To help ensure that ADE has sufficient assurances to rely on the service organization that is performing certain IT functions relating to the Grants Management Enterprise (GME) system, the Deputy Associate Superintendent of Grants Management will coordinate with ADE's Chief Procurement Officer to modify the contract with the external service organization and set the requirement that this organization have a Statement on Standards for Attestation Engagements (SSAE) No. 16 audit annually starting in FY16 to demonstrate that its internal controls are operating effectively. Once this audit is performed, ADE will obtain this report and ADE's Data Governance Commission and IT staff will review it.

2014-120

Cluster Name:	Child Nutrition Cluster
CFDA No. and Name:	10.553 School Breakfast Program 10.555 National School Lunch Program 10.556 Special Milk Program for Children 10.559 Summer Food Service Program for Children
Award Number and Years:	7AZ300AZ3, 2011, 2012, 2013, 2014
CFDA No. and Name:	10.558 Child and Adult Care Food Program
Award Numbers and Years:	7AZ300AZ3, 2011, 2012, 2013, 2014; 7AZ300AZ4, 2011, 2012, 2013, 2014
Federal Agency:	U.S. Department of Agriculture
Cluster Name:	Special Education Cluster (IDEA)
CFDA No. and Name:	84.027 Special Education—Grants to States 84.173 Special Education—Preschool Grants
Award Numbers and Years:	H027A110007, 2011; H027A120007, 2012; H027A130120, 2013; H173A110003, 2011; H173A120003, 2012; H173A130003, 2013
CFDA No. and Name:	84.010 Title I Grants to Local Educational Agencies
Award Numbers and Years:	S010A090003, 2009; S010A110003, 2011; S010A120003, 2012; S010A130003, 2013
CFDA No. and Name:	84.184 Safe and Drug-Free Schools and Communities—National Programs
Award Number and Year:	Q184Y100027-13, 2014
CFDA No. and Name:	84.367 Improving Teacher Quality State Grants
Award Numbers and Years:	S367A110049, 2011; S367A120049, 2012; S367A130049, 2013

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Federal Agency:	U.S. Department of Education
Compliance Requirement:	Subrecipient Monitoring
Questioned Costs:	None

Finding

Criteria: The Arizona Department of Education's (Department) Grants Management Enterprise (GME) system and its accounting software application used to upload to the State's general ledger are vital for processing grant information, approving and disbursing federal awards, and monitoring subrecipients for compliance with various federal program requirements. Consequently, the Department should have effective policies and procedures in place to ensure that access granted to the system is authorized and system and data changes or modifications are authorized, documented, tested, reviewed, and approved prior to implementation.

Condition and context: The following deficiencies were noted for the GME system and accounting software application:

- For 6 of 12 users tested with administrative access rights, the Department did not maintain the documentation supporting the approval of the access granted.
- For 13 of 15 users tested with standard system access privileges, the Department did not maintain the documentation supporting the approval of the access granted.
- For 2 of 5 terminated user tested, the GME system access was not revoked immediately upon termination.
- There was an excessive number of users with administrative access rights to accounting software application.
- The Department did not monitor the activities of users with administrative access in both the GME system and accounting software application.
- The Department allowed multiple personnel to use generic user accounts to access and modify data tables in the GME system.
- Modifications to data tables in both the GME system and accounting software application were not logged, reviewed, and approved prior to implementation.

Effect: The Department may not be able to detect errors or unauthorized modifications made to both the GME system and accounting software application. This finding could potentially affect other federal programs that the Department administered.

Cause: The Department did not have adequate documented policies and procedures for these areas.

Recommendation: To help prevent and detect unauthorized access or changes to the GME system and accounting software application, the Department should develop and implement written policies and procedures such as:

- Requiring all users' access to be properly approved and documented.
- Removing users' access rights immediately upon termination.
- Performing a periodic, comprehensive review of all existing user accounts for the GME system and accounting software application to help ensure that access granted is appropriate and compatible with job responsibilities and remove those users who have inappropriate or excessive access privileges.
- Logging and periodically monitoring users' access and activities for the GME system and accounting software application, especially users with administrative-level access and elevated access privileges.
- Reviewing all generic user accounts to eliminate or minimize their use when possible.
- Logging and monitoring all changes to data tables in both the GME system and accounting software application, and ensure they are independently reviewed, tested, and approved prior to implementation.

This finding is similar to a prior-year finding.

Agency Response: Concur

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The Arizona Department of Education (ADE) agrees with this finding. To help prevent and detect unauthorized access to the Grants Management Enterprise (GME) system, the Deputy Associate Superintendent (DAS) of Grants Management will develop and implement written policies and procedures for all user access changes by May 30, 2015. Additionally, the DAS of Grants Management has reassigned the duty of terminating user access to the Grants Technology Director. To ensure that user access is immediately terminated from the Grants Management Enterprise System, ADE's Human Resources will provide termination requests to the Grants Technology Director, who will then be required to terminate the access immediately. Additionally, the Grants Technology Director will send quarterly reports to ADE designated program area staff to verify the accuracy of users' access. Changes will be made as needed by the Grants Technology Director and appropriately documented.

2014-121

Cluster Name:	Special Education Cluster (IDEA)
CFDA No. and Name:	84.027 Special Education—Grants to States 84.173 Special Education—Preschool Grants
Award Numbers and Years:	H027A110007, 2011; H027A120007, 2012; H027A130120, 2013; H173A110003, 2011; H173A120003, 2012; H173A130003, 2013
CFDA No. and Name:	84.010 Title I Grants to Local Educational Agencies
Award Numbers and Years:	S010A090003, 2009; S010A110003, 2011; S010A120003, 2012; S010A130003, 2013
CFDA No. and Name:	84.184 Safe and Drug-Free Schools and Communities—National Programs
Award Number and Year:	Q184Y100027-13, 2014
CFDA No. and Name:	84.367 Improving Teacher Quality State Grants
Award Numbers and Years:	S367A110049, 2011; S367A120049, 2012; S367A130049, 2013
Federal Agency:	U.S. Department of Education
Compliance Requirement:	Reporting
Questioned Costs:	None

Finding

Criteria: In accordance with 2 CFR §170, Appendix A, and the Federal Funding Accountability and Transparency Act (FFATA) of 2006, for grant awards beginning on October 1, 2010, or later, the State should report on a monthly basis to the FFATA Subaward Reporting System each subaward to a subrecipient of \$25,000 or more.

Condition and context: The Department of Education (Department) did not submit the required FFATA reports listing subawards of \$25,000 or more to subrecipients for its U.S. Department of Education programs, nor did the Department request or obtain permission from the Office of Management and Budget to deviate from this requirement.

Effect: Noncompliance with the FFATA reporting requirements for all U.S. Department of Education programs the Department administered. This finding has the potential to affect other federal programs the Department administered.

Cause: The Department had demonstrated a good faith effort to comply with this requirement in prior years, but failed to comply this year because of turnover in the personnel responsible for the FFATA reporting.

Recommendation: To help ensure the Department complies with FFATA reporting requirements it should establish and implement policies and procedures to report on a monthly basis each subaward of \$25,000 or more to subrecipients or maintain documentation that it made a good faith effort to comply with FFATA reporting requirements effort to comply with FFATA reporting requirements.

Agency Response: Concur

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY 2014 Single Audit Report)

The Arizona Department of Education (ADE) agrees with this finding. To help ensure that it complies with Federal Funding Accountability and Transparency Act (FFATA) reporting requirements, the Deputy Associate Superintendent (DAS) of Grants Management reassigned this function to the Director of Grants Technology. FFATA data for FY14 has been submitted to the USDOE by the Director of Grants Technology and is currently awaiting confirmation. Similarly, FFATA data for FY15 will also be submitted by March 30, 2015 by the Director of Grants Technology and monthly going forward. Beginning June 30, 2015, a Grants Management project specialist will submit FFATA reports monthly for all federal programs.

2014-122

Cluster Name:	Child Nutrition Cluster
CFDA No. and Name:	10.553 School Breakfast Program 10.555 National School Lunch Program 10.556 Special Milk Program for Children 10.559 Summer Food Service Program for Children
Award Number and Years:	7AZ300AZ3, 2011, 2012, 2013, 2014
CFDA No. and Name:	10.558 Child and Adult Care Food Program
Award Numbers and Years:	7AZ300AZ3, 2011, 2012, 2013, 2014; 7AZ300AZ4, 2011, 2012, 2013, 2014
CFDA No. and Name:	10.560 State Administrative Expenses for Child Nutrition
Award Number and Years:	7AZ300AZ2, 2012, 2013, 2014
Federal Agency:	U.S. Department of Agriculture
Cluster Name:	Special Education Cluster (IDEA)
CFDA No. and Name:	84.027 Special Education—Grants to States 84.173 Special Education—Preschool Grants
Award Numbers and Years:	H027A110007, 2011; H027A120007, 2012; H027A130120, 2013; H173A110003, 2011; H173A120003, 2012; H173A130003, 2013
CFDA No. and Name:	84.010 Title I Grants to Local Educational Agencies
Award Numbers and Years:	S010A090003, 2009; S010A110003, 2011; S010A120003, 2012; S010A130003, 2013
CFDA No. and Name:	84.184 Safe and Drug-Free Schools and Communities—National Programs
Award Number and Year:	Q184Y100027-13, 2014
CFDA No. and Name:	84.367 Improving Teacher Quality State Grants
Award Numbers and Years:	S367A110049, 2011; S367A120049, 2012; S367A130049, 2013
CFDA No. and Name:	84.369 Grants for State Assessments and Related Activities
Award Number and Years:	S369A110003, 2012, 2013, 2014
Federal Agency:	U.S. Department of Education
Compliance Requirements:	Procurement and Suspension and Debarment, and Subrecipient Monitoring
Questioned Costs:	Unknown

Finding

Criteria: The Department of Education (Department) is responsible for awarding over \$1.1 billion in federal grant awards and contracts to local educational agencies (LEAs) consisting of school districts, charter schools, and various other educational organizations. Therefore, it is imperative that department management and employees who are involved in making award decisions comply with the State's personnel rules, A.R.S. §38-501 et seq., and 34 CFR §80.36. These rules, laws, and regulations require that employees disclose conflicts of interest when employees or their relatives have a business interest or employment with another entity to which the Department awards grants and contracts, and abstain from any involvement in an award decision for which a conflict of interest exists. These disclosures should be made on an annual basis to comply with the State's personnel rules.

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY 2014 Single Audit Report)

Condition and context: The Department did not have adequate internal controls to ensure that its management and employees completed conflict-of-interest disclosure statements to comply with federal and state conflict-of-interest requirements

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

Cause: State employees are required to complete conflict-of-interest and disclosure statements when they are hired and annually thereafter. Employees are also required to update disclosure statements for conflicts of interest as they arise, as required by the State's policies and laws. However, the Department did not provide regular communications to management and employees to remind them of the importance of conflict-of-interest rules and laws. Further, the Department did not have policies and procedures requiring its management and employees to complete annual conflict-of-interest disclosures statements to help ensure that employees do not make federal award decisions when a conflict of interest exists.

Recommendation: To help ensure the Department's management and employees comply with conflict-of-interest rules, laws, and regulations, the Department should provide regular communications about the importance of conflict-of-interest requirements, and require all employees to complete an annual conflict-of-interest disclosure statement. Policies and procedures and training should require management and employees to abstain from making award and compliance decisions that involve entities for which conflicts of interest exist.

This finding is similar to a prior-year finding.

Agency Response: Concur

The Arizona Department of Education (ADE) accepts this finding and has implemented a new process to ensure that all staff in management positions and who have access to any of ADE's payment systems sign an Annual Declaration and Disclosure Form. This form is required by the State of Arizona General Accounting Office Technical Bulletin 09-06 and will serve as a control against potential conflict of interest issues. The ADE Deputy Associate Superintendent (DAS) of Human Resources (HR) will require staff to update this form annually, beginning March 2015 and every subsequent March. This process will apply to all grade 22s and any employee with access to Grants Management, CNP Web, or School Finance's systems. Every year, HR will request the forms in March and follow up to ensure all forms are received by no later than June 15th of every year. This process will be documented via an annual Outlook reminder. ADE also will continue to use its Disclosure Statement, which is required by the Arizona Department of Administration (ADOA) Human Resources for all new staff to fill out and update as necessary. ADE HR will review all personnel files and follow up for any missing forms and ensure these forms are received by no later than June 15, 2015.

Finally, ADE requires all new hires to review the State Employee Handbook (which includes information regarding conflict of interest and requires an online acknowledgement) and this process will continue. In 2014, ADE HR implemented a process to require that several online courses be re-completed by all staff annually, which includes the handbook and acknowledgement. This process will continue and is completed monthly by looking back 13 months to determine which employees are due for renewal courses and this process will be documented via a monthly Outlook reminder.

2014-123

CFDA No. and Name:

14.267 Continuum of Care Program

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Award Numbers and Years:	Various
Federal Agency:	U.S. Department of Housing and Urban Development
Compliance Requirement:	Procurement and Suspension and Debarment
Questioned Costs:	None

Finding

Criteria: In accordance with 2 CFR §§180 and 2424, the Arizona Department of Housing (Department) is prohibited from contracting with or making subawards to any party that is suspended or debarred or is otherwise excluded from participating in federal assistance programs.

Condition and context: The Department awarded over \$5.4 million in Continuum of Care federal grant monies during the fiscal year to a total of 17 subrecipients consisting of Arizona counties and other nonprofit organizations. However, the Department did not always verify the subrecipients were not suspended or debarred, or otherwise excluded from participating in the program prior to making the awards. Auditors performed additional audit procedures and determined no payments were made to suspended or debarred parties.

Effect: Awards could be made to suspended or debarred parties. This finding could affect other federal programs that the Department administered.

Cause: The Department had internal control policies and procedures to check the Excluded Parties List System (EPLS) for first-time subrecipients; however, for additional awards to a subrecipient, the Department did not verify that their status had not changed.

Recommendation: The Department should establish policies and procedures to verify that subrecipients are not suspended or debarred prior to making awards. Documentation of this verification must be retained. This may be accomplished by checking the EPLS maintained by the General Services Administration, collecting a certification from the entity, or adding a clause or condition to the contracts

Agency Response: Concur

At the request and recommendation of the Office of the Auditor General ("AG"), the Arizona Department of Housing (the "Department") has printed verifications from the Excluded Parties List System ("EPLS") documenting that none of the parties to which it has issued sub-awards were suspended or debarred. Further, effective immediately the Department will add a clause to each renewal contract that its sub-recipients sign that certifies that they are not suspended or debarred from receiving federal awards. We understand that this will clear the AG's finding.

That being said, the Department states for the record that it respectfully disagrees with the finding and takes exception to the statement that the Department "did not always verify that sub-recipients were not suspended or debarred, or otherwise excluded from participating in the program prior to making awards." As the AG's report correctly points out, the Department's internal control policies and procedures maintained procedures to check the EPLS for first-time sub-recipients, complying with the regulatory requirement. However, the Department disagrees with the AG's current view that the Department was thereafter required to re-check the EPLS status of sub-recipients when it extended its existing agreements and/or added additional funding to existing programs which are ongoing multi-year programs intended to operate continually and without interruption.

In the case of this particular program, the Department has for years had ongoing relationships with its sub-recipients which were all initially cleared through the EPLS. The Department continually monitors its sub-recipients through both desk monitoring and on-site visits and reviews the annual audit reports for each entity. Were any of its sub-recipients to become suspended or debarred subsequent to the Department's initial clearance of the organization through the EPLS, the Department would, without a doubt, have knowledge regarding such issues.

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It is important to note that the AG audited this same program for its FY2013 audit (Note: in the past year there was a consolidation of two existing programs which resulted in the changing of the programs' names to Continuum of Care.) In the AG's FY2013 audit, the AG made no findings or recommendations regarding the Department's practice of clearing a sub-recipient initially, without re-checking the EPLS status of sub-recipients when the Department extended existing agreements or added additional funding to existing programs which are ongoing multi-year programs intended to operate continually and without interruption. In light of the AG's current view that existing sub-recipients are required to be cleared through the EPLS, the Department has adopted the recommendations contained in the FY2014 audit.

2014-124

CFDA No. and Name:	93.283 Centers for Disease Control and Prevention—Investigations and Technical Assistance
Award Numbers and Years:	5U58DP001956-05, 2014; 5UR3DD000826-03, 2014; 3U50CI000922-02, 2014
Federal Agency:	U.S. Department of Health and Human Services
Compliance Requirements:	Activities Allowed or Unallowed and Allowable Costs/Cost Principles
Questioned Costs:	Unknown

Finding

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

Condition and context: During fiscal year 2014, five bureaus administering the federal program within the Department spent approximately \$5 million of program monies, with \$1.4 million being spent on salaries and wages. For those employees who worked on multiple activities, salaries and wages were charged to the program using distribution percentages that were determined before the employees performed the services. In addition, these salaries and wages were not always supported by personnel activity reports or equivalent documentation to support the actual time spent working on the program. Further, for those employees who worked solely on the federal award, salaries and wages were not always supported by periodic certifications. Specifically, auditors noted the following deficiencies at three of the five bureaus:

Bureau of Tobacco and Chronic Disease

- For 16 out of the 17 employees tested, there were no personnel activity reports supporting the distribution of the employees' salaries and wages to multiple activities or certifications that the employees worked solely on the federal program.

Bureau of State Laboratory Services

- For the one employee who worked on the program, there were no personnel activity reports supporting the distribution of the employee's salaries and wages.

Bureau of Epidemiology and Disease Control

- For one out of the eight employees tested, there were no personnel activity reports supporting the distribution of the employee's salaries and wages for one pay period.

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

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Cause: The Department did not have effective internal controls in place to ensure that salaries and wages reflect the actual time spent working on the program.

Recommendation: The Department should implement effective internal controls to help ensure that salaries and wages reflect actual time spent working on the federal program. For employees who work on multiple activities, the Department should ensure that documentation is prepared at least monthly reflecting an after-the-fact distribution of the hours and activities worked. Also, the Department should continue to ensure that all employees' distribution percentages that were determined before the services were performed, are compared to the distribution percentages of the actual time worked, at least quarterly, and make any necessary correcting adjustments to the amounts charged to the program. Further, the Department should require employees who work solely on the program to prepare certifications at least semiannually. The records supporting salaries and wages should be signed by the employee and reviewed and approved by a supervisor having firsthand knowledge of the work the employee performed.

This finding is similar to a prior-year finding.

Agency Response: Concur

The Department's Public Health Preventive Services Division, Bureau of Tobacco and Chronic Disease is no longer receiving funding under this grant. However, the Program does expect to receive federal funding in the future and has established procedures to ensure Personnel Activity Reports (PARs) are completed for all employees working on multiple activities and certifications are completed for all employees working solely on a federal program.

The Department's Public Health Preparedness Services Division, Bureau of State Laboratory Services has implemented procedures requiring any employees working on the federal program, to complete a PAR rather than journalizing salaries and wages at the end of each grant year.

The Department's Public Health Preventive Services Division, Bureau of Epidemiology and Disease Control has implemented procedures to ensure when an employee leaves the Bureau or the employment of the Department a PAR is collected. The Bureau has reminded personnel and Supervisors and has added the PAR collection to the "Packet for Exiting Employees".

The Department will continue to ensure that all employees' distribution percentages that are determined before the services are performed, are compared to the distribution percentages of the actual time worked, at least quarterly, and make any necessary correcting adjustments to the amounts charged to the program

2014-125

CFDA No. and Name:	93.283 Centers for Disease Control and Prevention—Investigations and Technical Assistance
Award Numbers and Years:	5UR3DD000826-03, 2014; 5U58DP002034-05, 2014; 2U58DP001956-06, 2014; 5U50OE000047-02, 2014; 5U50DP000729-05, 2014; 3U50CI000922-02, 2014; 5U50CK000224-02, 2014
Federal Agency:	U.S. Department of Health and Human Services
Compliance Requirement:	Reporting
Questioned Costs:	None

Finding

Criteria: In accordance with 2 CFR §170, Appendix A, and the Federal Funding Accountability and Transparency Act (FFATA) of 2006, the Arizona Department of Health Services (Department) must report to the FFATA Subaward Reporting System each subaward that amounts to \$25,000 or more. The Department must report each subaward action no later than the end of the month following the month in which the obligation was made.

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

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

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

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

This finding is similar to a prior-year finding.

Agency Response: Concur

The Department's Division for Planning and Operations, Business and Financial Services (BFS) did hire an employee to fill this role, but the employee later resigned. Currently, the State of Arizona is in a hiring freeze. BFS will recruit for this position when allowed. The position will be responsible for developing, implementing, and monitoring procedures to ensure timely and accurate FFATA reporting.

2014-126

CFDA No. and Name:	97.042 Emergency Management Performance Grants
Award Number and Year:	EMW-2012-EP-00003, 2012
Federal Agency:	U.S. Department of Homeland Security
Compliance Requirements:	Matching
Questioned Costs:	\$6,726,857

Finding

Criteria: In accordance with its grant agreement and 44 CFR §13.24(b)(6), the Department of Emergency and Military Affairs (Department) is required to match 100 percent of program expenditures with nonfederal monies and must maintain records of costs and third-party, in-kind contributions counting toward satisfying the matching requirement.

Condition and context: The Department expended \$6,726,857 in federal monies for the federal fiscal year 2012 award that ended during the fiscal year and also reported this amount to the federal grantor as the required match. However, it did not maintain support for the match amount or separately identify and track in its accounting records any costs or third-party, in-kind contributions that could have been counted toward satisfying the matching requirement.

Effect: The Department was unable to demonstrate that it met the matching requirement for the federal program.

Cause: The Department did not have adequate procedures in place to ensure that matching requirements were met and verifiable from its records.

Recommendation: The Department should establish policies and procedures to ensure it complies with the program's matching requirement. This includes ensuring that the Department's accounting records support matching expenditures.

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Agency Response: Concur

The agency has requested additional funding from the executive and legislative branches to ensure proper matching levels for future grant awards. The level of expenditures continues to be limited to the available match funding. Internal controls have been established requiring that all quarterly Federal Financial Reports, SF 425's, and drawdowns be supported with detailed expenditures from the State's accounting system and in-kind contributions to demonstrate and document that the matching requirements are consistently being met.

2014-127

CFDA No. and Name:	97.042 Emergency Management Performance Grants
Award Numbers and Years:	EMW-2012-EP-00003, 2012; EMW-2013-EP-00024, 2013
Federal Agency:	U.S. Department of Homeland Security
Compliance Requirements:	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, and Period of Availability of Federal Funds
Questioned Costs:	\$2,015,000

Finding

Criteria: In accordance with 2 CFR §225, Appendix A, E.2. and 44 CFR §13.23(a), the Department of Emergency and Military Affairs (Department) may charge only direct costs, such as employee compensation for the time devoted and identified specifically to the performance of federal awards, incurred during the funding period to the program. Further, to comply with 2 CFR §215.22(b)(2), cash advances to a recipient organization shall be timed to be in accordance with the recipient organization's actual, immediate cash requirements in carrying out the approved program or project's purpose.

Condition and context: The Department charged program costs to the federal fiscal year (FFY) 2013 award that were incurred prior to the funding period. Specifically, the Department overspent its FFY 2012 award primarily to cover salaries and benefits. The Department borrowed \$2,015,000 from state monies anticipating the receipt of the FFY 2013 award. Subsequently, the Department drew down monies from its FFY 2013 award to repay the borrowed state monies, which was not in accordance with the approved FFY 2013 program's immediate cash needs.

Effect: The Department incorrectly charged FFY 2012 program costs to the FFY 2013 award, which resulted in improper cash drawdowns. It was not practical to extend our auditing procedures sufficiently to determine whether any additional questioned costs resulted from this finding.

Cause: The Department did not have policies and procedures to ensure it did not exceed program funding levels.

Recommendation: The Department should ensure that program costs do not exceed the approved funding levels and are charged to the appropriate funding period.

Agency Response: Concur

The agency has established the following policies and procedures to ensure that the program's costs do not exceed the approved funding levels and are charged to the appropriate funding period.

- The divisions within ADEM will submit their budget requirements for the following FY to ADEM leadership three months prior to the end of the budget cycle. ADEM leadership will evaluate the requests to determine if the costs are reasonable, allowable and allocable and that they align with the EMPG work plan.
- Validated requirements will then be prioritized and the budget built based upon the projected award amount. Unfunded, validated requirements will be prioritized for consideration in the event there are budget savings

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during the execution phase and for future fiscal years. The budget will be consolidated, formatted and submitted upon the issuance of the FOA from FEMA.

- ADEM will begin the budget execution phase upon receipt of the award letter. No funds will be expended prior to that date. On a monthly basis a budget review will be conducted with ADEM leadership. The DEMA CFO will report the amount of funds executed and the current projections for the remainder of the budget cycle based upon the approved budget. If there are any savings recognized the leadership will evaluate the funding of any unfunded requirements previously discussed or any new validated requirements. Upon the decision to fund it will be determined if it increases any of the budget categories by more than 10%. If it does a budget amendment will be submitted to FEMA for approval. Upon the approval of the budget amendment the funds will then be re-aligned and executed.

- All expenditures that are made with EMPG funding are required to go through an internal approval process to ensure the item is within budget and thoroughly vetted. Any item that would incur an expenditure that is above a Section's budget requires approval from both the Director of the agency and the CFO; if approved; appropriate adjustments are made to ensure the grant as a whole is not overspent.

2014-128

CFDA No. and Name:	97.042 Emergency Management Performance Grants
Award Numbers and Years:	EMW-2012-EP-00003, 2012; EMW-2013-EP-00024, 2013; EMW- 2014-EP-00016, 2014
Federal Agency:	U.S. Department of Homeland Security
Compliance Requirement:	Cash Management
Questioned Costs:	Unknown

Finding

Criteria: In accordance with 44 CFR §13.20(b), accounting records must be properly supported and effective controls and accountability must be maintained over federal monies to ensure that it is used solely for authorized purposes. Therefore, the Department of Emergency and Military Affairs (Department) should maintain source documentation for draw-down requests and separate responsibilities over cash management so that no one employee is responsible for compiling and submitting cash requests to draw down federal monies.

Condition and context: The Department did not establish adequate procedures to ensure that cash draw-down requests were supported, reviewed, and approved prior to submission. While gaining an understanding over the program's internal controls, auditors determined that cash draw-down requests were not supported and one employee was responsible for compiling, approving, and submitting the cash draw-down requests.

Effect: The Department could request cash for unauthorized purposes, have excess cash on hand, and incur an interest liability on cash balances. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may result from this finding.

Cause: The Department did not have adequate internal control policies and procedures in place for the drawdown of federal funds.

Recommendation: The Department should develop internal control policies and procedures to ensure cash drawdowns are properly supported. In addition, it should assign a second employee to review and approve cash draw-down requests for accuracy before they are submitted to the grantor.

Agency Response: Concur

The agency has established internal controls that segregates the duties for draw-downs. The agency's Financial Grants Coordinator will prepare the draw request and provide it, along with supporting accounting

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documentation, to the CFO for review. The CFO will review and validate the request and forward to the ADEM Director or Deputy Director for their authorization. Upon authorization either the CFO or the Grants Coordinator will complete the draw request. The draw request and all supporting documentation will be maintained in the grant file.

2014-129

CFDA No. and Name:	97.042 Emergency Management Performance Grants
Award Number and Year:	EMW-2013-EP-00024, 2013
Federal Agency:	U.S. Department of Homeland Security
Compliance Requirements:	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Cash Management
Questioned Costs:	Unknown

Finding

Criteria: In accordance with 2 CFR §225, Appendix A, F.1., indirect costs claimed for the program should consist of costs that are incurred for a common or joint purpose benefiting more than one cost objective and should be distributed to benefited cost objectives in accordance with the approved indirect cost agreement. Further, in accordance with 2 CFR §215.22, the timing and amount of the cash advances shall be as close as is administratively feasible to the recipient organization's actual disbursements for the direct costs and proportionate share of any allowable indirect costs.

Condition and context: The Department of Emergency and Military Affairs (Department) requested and received \$778,996 in program monies for indirect costs prior to incurring the direct costs associated with these indirect costs, which were subsequently transferred to its Indirect Cost Recovery Fund. Further, the amount of indirect costs were determined by using the total indirect costs budgeted for the entire award period instead of the approved indirect cost rate agreement approved by the federal awarding agency.

Effect: Indirect costs were improperly charged to the award, which resulted in an improper cash drawdown. Further, the Department may have transferred monies to its Indirect Cost Recovery Fund that were received in advance for indirect costs that were not based on allowable direct costs. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding.

Cause: The Department did not have policies and procedures in place to ensure it charged indirect costs to the program as the underlying direct costs were incurred.

Recommendation: The Department should have policies and procedures in place to ensure that indirect costs are calculated using the approved indirect cost rate agreement. Further, the Department should not charge indirect costs to the program until the accumulated direct costs used to distribute indirect costs have occurred.

Agency Response: Concur

As part of the internal controls for draw down requests, the grants coordinator will calculate the authorized indirect costs utilizing the approved indirect cost rate agreement and the accumulated direct costs for salaries and fringe benefits year to date. The amount charged for indirect costs for that period will be the difference between what is authorized and what has been previously charged to the agreement.

2014-130

CFDA No. and Name:	97.042 Emergency Management Performance Grants
Award Numbers and Years:	EMW-2012-EP-00003, 2012; EMW-2013-EP-00024, 2013
Federal Agency:	U.S. Department of Homeland Security
Compliance Requirements:	Cash Management and Subrecipient Monitoring
Questioned Costs:	Unknown

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Finding

Criteria: In accordance with 44 CFR §13.40, the Department of Emergency and Military Affairs (Department) is required to monitor subgrantee activities to assure compliance with applicable federal requirements and that performance goals are being achieved. Further, to comply with 31 U.S. Code 7502(f)(2)(C) and OMB Circular A-133 §.400(d), the Department must ensure that subrecipients expending \$500,000 or more in federal awards obtain the required audits within 9 months of the end of the subrecipients' audit periods. In addition, the Department must review the audits, issue management decisions on audit findings within 6 months after the receipt of the audit report, and ensure prompt and appropriate corrective action has been taken with respect to audit findings. Finally, to comply with 44 CFR §13.21(g), the Department should not withhold payments to subgrantees for proper charges incurred unless the subgrantee has failed to comply with the award conditions.

Condition and context: During the fiscal year, the Department disbursed \$530,000 in program monies to 13 subrecipients for the federal fiscal year (FFY) 2012 award. However, the Department did not monitor subrecipient activities or obtain and review the required audits. In addition, for the 4 FFY 2013 award subrecipients selected for test work, the Department was to reimburse the subrecipients' program costs quarterly; however, in some instances payments were withheld until fiscal year-end.

Effect: Subrecipients may not have complied with the grant agreements and may not have had single audits completed. Further, subrecipients may not have received timely reimbursements for program costs in accordance with their contracts. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding has the potential to affect other federal programs the Department administers.

Cause: The Department relied on the subrecipients to report accurate financial information without performing monitoring procedures to ensure accuracy. Further, the Department was unaware of the requirement to obtain and review subrecipients' audits. Finally, the Department withheld some payments to subrecipients anticipating the need to use program monies for personnel costs until the next federal fiscal year award was received.

Recommendation: The Department should monitor the subrecipients' use of all federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that subrecipients administer federal awards in compliance with the grant agreement and that performance goals are achieved. Further, the Department should establish adequate procedures to ensure all subrecipients have the required audits, the Department issues management decisions on audit findings, and subrecipients take appropriate corrective action. Finally, the Department should ensure that subrecipients are reimbursed timely for program costs in accordance with their contracts.

Agency Response: Concur

Dedicated Grants Coordinators have been appointed to conduct programmatic and financial oversight of subrecipients to assure compliance with applicable federal requirements and that performance goals are being achieved. ADEM has developed a set of standardized documents to be utilized on both programmatic and financial monitoring visits with subrecipients. Site visits are conducted once a year at a minimum and desk monitoring is conducted quarterly when reviewing the subrecipient reimbursements and progress reports. Guidance and policies on the monitoring visits is provided as part of the Local Programmatic Guidance to the subrecipients. Annual workshops are now conducted which provide programmatic & financial training and review to subrecipients. Documentation of visits, desk monitoring and other written communication is maintained in the subrecipients grant files. Subrecipients are reimbursed upon successful programmatic and financial review of the subrecipient reimbursement requests.

ADEM obtains a record of the subrecipient's most current Single Audit as part of the subrecipient's budget request. The report is reviewed and a determination is made by ADEM leadership if there are any concerns that impact the

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decision to award funds to the subrecipient. The decision is documented and placed into the subrecipient's grant file along with the Single Audit report.

2014-131

CFDA No. and Name:	97.042 Emergency Management Performance Grants
Award Numbers and Years:	EMW-2012-EP-00003, 2012; EMW-2013-EP-00024, 2013
Federal Agency:	U.S. Department of Homeland Security
Compliance Requirement:	Reporting
Questioned Costs:	Unknown

Finding

Criteria: In accordance with 44 CFR §13.20(b)(1), the Department of Emergency and Military Affairs' (Department) financial reports must be accurate, current, and complete and disclose the financial results of federal activities in accordance with the program's financial reporting requirements.

Condition and context: The Department did not have effective internal control policies and procedures in place for preparing its financial reports. Specifically, for the federal fiscal year (FFY) 2012 award final federal financial report, the Department reported the award's amount of federal funds authorized as the cash received, cash disbursed, and recipient share required and expended. However, the amounts reported did not agree to the accounting records. Further, for the one FFY 2013 quarterly report reviewed, the amounts reported did not agree to the accounting records, and no supporting documentation was maintained for the amounts reported.

Effect: The financial reports submitted to the federal awarding agency did not reflect accurate program financial information. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding.

Cause: The Department did not have effective policies and procedures in place to ensure the financial reports were accurately prepared or properly reviewed prior to submitting them to the federal agency.

Recommendation: The Department should develop and implement effective policies and procedures for the preparation and review of financial reports to ensure that financial information is accurate, current, and complete. Further, the Department should maintain supporting documentation for amounts reported.

Agency Response: Concur

Internal controls have been established requiring that all quarterly Federal Financial Reports, SF 425's, and drawdowns be supported with detailed expenditures from the State's accounting system and in-kind contributions to demonstrate and document the matching requirements. All physical documentation pertaining to the grant is kept in a standardized filing system that is easily accessible to all financial and programmatic staff.

2014-132

CFDA No. and Name:	97.042 Emergency Management Performance Grants
Award Number and Year:	EMW-2012-EP-00003, 2012
Federal Agency:	U.S. Department of Homeland Security
Compliance Requirement:	Earmarking
Questioned Costs:	Unknown

Finding

Criteria: In accordance with the funding opportunity announcement (FOA), the Department of Emergency and Military Affairs (Department) may use up to 5 percent of the program monies for management and administration (M&A) activities. M&A activities are those defined as directly relating to program management and administration, such as financial management and monitoring.

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Condition and context: The Department could not provide support that it tracked or did not exceed the allowable earmarking requirements; therefore, auditors were unable to determine whether the Department complied with the earmarking requirements. While the Department created specific accounting codes to track M&A activities, the codes were not always used. Specifically, for the federal fiscal year 2012 award, the Department charged travel, fleet, and other operating costs totaling \$2,335 to the codes; however, there were no charges to the codes for salaries of employees who were assigned to work on M&A activities.

Effect: The Department may have used more than the allowable amount for M&A costs. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding.

Cause: The Department did not have adequate internal control policies and procedures to ensure M&A costs were appropriately identified and recorded in the accounting system.

Recommendation: The Department should establish internal control policies and procedures to ensure M&A costs are appropriately identified and recorded in the accounting system and the amount of M&A costs do not exceed the amount allowable.

Agency Response: Concur

A separate accounting code has been established and is being utilized to track the costs associated with M&A. Only those costs associated with the positions charged with the management and administration of the grant, primarily the grant coordinators, are authorized M&A costs. The M&A costs and projected annual costs are reviewed on a monthly basis during the financial reviews with ADEM leadership to assure costs do not exceed the allowable amount.

2014-133

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

Finding

Criteria: In accordance with National Guard Regulation 5-1, chapter 11-5, effective May 28, 2010, grantees should limit the time elapsing between the transfer of monies from the U.S. Treasury and their disbursement to 45 days or less.

Condition and context: The Department of Emergency and Military Affairs (Department) did not have effective internal control procedures in place to minimize the time elapsing between the transfer of monies from the U.S. Treasury and their disbursement. Specifically, auditors analyzed 320 days of daily cash balances and noted the Department exceeded the 45-day limit on 39 different occurrences.

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

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

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

This finding is similar to a prior-year finding.

Agency Response: Concur

- The agency will only request advance funding for those projected expenditures that are supported by either encumbrances, projected staffing or estimated utilities.
- Cash flow projections for large projects over \$100K will be based upon an estimated progress payment schedule directly from the contractor.
- The agency will return any excess advance funds that are remaining 45 days after the end of the period of availability. Draw requests will be done so on a reimbursement basis. Reimbursement requests will be completed thereafter as invoices are received against valid encumbrances.

2014-134

CFDA No. and Name:	12.401 National Guard Military Operations and Maintenance (O&M) Projects
Award Numbers and Years:	W912L2-11-2-1001, 2012
Federal Agency:	U.S. Department of Defense
Compliance Requirements:	Period of Availability
Questioned Costs:	\$1,018

Finding

Criteria: In accordance with National Guard Regulation 5-1, chapter 11-10, effective May 28, 2010, costs incurred in a fiscal year that are not disclosed by the grantee within 90 days of the end of the federal fiscal year (FFY) shall not be eligible for reimbursement.

Condition and context: The Department of Emergency and Military Affairs (Department) used program monies from the FFY 2013 award for an expenditure associated with its FFY 2012 award. Specifically, auditors identified an expenditure for \$1,018 that occurred during the FFY 2012 award period that the grantee did not liquidate or disclose within the required time frame.

Effect: The Department may not receive reimbursement for eligible expenditures if the costs are not disclosed to the grantor within the required time frame. It was not practical to extend our auditing procedures sufficiently to determine whether any additional questioned costs resulted from this finding.

Cause: The Department was not aware that it did not disclose costs associated with its FFY 2012 award until more than 90 days after the FFY ended.

Recommendation: To help ensure the Department receives reimbursement for all allowable costs charged to the program it must liquidate or disclose all program costs to the grantor agency within 90 days of the end of the FFY in accordance with program guidelines.

Agency Response: Concur

The Department of Emergency & Military Affairs will immediately institute the following to prevent the payment of costs beyond the period of availability that are not disclosed within the 90 days of the end of the federal fiscal year (FFY). They are:

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- Increased emphasis on the management of federal grants and cooperative agreement. The agency will hire a Grants Coordinator position to provide dedicated financial oversight and management of the agency's federal grants and cooperative agreements.
- The agency has fully implemented the 3 way matching payment process through the State's Procurement system, ProcureAZ. This provides a tool for program managers and their staff to review purchase orders to ensure that payments have been made for goods and services received.
- Provide additional training to program managers, their staff and the agency's accounting section as to how to determine whether a cost is allowable and authorized after the period of availability.
- Internal controls will be established whereby prior to the payment of prior period obligations, the Comptroller or Deputy Comptroller will ensure that the obligation was identified in the most recent 90 day extension.
- Internal controls have been implemented whereby all purchase change orders are submitted through ProcureAZ and require the authorization of the Comptroller or Chief Finance Officer. Change orders utilizing funds from a prior period are not authorized and declined.
- Any obligations identified after the period of availability and not identified in the initial extension request will be paid out of current year funds.

2014-135

CFDA No. and Name:	98.AID-486-A-12-00005 The Vocational University Leadership and Innovation Institute (VULII)
Award Number and Years:	486-A-12-00005, 2012 through 2015
Federal Agency:	Agency for International Development
Compliance Requirements:	Activities Allowed or Unallowed and Allowable Costs/Cost Principles
Questioned Costs:	\$206,214

Finding

Criteria: In accordance with 2 CFR §220, Appendix A, C.4.d, the Arizona State University (University) is responsible for ensuring that costs charged to a sponsored agreement are allowable, allocable, and reasonable under cost principles.

Condition and context: The University notified auditors that program expenditures incurred for the Vocational University Leadership and Innovation Institute (VULII), a non-major program during the period July 1, 2013 through June 30, 2014, may be unallowable due to an employee charging expenditures to an incorrect funding source. In October 2014, the University completed an internal review on the program and identified \$206,214 of previously reimbursed expenditures charged to the program primarily for travel and conference costs, were unallowable under the federal award. Of that amount, the University estimates approximately \$17,535 was considered to be fraudulent expenditures.

Effect: The University was reimbursed \$206,214 for expenditures later determined to be unallowable. The University credited the entire \$206,214 back to the federal program by reducing a future reimbursement request for the grant in December 2014. It was not practical to extend our auditing procedures to determine whether any additional questioned costs resulted from this finding.

Cause: The University has internal controls in place requiring review and approval of grant expenditures for allowability, however, the review performed was not adequate.

Recommendation: The University credited the unallowable expenditures back to the federal agency. However, the University should ensure proper review and approval of expenditures are performed for allowability on all grant

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awards by a faculty or staff member who is familiar with the program and what are allowable activities and costs that can be charged to the program.

Agency Response: Concur

The University terminated the employee in question. The grant, which was in transition, has been assigned to a new principal investigator. The University will implement an annual notification to all principal investigators of the responsibilities of serving as a principal investigator. The University in conjunction with its academic units will reinforce through its training of faculty and staff, including principal investigators, the importance of timely review of expense allowability based on specific program criteria.

2014-136

Cluster Name:	Medicaid Cluster
CFDA No. and Name:	93.778 Medical Assistance Program
Award Numbers and Years:	Various
Federal Agency:	U.S. Department of Health and Human Services
Compliance Requirement:	Eligibility
Questioned Costs:	N/A

Criteria: According to the AHCCCS eligibility requirements, the SOBRA Child eligibility category allows enrollment/participation for participants from ages 6 to 18. The month after reaching the age of 19 and maintaining other eligibility criteria, participants should be moved out of the SOBRA child eligibility category and into a comparable AHCCCS program. Internal controls should be in place to provide reasonable assurance that participants are moved out of the SOBRA Child eligibility category the month after they turn 19 (aged out).

Condition: In connection with our testing, we noted certain participants were either not transferred from the SOBRA Child eligibility category to another eligibility group the month after they turned 19 or were transferred subsequent to the month after the participant turned 19 years of age.

Context: In order to test eligibility, we selected a sample of 40 participants to verify the participant met the applicable eligibility criteria. In connection with our testing, we noted one instance where a participant was enrolled in the SOBRA Child eligibility category and was not transferred from the SOBRA Child eligibility category the month after they turned 19. As a result of this exception, we expanded our testing to the entire population of the SOBRA Child eligibility category to ensure that participants were being properly transferred out of the SOBRA Child eligibility category the month after the participant turned 19 (aged out). Using eligibility data, we identified 1,948 individuals enrolled in the SOBRA Child eligibility category who were not transferred timely out of the SOBRA eligibility category in the month after the participant turned 19 in fiscal year 2014. For these 1,948 exceptions, we noted that the participants were incorrectly left in the SOBRA Child eligibility category and not transferred to another adult eligibility category for a total of 5,731 months.

Effect: AHCCCS pays contracted health plans to provide services to the participants in the SOBRA Child eligibility category using a capitated per member, per month payment methodology. The SOBRA Child eligibility category per member per month payment is lower than the per member per month payment for the AHCCCS Care eligibility category (the eligibility category the SOBRA Child eligibility category participants would have been transferred to). As a result, given the 1,948 exceptions, the number of months participants were incorrectly left in the SOBRA Child eligibility category, and the per member per month capitation rate differentials between the SOBRA Child and AHCCCS Care eligibility categories, we determined that AHCCCS improperly paid (underpaid) capitation to contracted health plans by approximately \$1,225,704 as a result of the untimely transfer between eligibility categories.

Cause: AHCCCS' eligibility department had a large backlog and was not able to properly transfer participants between eligibility categories on a timely basis and in accordance with program requirements.

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Recommendation: We recommend that AHCCCS establish policies and procedures to ensure that participants are transferred out of the SOBRA Child eligibility category the month following the participant's 19th birthday. This will include the implementation of an eligibility system enhancement to automatically transfer SOBRA Child eligible out of this eligibility program in the month following the participant's 19th birthday. We further recommend that AHCCCS review the size and compliment of their eligibility department to ensure the staffing is adequate to address eligibility changes in a timely manner.

Agency Response: Concur

To ensure individuals who turn age 19 are transitioned out of the SOBRA Child category timely, we implemented an automated process on October 2, 2014. The eligibility system, Health-e-Arizona Plus, identifies individuals turning 19 and automatically processes the change in categories effective the month after the individual's 19th birthday. This automated process will run each month. We will run monthly reports for three months to monitor this new process and make adjustments, if needed.

We are in the process of completing the retroactive changes. We have completed September and August age changes and will have all retroactive age changes completed by December 31, 2014.