Federal Award Findings, Questioned Costs and Corrective Action Plan
(Reformatted from the FY 2015 Single Audit Report)

2015-101
CFDA No. and Name:   Not applicable
Questioned Costs: N/A

Finding
Criteria: Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, §.320, requires the State to submit its Single Audit Reporting Package to the federal clearinghouse no later than 9 months after fiscal year-end.

Condition and context: The federal reporting deadline for the State’s Single Audit Reporting Package was March 31, 2016; however, the State did not issue its Single Audit Reporting Package until June 2016 because of the late issuance of the State’s Comprehensive Annual Financial Report (CAFR).

Effect: The late submission affects all federal programs the State administered; however, this finding does not result in a deficiency in internal control over compliance or noncompliance for the individual federal programs, as this was not caused by the programs’ administration.

Cause: As discussed in finding 2015-01, the late completion of the State’s CAFR contributed to the late submission of its Single Audit Reporting Package.

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

Agency Response: Concur

The FY15 State of Arizona Single Audit Reporting Package is expected to be completed in June 2016. The Single Audit Reporting Package is dependent upon the completion of the State's Comprehensive Annual Financial Report (CAFR) which has been held up due to the delay of receipt of the financial statements for the Arizona Department of Transportation (ADOT). The ADOT financial statements are a significant portion of the State's financial activity. The delay is the result of complete turnover in ADOT’s staff producing the agency’s financial statements and the limited availability of other resources to assist due to the implementation of the State's new accounting system. The State will develop and implement a plan to allow submission of the Single Audit by the established March 31 due date.

2015-102
CFDA No. and Name:   Various
Award Numbers and Years: Various
Federal Agency: Various
Compliance Requirement: Allowable Costs/Cost Principles
Questioned Costs: $166,663

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

Condition and context: The State of Arizona (State) did not comply with the allowable costs/cost principles requirements with respect to Arizona Strategic Enterprise Technology (ASET) Office’s 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 with a 0.2 percent charge of the agency’s total payroll expenditures each pay...
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period. A portion of the charge is for technology project oversight services ASET provides and administration of the state and local implementation grant program (SLIGP). 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 (Department) has determined these charges totaled $166,663 during fiscal year 2015. The Department has not compiled the information for disallowed costs by federal program for each agency. 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 the SLIGP administration costs and, therefore, was not caused by the federal programs’ administration.

Recommendation: The State should ensure that services provided within the Information Technology Fund are not charged to federal programs unless treated as direct costs or allocated using an equitable allocation basis. 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 if the bill is enacted into law.

This finding is similar to prior-year finding 2014-101.

Agency Response: Concur

The State has continued to make improvements and has implemented methodology believed to be consistent with established cost principles effective for FY16. This is a cross-cutting finding and is appropriately being addressed with the U.S. Department of Health and Human Services, Cost Allocation Services (DHHS-CAS) for the payment and appropriate resolution of the questioned costs.

2015-103
CFDA No. and Name: Various
Award Numbers and Years: Various
Federal Agency: Various
Compliance Requirement: Allowable Costs/Cost Principles
Questioned Costs: $9,494,055

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

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

- House Bill 2004 of the 51st Legislature, First Special Session, Chapter 4, §7, and House Bill 2707 of the 51st Legislature, Second Regular Session, Chapter 13, §8, directed the transfer of monies from the State’s Risk Management Revolving Fund to the Arizona Navigable Stream Adjudication Commission for unpaid legal obligations.
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- House Bill 2703 of the 51st Legislature, Second Regular Session, Chapter 18, §139, mandated fund balance transfers from the Special Employee Health Insurance Trust Fund to the State’s General Fund to help provide adequate support and maintenance for state agencies.

- House Bill 2703 of the 51st Legislature, Second Regular Session, Chapter 18, §138, mandated fund balance transfers from the State’s Automation Operations Fund to the State’s Automation Projects Fund.

Further, the Department of Public Safety (Public Safety) transferred monies from its Automation Operations and Risk Management Funds to a fund that was used to pay department-wide and administrative costs.

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

Effect: The State’s Department of Administration (Department) has determined these transfers total federal portion to be $9,494,055 during fiscal year 2015. The Department has not compiled the information for the disallowed costs by federal program for each grantor agency. 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 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 state agencies that had legislatively mandated or directed transfers.

Cause: The noncompliance for the mandated and directed transfers resulted from state legislation and, therefore, was not caused by the Federal programs’ administration. Further, for the transfers completed by the Public Safety, the Public Safety was unaware that transfers that include Federal monies should be based on the relative benefits received.

Recommendation: The State should ensure that legislatively mandated and directed 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. Finally, the Department should ensure all agencies are aware that transfers that include Federal monies should be based on the relative benefits received.

This finding is similar to prior-year finding 2014-102.

Agency Response: Concur

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

This is a cross-cutting finding and is appropriately being addressed with the 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. It should be noted that the number of fund transfers required by legislation have diminished significantly.

<table>
<thead>
<tr>
<th>2015-104</th>
<th>Cluster Name: Student Financial Assistance Cluster</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cluster Name: Student Financial Assistance Cluster</td>
<td>CFDA No. and Name: 84.007 Federal Supplemental Educational Opportunity Grants (FSEOG) 84.033 Federal Work-Study Program (FWS)</td>
</tr>
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<table>
<thead>
<tr>
<th>CFDA Nos. and Names</th>
<th>Award Numbers and Years</th>
<th>Federal Agency</th>
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<tbody>
<tr>
<td>84.038 Federal Perkins Loan (FPL)—Federal Contributions</td>
<td>Various; July 1, 2014 through June 30, 2015</td>
<td>U.S. Department of Education</td>
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<tr>
<td>84.063 Federal Pell Grant Program (PELL)</td>
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<tr>
<td>84.268 Federal Direct Student Loans (DIRECT LOAN)</td>
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<tr>
<td>84.379 Teacher Education Assistance for College Higher Education Grants (TEACH GRANTS)</td>
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<tr>
<td>84.408 Postsecondary Education Scholarship for Veteran’s Dependents (IRAQ and AFGHANISTAN SERVICE GRANTS (IASG))</td>
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<tr>
<td>93.264 Nurse Faculty Loan Program (NFLP)</td>
<td>Various; July 1, 2014 through June 30, 2015</td>
<td>U.S. Department of Health and Human Services</td>
</tr>
<tr>
<td>93.342 Health Professions Student Loans, Including Primary Care Loans and Loans for Disadvantaged Students (HPSL/PCL/LDS)</td>
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<tr>
<td>93.364 Nursing Student Loans (NSL)</td>
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<tr>
<td>93.925 Scholarships for Health Professions from Disadvantaged Backgrounds</td>
<td></td>
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</tr>
</tbody>
</table>

**Finding**

Criteria: For PELL and DIRECT LOAN programs, 34 CFR §685.309(b) and §690.83(b)(2) require institutions to accurately report student enrollment status changes to the National Student Loan Data System (NSLDS). Student enrollment status changes include reductions or increases in attendance levels, withdrawals, graduations, or approved leaves-of-absence. These changes must be reported within 30 days, unless an enrollment reporting roster will be submitted within 60 days.

Condition and context: The three Universities administering the Cluster did not have adequate internal control procedures to ensure that all student enrollment status changes were reported to NSLDS accurately and/or within the required time periods. Specifically, the following discrepancies were noted:

- The University of Arizona (UofA)—For 6 of 25 students tested, auditors noted errors in the students’ enrollment status changes reported to the NSLDS.
- Arizona State University (ASU)—For 2 of 40 students tested, auditors noted enrollment status changes were reported 18 days late to the NSLDS.
- Northern Arizona University (NAU)—For 3 of 25 students tested, auditors noted errors in the students’ enrollment status changes reported to the NSLDS, and a change for 1 of the 25 students tested was reported 229 days late to the NSLDS.

Effect: The Universities did not comply with the enrollment-reporting requirements of 34 CFR §685.309(b) and §690.83(b)(2). Consequently, student enrollment statuses in the NSLDS were not always accurate and/or reported in a timely manner.

Cause: The Universities used a third-party servicer to report enrollment status changes to NSLDS but did not have adequate internal control procedures to verify that changes were reported to the NSLDS accurately and/or in a timely manner. Further, UofA and NAU did not have adequate internal control procedures to identify all student enrollment status changes within their accounting systems.
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Recommendation: The Universities should implement internal control procedures to ensure that they identify all student enrollment status changes required to be reported, accurately report the changes, and monitor changes submitted by the third-party servicer to ensure the student enrollment status changes reported to the NSLDS are accurate and reported within required timelines.

Agency Response: Concur

ASU Response:

The National Student Clearinghouse serves as a single point of contact for the collection and timely exchange of accurate enrollment, degree, and certificate data, which NSC submits to the National Student Loan Data System (NSLDS) on behalf of most postsecondary institutions in the U.S., including Arizona State University. Specifically, ASU submits a monthly file of graduated students to the NSC for submission to NSLDS. For the two students in the audit finding degrees were posted shortly after the monthly graduation file was sent and the cut-off for NSLDS submission was missed.

ASU will implement internal procedures to ensure that the graduated student files are submitted to NSC in a timely manner to support reporting to NSLDS within the required 60 day reporting period. This may include sending graduated status changes more frequently, and monitoring when these files are submitted by NSC to NSLDS.

NAU Response:

In regard to the deficiencies noted by the auditors, Northern Arizona University has addressed the enrollment status changes that were inaccurately reported to NSLDS for 3 of 25 students tested:

Through an internal review of our enrollment reporting practices in April 2015 it was determined that the withdrawal date for students who unofficially withdrew from the semester was being reported outside the required timeframe. Through the collaboration of the Office of Scholarships and Financial Aid and the Registrar’s office, Northern Arizona University developed a new process that would report this population accurately. Our first correction file to NSC occurred on October 20, 2015. Since then we have run this process regularly. The 2014-2015 year is the last year that these errors occurred.

Of students tested, 1 of 25 was reported 225 days late to NSLDS:

The late reporting by NSC to NSLDS of the one student occurred in May, 2015. We will improve our current process of spot checking. We will spot check 50 enrollment records each quarter. We will evidence our review by initialing and dating the NSC file once the review has been complete.

U of A Response:

The University of Arizona will take the following corrective actions in response to the enrollment reporting issues.

Issue: Incorrect enrollment status due to imbedded repeat code rules within our PeopleSoft SIS.

Response: Two students were reported with more units than they should have due to a system configuration that determines the counting of class attempts and the GPA value of repeated coursework. This configuration matches the University of Arizona’s academic policy, but inadvertently caused withdrawn classes that violated university repeat policy to count as attempted units. The repeat process was initiated half-way through the term so the effect on student enrollment was inadvertent and not realized.
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- Process Correction: PeopleSoft repeat codes for withdrawn classes will be reconfigured to exclude them from the repeat process and thus withdrawn classes will not count as attempted units, even though this conflicts with University of Arizona academic policy. This correction will be in effect beginning with the next term, Summer 2016.

**Issue: Perceived withdrawal, not accurate**
Response: One student was reported correctly for Spring 2015 as full-time. The first Spring 2015 SSCR was processed prior to our first submission to NSC which caused the student to appear as withdrawn for a second time and consequently dropped from the SSCR roster. The student was subsequently reported as full-time for Spring 2015, but this was not recognized due to the student’s missing status on the SSCR.

- Process Correction: On December 31, 2015, the National Student Clearinghouse (NSC) implemented an enhancement, which sends to NSLDS students who 1) previously appeared on a Clearinghouse roster and 2) are actively enrolled at a school. This enhancement will prevent this issue from occurring in the future.

**Issue: Withdrawals**
Response: Three students processed withdrawals after the final NSC batch file for the term had been submitted.

- Process Correction: Registrar’s Office has created a report to identify late or retroactive changes in enrollment status for students receiving federal aid. Registrar’s staff will update NSLDS records if the transaction results in a different enrollment status for the student. This correction will be in effect beginning with the current term, Spring 2016.

All individual student records have been updated in NSLDS as of March 10, 2016.

2015-105
CFDA No. and Name: 84.126 Rehabilitation Services—Vocational Rehabilitation Grants to States
Award Numbers and Years: H126A130002, 2013; H126A140002, 2014; and H126A150002, 2015
Federal Agency: U.S. Department of Education
Compliance Requirement: Eligibility
Questioned Costs: None

**Finding**
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 11 of 40 applications tested. Specifically, for 11 of 40 applications tested, it took the Administration between 66 and 192 days, or an average of 128 days, to either determine if the applicants were eligible for the program or close the case. For 3 of the 11 items tested, the Administration had a properly signed extension letter in the case file, but failed to determine eligibility within the extended time period. For another 4 of the 11 items tested, the Administration included an extension letter in the applicant’s case file; however, it lacked the applicant’s signature evidencing that the individual agreed to a specific extension of time. For 3 of the 11 items tested, an extension letter was not prepared. Finally, for 1 item 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.
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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 prior-year finding 2014-104.

Agency Response: Concur

Rehabilitation Services Administration (RSA) has reviewed the findings on the 40 sample cases tested and agrees with the findings.

In relation to these findings, RSA would like for it to be noted 6,369 cases were moved through the eligibility determination process during federal fiscal year 2015. The applied risk stratification sample assessment accounts for less than one percent of the total work completed by RSA staff as it relates to eligibility determination.

RSA began working with the Office of Inspector General (OIG), Office of Research, Analysis and Planning (RAP) in March 2015. Implementation of OIG/RAP recommendations and RSA’s execution of internal monitoring, tracking, and weekly audits began in June 2015. Since June 14, 2015, RSA staff determined eligibility on 2,069 clients within an average of 42.6 days and a median of 35 days. This results in an average compliance rate of 90.1%. The reduction in number of days to determine eligibility is a result of several factors. In June 2014, RSA implemented a centralized tracking mechanism whereby every application and associated eligibility was monitored. A weekly list of pending eligibilities is produced and disseminated to all counselors, supervisors, and management. Follow up and responses are required to be produced and are reviewed by executive management with additional follow up and action taken as necessary. Additionally, a measure of eligibility determination timeliness was added to both the counselor and supervisor performance rating. Counselors and supervisors who demonstrated an inability to meet eligibility timelines 90% of the time received a "Does Not Meet" rating and corrective action plans have been instituted.

RSA will continue to intensely monitor, manage and ensure that RSA staff understands and adheres to applicable eligibility policies and procedures in order to meet the eligibility compliance requirements.

RSA will conduct the following activities:
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1. Implement a training module to train supervisors and counselors on the automated eligibility tracking mechanisms through RSA’s case management system.
2. Ensure eligibility extension letters are prepared prior to the 60 day eligibility timeline and ensure that this documentation is signed by the applicant and retained in the client’s file.
3. Continue to provide mandatory eligibility compliance training to all newly hired supervisors and counselors. The course will be followed by a mandatory Eligibility Compliance Test with a requirement to pass the test with a 100%.
4. Continue to include a performance measure on the supervisor and counselor Managing Accountability and Performance (MAP) to track compliance and institute Performance Improvement Plans with supervisors and counselors who are not meeting the 60 day eligibility timeframe or have failed to execute a valid eligibility extension with required client signatures.
5. Continue utilizing an aging tracking report which alerts counselors, supervisors, managers, deputies, and administrator of timeliness of eligibility determination.
6. Continue to conduct weekly eligibility audits and a roll up audit on a monthly basis and alert counselors, supervisors, managers, deputies, and administrators of results.
7. Continue to track eligibility compliance results on weekly scorecard metrics.

2015-106
CFDA No. and Name: 84.126 Rehabilitation Services—Vocational Rehabilitation Grants to States
Award Numbers and Years: H126A130002, 2013; H126A140002, 2014; and H126A150002, 2015
Federal Agency: U.S. Department of Education
Compliance Requirement: Special Tests and Provisions
Questioned Costs: None

Finding
Criteria: In accordance with 29 U.S. Code §722(b)(3)(F), the Department of Economic Security (Department) must develop an individualized plan for employment as soon as possible, but no later than 90 days after the date of eligibility determination, unless the Department and the eligible individual agree to an extension of that deadline to a specific date the individualized plan for employment will be completed.

Condition and context: The Department’s Division of Employment and Rehabilitation Services, Rehabilitation Services Administration (Administration), lacked policies and procedures for the timely completion of individualized plans for employment. Consequently, for two of ten case files tested, the Administration did not develop an individualized plan for employment within 90 days or obtain an extension.

Specifically, it took the Administration 102 days to document the individualized plan for employment in one case file and 93 days for the other case file.

Effect: Failure to develop timely individualized plans for employment may result in delayed services.

Cause: The Administration did not have policies and procedures in effect to ensure that individualized plans for employment were developed no later than 90 days after the determination of eligibility or the agreed-upon extension date.

Recommendation: To help ensure compliance with grant requirements, the Administration should establish written policies and procedures that include the following:

• Ensuring a participant’s individualized plan for employment is completed no later than 90 days after the eligibility determination date or within the extension period.
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- Preparing a letter before the end of the 90-day period to establish a specific extension of time when an individualized plan of employment cannot be completed within 90 days. This letter should be signed by both the Administration and the participant.

In addition, the Administration should provide adequate supervision of its case workers and enforce its policies and procedures to help ensure compliance with grant requirements.

Agency Response: Concur

Rehabilitation Services Administration (RSA) has reviewed the findings and agrees with the findings.

RSA will conduct the following activities:

1. Update the Extension of Individualized plan for employment (IPE) Implementation form in the case management system.
2. Ensure eligibility extension letters are prepared prior to the 90 day IPE timeline and ensure that this documentation is signed by the applicant and retained in the client’s file.
3. Mandate the use of the Action Alert list in the case management system.
4. Develop an IPE implementation training module with emphasis on IPE timeline compliance.
5. Implement IPE implementation training for all new counselors and supervisors. The course will be followed by a mandatory IPE implementation compliance test with a requirement to pass the test with 100%.
6. Utilize an aging tracking report which alerts counselors, supervisors, managers, deputies, and the director of Vocational Rehabilitation cases exceeding the 90 day IPE implementation timeframe.
   - Provide a list of untimely cases to the supervisors for action
   - Require supervisors to provide a report of actions taken to implement the IPE or move to close the case
7. Require regional managers to review untimely case reports biweekly to identify trends by office/counselor.
8. Implement Performance Improvement Plans and/or provide coaching opportunities for staff consistently not meeting timelines.
9. Continue to include a performance measure on the supervisor and counselor Managing Accountability and Performance (MAP) to track compliance and institute Performance Improvement Plans with supervisors and counselors who are not meeting the 90 IPE implementation timeframe or have failed to execute a valid IPE extensions with required client signatures.
10. Continue to track IPE compliance results on weekly scorecard metrics.

2015-107
CFDA No. and Name: 84.126 Rehabilitation Services—Vocational Rehabilitation Grants to Award Numbers and Years: H126A130002, 2013; H126A140002, 2014; and H126A150002, 2015
Federal Agency: U.S. Department of Education
Compliance Requirement: Earmarking
Questioned Costs: None

Finding

Criteria: In accordance with 29 U.S. Code §730(d), the Department of Economic Security (Department) must reserve at least 15 percent of their Vocational Rehabilitation (VR) allotment for the provision of pre-employment transition services to students with disabilities who are eligible, or potentially eligible, for VR services.

Condition and context: The Department’s Division of Employment and Rehabilitation Services, Rehabilitation Services Administration (Administration), lacked policies and procedures to ensure this requirement was met. The
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Administration did not establish a reserve for the provision of pre-employment transition services to students with disabilities who are eligible, or potentially eligible, for VR services. Consequently, the Administration expended only $5,493,003, or 9.9 percent of the fiscal year 2015 allotment, for the provision of pre-employment transition services.

Effect: Failure to establish policies and procedures could result in not providing services to potential clients.

Cause: The Administration did not have policies and procedures to ensure that the amounts of funds available for the pre-employment transition services were reserved.

Recommendation: To help ensure compliance with earmarking requirements, the Administration should establish written policies and procedures to reserve the required amount of the VR allotment for pre-employment transition services to students with disabilities who are eligible, or potentially eligible, for VR services.

Agency Response: Concur

Rehabilitation Services Administration (RSA) has reviewed the findings and agrees with the findings.

RSA will conduct the following activities:
1. Separate budgets have been set up in the statewide financial system, earmarking 15% of the State’s Vocational Rehabilitation allotment for each fiscal year, for the provision of services under pre-employment transition services.
   o This will ensure that required funds are reserved and expenditures identified and tracked separately to meet the threshold.
2. The Division of Employment and Rehabilitation Services’ Finance and Budget Unit (FBU) will prepare a monthly expenditure report to track the data pertaining to pre-employment transition services.
3. Develop separate function codes so staff can document and record time spent on pre-employment transition service provision.
4. Inform affected field staff of ability to record time with separate function code when conducting pre-employment transition services with clients and potentially eligible clients.
5. Explore alternative service programming options to increase pre-employment transition services expenditures.

| 2015-108 |
| CFDA No. and Name: | 17.225 Unemployment Insurance |
| Federal Agency: | U.S. Department of Labor |
| Compliance Requirement: | Reporting |
| Questioned Costs: | None |

Finding
Criteria: In accordance with 29 CFR §97.20(b)(1)-(3), and (b)(6), Subpart C, the Department of Economic Security (Department) must report financial information through authorized reports in accordance with federal agency instructions, maintain internal controls over reporting to provide reasonable assurance that federal program reports are accurate and reliable, and report information that agrees to its financial records.

Condition and context: The Department’s Unemployment Insurance Administration (Administration) did not accurately prepare or provide support for various fiscal year 2015 unemployment insurance reports. Additionally,
the Division submitted its quarterly ETA 581—Contribution Operations report, ETA 227—Overpayment Detection and Recovery Activities report, and ETA 227—EUC—Overpayment Detection and Recovery Activities report without an independent review and approval by a knowledgeable person. Further, the Administration did not document an independent review of its ETA 191—Financial Status of UCFE/UCX report. Auditors noted errors in 4 of the 13 reports tested. Specifically, auditors noted the following:

- For the March 31, 2015, quarterly ETA 581—Contribution Operations report, the financial management system did not support amounts reported for Liquidated Contributory Employers Receivables of $3,672,800 and for Liquidated Reimbursing Employers Receivables of $134,639.

- For the September 30, 2014, quarterly ETA 227—Overpayment Detection and Recovery Activities report, UI and UCFE/UCX Nonfraud Recovered for Other States was reported as $0 although system reports identified $120,115 and $456 in recoveries, respectively. Additionally, the Administration could not support the following reported amounts:

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<th>EB</th>
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- For the September 30, 2014, quarterly ETA 227—EUC—Overpayment Detection and Recovery Activities report, the Administration could not support the following reported amounts:

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<th>Section A. Overpayments Established—Causes</th>
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</tr>
<tr>
<td>Fraud</td>
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<td>Nonfraud</td>
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- For the June 30, 2015, quarterly Trade Act Participation Report (TAPR), the Administration did not report 3rd, 2nd, and 1st Quarter Wages Prior to Participation for the 225 participants who had not exited the program. Effect: The Administration submitted incorrect financial data to the federal grantor that may result in potential errors in analysis or other determinations. This finding did not result in questioned costs because the reports were not used to request reimbursement of federal expenditures.

Cause: The Administration did not adequately implement review procedures to ensure that all relevant financial data was included on the ETA 581, ETA 227, and TAPR reports. Furthermore, as a result of some programming deficiencies in system-generated reports, the Administration made manual adjustments to the ETA 581 and ETA...
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227 reports to report ending balances that were not supported by the financial management system, and critical information was omitted from the TAPR report.

Recommendation: To help ensure compliance with reporting requirements, the Administration should establish written policies and procedures that include retaining documentation to support the amounts reported on federal reports. Also, the policies and procedures should include a knowledgeable person’s documented review of federal reports before they are submitted to the U.S. Department of Labor to help ensure they are complete and accurate. Finally, the Administration should investigate the system deficiencies and correct programming errors to ensure that the generated internal reports are accurate and support various financial information.

Agency Response: Concur

ET A-191 Report  
Anticipated completion date: Effective immediately

The Administration implemented new review procedures for the ETA 191 report, effective December 2015. A UI Accountant II will prepare the report and provide the data for management’s review prior to the quarterly submittal. The UI Budget manager will review the data and a draft of the report, for quality control. To ensure timely filing of the ETA 191 report, approval or feedback will be provided to the Accountant II no later than 22nd day of the month following the quarter end date, for final revisions and transmittal in the state menu to the Department of Labor (DOL).

ETA-581 Report  
Anticipated completion date: September 30, 2016

The ETA-581 (Quarter ending 03-31-15) Contributory Liquidated and Reimbursing Employer Receivable amounts requires modification and resubmission. In addition, the ETA-581 report requires system review and modification to capture the accurate receivable amounts. The Business Technology Solutions (BTS) unit will assist with the review and will provide the universe of data for the Contributory Liquidated and Reimbursing Employer Receivable amounts. The ETA-581 will be amended and resubmitted to DOL with the adequate Contributory Liquidated and Reimbursing Employer Receivable amounts. In addition, knowledgeable program specialist staff will review the ETA581 report before submission to ensure the information being transmitted to DOL is correct. The estimated completion date is to occur no later than September 30, 2016.

ETA 227 Report  
Anticipated completion date: December 31, 2016

The Administration agrees that the system deficiencies should be investigated and programming errors corrected to ensure that the generated internal reports are accurate and support data contained on the ETA 227 report.

The BTS unit is currently performing a thorough investigation of the ETA 227 report in order to identify existing deficiencies. An analyst has been assigned to this task and has identified a few potential causes for discrepancy. This is a lengthy process as every transaction that can impact an overpayment and the ETA 227 report, has to be executed individually and the results analyzed for accuracy. One issue has been identified and programming changes for that issue are currently being tested.

A secondary review process for the ETA 227 report, prior to transmittal to DOL, was implemented effective January 1, 2016. The last two quarterly submissions were reviewed and approved by upper management (quarter ending 12/31/2015 and quarter ending 3/31/2016) for quality control. Procedures are under development to clearly
Federal Award Findings, Questioned Costs and Corrective Action Plan
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identify compilation of the quarterly ETA 227 report by support staff and the secondary review process by upper management.

Trade Act Participation Report (TAPR)
Completed as of March 2016

The TAPR was not programmed to capture the wages prior to participation for individuals who had not yet exited due to interpretation of the Federal Specifications. The TAPR is now programmed to capture the wages prior to participation; this data was included in the two most recent TAPRs—Quarter ending 12/31/15 and Quarter ending 3/31/16.

The TAPR is programmed by our system host, America’s Job Link Alliance (AJLA). Technical support with AJLA explained that the capturing of wages prior to participation on the TAPR is not a mandatory requirement by the Department of Labor; however, the TAPR is now capturing this data. Below is the explanation from AJLA technical support as to why the TAPR was not capturing the wages prior to participation for participants who had not yet exited the program:

Why wasn’t the TAPR capturing wages prior to participation on Trade Adjustment Assistance (TAA) participants who had not yet exited?

a. The instructions in the TAPR Handbook appear to require the reporting of prior to participation wages consistent with outcome reporting. As no specific edit check for date exists for the prior to participation wages based on date of participation and the TAPR handbook does not specifically say that prior to participation wages must be reported prior to exit. Rather as noted below, the Handbook implies that these wages are for performance outcomes, which are all exit based, not participation based. While D.2 indicates that information should appear within six months following the report quarter referenced in the data element, this appears to be a non-mandatory requirement.

i. D. 01: Employment and Job Retention Information
   1. This section tracks performance-related outcomes for the participant, including:
      a. Whether the participant was employed in the first, second, third and fourth quarter after exit,
      b. Type of verification used to identify participant's reemployment status in the first, second, third and fourth quarter after exit,
      c. The type of employment that the participant may have obtained after exit,
      d. Whether the participant was recalled by their trade affected employment.
   2. The 21 Data elements that report information in this section should appear within six months following the report quarter referenced in the data element.

ii. D. 02: Wage Record Information
   1. This section tracks information that is used to track the participant's performance outcomes in the program, including:
      a. Wage data for three quarters prior to participation, and
      b. Wage date for four quarters after program exit.
   2. Data elements that report information in this section should appear within six months following the report quarter referenced in the data element

2) Are we now capturing the wages prior to participation for those TAA participants who have not yet exited?
   a. Yes, we have reported the wages prior to participation for both the 12/31/2015 and 03/31/2016 quarters.

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<th>2015-109</th>
<th>CFDA No. and Name: 17.225 Unemployment Insurance</th>
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Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from the FY 2015 Single Audit Report)

| Federal Agency: | U.S. Department of Labor |
| Compliance Requirement: | Special Tests and Provisions |
| Questioned Costs: | None |

Finding  
Criteria: In accordance with the program-integrity requirements of Trade Adjustment Assistance Extension Act of 2011, Public Law 112-40, § 251(a) - (b) and 252(a), the Department of Economic Security (Department) must:

- Charge an employer’s unemployment compensation account when the employer or its agent’s actions led to an improper payment and a pattern of failure has been established.
- Impose a monetary penalty of not less than 15 percent to claimants whose fraudulent acts result in overpayments.
- Maintain policies and procedures to identify overpayments and classify them in a manner that allows the Department to take appropriate follow-up action.

Also, in accordance with the quality control requirements of 20 CFR §§602.11(d) and 602.21(c), the Department is required to operate a quality control program to assess the accuracy of unemployment insurance benefit payments and denied claims. The Benefit Accuracy Measurement State Operations Handbook, ET Handbook No. 395, 5th Edition (Handbook), requires the Department to complete a minimum number of case investigations within a specified time frame and a summary of investigation that includes a narrative explaining pertinent facts for each case. Further, case findings should be accurately reported and recorded.

Condition and context: The Department’s Unemployment Insurance Administration (Administration) did not comply with program-integrity requirements designed to address improper unemployment compensation payments. Specifically, auditors noted the following deficiencies:

- The Administration did not always evaluate and document the adequacy of employer information request responses related to employee separations and did not have a process to determine whether a pattern of untimely or inadequate responses existed. As a result, the Administration may not have charged employers’ unemployment compensation accounts when the employer or its agent’s actions led to an improper payment.

- The Administration did not properly classify 2 of 40 overpayments tested. Specifically, 1 overpayment was classified as nonfraud although fraudulent. As a result, the Administration failed to assess the required 15 percent fraud penalty to the claimant. Additionally, another overpayment was classified as Regular Unemployment Compensation although the overpayment was for the 2008 Emergency Unemployment Compensation (EUC) program. In addition, for 2 of 40 overpayments tested, the Administration did not accurately identify the method of detection. As a result of these errors, the ETA 227—Overpayment Detection and Recovery Activities report and ETA 227—EUC—Overpayment Detection and Recovery Activities report were inaccurate.

- The Administration uses its benefit management system to determine the amount of overpayment recoveries to be returned to the appropriate unemployment insurance program.

- However, the system does not always apply recoveries according to federal regulations, which could result in the Administration not returning monies to the appropriate unemployment insurance program.
In addition, the Administration did not comply with the quality control requirements. Specifically, the Administration’s Benefit Accuracy Measurement Unit (BAM Unit) did not always follow its policies and procedures to ensure it reviewed the minimum number of cases during the time frame specified in the Handbook. Specifically, for fiscal year 2015, the BAM Unit completed only 23 percent of case investigations within 60 days instead of the required 70 percent, and 58 percent of case investigations within 90 days instead of the required 95 percent. Further, for 9 of 40 cases tested, a summary of investigation was not completed. Additionally, for 1 of 40 cases tested, the BAM Unit incorrectly reported the total overpayment of $106 as $118 to the Department of Labor.

Effect: The Administration did not comply with the program-integrity requirements. In addition, failure to operate the BAM Unit program in accordance with the quality control requirements can result in noncompliance with federal regulations and failure to identify overpaid, underpaid, or erroneously denied claims. Failure to accurately report case findings inhibits the Administration’s ability to evaluate performance and assess the accuracy of unemployment insurance payments.

Cause: The Administration did not have adequate policies and procedures or did not always follow its policies and procedures to comply with program-integrity requirements. In addition, for quality control requirements, the BAM Unit did not have adequate policies and procedures in place to complete case investigations in a timely manner and did not always follow its policies and procedures to complete a summary of investigation. In addition, the BAM Unit did not have adequate policies and procedures for supervisory reviews.

Recommendation: To help ensure compliance with program-integrity requirements, the Administration should follow its policies and procedures to ensure that each overpayment is accurately identified and to evaluate and document the adequacy of employer information request responses related to employee separations. Also, the Administration should develop detailed policies and procedures to determine whether a pattern of untimely or inadequate responses existed and charge an employer’s unemployment compensation account when the employer or its agent’s actions led to an improper payment. Further, the Administration should investigate how its benefits management system applies overpayment recoveries and resolve differences between the system’s application and federal regulations to help ensure that the Administration returns monies to the appropriate unemployment insurance program.

In addition, to comply with the quality control requirements, the BAM Unit should develop policies and procedures to help ensure it completes the minimum number of case investigations in a timely manner and establish guidelines for the type of cases required to have a supervisory review and the appropriate level of review. Finally, the BAM Unit should follow its policies and procedures to complete a summary of investigation that includes a narrative explaining pertinent case facts.

**Agency Response: Concur**

**Improper Payments**
Anticipated completion date: September 30, 2016

*Pattern of Failure*—The Department agrees that it did not always evaluate and document the adequacy of employer responses related to employee separations and did not have a process in place to determine whether a pattern of inadequate responses existed.

The Administration identified the need to LEAN the process of evaluating and documenting the adequacy of employer information (maximize customer value while minimizing waste) in an effort to properly code the untimely and inadequate responses. During the LEAN process, a diversified group met to ensure that all aspects were taken into consideration. In February 2016, the Administration added three staff members to the Base
Federal Award Findings, Questioned Costs and Corrective Action Plan
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Period Unit to replace staff lost due to attrition. Secondly, the Administration increased the number of documents that each staff member must work daily from 60 to 80.

During the LEAN process it was identified that an additional eleven adjudication staff were needed to work the number of documents presented to the department for processing. The Administration is in the process of hiring the additional staff. Effective May 17, 2016, all State Information Data Exchange System documents presented to the department are coded as "unworked" to ensure every document is reviewed for proper coding. UIA Policy Broadcast #131 will be revised to ensure compliance with UIPL 02-12 Pattern of Failure. The revision will include procedures for running queries to determine whether the employer has met the Pattern of Failure criteria.

Erroneous classification of overpayment-The Administration agrees that 2 out of 40 overpayments tested was incorrectly classified and 2 out of 40 cases tested the method of detection was not identified properly.

In an effort to make it easier for claimants and staff to understand the overpayment classification, additional wording has been added to the overpayment determinations. All adjudication and Benefit Payment Control (BPC) staff were given an overview of the changes implemented in February 2016. Operations Manager will meet with supervisors and staff to provide feedback and guidance. The supervisor will monitor to ensure the appropriate staff completes the Administrative Penalties Training in reference to A.R.S. 23-778.

The BPC supervisors conduct a weekly review on a minimum number of overpayment cases, every effort will be made to detect potential errors and will address them immediately.

Benefit Accuracy Measurement (BAM)
Anticipated completion date: December 31, 2016

The Department agrees with the BAM untimeliness findings. There was a major change in the reporting structure for the BAM Unit. The BAM Unit, which included one supervisor and six investigator positions, was moved under the supervision of the Office of Accountability (OA) beginning January 2013. This structure continued through June 2015 at which time the BAM unit was transferred back to the Unemployment Insurance Administration (UIA). In 2014, the BAM Unit lost 50 percent of their experienced investigators due to turnover. OA management chose to only fill two of the three vacant positions; however, one of the newly hired staff lacked adjudication experience.

Upon return of the unit to UIA, the UI Program Management staff identified and implemented several strategies to assist in improving the BAM timeliness. These strategies included staff training, weekly monitoring of the cases assigned, hiring of an additional investigator position, prior BAM experienced staff working untimely cases and performance improvements plans when necessary. Current BAM procedures will be updated to include the number of days a case must be submitted to the supervisor for review. The number of days will allow the supervisor sufficient time to review the case and return to the investigator for any corrections and meet the Department of Labor BAM timeliness requirements.

The Department will establish guidelines for the types of cases and the percent of cases that must be reviewed by the supervisor prior to sign off. The Department also agrees that there was no summary of investigation written in nine out of the forty cases tested and the total overpayment of one of the forty cases was incorrectly reported. The total overpayment should have been $106.00 and was reported as $118.00. As part of the supervisor sign off process, each case will be reviewed to ensure that the written summary is present and the correct over paid dollar amounts are entered in each case file. If no summary is present or keying errors are identified, the case will be returned to the investigator to write the summary and I or correct the entry prior to the supervisor signing off.

17.225 Unemployment Insurance
Federal Award Findings, Questioned Costs and Corrective Action Plan
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<td>U.S. Department of Labor</td>
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<tr>
<td>Compliance Requirement:</td>
<td>Cash Management</td>
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<td>Questioned Costs:</td>
<td>None</td>
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**Finding**

Criteria: In accordance with 31 CFR §§205.11, 205.12(b), and 205.33, Subpart A, the Department of Economic Security (Department) must request federal monies in accordance with the funding techniques agreed to in the Treasury-State Agreement. In addition, the funds transfer amount should be the amount the Department expects to disburse.

Condition and context: The Department’s Financial Services Administration (Administration) did not always comply with the applicable funding technique’s terms. Specifically, for two of nine funds transfers tested, the Administration requested funds transfers for $1,029,555 and $1,757,310, which were $104,163 and $22,934, respectively, more than the amount needed for expected expenditures. Further, two additional transfers totaling $2,581,300 were requested 1 day earlier than the established dates in the Treasury-State Agreement.

Effect: The Administration did not comply with cash management requirements, which resulted in a positive cash balance for 2 weeks.

Cause: The Administration had ineffective procedures to ensure that funds transfers were correct according to the supporting documentation and requested in accordance with the Treasury-State Agreement. According to the Administration, when requesting monies pursuant to the Treasury-State Agreement, the monies are not always available for disbursement the following day because of a lag time in its financial system.

Recommendation: To help ensure compliance with cash management requirements, the Administration should develop detailed procedures to determine the amount of monies needed for immediate cash requirements and ensure that the funds transfer amount is properly supported and requested according to the Treasury-State Agreement. Additionally, the Administration should work with the Treasury to ensure the Treasury-State Agreement allows for funds to be requested in time for disbursement.

**Agency Response: Concur**

The overdrawn amounts were due to errors contained within the sheet performing the calculations for the draw. As of May 2015, the sheets were corrected. We have built check figures into the sheet to ensure the proper amounts are being drawn and the cash on hand adjustments are being made appropriately.

Guidelines have been further established and all administrative draws are now being performed in accordance with department procedures to ensure that revenue is received in compliance with the Treasury State Agreement. All administrative draws are coordinated by our funds control team via email.

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<td>Compliance Requirement:</td>
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Questioned Costs: $6,240

Finding
Criteria: In accordance with 20 CFR §602, Appendix A, §6013(A)(1)-(3) and (B), the Department of Economic Security (Department) is required to obtain sufficient information to support eligibility and document eligibility determinations. Specifically, the Department is required to determine eligibility in accordance with 26 U.S. Code §3304(a)(10) and Arizona Revised Statute §23-775(2). Under these provisions, an employee discharged for misconduct connected with his work is ineligible for unemployment compensation.

Condition and context: For 1 of 40 case records tested, the Department’s Unemployment Insurance Administration (Administration) provided unemployment compensation to a claimant without adequate support. Specifically, the Administration did not obtain sufficient evidence to determine whether or not the claimant was discharged for misconduct, resulting in a questioned cost of $6,240.

Effect: Benefits were issued to recipients 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: The Administration did not follow its policies and procedures to request, review, and document facts in the applicant’s case record to support eligibility decisions.

Recommendation: The Administration should enforce its policies and procedures to ensure that each decision regarding eligibility or ineligibility is supported by documentation maintained in the applicant’s case record.

Agency Response: Concur
The Administration agrees with the recommendation. The deputy who issued this decision is no longer with the Administration; therefore, we are unable to address this concern with the individual. However, the Administration has facilitated Enhancement Training to adjudication staff to strengthen fact finding techniques. The Benefit Timeliness and Quality (BTQ) unit conducts weekly quality reviews to assure that policies and procedures are followed in accordance to 20 CFR. Based on BTQ results, supervisors provide feedback to the deputies. The supervisors also see that the deputies complete applicable trainings.

2015-112
Cluster Name: TANF Cluster
CFDA Nos. and Names 93.558 Temporary Assistance for Needy Families
Award Numbers and Year: 1302AZTANF and 1302AZTAN3, 2013; 1402AZTANF and 1402AZTAN3, 2014; and 1502AZTANF and 1502AZTAN3, 2015
Federal Agency: U.S. Department of Health and Human Services
Compliance Requirement: Eligibility
Questioned Costs: $106

Finding
Criteria: In accordance with 45 CFR §233.20(2), standard needs tables should be used to determine the need of TANF applicants and recipients and the amount of the assistance payment.

Condition and context: For 1 of 40 case records tested, the Department of Economic Security’s Division of Benefits and Medical Eligibility, Family Assistance Administration (Administration), provided cash assistance to an applicant utilizing the incorrect standard needs tables to calculate the benefit amount, resulting in an overpayment of $106.
Federal Award Findings, Questioned Costs and Corrective Action Plan  
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Effect: Benefits were issued to a recipient for an incorrect amount. It was not practical to extend our auditing procedures sufficiently to determine whether any additional questioned costs resulted from this finding.

Cause: Due to human error, upon updating client information, incorrect needs tables were linked to the client’s profile.

Recommendation: The Administration should ensure that upon updating client information into the system, all changes are supported by documentation and maintained in the applicant’s records or case files.

Agency Response: Concur

The Administration agrees with the recommendation. The causes of the identified error were twofold: 1) the client did not report changes to income timely, resulting in a potential overpayment for the benefit month of February 2015; and 2) the assigned caseworker did not apply income changes in the correct month, and did not report the potential overpayment to the overpayment department. To ensure that clients receive correct benefits, the agency will follow its current policies and procedures for updating client information, and maintaining supporting documentation for changes made to client case files. In addition, the agency will continue the existing processes of quality assurance reviews and reinforce case management standards through periodic caseworker training.

2015-113
Cluster Name: CCDF Cluster
CFDA Nos. and Names
93.575 Child Care and Development Block Grant
93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund
Award Numbers and Year:
G1301AZCCDF, 2013;
G1401AZCCDF, 2014;
and G1501AZCCDF, 2015
Federal Agency: U.S. Department of Health and Human Services
Compliance Requirement: Activities Allowed or Unhallowed and Allowable Costs/Costs Principles
Questioned Costs: $272

Finding

Criteria: In accordance with the Department of Economic Security’s Child Care Administration’s (Administration) provider contracts for child care providers, providers are required to maintain accurate sign-in/sign-out records for a minimum of 5 years. In addition, providers should bill only for hours reported on the sign-in/sign-out records.

Condition and context: For 3 of 40 child care subsidies tested, the child care provider did not maintain documentation of the hours billed, or the child care provider billed for hours not provided.

Effect: The Administration may pay for child care that was not provided.

Cause: According to the Administration, given the volume of child care provided and corresponding support, the Administration does not review all documentation from the providers to support amounts billed. In addition, the Administration does not require providers to submit with their billings statements all documentation of billable hours for child care provided, but requires the provider to retain documentation for 5 years and submit documentation if requested by the Administration.

Recommendation: The Administration should regularly remind providers to retain documentation supporting hours billed for 5 years and that billing statements should be based on actual child care hours provided.
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Agency Response: Concur

The Child Care Administration will regularly remind providers to retain documentation supporting hours billed for the required 5 years and remind providers the importance of ensuring billing statements are based on actual child care hours provided. We will do this at initial training, additional trainings, during site visits, as well as placing reminders in the provider newsletter.

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<td>CFDA No. and Name:</td>
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<td>Questioned Costs:</td>
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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 and 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 subrecipients 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 commingled in the Department’s accounting system.

Recommendation: The Department should develop detailed policies and procedures for compiling and reconciling reported amounts to the underlying accounting records and reviewing the amounts provided to subrecipients 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 prior-year finding 2014-108

Agency Response: Concur

New chart of account object codes have been established and are loaded into the Agency's profile in the new statewide financial system for implementation for payment transactions in state fiscal year 2016. These new object codes will be used to identify financial transactions as either subrecipient activity or vendor/contactor activity. DES programs will begin using new guidelines that were developed, to identify subrecipient relationships that will be reported on the Schedule of Expenditures of Federal Awards. The Agency-wide policy is in the final development stage with an expected completion date of June 2016. Policy and procedures will address standardized account coding for subrecipients to ensure department uniformity and the process to reconcile reported amounts provided to subrecipients from each federal program for SEFA reporting.
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**Finding**  
Criteria: It is critical that the Department of Economic Security (DES) have a comprehensive, up-to-date disaster recovery plan for its information technology (IT) resources, which includes its systems, network, infrastructure and data, to provide for the continuity of operations and to ensure that it can recover information and data in the event of a disaster, system or equipment failure, or other interruption. Also, the plan should be evaluated, tested, and updated annually.

Condition and context: The DES had a disaster recovery plan for its IT resources; however, the Department did not evaluate, test, and update its plan annually. The Department of Child Safety (DCS) also uses these IT resources.

Effect: The DES and DCS risk disruption of operations; inaccurate or incomplete financial, federal program, or management information; expensive recovery efforts; and financial losses because of inadequate disaster recovery controls. In addition, service disruption in the event of a disaster, system or equipment failure, or other interruption could result in significant harm or inconvenience to the State and its citizens.

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

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

This finding is similar to prior-year finding 2014-109. This finding was also reported as a financial reporting finding. See finding 2015-11.

**Agency Response: Concur**

The Division of Technology Services (DTS) agrees with the finding and provides to following action plan. Contingency Planning is comprised of both a Continuity of Operations Plan (COOP) focused on process continuity and a Disaster Recovery Plan focused on the supporting technology. This Corrective Action Plan addresses the disaster recovery findings of the OAG audit. The current Department of Economic Security (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 drill was completed in 2010 and included a failover to an IBM mainframe located in Boulder, Colorado. Currently encrypted data from the mainframe is simultaneously stored in a secondary secured location. For State Fiscal Year (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. DES is on schedule to complete this move by end of SFY16.

Over the last 6 months, DTS has made significant strides in ensuring the reliability and availability of customers’ data. Notably due to two significant accomplishments:

- With the acquisition of new technology that addresses data stored on tape, DTS can now say that 100% of all Mainframe Data (both disk and tape (virtual)) is dynamically duplicated and encrypted at a remote secure site.
Federal Award Findings, Questioned Costs and Corrective Action Plan
(Reformatted from the FY 2015 Single Audit Report)

Because of this, there can be no loss of mainframe data due to an incident (disaster) that occurs at the primary or backup Datacenter.

- Along with the launching of this new data storage technology, DTS has executed three disaster recovery drills during 2015 that take advantage of this new infrastructure. These drills were iterative in nature and designed to validate the availability of timely backup data, along with the ability to process and present this data in a manner that is identical to our current production environment. Validation and testing continues on a regular basis. The Disaster Recovery architecture being utilized during our drills eliminates the need to ‘restore’ date, traditionally a lengthy process requiring off-site tape being transported and loading of databases onto disk drives for access. Our mirrored data environment guarantees that user and program data is stored simultaneously and identically at 2 separate physical locations, thus eliminating the need to restore.

Milestones and Anticipated Completion Dates
F. Migrate the data center to new location -- COMPLETED
G. Review and modify Recovery Plan -- SFY17
H. Perform annual test -- SFY16 testing completed prior to data center relocation. The DTS continues working toward full annual DR testing as problems are discovered and resolved
I. Document overall testing strategies, testing frequencies, and test results-SFY17 on target
J. Implement technology appropriate to ensure continuity of operations-SFY18 will see DES creating a disaster recovery environment with implementation and testing of this new environment in SFY18.

<table>
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<tr>
<th>2015-116</th>
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<tbody>
<tr>
<td>Cluster Name:</td>
<td>Child Nutrition Cluster</td>
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<tr>
<td>CFDA No. and Name:</td>
<td>10.553 School Breakfast Program</td>
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<td>10.555 National School Lunch Program</td>
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<td>10.556 Special Milk Program for Children</td>
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<td>10.559 Summer Food Service Program for Children</td>
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<td>CFDA No. and Name:</td>
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<td>Cluster Name:</td>
<td>Special Education Cluster (IDEA)</td>
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<tr>
<td>CFDA No. and Name:</td>
<td>84.027 Special Education—Grants to States</td>
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<td>84.173 Special Education—Preschool Grants</td>
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<td>84.010 Title I Grants to Local Educational Agencies</td>
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<td>84.287 Twenty-First Century Community Learning Centers</td>
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<td>Federal Agency:</td>
<td>U.S. Department of Education</td>
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<td>Compliance Requirement:</td>
<td>Subrecipient Monitoring</td>
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<tr>
<td>Questioned Costs:</td>
<td>None</td>
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Finding
Criteria: In accordance with OMB Circular A-133 §.400(d)(4) and (5), the Department of Education (Department) must ensure that subrecipients expending $500,000 or more in federal awards meet the required single audit
Federal Award Findings, Questioned Costs and Corrective Action Plan
(Reformatted from the FY 2015 Single Audit Report)

requirements within 9 months of the subrecipient’s year-end. In addition, the Department must review the single audit reports, issue management decisions on audit findings within 6 months after receiving the subrecipient’s audit report, and ensure that the subrecipient takes prompt and appropriate corrective action on the audit findings.

Condition and context: During fiscal year 2015, the Department disbursed approximately $1 billion in federal awards and contracts to 1,083 subrecipients. However, the Department did not have adequate policies and procedures in place to ensure that all subrecipients expending $500,000 or more in federal awards met the required single audit requirements. Specifically, for 5 of 60 subrecipients tested, the Department did not obtain the subrecipients’ single audit reports. In addition, for one of the five subrecipients, the subrecipient’s single audit report identified an audit finding related to a federal program the Department awarded to the subrecipient. However, as the single audit report was not obtained, the Department did not issue a management decision, and did not follow up on the audit finding. Further, for one of the five subrecipients, it did not have a single audit performed.

Effect: Subrecipients may not have had single audits performed, or a subrecipient’s single audit may not have been reviewed so that the Department could issue management decisions and otherwise follow up on federal findings. This finding could potentially affect other federal programs that the Department administered.

Cause: The Department did not have adequate policies and procedures to ensure all subrecipients expending more than $500,000 in federal awards met the required single audit requirements. In addition, the Department did not include federal awards from external sources in its calculation used to determine if a subrecipient met the threshold requiring a single audit.

Recommendation: The Department should evaluate and update, as appropriate, its policies and procedures to help ensure it can determine whether subrecipients are subject to the single audit requirements and ensure that it receives all required single audit reports and issues management decisions on any findings attributable to federal monies the Department awards to the subrecipient.

This finding is similar to prior-year finding 2014-116.

Agency Response: Concur

The Arizona Department of Education (ADE) agrees with this finding. To ensure that ADE complies with federal A-133 audit requirements, the Director of Federal Monitoring and the Federal Compliance Auditor will develop and implement a procedure by June 30, 2016 to ensure that all subrecipients required to have a Single Audit performed have sent a copy to ADE. By June 30, 2016, the Director of Federal Monitoring and the Federal Compliance Auditor will acquire a complete listing of all entities from AFIS, the Annual Financial Report and the Audit Evaluation form to verify if there was $500,000 in federal expenditures and to request a copy of the audits from these entities. The Director of Federal Monitoring and the Federal Compliance Auditor will compare the list of entities identified by the Grants Unit that need to receive a single audit to those listed on the Federal Clearinghouse website. After identifying these entities, the Grants Unit will send email notifications to all entities that are required to have a single audit but did not submit one to the ADE and will send follow up notifications to these same entities if they did not submit their single audit to ADE. If an entity does not submit their single audit to ADE by March 31st of each year, ADE may withhold their federal grant monies.

Finally, the Director of Federal Monitoring will ensure that all staff responsible for monitoring subrecipients have been properly trained on OMB Circular A-133 requirements by June 30, 2016.
Federal Award Findings, Questioned Costs and Corrective Action Plan
(Reformatted from the FY 2015 Single Audit Report)

2015-117
CFDA No. and Name: 10.558 Child and Adult Care Food Program
Federal Agency: U.S. Department of Agriculture
Compliance Requirement: Eligibility
Questioned Costs: Unknown

Finding
Criteria: In accordance with 7 CFR §226.6, the Department of Education (Department) must establish application review procedures to determine the eligibility of recipients awarded program monies. In addition, the Department should deny the recipient’s application if it does not meet all of the eligibility requirements. Further, in accordance with 7 CFR §226.15-19, recipients must submit specific required eligibility information with their application to the Department demonstrating their capability to operate the program in accordance with federal regulations. Lastly, in accordance with 7 CFR §226.18, the Department must obtain and approve the written agreements that recipients enter into with each of their sponsored day care homes specifying the rights and responsibilities of the parties participating in the program.

Condition and context: During fiscal year 2015, the Department disbursed over $49 million in program monies to a total of 334 subrecipients. However, the Department did not always obtain required eligibility information demonstrating their capability to operate the program in accordance with federal regulations. Specifically, for 16 of 40 subrecipients tested, the Department did not collect all required eligibility information. Also, for two of the subrecipients tested, the Department did not review and approve the written agreements between subrecipients and their sponsored day care homes.

Effect: Federal monies could have been awarded to subrecipients who were ineligible to participate in the program. It was not practical to extend our auditing procedures to determine questioned costs, if any, that may have resulted from this finding.

Cause: The Department had not established adequate application review procedures to ensure that all eligibility requirements were met prior to awarding federal monies to its subrecipients. In addition, the Department’s staff were not aware that some of the eligibility information required by the federal regulations was not being collected. The Department used pre-designed forms to instruct subrecipients to submit documentation of information for eligibility determinations, but did not ensure that the forms addressed all the required information.

Recommendation: The Department should establish application review procedures to help ensure that all eligibility requirements are met prior to awarding federal monies to its subrecipients. In addition, the Department should revise its existing forms and instructions to ensure that all required information is collected from the subrecipients.

Agency Response: Concur

The Arizona Department of Education (ADE) agrees with this finding. Because the U.S. Department of Agriculture (USDA) previously identified the same issue and documented it in its Management Evaluation of ADE’s Child and Adult Care Food Program (CACFP), the program already took action to address and resolve this issue. Specifically, ADE revised its CACFP management plan to ensure that all sponsoring organizations document site level eligibility information and this change has been implemented in both the initial application and the renewal application. The revision allows ADE to successfully evaluate whether a site meets the eligibility criteria for receiving CACFP benefits.

2015-118
Federal Award Findings, Questioned Costs and Corrective Action Plan
(Reformatted from the FY 2015 Single Audit Report)

Cluster Name: Special Education Cluster (IDEA)
CFDA Nos. and Names
84.027 Special Education—Grants to States
84.173 Special Education—Preschool Grants
Award Numbers and Year:
Federal Agency: U.S. Department of Education
Compliance Requirement: Earmarking
Questioned Costs: Unknown

Finding

Criteria: In accordance with 34 CFR §§300.705(a)-(b), 300.815, and 300.816, the Department of Education (Department) must distribute any monies it has not reserved for state administration or other state-level activities to eligible local educational agencies (LEAs) based on a formula the regulations specify. The formula includes a base payment amount calculated using historical grant award data that the Department must adjust annually based on criteria the regulations specify. In addition, the Department must distribute all remaining unused grant monies after adjustments to the LEAs based proportionally on the number of enrolled children with disabilities and the number of children living in poverty.

Condition and context: The Department did not have adequate policies and procedures to ensure that it distributed the appropriate amount of program monies to each LEA.

Specifically, the Department’s method for calculating base payment adjustments did not follow the required formula for allocating program monies. In addition, the Department allocated unused program monies in the following fiscal year instead of proportionally distributing those monies to eligible LEAs based on the required formula.

Effect: The Department may have distributed improper amounts to the LEAs. It was not practical to extend our auditing procedures to determine questioned costs, if any, that may have resulted from this finding.

Cause: The Department’s method for calculating base payment adjustments and allocating unused program monies did not comply with the criteria specified in federal regulations.

Recommendation: The Department should revise its policies and procedures to ensure that program monies are distributed to LEAs in accordance with federal regulations.

Agency Response: Concur

Prior to August 12, 2016, the Arizona Department of Education (ADE), Exceptional Student Services Finance Director will review ADE’s current policies and procedures to allocate Individuals with Disabilities Education Act (IDEA) Basic Entitlement and IDEA Preschool Entitlement funds to local educational agencies (LEAs) annually and revise them to ensure that program monies are distributed to LEAs in accordance with federal regulations. Specifically, the revised policies and procedures will include steps to ensure that the funding formula is properly followed as it relates to new charter schools. Additionally, the policies and procedures will include steps to take when funds have been awarded to LEAs declining the funds. Finally, the revised policies and procedures will include steps to ensure that ADE obtains each new LEA’s special education count reported as of October 1 of their year of operation.
Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from the FY 2015 Single Audit Report)

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:  

CFDA Nos. and Name:  
84.010 Title I Grants to Local Educational Agencies  
Award Numbers and Years:  
S010A120003, 2012; S010A130003, 2013; S010A140003, 2014

CFDA Nos. and Name:  
84.287 Twenty-First Century Community Learning Centers  
Award Numbers and Years:  
S287C120003, 2012; S287C130003, 2013; S287C140003, 2014

CFDA Nos. and Name:  
84.367 Improving Teacher Quality State Grants  
Award Numbers and Years:  
S367A120049, 2012; S367A130049, 2013; S367A140049, 2014

Federal Agency: U.S. Department of Education  
Compliance Requirement: Subrecipient Monitoring  
Questioned Costs: N/A

Finding

Criteria: The Department of Education (Department) should have a process in place to either monitor internal controls themselves or request and review service organizations’ internal control audit reports of significant outsourced functions.

Condition and context: The Department outsourced certain information technology (IT) functions, such as change management, storage, 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 changes to its GME system are properly managed, vital grant information is properly backed up and secured, and that the GME system and related 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 suitably designed and operating effectively. In addition, the Department did not ensure that the service organization’s contract required such an audit or access to the service organization’s records for the Department to perform its own review and 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 were not properly backed up and secured, and that the GME system and related data may not be recovered in the event of a disaster, system or equipment failure, or other system interruption. This finding could potentially affect other federal programs that the Department administered.

Cause: The Department’s 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. Further, the Department has not been successful in negotiating with the service organization to amend the contract to require an SSAE No. 16 audit.

Recommendation: To help ensure that 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 suitably designed and operating effectively. Such audits
should be performed on a periodic basis and should be reviewed by the Department, including a follow-up on any internal control weaknesses identified. Alternatively, the Department should monitor the service organization’s internal controls on a periodic basis. The Department should document and follow up on such monitoring, including any internal control weaknesses identified.

This finding is similar to prior-year finding 2014-119.

Agency Response: Concur

The Arizona Department of Education (ADE) agrees with this finding and has contracted with an audit firm to perform annual SSAE No. 16 audits of the service organization that performs certain Grants Management Enterprise IT functions. ADE worked with the service organization for over 9 months to coordinate the audit and first asked the service organization to identify and contract with an audit firm to perform the audit. However, the service organization did not perform the activities necessary to procure an audit firm efficiently or effectively and as a result, ADE took on this responsibility itself and went through the necessary process to procure an audit firm. However, once an audit firm was identified and contracted with, the service organization would not allow the audit firm to perform its work and it believed it should be compensated monetarily by ADE for the time taken to answer the auditors’ questions and provide documentation for the audit. ADE worked through its legal counsel to ensure that the audit was performed and that the service organization cooperated with the audit firm. Once these issues were resolved, the audit firm performed the audit for the time period 4/1/15 through 2/29/16 and sent a report draft to ADE in March 2016. ADE has reviewed the draft, which includes very few exceptions noted by the auditors with no significant issues or control deficiencies identified. Because of all of these actions taken by ADE to procure the audit firm and to receive and review the audit report, ADE considers this finding resolved.

### 2015-120

| CFDA Nos. and Name: | 84.010 Title I Grants to Local Educational Agencies |
| Award Numbers and Years: | S010A120003, 2012; S010A130003, 2013; S010A140003, 2014 |
| CFDA Nos. and Name: | 84.287 Twenty-First Century Community Learning Centers |
| Award Numbers and Years: | S287C120003, 2012; S287C130003, 2013; S287C140003, 2014 |
| CFDA Nos. and Name: | 84.367 Improving Teacher Quality State Grants |
| Award Numbers and Years: | S367A120049, 2012; S367A130049, 2013; S367A140049, 2014 |
| Federal Agency: | U.S. Department of Education |
| Compliance Requirement: | Level of Effort |
| Questioned Costs: | $48,416 |

**Finding**

Criteria: In accordance with 34 CFR §299.5, a local educational agency (LEA) may receive its full allocation of program monies only if the State determines that the LEA maintained its required level of effort for the preceding year. In addition, the State should not include community services, capital outlay, or debt service expenditures in its level of effort calculations.

Condition and context: The Department of Education (Department) prepares the calculations for determining the LEAs compliance with the level of effort requirement. However, the Department did not have adequate internal controls to ensure that only the appropriate expenditures were included in the calculation of the LEAs’ required level of effort. Specifically, for 15 of 40 LEAs tested, the Department incorrectly included debt service expenditures in the level of effort calculations.

Effect: Auditors performed additional procedures and determined that 12 LEAs received excess funding allocations of $48,416. This finding has the potential to affect other federal programs that the Department administered.
Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from the FY 2015 Single Audit Report)

Cause: The Department’s formula to calculate level of effort incorrectly included debt service expenditures. In addition, the Department did not adequately review the calculations for propriety.

Recommendation: To help ensure the Department complies with 34 CFR §299.5, it should implement adequate internal controls over its level-of-effort calculations for LEAs, including the independent review of the calculations for propriety.

This finding is similar to prior-year finding 2014-111.

Agency Response: Concur
The Arizona Department of Education (ADE) agrees with this finding and is in the process of taking action to ensure that all maintenance of effort calculations for Title I are calculated correctly. Specifically, the Title I Deputy Associate Superintendent (DAS) will work with the Information Technology (IT) unit by ensuring that the calculations for determining local educational agencies (LEAs) maintenance of effort are performed properly and include only appropriate data. As an additional check to ensure accuracy of these calculations, the DAS of Title I will review a sample of these calculations for accuracy and compliance with federal regulations.

2015-121
Cluster Name: Special Education Cluster (IDEA)
CFDA No. and Name: 84.027 Special Education—Grants to States
84.173 Special Education—Preschool Grants
CFDA Nos. and Name: 84.010 Title I Grants to Local Educational Agencies
Award Numbers and Years: S010A120003, 2012; S010A130003, 2013; S010A140003, 2014
CFDA Nos. and Name: 84.287 Twenty-First Century Community Learning Centers
Award Numbers and Years: S287C120003, 2012; S287C130003, 2013; S287C140003, 2014
CFDA Nos. and Name: 84.367 Improving Teacher Quality State Grants
Award Numbers and Years: S367A120049, 2012; S367A130049, 2013; S367A140049, 2014
Federal Agency: U.S. Department of Education
Compliance Requirement: Suspension and Debarment
Questioned Costs: N/A

Finding
Criteria: In accordance with 2 CFR §§180 and 3485 and 34 CFR §80.35, the Arizona Department of Education (Department) is prohibited from contracting with or making subawards to any party that is suspended or debarred or otherwise excluded from participating in federal assistance programs.

Condition and context: The Department paid over $664 million in federal grant monies during the fiscal year to a total of 629 subrecipients consisting of Arizona local educational agencies. However, the Department did not always verify the subrecipients were not suspended or debarred or otherwise excluded from participating in the federal programs. Specifically, for 4 out of the 40 subrecipients tested, the Department could not provide a certification signed by an authorized official at the entity or other documentation from its subrecipients certifying they were not suspended or debarred or otherwise excluded from participating in federal assistance programs. Auditors performed additional audit procedures and determined that no payments were made to suspended or debarred parties for those subrecipients tested.

Effect: Awards could be made to suspended or debarred parties. 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 affect other federal programs that the Department administered.
Federal Award Findings, Questioned Costs and Corrective Action Plan
(Reformatted from the FY 2015 Single Audit Report)

Cause: The Department did not follow its policies and procedures to collect a certification from its subrecipients certifying that they were not suspended or debarred or otherwise excluded from participating in federal assistance programs.

Recommendation: The Department should follow its existing policies and procedures to verify that subrecipients are not suspended or debarred or otherwise excluded from participating in federal assistance programs prior to making awards. Documentation of this verification must be retained. The verification can also be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration or adding a clause or condition to the contracts.

Agency Response: Concur

The Arizona Department of Education (ADE) agrees with this finding. To ensure that ADE has sufficient certification (through the General Statement of Assurance-GSA) that subrecipients are not suspended or debarred or otherwise excluded from receiving federal awards, the Deputy Associate Superintendent (DAS) of Grants Management and the Director of Technology will implement revised written policies and procedures for collecting and verifying the information on GSA forms from all subrecipients that verify that they are not suspended or debarred or otherwise excluded by June 30, 2016. The revised written policies and procedures will include a pre-award, post-award, and ongoing monthly monitoring to ensure that federal awards are not made to subrecipients who are suspended or debarred or otherwise excluded from participating in federal assistance programs. Additionally, the policies and procedures will include a process for verifying the completeness of the GSA and the accuracy and status of their DUNS number. If a subrecipient fails to submit their GSA to ADE by July 1, ADE will withhold their federal grant monies.

2015-122
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
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

CFDA Nos. and Name: 84.010 Title I Grants to Local Educational Agencies
Award Numbers and Years: S010A120003, 2012; S010A130003, 2013; S010A140003, 2014
CFDA Nos. and Name: 84.287 Twenty-First Century Community Learning Centers
Award Numbers and Years: S287C120003, 2012; S287C130003, 2013; S287C140003, 2014
CFDA Nos. and Name: 84.367 Improving Teacher Quality State Grants
Award Numbers and Years: S367A120049, 2012; S367A130049, 2013; S367A140049, 2014
Federal Agency: U.S. Department of Education
Compliance Requirement: Subrecipient Monitoring
Questioned Costs: N/A
Federal Award Findings, Questioned Costs and Corrective Action Plan
(Reformatted from the FY 2015 Single Audit Report)

Finding
Criteria: The Department of Education’s (Department) Grants Management Enterprise (GME) system and accounting software application used to upload data to the State’s general ledger are vital for approving and disbursing federal awards and monitoring subrecipients for compliance with federal program requirements. Consequently, the Department should have effective policies and procedures in place to ensure access granted to its GME system and accounting software application are authorized and data changes or modifications are authorized, documented, logged, and monitored.

Condition and context: The following deficiencies were noted for the GME system and accounting software application:
- The activities of users with administrative access privileges to both the GME system and accounting software application were not monitored.
- Modifications to data in the data tables for both the GME system and accounting software application were not logged and monitored to ensure changes were properly authorized and documented.
- Modifications to the GME system by the Department’s outside service provider were not documented.

Effect: There is an increased risk that the Department may not prevent or detect unauthorized access or use, manipulation, modifications, damage, or loss to its GME system and accounting software application. Also, 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. This finding could potentially affect other federal programs that the Department administered.

Cause: The Department’s efforts to develop and implement policies and procedures over the GME system have been delayed because of the turnover of key employees responsible for administering the system. Further, as the Department planned on discontinuing the use of the accounting software application on June 30, 2015, it did not allocate resources to developing and implementing policies and procedures for the application.

Recommendation: To help prevent and detect unauthorized access or use, manipulation, modifications, damage, or loss to its GME system and accounting software application and to control changes made to its GME system, the Department should develop and implement written policies and procedures to address the following:
- Logging and monitoring users’ access and activities for the GME system and accounting software application, especially users with administrative-level access and elevated access privileges.
- Logging and monitoring all changes to data tables in both the GME system and accounting software application to ensure that all changes are independently authorized, documented, reviewed, tested, and approved prior to implementation.
- Logging and maintaining documentation for all GME system changes by the Department’s outside service provider.

This finding is similar to prior-year finding 2014-120.

Agency Response: Concur

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 ensure that written policies and procedures for user access and change control have been fully implemented by June 30, 2016. Additionally, the DAS of Grants Management and the Director of Technology are working with the vendor to develop change management reports that log ADE’s internal user activity, as well as the user activity of the service provider. In addition to logging and monitoring user activities, the DAS and Director of Technology are working with the service provider to limit staff who have administrative–level access by creating additional roles within GME that are better segregated to the duties required of the user’s position. Additionally,
Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from the FY 2015 Single Audit Report)

the DAS of Grants Management and the Director of Technology have implemented procedures for requesting and reviewing system enhancements prior to implementation to ensure changes are authorized and adequately tested.

The DAS of Grants Management and the Director of Technology have implemented procedures for requesting and reviewing system enhancements prior to implementation to ensure changes are authorized and adequately tested.

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</table>

**Finding**

Criteria: The Department of Education (Department) is responsible for awarding over $1.1 billion in federal awards and contracts to local educational agencies. Therefore, it is imperative that department management and employees who are involved in making federal award decisions comply with the State’s personnel rules, Arizona Revised Statutes (A.R.S.) §38-501 et seq., and 34 Code of Federal Regulations (CFR) §80.36. These rules, laws, and regulations require that department management and its employees disclose conflicts of interest when their activities have a personal or business interest or employment with another entity to which the Department awards grants and contracts, and abstain from any involvement in an award decision when a conflict of interest exists.

Condition and context: The Department did not have adequate internal control policies and procedures to ensure that management and employees who were responsible for awarding federal monies and monitoring subrecipients did not have conflicts of interest with its subrecipients. Additionally, the Department did not ensure that management and employee conflicts of interest were disclosed and recorded in accordance with the state personnel rules and laws and federal regulations. Specifically, the Department’s Career and Technical Education (CTE) Program’s Study Director (CTE Director) did not disclose conflicts of interest and did not abstain from making award decisions for the Career and Technical Education—Basic Grants to States (CFDA 84.048) and the Tech-Prep Education programs (CFDA 84.243) awarded to joint technical education districts (JTED). These conflicts of interest are described below.

During our follow-up on similar prior years’ audit findings, we determined that conflicts of interest existed between the CTE Director and at least three other department employees and a JTED to which the CTE Director awarded federal monies. Specifically, auditors identified instances of the JTED making payments to or on behalf of the CTE Director and three other employees during fiscal years 2011 through 2013 with federal monies from the Tech-Prep Education program. These payments were made to cover the CTE Director’s travel expenses totaling $8,462, some of which were abusive, including travel beyond what was considered necessary, excessive meal charges, and airline upgrades, and to department employees totaling $33,258 for services provided to the JTED. The CTE Director and the other three department employees did not disclose these payments. The CTE Director’s conflict-of-interest form was last updated on March 12, 2015; however, the CTE Director failed to disclose the conflict of interest with the JTED.

Additionally, the following instances of noncompliance were identified that are indicative of management personnel overriding the Department’s policies and procedures for granting and monitoring federal awards and contracts for the Tech-Prep Education program (CFDA 84.243):

- During fiscal years 2012 and 2013, the CTE Director awarded the JTED $217,038 in additional federal award funding over the original $250,000 award made in 2011. The additional monies awarded did not follow standard department procedures, and the monies were taken from prior awards to other JTEDs. The CTE Director also entered into additional agreements (Memorandums of Understanding) with JTED officials and
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three department employees for them to provide services under this federal award for payment, all without
the appropriate department management approval. This Tech-Prep Education program ended in fiscal year
2011; however, this particular JTED was the only subrecipient that received and spent additional funding from
the grant. The Department had no documentation supporting that the award was made based on competitive
considerations and there was no documentation justifying why it was awarded solely to this particular JTED.

- During fiscal years 2011 through 2013, the CTE Director participated in $346,547 of the JTED’s total $467,038
  Tech-Prep Education program expenditures. In particular, the CTE Director was involved with the JTED’s day-
to-day operations and management, including approving purchase requests, indicative of an employment or
contractual employment relationship with the JTED. As previously discussed, the CTE Director and three other
department employees received payments directly from the JTED or the JTED paid expenditures such as meals
and travel on their behalf. Further, the CTE Director was responsible for monitoring the JTED for compliance
with federal requirements but had no documentation to support that such monitoring was performed.
Expenditures totaling $263,812 from the $346,547 associated with the CTE Director were tested, and
supporting documentation for these expenditures was inadequate, did not comply with federal requirements
or the Department’s policies, and appeared abusive.

Audit procedures were extended from fiscal years 2011 through 2015 and found that the conflicts of interest
existed as far back as fiscal year 2011. However, auditors were unable to extend auditing procedures sufficiently
determine whether other federal awards or other years prior to 2011 were affected. Based on the auditing
procedures performed, auditors found that the conflicts of interest continued to exist during fiscal years 2014
through 2015 for the Career and Technical Education—Basic Grants to States program. Auditors reviewed the
supporting documentation for the JTED’s expenditures of federal monies for the Career and Technical Education—
Basic Grants to States program totaling $106,463 for fiscal year 2014 and $158,666 for fiscal year 2015, and
identified expenditures totaling $93,958 and $141,552, respectively, that either evidenced the conflict of interest
still existed or the supporting documentation was inadequate and did not comply with federal requirements or the
Department’s policies. For example, auditors identified instances of the JTED making payments totaling $7,823
directly to the CTE Director for his travel expenses and a payment to another department employee for services
provided to the JTED. As a result, auditors identified questioned costs totaling $582,057 for fiscal years 2011
through 2015. This amount consists of the questioned costs of $346,547 resulting from the conflicts of interests
for the Tech-Prep Education federal awards made during fiscal years 2011 through 2013, and questioned costs of
$93,958 and $141,552 for the conflicts of interests and other expenditures that were not properly supported for
the Career and Technical Education—Basic Grants to States program awarded to the JTED for fiscal years 2014 and
2015, respectively.

Effect: Federal grant monies were awarded to a subrecipient by a member of department management when a
conflict of interest existed in violation of state personnel rules, A.R.S. §38-501 et seq., and 34 CFR 80.36. Further,
auditors found evidence that improper payments and abuse had occurred in relation to the monies awarded and
expended by the JTED. In addition, this finding could potentially affect other federal programs that the
Department administered.

Cause: The State’s policies regarding conflict of interest were not followed. In response to the prior years’ audit
findings, the Department revised its conflict-of-interest policies and procedures in March of 2015, and the CTE
Director completed a new conflict-of-interest statement as of March 12, 2015; however, the revised statement did
not disclose the conflict of interest with the JTED. Although the CTE Director overrode certain internal control
procedures, the Department failed to properly separate responsibilities and allowed the CTE Director to have
unfettered control over awarding federal monies and monitoring subrecipients.
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Recommendation: To help ensure that the Department’s management and employees comply with conflict-of-interest rules, laws, and regulations, and to help ensure that federal awards are made in accordance with its policies and procedures, the Department should:

- Provide regular communication to department management and employees on state and federal conflict-of-interest rules, laws, and regulations as well as the Department’s policies and procedures for disclosing and recording conflicts of interest.
- Continue to require department management and employees to make annual conflict-of-interest statement disclosures.
- Monitor all disclosed conflicts of interest on a periodic basis, such as annually, and ensure that those with conflicts of interest abstain from involvement in decisions for which conflicts exist.
- Maintain a centralized file of all conflict-of-interest disclosures made. All disclosures should be reflected in the Department’s records and kept in a centralized file that is made available for public inspection.
- Ensure the proper use and control of federal monies by properly monitoring program activities to ensure required policies and procedures are consistently followed. The Department should enforce existing policies and procedures requiring that all federal award decisions be adequately documented and supported as part of the subrecipient-monitoring process. Additionally, the Department should ensure that no single employee has the ability to approve awards, approve amendments to those awards, and monitor and approve subrecipient award expenditures.
- Institute policies and procedures that effectively oversee management and address the risk of management override. For example, department management should strengthen their understanding of the business and control climates, brainstorm potential fraud risks within the Department’s federal programs, cultivate a strong whistleblower system, and consistently maintain an appropriate level of independence and skepticism.

This finding is similar to prior-year finding 2014-122.

Agency Response: Concur

The Arizona Department of Education (ADE) agrees with this finding. ADE has taken many agency-wide actions to help ensure that all management and staff are aware of and comply with conflict of interest rules, laws and regulations and to help ensure that all federal grant awards are made in accordance with ADE policies and procedures. Specifically:

- In 2015, ADE created an Ethics Committee which regularly provides and publishes guidance to all ADE employees on many topics involving employee ethics, including conflicts of interest.
- In 2015, ADE required all staff in management positions and who had access to any of ADE’s payment systems complete and sign an Annual Declaration and Disclosure Form. This form is required by the State of Arizona GAO Technical Bulletin 09-06 and serves as a control against potential conflict of interest issues.
- In March 2016, ADE updated and expanded the Annual Declaration and Disclosure Form process to include all ADE staff, and these forms must be submitted to Human Resources by June 15th of each year. This process has been documented via an annual Outlook reminder and all of these records are maintained by the ADE Human Resources unit.
- When ADE employees disclose a potential conflict of interest situation via the Annual Declaration and Disclosure Form, the Deputy Superintendent and the Chief Financial Officer follow up with the employee and determine if the situation warrants further follow up.
- In April 2015, ADE reorganized the Grants Unit from the program side of the agency to the operations side and placed it organizationally under Business and Finance reporting directly to the Chief Financial Officer. This change was made to increase fiscal oversight of the agency’s grants process.
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- In April 2015, the Deputy Superintendent and the Chief Financial Officer assembled an agency-wide task team which regularly met from April through September of 2015 and developed written guidance for managing and overseeing all aspects of federal grants. The guidance specifically focuses on program area versus Grants Unit responsibilities for grants and emphasizes that all grants are required to be approved by the appropriate levels of ADE staff. All ADE program staff involved with federal grants received training on this guidance and the guidance has been fully implemented agency-wide.

2015-124
CFDA No. and Name: 64.203 State Cemetery Grants
Award Numbers and Years: FAI AZ-09-04, 2014
FAI AZ-09-08, 2014
Federal Agency: U.S. Department of Veterans Affairs
Compliance Requirement: Special Tests and Provisions
Questioned Costs: None

Finding
Criteria: In accordance with 29 Code of Federal Regulations (CFR) §5.5(a)(3)(ii)(A), a contractor or subcontractor must submit weekly, a copy of the certified payrolls, for each week in which any contract work is performed.

Condition and context: For contract work performed for the Department of Veterans' Services the Arizona Department of Administration (ADOA) collected the required weekly certified payrolls. ADOA received certified payrolls from 35 contractors and subcontractors during fiscal year 2015; however, ADOA did not always receive them on a timely basis. Specifically, auditors noted for 30 of those contractors and subcontractors the certified payrolls were not always submitted to ADOA on a weekly basis, for each week in which contract work has performed. Further, auditors determined the ADOA did not have policies and procedures to identify whether it received all required certified payrolls weekly.

Effect: Noncompliance with 29 CFR §5.5. This finding could potentially affect other federal programs, with similar requirements, that the ADOA administers.

Cause: The ADOA did not have adequate policies and procedures in place to ensure all required certified payrolls were submitted on a weekly basis.

Recommendation: The ADOA should develop and implement effective policies and procedures to identify the contractors and subcontractors that are required to submit weekly certified payrolls and ensure all required certified payrolls are received timely.

Agency Response: Concur

The Arizona Department of Veterans’ Services (ADVS) agrees with this finding. ADVS will request assurances from the Arizona Department of Administration (ADOA) that it will develop and implement effective policies and procedures to identify contractors and subcontractors that are required to submit weekly certified payrolls and ensure all required certified payrolls have been submitted in a timely basis. Furthermore, ADVS will request periodic confirmation from ADOA that required weekly certified payrolls have been received in a timely basis.

2015-125
CFDA No. and Name: 64.203 State Cemetery Grants
Award Numbers and Years: FAI AZ-09-04, 2014
FAI AZ-09-08, 2014
Federal Agency: U.S. Department of Veterans Affairs
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<table>
<thead>
<tr>
<th>Compliance Requirement:</th>
<th>Cash Management and Reporting</th>
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<tbody>
<tr>
<td>Questioned Costs:</td>
<td>None</td>
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**Finding**

Criteria: In accordance with 38 CFR 41.300(a-b), the Department is required to identify all monies received and expended and the federal programs under which they were received and maintain internal control over federal programs that provides reasonable assurance that it is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements. In addition, 38 CFR 41.300(d) requires the State to prepare appropriate financial statement, including a schedule of expenditures of Federal awards.

Condition and context: During the fiscal year, the Department received reimbursement for federal program expenditures totaling $8,777,307 and only recorded program expenditures of $8,088,263. Auditors performed additional procedures and determined the Department requested and received reimbursements for $689,044 of program related expenditures that were not identified as federal within its financial reporting system.

Effect: The Department’s records did not properly identify $689,044 of federal program expenditures which resulted in excess cash balances for the program for nine consecutive months of the fiscal year, which ranged from $458,400 to $1,549,954. Further, the expenditures for the State Cemetery Grants program were underreported on the State’s Schedule of Expenditures of Federal Awards (SEFA). The State’s SEFA was adjusted for this error.

Cause: The Department did not follow its existing policies and procedures to ensure expenditures were properly identified as federal program expenditures within its financial reporting system.

Recommendation: The Department should follow its policies and procedures to ensure program expenditures are properly recorded in its accounting records and the State’s SEFA.

**Agency Response: Concur**

The Arizona Department of Veterans’ Services (ADVS) agrees with this finding. ADVS will correct the transactions identified in the auditor’s report to report them accurately. ADVS worked with the Arizona General Accounting Office to adjust the State’s Schedule of Expenditures of Federal Awards (SEFA) for this error. Furthermore, ADVS has created a full time Grants Administrator position and will hire a qualified candidate to ensure compliance with its policies and procedures and, in this manner, avoid a similar from reoccurring.

Other auditors’ finding:

The other auditors who audited the Arizona Department of Transportation and the Arizona Health Care Cost Containment System reported the following corrective action plans:

<table>
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<th>2015-126</th>
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<tbody>
<tr>
<td>CFDA No. and Name: Not applicable</td>
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<tr>
<td>Questioned Costs: N/A</td>
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**Finding**

Criteria: The single audit should have been completed by March 31, 2016.

Condition and context: Due to a change in administration, key personnel, as well as an implementation of a significant entity wide system upgrade, the Arizona Department of Transportation did not complete their schedule of expenditures of federal awards and single audit in a timely manner.
Federal Award Findings, Questioned Costs and Corrective Action Plan
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Effect: The Arizona Department of Transportation is not in compliance with the grant agreements, and will be considered a high risk auditee for future reporting periods.

Cause: The schedule of expenditures of federal awards and single audit were not completed on a timely basis.

Recommendation: We recommend the Arizona Department of Transportation continue to evaluate its internal control processes to determine if additional internal control procedures should be implemented to ensure timely completion of the schedule of expenditures of federal awards and single audit.

Agency Response: Concur

The Arizona Department of Transportation concurs with the finding and is actively working on implementing controls that will help prevent, detect and control material misstatements. The implementation of the new statewide financial system (AFIS) greatly impacted the Arizona Department of Transportation’s ability to prepare the Comprehensive Annual Financial Report. Specifically, the reporting functionality within the new system was not fully developed which made it very difficult to calculate accrual data. The Arizona Department of Transportation is in the process of developing our own data warehouse which will improve reporting capabilities and is also contracting with a consulting firm to help develop and implement appropriate controls. It is anticipated that preliminary controls will be in place by June 30, 2016 with more mature controls being developed over the following 12 months.

2015-127
Cluster Name: Medicaid Cluster
CFDA Nos. and Name: 93.778 Medical Assistance Program
Award Numbers and Year: Various, July 1, 2014 through June 30, 2015
CFDA Nos. and Name: 93.767 Children’s Health Insurance Program
Award Numbers and Year: Various, July 1, 2014 through June 30, 2015
Federal Agency: U.S. Department of Health and Human Services
Compliance Requirement: Allowable Costs/Cost Principles
Questioned Costs: $2,941,326 ($2,816,400 from the Medical Assistance Program (Title XIX) - 93.778 and $124,926 from the Children’s Health Insurance Program (Title XXI) - 93.767)

Finding
Criteria: A strong and efficient system of internal controls over purchasing and disbursements is critically important to governmental organizations. Internal controls over the purchasing, procurement, contracting and accounts payable processes should be established and maintained to include limitations on purchasing authority, proper segregation of duties, and appropriate reviews of invoices and warrants.

Condition and context: During fiscal year 2015, an Arizona Health Care Cost Containment System (AHCCCS) internal investigation identified an employee embezzlement. The embezzlement involved AHCCCS’ Contracts and Purchasing Administrator, who used his position to initiate and approve vendor invoices related to a multi-service contract. The Contracts and Purchasing Administrator was then able to use his long tenure and standing within AHCCCS to obtain possession of the paper warrants prior to their mailing to the vendor. In many instances, the vendor invoices were fraudulent. However, in some instances, the vendor invoices were legitimate and the invoices were subsequently adjusted off by the vendor for an unknown reason. AHCCCS believes the fraud occurred over a ten year period (2006-2015) and the total cumulative amount misappropriated is estimated at $5,757,728. The funds were misappropriated from AHCCCS’ administrative budget, which approximates $200 million annually.
Federal Award Findings, Questioned Costs and Corrective Action Plan
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Effect: For the period from fiscal year 2006 through fiscal year 2015, AHCCCS estimates that their Contracts and Purchasing Administrator misappropriated $5,757,728 of fraudulent vendor payments under a multi-service contract. The funds were misappropriated from AHCCCS’ administrative budget, which approximates $200 million annually. As these funds were administrative disbursements, there is a federal share with $2,816,400 allocated to Title XIX (93.778) and $124,926 allocated to Title XXI (93.767).

Cause: Using his authority, tenure and standing within AHCCCS, the Contracts and Purchasing Administrator was able to circumvent existing controls to misappropriate funds. The Contracts and Purchasing Administrator had the authority to initiate and approve the vendor invoices under his delegated procurement authority and position. Additionally, he was able to use his long tenure and standing within AHCCCS to obtain possession of the paper warrants prior to their mailing to the vendor.

Recommendation: We recommend that AHCCCS review their existing internal control environment surrounding purchasing and disbursements to limit delegated procurement authority and to ensure proper segregation of duties. We also recommend that AHCCCS enforce its existing policies to ensure that the distribution of paper warrants, as well as the review and approval of any paper warrants prior to their distribution, must be segregated from individuals who initiate a purchase requisition and the payment request. Finally, we recommend that AHCCCS periodically audit vendor accounts and reconcile vendor receipt detail to AHCCCS payment detail.

Agency Response: Concur

Arizona Health Care Cost Containment System (AHCCCS) will ensure assets are properly safeguarded and controlled and internal control policies and procedures are reviewed, strengthened and followed so that no single individual has control over the purchasing process to initiate a transaction, approve that transaction and have access to the paper warrant. AHCCCS has contracted with an Independent CPA to review, assess and provide recommendations for purchasing and accounts payable internal control policies and procedures. The Agency has worked with the Arizona State Procurement Office to reduce the previously unlimited delegated procurement authority to a revised limited delegated procurement authority of $10,000. In addition, AHCCCS has established a policy that all payment transactions must utilize the central warrant mailing service provided by the Arizona Department of Administration – General Accounting Office in conjunction with the July 1, 2015 implementation of the new Statewide Accounting System. Finally, AHCCCS will aggressively prosecute the accused former employee and exhaust all available remedies to recover all embezzled assets in the timeliest manner possible.