

## Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY2019 Single Audit Report)

### 2019-101

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

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

- Transferred monies from the State's Risk Management Revolving Fund to be spent on Department of Child Safety litigation expenses. (Laws 2019, Chapter 276, §17)
- Transferred monies from the State's Risk Management Revolving Fund to the Department of Public Safety to be spent on general government services it normally provides. (Laws 2019, Chapter 276, §78)
- Transferred monies from the States Motor Vehicle Pool Revolving Fund for the purpose of providing support and maintenance of State agencies. (Laws 2019, Chapter 276, §140)
- Transferred monies from various State funds to the State's Automation Projects Fund for the purpose of managing information technology projects. (Laws 2019, Chapter 276, §141)
- Directed transfers from various funds for services the Office of the Governor performed. (Interagency Service Agreement GVA-19-070118-01)

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

**Criteria**— Expenditures charged to federal programs should be based on the relative benefits received by the specific program. (2 U.S. Code of Federal Regulations (CFR) §200.405(a)) Further, federal expenditures cannot be used for the general cost of government such as police services, litigation, and information technology services. (2 CFR §200.444(a))

**Effect**— We were unable to determine the amount of questioned costs that resulted from this finding or to identify all the federal programs this finding affected because ADOA has not finalized its calculation for the federal portion of these transfers that occurred during fiscal year 2019. The State estimates it may have to return at least \$25,000 to federal grantors. Once calculated, this amount will be subject to the U.S. Department of Health and Human Services' review and approval and subsequent repayment. This finding could potentially affect all federal programs State agencies administered that had legislatively mandated or directed transfers but does not impact the 3 State universities' federal programs.

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

**Recommendation**— To help ensure the State complies with federal programs' allowable costs/cost principles requirements and will not have to return federal monies to the federal grantors, ADOA should:

- Continue to monitor bills being considered in the Legislature and work with the Legislature to recommend bill revisions to avoid transferring monies from sources that include federal program monies.
- Continue to work with the U.S. Department of Health and Human Services for remittance of any unallowable costs identified.

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

The finding is similar to prior-year finding 2018-101.

**Agency Response: Concur**

Agency: Department of Administration  
Name of contact person and title: Ray Di Ciccio, Interim Comptroller  
Anticipated completion date: Unknown

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

This is a cross-cutting finding and is appropriately being addressed with the U.S. Department of Health and Human Services, Cost Allocation Services (DHHS-CAS) for the payment and appropriate resolution of the questioned costs. We agree and commit to continue to work with the DHHS-CAS and appropriate bodies within the State, to the best of our ability, to find an equitable resolution to this issue.

<b>2019-102</b>	
Cluster name:	CCDF Cluster
CFDA number and name:	93.575 Child Care and Development Block Grant 93.596 Child Care Mandatory and Matching Funds of the Child Care Development Fund
Award numbers and years:	G1701AZCCDF, 2017; G1801AZCCDF, 2018; and G-1901AZCCDD, G-1901AZCCDM, and G-1901AZCCDF, 2019
Federal agency:	U.S. Department of Health and Human Services
Compliance requirement:	Eligibility
Questioned costs:	\$3,807

**Condition and context**— We found 1 recipient who may not have been eligible to receive childcare assistance totaling \$3,807. Specifically, for 1 of 40 case records tested, the Department of Economic Security’s Child Care Administration (Administration) could not provide the case record supporting its eligibility determination for the recipient. We could not determine if additional case records were missing.

**Criteria**— The Administration must retain all records needed to substantiate compliance with program requirements, such as eligibility determinations. Also, the Administration must establish and maintain effective internal control over its federal awards that provides reasonable assurance that it is managing them in compliance with all applicable laws, regulations, and award terms. (45 CFR §§98.90(d)(1) and 75.303)

**Effect**— The Administration may provide childcare benefits to applicants who are not eligible to receive them and may be required to repay federal monies to the grantor.

**Cause**— The Administration did not follow its policies and procedures to retain the case record.

**Recommendation**— To help ensure the Administration makes accurate benefit payments to only eligible recipients, it should ensure that facts regarding eligibility determinations are properly documented, supported, and retained in each recipient’s case record.

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

**Agency Response: Concur**

Agency: Department of Economic Security  
Name of contact person and title: Lela Wendell, Program Administrator  
Anticipated completion date: December 2021

The DES Child Care Administration (CCA) concurs with the finding and is in the initial planning process to modernize the technology used for the documentation, collection, and maintenance of child care assistance case records. The key milestone dates for this project are listed below with the respective action owners and due dates. The project is planned for completion by December 2021.

Action	Owner	Due Date
Add AzCCATS systems screens to record income calculations and changes (requires multiple phases)	CCA IT	January 2021 (in process)
Review and update eligibility case records standard work	CCA Eligibility Program Managers	October 2020
Develop indexing method for case records	CCA Eligibility Program Managers	January 2021
Create project plan to implement OnBase for eligibility case records & transfer existing cases to OnBase	CCA Eligibility Program Managers	March 2021
Begin OnBase implementation for new applications	CCA Eligibility Program Managers	July 2021
Transfer existing cases to OnBase	CCA Eligibility Program Managers	December 2021

### 2019-103

CFDA number and name:	84.010 Title I Grants to Local Educational Agencies
Award numbers and years:	S010A160003, 2016; S010A170003, 2017; S010A180003, 2018
Federal agency:	U.S. Department of Education
Compliance requirements:	Special Tests and Provisions
Questioned costs:	Not applicable

**Condition and context**— The Arizona Department of Education (ADE) did not ensure that local educational agencies (LEAs) retained proper documentation to support student withdrawal data ADE used to calculate the graduation rate for the State’s annual report card.

**Criteria**— The Department is required to make a State annual report card publicly available that includes graduation rate data for public secondary school students. ADE may exclude from the graduation rate calculation certain withdrawn students, such as students who have transferred to other schools, if the LEA retains proper written documentation. (Elementary and Secondary Education Act of 1965, Section 1111(h)(1))

**Effect**— ADE may report inaccurate graduation rates for Arizona to the U.S. Department of Education or may report inaccurate graduation rates for the State or individual school districts or charter schools in their annual report cards, which are available on ADE’s website. This would be misleading to the public and government officials who may make decisions based on the data. Additionally, other stakeholders may use the graduation rate data for their purposes or publications. For example, our Office reports school district graduation rates in our annual *Arizona School District Spending* report.

**Cause**—The Department did not follow its policies and procedures that required it to audit the student withdrawal data the LEAs submitted to ensure that LEAs retained proper documentation.

**Recommendation**— To help ensure the Department accurately reports graduation rates to the public, Arizona public schools, our Office, and other government officials on the State’s annual report card, it should follow its policies and procedures requiring LEA audits to include verifying documentation supporting student withdrawal data.

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

**Agency Response: Concur**

Agency: Department of Education

Name of contact persons and titles: Keith Snyder, Deputy Associate Superintendent, Educator and School Excellence  
Wendy Davy, Chief Accountability Officer

Anticipated completion date: June 2020

The Arizona Department of Education’s Accountability Department will work with the Educator and School Excellence Section (ESE) to create a policy and procedure by June 30, 2020, to properly review and audit the Pupil Withdrawal forms used to calculate graduation, dropout rates, as well as persistence rates. The process moving forward will include an audit of the Pupil Withdrawal forms. LEA and school administrators that are found to not be in compliance will be required to attend training, sign assurances, and/or be subject to a mandatory audit the next year. The policy and procedure will be evaluated quarterly and updated as needed.

**2019-104**

CFDA number and name:	93.659 Adoption Assistance
Award numbers and years:	1801AZADPT, 2018; 1901AZADPT, 2019
Federal agency:	U.S. Department of Health and Human Services
Compliance requirement:	Cash management
Questioned costs:	None

**Condition and context**— The Department of Child Safety (DCS) requested reimbursements from the grantor earlier than the State’s agreement with the U.S. Department of Treasury allowed. Specifically, for 17 reimbursements tested, DCS submitted 1 request for federal monies to pay vendors and service providers 2 days early and 7 requests for payroll and other operating costs 1 to 12 days early.

**Criteria**— Federal regulations require DCS to request federal monies for the program in accordance with the funding technique patterns outlined in the Treasury-State Agreement (Agreement) that designate when the State may request federal monies. <sup>1</sup> (31 CFR §205, Subpart A) Additionally, DCS must establish and maintain effective internal controls over the federal award that provides reasonable assurance it is managing the program in compliance with laws, regulations, and award terms. (45 CFR §75.303)

**Effect**— DCS earned \$15,797 of interest on idle federal monies because it improperly requested monies before the designated day under the Agreement. After the Arizona Department of Administration determined the interest earned and notified DCS of this issue, DCS remitted the amount to the federal government. This finding could potentially affect other federal programs DCS administers that the Agreement covered.

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

**Recommendation**— To help ensure that DCS does not risk federal monies remaining idle or improperly earning interest and having to repay interest earned, DCS should:

- Evaluate and modify its policies and procedures, as appropriate, for requesting federal reimbursement to ensure that the requests are made based on the authorized day specific to each approved funding technique.
- Work with the federal grantor to determine if the approved funding techniques are appropriate to meet DCS’ cash management needs and communicate any agreed-upon changes in funding techniques to the Arizona Department of Administration so that they can be addressed in the Agreement.

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

This finding is similar to prior-year finding 2018-108.

<sup>1</sup> For payments to vendors and service providers, DCS should request monies 2 days after it makes payments. For payment of payroll and other operating costs, DCS should request monies only on the Wednesday before it pays its employees. Requested reimbursements for payroll and other operating costs should be an estimated amount based on DCS’ approved cost-allocation plan, including any adjustments to true-up previous requests for the differences between the estimated and actual allocated expenditures.

**Agency Response: Concur**

Agency: Department of Child Safety

Name of contact person and title: Ana Molloy, Grants, Cost & Reporting Manager

Anticipated completion date: Fiscal Year 2021

The Department of Child Safety (Department) acknowledges the need to improve controls for requesting federal reimbursement. The Department's financial management continues to explore options to ensure compliance with federal reimbursement requirements. In Fiscal Year 2020, the Department strengthened its internal controls for ensuring funding technique compliance with the Treasury-State Agreement (TSA).

The following action items will be implemented:

- To segregate and track TSA funding techniques appropriately, the Department is in the process of undergoing adjustments to the Arizona Financial Information System (AFIS) cost structure that will increase fidelity between administrative expenses from programmatic expenses. The separation of expenses in such a manner will create greater transparency for the Department to align the necessary funding technique for reimbursement.
- The Department is also in the process of creating specific Cash Management Improvement Act (CMIA) compliance workbooks that will ensure bi-weekly draws will occur in only 26 transactions.
- The Department will update its policies and procedures accordingly.