

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY2020 Single Audit Report)

2020-101

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

Award number and year: None

Federal agency: U.S. Department of the Treasury

Compliance requirements: Activities allowed or unallowed, allowable costs/cost principles, and period of performance

Questioned costs: None

Condition—The Arizona Governor’s Office of Strategic Planning and Budgeting (OSPB) was responsible for administering the State’s Coronavirus Relief Fund (CRF) monies. In fiscal year 2020, of the total \$642.8 million expended or distributed by the State, OSPB had approved the State to expend and distribute \$25,579,909 for unallowable costs—costs that were not incurred in response to the Coronavirus Disease 2019 (COVID-19) public health emergency as defined by the CRF regulations. Specifically, OSPB allowed 10 State agencies to use CRF monies to pay \$19,031,561 in payroll costs and used CRF monies to reimburse at least 7 local governments for \$3,135,456 in payroll costs incurred before March 1, 2020, which was before the time period the costs were allowed to be incurred.¹ In addition, despite being prohibited by federal regulations, OSPB allowed 10 State agencies to use CRF monies to pay indirect costs and annual leave payouts totaling \$3,412,892 incurred through June 30, 2020. Once we notified OSPB about the local governments’ and the State’s unallowable costs that we identified in our audit samples in February 2021 and April 2021, respectively, OSPB began working with the local governments and State agencies to determine their total unallowable costs and replace them with allowable costs that they incurred, as permitted by federal regulations. Specifically, OSPB worked with the State agencies to replace their total unallowable costs of \$22,444,453 with allowable costs the State incurred. Further, as of October 2021, according to OSPB, the other 7 local governments had replaced their \$3,135,456 in total unallowable payroll costs.

Effect—The State is responsible for repaying the federal government for CRF monies it expended for unallowable costs. Therefore, the State would be at risk of having to repay CRF monies to the federal government if it and the local governments were not able to find allowable costs incurred by December 31, 2021, to replace any claimed unallowable costs.¹

Cause—OSPB did not provide enough oversight over the State agencies and local governments to help prevent or detect their spending of CRF monies on unallowable costs. This was partly because once authorized, the U.S. Department of the Treasury (U.S. Treasury) immediately disbursed CRF monies to all states in the U.S., but the federal guidance clarifying allowable costs evolved over time.² For example, the U.S. Treasury’s original guidance issued in April 2020 defined “incurred” based on when the costs were paid but later changed the guidance in June 2020 to state that the costs had to be incurred after March 1, 2020. In addition, when the State agencies initially expended CRF monies for payroll costs, OSPB and the State agencies misinterpreted federal guidance to mean that all public health and public safety payroll costs were allowable, including personnel annual leave payouts.

Criteria—Federal regulation requires the State and local governments to spend CRF monies for only necessary expenditures they incurred because of the COVID-19 public health emergency during the performance period of March 1, 2020 through December 31, 2021.¹ Federal guidance prohibits the State and local governments from using CRF monies to cover certain administrative costs, such as indirect costs and personnel annual leave costs paid as severance pay. However, this federal guidance permits the State and local governments to replace unallowable costs for allowable expenditures they incurred during the period of performance.² Further, federal regulation also requires establishing and maintaining effective internal control over federal awards that provides reasonable assurance that federal programs are being managed in compliance with all applicable laws, regulations, and award terms. (2 CFR §200.303)

Recommendations—The Arizona Governor’s OSPB should:

- 1) Develop and implement policies and procedures to ensure it and the local governments it disburses monies to uses CRF monies for only allowable purposes. Such policies and procedures should require:
 - a. Detailed reviews of local government reimbursement requests before disbursing CRF monies.
 - b. After-the-fact reviews of State agencies’ and local governments’ reimbursement requests for CRF monies already disbursed to detect unallowable costs, including indirect costs, personnel’s annual leave payouts, and other unallowable expenditures that were incurred outside of the period of performance.

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

¹ The Coronavirus Aid, Relief, and Economic Security (CARES) Act established the CRF and defines the performance period as March 1, 2020 through December 31, 2021, meaning this is the time period during which costs resulting from the COVID-19 public health emergency can be incurred for which CRF monies can be spent.

² The CARES Act established the CRF and was enacted March 27, 2020. Federal guidance for implementing the CRF was established by the U.S. Treasury in April 2020, revised in June 2020, and further updated by frequently asked questions starting May 4, 2020 through October 19, 2020. All the U.S. Treasury’s CRF guidance was finalized in the Federal Register (FR) on January 15, 2021 (FR Vol. 86, No. 10, Doc. 2021-00827).

Agency Response: Concur

Agency: Governor’s Office of Strategic Planning and Budgeting
Name of contact person and title: Jason Mistlebauer, Grant Manager
Anticipated completion date: July 1, 2022

The Governor’s Office of Strategic Planning and Budgeting will review its internal controls and make the necessary improvements to its policies and procedures. The process moving forward will include language in our executed agreements informing parties of the stated unallowable costs (Personnel Board Pro-Rata Charges, Information Technology Pro Rata Charge and Annual Leave Payout).

2020-102

Assistance listing number and name: 17.225 COVID-19 Unemployment Insurance
Award number and year: None
Federal agency: U.S. Department of Labor
Compliance requirement: Eligibility
Questioned costs: \$15,744

Condition— As we previously reported in financial statement findings 2020-01 and 2020-02 in our *Report on Internal Controls and Compliance* (RICC) dated August 4, 2021, the Department of Economic Security (DES) did not comply with 2 areas of eligibility requirements of the Coronavirus Aid, Relief, and Economic Security (CARES) Act unemployment insurance (UI) programs.¹ Those previously reported findings include further details regarding DES’ noncompliance, and the 2 noncompliance areas are summarized below:

- As previously reported in finding 2020-01 in our RICC dated August 4, 2021, DES did not implement the 3 mandated and 4 of the 8 strongly recommended identity theft and anti-fraud measures for CARES Act UI benefits programs before paying federal benefits on May 18, 2020, through its new UI benefits system. Of the \$5.1 billion in total CARES Act UI benefits DES paid through June 30, 2020, DES reported to us it paid over \$1.6 billion, or 31.4 percent, of the benefits to alleged fraudsters who had stolen identities. The \$1.6 billion included retroactive benefits for as far back as the week beginning January 27, 2020, and included nearly 3.5 million claims totaling over \$379 million of Pandemic Unemployment Assistance (PUA) and over \$1.2 billion of Federal Pandemic Unemployment Compensation (FPUC) CARES Act UI benefits.
- As previously reported in finding 2020-02 in our RICC dated August 4, 2021, between May 8, 2020 and June 30, 2020, as allowed by federal regulations, DES reported that it paid claimants an estimated \$57 million of federally funded PUA benefits above the State’s \$117 minimum weekly UI benefit, up to \$240 weekly. However, DES did not determine whether claimants were qualified to receive these additional weekly PUA benefits. Specifically, DES did not determine whether those claimants had submitted wage documentation within 21 days of applying, as required, and immediately reduce the claimants’ future weekly benefit payments to the \$117 weekly minimum and determine how much it had overpaid those claimants. In addition, for those claimants who submitted wage documents, DES did not evaluate the wage documents to determine if and how much in benefits it overpaid those claimants above the weekly minimum. As of August 2021, DES reported for those claimants who submitted wage documents, it had not yet completed evaluating the wage documents to determine if and how much in benefits above the weekly minimum it overpaid those claimants between May 8, 2020 and June 30, 2020. We tested a total of 120 claimants and identified the following noncompliance and questioned costs for 7 claimants paid more than the weekly minimum:

- Five claimants did not submit wage documents, and DES overpaid them a total of \$10,947.
- Two claimants submitted wage documents, but the documents were either incomplete or did not support the weekly benefit amount paid, and DES overpaid them a total of \$4,797.

Effect—As reported in finding 2020-01 in our RICC dated August 4, 2021, although DES expects to recover through the help of law enforcement agencies some of the \$1.6 billion in fraudulent identity theft claims paid, it does not expect to be required to return any unrecovered monies to the federal government. In addition, as described in finding 2020-02 in our RICC dated August 4, 2021, DES was unable to determine how much of the estimated \$57 million of PUA benefits it paid above the \$117 weekly minimum may have been overpayments to claimants, which it would then need to recover from them. Further, DES' required return of these overpaid monies to the federal government is delayed until DES determines the amount of overpayments and collects them from overpaid claimants. In our sample audit work, we identified \$15,744 in known questioned costs as described above.

Because this issue applies only to the CARES Act UI programs, this finding has no effect on the State's regular UI program that the State has jointly administered with the federal government for over 30 years.

Cause—As we reported in finding 2020-01 in our RICC dated August 4, 2021, DES reported that the speed with which it needed to process an increased volume of CARES Act UI benefits claims and confusion regarding federal laws, requirements, and guidance contributed to it not putting into place all critical identity verification and anti-fraud measures before it started paying benefits. In addition, DES contracted to use a new UI benefits system to quickly implement the new federal CARES Act UI benefits programs, which took time to get online and ready to process its first UI benefits claims. DES reported that it encountered computer programming issues interfacing with other State systems and federal databases to be able to conduct all the federally mandated and strongly recommended identity verification and other anti-fraud measures. Further, the system did not have an alert to notify it of claimants who were receiving more than the minimum weekly UI benefit amount but who had not submitted wage documentation within 21 days of applying. Finally, DES also reported it did not initially have the staff needed to process the volume of CARES Act UI benefits claims.

Criteria—On April 5, 2020, the U.S. Department of Labor (U.S. DOL) issued PUA implementation instructions reminding states that they were required to take reasonable and customary precautions to deter and detect fraud, and on May 11, 2020, the U.S. DOL issued guidance specifying 3 mandated and 8 strongly recommended identity theft and anti-fraud measures for CARES Act UI benefits.^{2,3}

Also, federal regulations prescribe the PUA program requirements that apply to claimants and that DES must follow.⁴ Specifically, federal regulation states that claimants who are eligible to participate in the PUA program are entitled to receive the State's minimum weekly UI benefit—\$117 in Arizona—and claimants may receive an increased PUA weekly benefit amount up to a maximum—\$240 in Arizona—if the claimant submits wage documentation within 21 days of applying.^{5,6} Federal regulations require states to determine and immediately pay a weekly benefit amount based on the claimants' self-certification of eligibility and wages contained in the claimants' application. Claimants who self-certify for more than the minimum weekly benefit amount are required to submit wage documentation within 21 days of applying for the additional weekly PUA benefit, and states are then required to immediately determine the accuracy of each claimant's weekly benefit amount based on the claimant's submitted wage documentation.^{5,6} For claimants who did not submit the required wage documentation within 21 days of applying, federal regulation requires states to immediately reduce the claimants' future benefit payments to the minimum weekly benefit amount and consider PUA payments exceeding the minimum weekly benefit as overpayments.⁶ In addition, federal regulation requires states to take all reasonable measures under state and federal laws to recover overpayments to claimants, regardless of whether the overpayment resulted from error or fraud on the claimant's part.⁷

Finally, federal regulation requires establishing and maintaining effective internal control over federal awards that provides reasonable assurance that federal programs are being managed in compliance with all applicable laws, regulations, and award terms.⁸

Recommendation—As we previously reported in financial statement findings 2020-01 and 2020-02 in our *Report on Internal Controls and Compliance*, dated August 4, 2021¹, DES should:

1. Continue to evaluate the CARES Act UI benefits it has paid to identify any additional fraudulent claims payments, using all necessary critical identity verification and other anti-fraud measures.
2. Continue its efforts working with law enforcement agencies to recover improper payments to the extent practicable for fraudulent claims it paid due to identity theft.

3. Repay any recovered improper payments to the federal government.
4. Develop and implement a plan to ensure that for any future new UI benefits programs or regular UI benefits program changes, it puts critical identity verification and other anti-fraud measures in place prior to paying any UI benefits claims.
5. Perform wage verifications for all claimants who received an increased PUA weekly benefit payment, which DES estimated totaled \$57 million, to determine the weekly benefit amount they qualify for and identify and recover any overpayments. This would include the 7 claimants from our test work who we identified received a total of \$15,744 in overpayments.
6. Repay to the federal government any PUA program overpayments received from claimants.

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

¹ Arizona Auditor General. (2020). *Report on Internal Control and Compliance, June 30, 2020*. Phoenix, AZ. https://www.azauditor.gov/sites/default/files/StateOfArizonaJune30_2020ReportOnInternalControlAndOnCompliance.pdf

² U.S. Department of Labor, Office of the Inspector General (April 5, 2020). *Unemployment Insurance Program Letter No. 16-20*. https://wdr.doleta.gov/directives/attach/UIPL/UIPL_16-20.pdf

³ U.S. Department of Labor, Office of the Inspector General (May 11, 2020). *Unemployment Insurance Program Letter No. 23-20*. https://wdr.doleta.gov/directives/attach/UIPL/UIPL_23-20.pdf

⁴ On March 27, 2020, the CARES Act, Section 2102(a)(3)(A), provided the criteria for which an individual self-certifies eligibility for PUA under the Presidentially declared public health emergency resulting from the COVID-19 pandemic. The self-certification required claimants to self-declare that they were eligible for the PUA program and were able to work and available for work but unable to do so because of at least 1 specific, qualifying COVID-19-related reason. In addition, the CARES Act, §2102(h), applied the Disaster Unemployment Assistance program's administrative requirements to PUA since PUA was similar to unemployment compensation provided under Presidentially declared disasters.

⁵ 20 Code of Federal Regulations §625.6(e).

⁶ U.S. Department of Labor, Office of the Inspector General (April 27, 2020). *Unemployment Insurance Program Letter No. 16-20, Change 1, Attachment I, Question 20*. https://wdr.doleta.gov/directives/attach/UIPL/UIPL_16-20_Change_1.pdf

⁷ 20 Code of Federal Regulations §625.14[a].

⁸ U.S. Government Accountability Office. (2014). *Standards for internal control in the federal government*. Washington, DC. Retrieved 8/4/21 from <https://www.gao.gov/assets/670/665712.pdf>.

Agency Response: Concur

Agency: Department of Economic Security

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

Anticipated completion date: June 30, 2022

As of the issuance of this report, the Department of Economic Security (DES) paid an estimated total of \$4.4 billion in fraudulent claims, and estimates to have ultimately prevented over \$75 billion in benefit payments to perpetrators of identity theft through the development and implementation of various prevention and fraud detection measures. Throughout the pandemic, DES deployed various system fraud controls and integrity measures that were required or identified as industry best-practices to mitigate and prevent the unprecedented criminal and fraudulent activity experienced across the nation.

DES will address the audit recommendations, as follows:

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

DES will implement the audit recommendation. DES will continue efforts to identify any additional Pandemic Unemployment Assistance (PUA) fraudulent claim payments, in part by implementing the Quarterly, National Directory of New Hires (NDNH), and State Directory of New Hires (SDNH) wage crossmatch. DES will also continue to participate in a number of integrity crossmatches, which include, but are not limited to, the Arizona Department of Corrections and Maricopa County Jail, to detect individuals filing for Unemployment Insurance (UI) benefits while incarcerated. In addition, the DES Office of Inspector General (OIG) provides additional information regarding local, state, and federal incarceration records to the DES Division of Employment & Rehabilitation Services for processing.

DES also currently conducts a Social Security Crossmatch, Motor Vehicle Division (MVD) Verification, Social Security Number (SSN) check via the UI Interstate Connection Network (ICON), and a U.S. Department of Health and Human Services (DHHS) and Social Security Administration (SSA) Mortality record check. DES utilizes the Integrity Data Hub (IDH) through the OnPoint Fraud Detection Solution which consists of IDH Suspicious Actor Repository (SAR) crossmatch, ID Theft, and Fictitious Employer. In addition to other integrity measures already in use, DES continues to utilize a third-party identity verification tool in order to prevent identity theft fraud.

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

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

DES continues to partner with federal, state, and local law enforcement agencies and financial institutions across the country to recover losses and aggressively pursue legal action against perpetrators of fraud. Throughout the pandemic, and as of September 2021, the Department has partnered with more than 200 financial institutions and over 100 law enforcement agencies that include the FBI, the U.S. Department of Labor (DOL), the U.S. Secret Service, and the U.S. Department of Homeland Security. DES has also developed internal fraud indicators, investigated over 64,000 identity theft fraud complaints received from the DES OIG fraud hotline/website, developed a fraud scoring model in partnership with Google Analytics and Spring ML data analytics, and implemented the OPTimum Aware fraud detection software solution.

As of September 2021, these efforts have recovered more than \$1.4 billion in benefit payments for fraudulent claims. In addition, DES has been able to prevent more than an estimated \$75 billion in benefit payments to perpetrators of identity theft through the development and implementation of various prevention and fraud detection measures. Further, over 200 cases have been submitted to the Arizona Attorney General's Office for prosecution, and more than 100 have resulted in criminal charges.

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

In accordance with federal and state rules and regulations, DES has a well-established business practice of performing the detection, recovery, and repayment functions as required for the regular UI program. DES is working toward implementing these functions for the PUA program as well.

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

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

5. Perform wage verifications for all claimants who received an increased PUA weekly benefit payment, which DES estimated totaled \$57 million, to determine the weekly benefit amount they qualify for and identify and recover any overpayments. This would include the 7 claimants from our test work who we identified received a total of \$15,744 in overpayments.

DES issued initial eligibility and Weekly Benefit Amount (WBA) determinations in accordance with 20 CFR 625.6(e), using claimants' self-reported base period income provided at the time of initial application, in addition to the record of wages that DES had on file. Throughout fiscal year 2020, the DOL's interpretation of the CARES Act was that self-certification was sufficient in and of itself to calculate the WBA. Unemployment Insurance Program Letter (UIPL) No. 16-20, Change 1 (issued April 7, 2020), states that PUA is not like Disaster Unemployment Assistance (DUA), in that it does not require proof of employment, but if an individual fails to provide wage documentation within 21 days, the individual's WBA must be reduced.

DES began in-depth business requirement discussions with its vendor to address the system functionality requirements in August 2020. In December 2020 through February 2021, DES also developed standard work and training material regarding monetary eligibility for PUA. Team members were trained, and claim processing specific to claims with a WBA higher than \$117 was initiated in March 2021. DES will continue to follow the standard quality review process for the claims being processed.

Due to lack of system functionality within the PUA portal, DES has been unable to process the WBA decrease(s). System functionality is anticipated to be available in October 2021 which will support the recalculation and decrease in benefit amount.

6. Repay to the federal government any PUA program overpayments received from claimants.

In accordance with federal and state rules and regulations, DES has a well-established business practice of performing the detection, recovery, and repayment functions as required for the regular UI program. DES is working toward implementing these functions for the PUA program as well.

2020-103

Assistance listing number and name:	17.225 COVID-19 Unemployment Insurance
Award number and year:	None
Federal agency:	U.S. Department of Labor
Compliance requirements:	Cash management
Questioned costs:	Not applicable

Condition— Contrary to its agreed-upon federal funding technique, during fiscal year 2020, the Department of Economic Security (DES) requested and drew earlier than allowed \$194,122,601 in net total reimbursements from the federal grantor, the U.S. Department of Labor (U.S. DOL), for Pandemic Unemployment Assistance (PUA) and the Federal Pandemic Unemployment Compensation (FPUC) benefits payments. Specifically, between May 2020 through June 2020, DES reported it made 33 draws of federal monies. In 26 of those draws, DES drew federal monies ranging from \$4.8 million to \$249.8 million more than its daily needs to pay PUA and FPUC claims, and in 7 of those draws it did not draw enough federal monies to meet its daily needs to pay PUA and FPUC claims.

Effect— DES' receipt of a net overdraw of \$194,122,601 in federal monies in advance of needing to pay benefit claims from May 2020 through June 30, 2020, could have caused the U.S. DOL to make inaccurate overall determinations regarding the monies needed for the nationwide unemployment insurance (UI) programs it manages. Further, DES will need to eliminate the cash overdraw when it makes upcoming benefit payments to claimants. It was not practical to extend our auditing procedures to determine whether any cash balance was remaining as of October 27, 2021, the date of the Single Audit Report. Because DES held the overdrawn monies in a noninterest-bearing account, federal regulations do not require DES to pay any interest.

Cause— As described in finding 2020-03 in our *Report on Internal Controls and Compliance*, DES began using a contractor's UI benefits system to manage the new federal Coronavirus Aid, Relief, and Economic Security (CARES) Act UI programs and relied on its contractor's system-generated reports for financial information.¹ DES used these reports to determine the daily draws of federal monies needed to pay claimants' PUA and FPUC benefits payments without verifying that the system reports included accurate summarized system data and amounts that reconciled to information such as canceled and returned claimant payments reported by its servicing bank. DES also did not accurately reconcile its cash balances to its servicing bank. During our audit, we discovered that the contractor's system had a programming error that caused it to compile inaccurate information for canceled benefits payments returned to DES' servicing bank. DES was not aware of the system's programming errors and the inaccurate reports until we discovered the problem in January 2021, approximately 10 months after it had begun using the contractor's system. The contractor corrected the programming error in February 2021.

Criteria— Federal regulation requires that DES adhere to a funding technique to draw federal monies, and DES' U.S. Treasury-State Agreement (TSA) requires it to request federal monies for the same day it pays benefits (31 CFR §§205.11 and 205.12(b) and TSA 6.2.1 and 6.3.2). In addition, federal regulation requires establishing and maintaining effective internal control over federal awards that provides reasonable assurance that federal programs are being managed in compliance with all applicable laws, regulations, and award terms (2 CFR §200.303).

Recommendations— DES should:

1. Adhere to its agreed-upon TSA funding technique to draw only those federal monies it needs for the same day it pays benefits.
2. Establish policies and procedures to ensure its contractor's system or any future systems used to process PUA and FPUC or other UI claims produces reports that are complete and accurate and include procedures that detail how to utilize system report information to determine amounts needed for daily federal draws. Procedures over the system reports should include DES employees ensuring daily the accuracy of system data and generated reports, verifying the summarized system report amounts against detailed system data, and determining the accuracy of detailed system data by reconciling it to external sources, such as its servicing bank.
3. Investigate and fully resolve discrepancies when reconciling cash balances in its records to its servicing bank records.

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

¹Arizona Auditor General. (2020). *Report on Internal Control and Compliance, June 30, 2020*. Phoenix, AZ.

https://www.azauditor.gov/sites/default/files/StateOfArizonaJune30_2020ReportOnInternalControlAndOnCompliance.pdf.

Agency Response: Concur

Agency: Department of Economic Security

Name of contact persons and titles: Kristopher Goins, Senior IT Project Manager

Angelica Garcia, DERS Business Administrator

Anticipated completion date: March 30, 2022

The Department of Economic Security (DES) has already worked with its contractor to make several enhancements to ensure all transactions associated with a payment are recorded in a manner that allows for reconciliation and that there are no payments or cancels that remain unaccounted.

DES will adhere to its agreed upon TSA funding technique to draw only those federal monies it needs for the same day it pays benefits utilizing the system generated reports generated that details the amount of benefits to be issued. Additionally, DES is working with federal partners in the resolution of the issue of the amounts that were noted as overdrawn.

DES will establish policies and procedures to ensure its contractor's system produces complete and accurate reports as recommended. Additionally, DES is creating a request to enhance the financial reporting process to perform regular reconciliations to ensure that the system and the Pandemic Unemployment Assistance (PUA) accounts are balanced. This will allow DES the ability to perform regular validations on the system accounting process.

As described above, DES is working with federal partners in the resolution of the issue. When discrepancies are identified during the process to reconcile the cash balances to the servicing bank records, DES will document the issue and elevate it to the applicable internal system reporting team to further investigate and resolve.

2020-104

Assistance listing number and name: 93.659 Adoption Assistance

Award number and year: None

Federal agency:	U.S. Department of Labor
Compliance requirement:	Reporting
Questioned costs:	Not applicable

Condition— The Department of Economic Security (DES) reported incorrect financial information on its monthly Financial Transaction Summary report (ETA 2112 report) for June 2020—the month we tested— that it submitted to the federal grantor, the U.S. Department of Labor (U.S. DOL). Specifically, DES overstated its benefit account total disbursements line item by \$97,892,332 and understated the Federal Pandemic Unemployment Compensation line item by \$2,356,152.

Effect— DES’ submission of incorrect financial information related to unemployment insurance (UI) programs totaling over \$100 million to the U.S. DOL could cause the U.S. DOL to make inaccurate overall determinations about the nationwide UI programs it manages. This finding did not result in questioned costs because the ETA 2112 report is not used to request reimbursement of federal expenditures.

Cause— As described in finding 2020-03 in our *Report on Internal Controls and Compliance*, DES began using a contractor’s UI benefits system to manage the new federal Coronavirus Aid, Relief, and Economic Security (CARES) Act UI programs and relied on its contractor’s system-generated reports for financial information.¹ DES used these reports to determine the amounts it reported on its ETA 2112 reports without verifying those reports included accurate summarized system data and amounts that reconciled to external sources, such as canceled and returned claimant payments reported by DES’ servicing bank. During our audit, we discovered that the contractor’s system had a programming error that caused it to compile inaccurate information for canceled benefits payments returned to DES’ servicing bank. DES was not aware of the system’s programming errors and the inaccurate reports until we discovered the problem in January 2021, approximately 10 months after it had begun using the contractor’s UI benefits system. The contractor corrected the programming error in February 2021, and DES then submitted a corrected June 2020 ETA 2112 report to the U.S. DOL.

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

Recommendation— DES should:

1. Establish policies and procedures to ensure its contractor’s system or any future systems used to process PUA and FPUC or other UI claims produces reports that are complete and accurate and include procedures that detail how to utilize system report information to determine amounts needed for ETA 2112 reports. Procedures over the system reports should include DES employees ensuring daily the accuracy of system data and generated reports, verifying the summarized system report amounts against detailed system data, and determining the accuracy of detailed system data by reconciling it to external sources, such as its servicing bank.
2. Correct any other monthly ETA 2112 reports containing errors and submit the corrected reports to the federal grantor.

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

¹ https://www.azauditor.gov/sites/default/files/StateOfArizonaJune30_2020ReportOnInternalControlAndOnCompliance.pdf.

Agency Response: Concur

Agency: Department of Economic Security
 Name of contact persons and titles: Kristopher Goins, Senior IT Project Manager
 Angelica Garcia, Business Administrator
 Anticipated completion date: March 30, 2022

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

1. Establish policies and procedures to ensure its contractor’s system or any future systems used to process PUA and FPUC or other UI claims produces reports that are complete and accurate and include procedures that detail how to utilize system report information to determine amounts needed for the ETA 2112 reports. Procedures over the system reports should include DES employees ensuring daily the accuracy of system data and generated reports, verifying the summarized system report amounts against detailed system data, and determining the accuracy of detailed system data by reconciling it to external sources, such as its servicing bank.

DES will establish policies and procedures to ensure its contractor’s system produces complete and accurate reports as recommended. DES has already worked with its contractor to make several enhancements to ensure all transactions associated with a payment are recorded in a manner that allows for reconciliation and that there are no payments or cancels that remain unaccounted. Additionally, DES is creating a request to enhance the financial reporting process to perform regular reconciliations to ensure that the system and the Pandemic Unemployment Assistance (PUA) accounts are balanced. This will allow DES the ability to perform regular validations on the system accounting process.

2. Correct any other monthly ETA 2112 reports containing errors and submit the corrected reports to the federal grantor.

DES submitted required revisions of the ETA 2112 reports to the U.S. Department of Labor in June 2021 for state fiscal year 2020.

2020-105

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

Condition— Contrary to federal requirements, the Department of Economic Security (DES) had not begun a program integrity process for the Coronavirus Aid, Relief, and Economic Security (CARES) Act unemployment insurance (UI) programs for billing claimants and recovering the estimated \$80 million in overpayments through various means, such as establishing claimant payment plans and recovering overpayments through offsets against claimants’ subsequent UI payments, State income tax refunds, or State lottery winnings. Specifically, as of June 30, 2020, DES identified and estimated it overpaid non-ID theft claimants who were ineligible to participate in the CARES Act UI programs a total of \$23 million. In addition, as described in federal finding 2020-102, DES estimated it may have overpaid eligible CARES Act UI claimants up to \$57 million more than they were qualified to receive.

Effect— DES not taking action to bill or try to collect monies from overpaid claimants could be a burden to these claimants and cause difficulties and inefficiencies when DES begins actively seeking recovery of overpayments and crediting or returning the recovered overpayments to the federal government.

Cause— As described in finding 2020-01 in our *Report on Internal Controls and Compliance*, DES began using a contractor’s UI benefits system to manage the new federal CARES Act UI programs.¹ DES reported it encountered computer programming issues between its new UI benefits system and its accounts receivable system that prevented it from recovering overpayments for its PUA program participants. In addition, DES did not complete its wage verification process to determine all overpayments made to CARES Act UI program claimants, as described in federal finding 2020-102.

Criteria— Federal regulation requires DES to take all reasonable measures under State and federal laws to recover overpayments, regardless of whether they resulted from error or fraud on the claimant’s part (20 CFR §625.14[a]). In addition, federal regulation requires establishing and maintaining effective internal control over federal awards that provides reasonable assurance that federal programs are being managed in compliance with all applicable laws, regulations, and award terms (2 CFR §200.303).

Recommendations—DES should:

1. Determine all overpayments made to PUA program claimants, including FPUC program payments.
2. Resolve the computer programming issues between its new UI benefits system and accounts receivable system and bill claimants for overpayments.

3. Repay recovered overpayments to the federal government.

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

¹Arizona Auditor General. (2020). *Report on Internal Control and Compliance, June 30, 2020*. Phoenix, AZ.

https://www.azauditor.gov/sites/default/files/StateOfArizonaJune30_2020ReportOnInternalControlAndOnCompliance.pdf

Agency Response: Concur

Agency: Department of Economic Security

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

Anticipated completion date: June 30, 2022

In accordance with federal and state rules and regulations, the Department of Economic Security (DES) has a well-established business practice of performing the detection, recovery, and repayment functions as required for the regular Unemployment Insurance (UI) program. DES is working toward implementing these functions for the Pandemic Unemployment Assistance (PUA) program as well.

As of September 2021, Arizona is one of many states that have not yet been able to report the establishment of overpayment amounts for the PUA program via the required U.S. Department of Labor reports.

Regarding specific system issues, DES is working to implement overpayment functionality between the new PUA program system and the existing accounts receivable system.

2020-106

Assistance listing number and name: 17.225 Unemployment Insurance

Award numbers and years: UI-27963-16-55-A-4, 2016; TA-30476-17-55-A-4 and UI- 29828-17-55-A-4, 2017; UI-31329-18-55-A-4 and UI-31603-18-60-A-4, 2018; UI-32586-19-55-A-4, UI-32690-19-55-A-4, and UI-32826-19-60-A-4, 2019; and UI-34045-20-55-A-4, UI-34151-20-55-A-4, and UI-34483-20-60-A-4, 2020

Federal agency: U.S. Department of Labor

Compliance requirement: Special tests and provisions--- UI Benefits Payments

Questioned costs: Not applicable

Condition— Contrary to the Department of Economic Security, Division of Employment and Rehabilitation Services (Division), Benefit Accuracy Measurement (BAM) unit’s policies and procedures and federal quality control requirements, for 25 unemployment insurance (UI) case investigations and related reports we tested, 3 were incomplete. Specifically, 2 reports were not reviewed, signed, and completed, and 1 had no documentation that the UI case investigation was performed.

Effect— By not performing or completing the required UI case investigations and reports, the Division’s BAM unit is at an elevated risk of not detecting and reporting accurate error rates and the types and causes of benefit payment errors to the Division and the U.S. Department of Labor (U.S. DOL). Because of this, the Division may not develop and implement plans for corrective actions to improve its benefit accuracy rates, as required by the U.S. DOL.

Cause— According to the Division’s BAM unit, it lost approximately 50 percent of its experienced team members between August and November 2019. It reallocated staff to fill those positions and began replacing staff in December 2019. The Division’s BAM unit did not ensure reallocated and new personnel were properly trained to complete UI case investigations or ensure supervisors reviewed UI case investigations to identify errors.

Criteria— Federal regulation requires governments administering UI programs to operate a quality control program to assess the accuracy of the benefits awarded that includes investigating a representative sample of UI cases for eligibility determinations of awarded and denied claims and the accuracy of benefit amounts paid. (20 CFR §602.21) The quality control program should be

designed to identify errors in claims processes and revenue collections, analyze causes of errors, and support the development of corrective action. (20 CFR §602.1) In addition, the Division’s BAM unit’s policies and procedures provide guidance to ensure its staff comply with these federal regulations. Further, federal regulation requires establishing and maintaining effective internal control over federal awards that provides reasonable assurance that federal programs are being managed in compliance with all applicable laws, regulations, and award terms. (2 CFR §200.303)

Recommendations— The Division’s BAM unit should:

1. Ensure all UI case investigations are performed and related reports are complete, signed by the investigator, and retained.
2. Train personnel to complete UI case investigations in accordance with policies and procedures and have a supervisor review UI case investigations to identify any errors.

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

Agency Response: Concur

Agency: Department of Economic Security
Name of contact person and title: Jean Ahumada, BAM Manager
Anticipated completion date: June 30, 2021

The Department of Economic Security (DES) implemented the audit recommendations in June 2021. Specifically, to support the accurate operation of the Benefit Accuracy Measurement (BAM) unit, DES established and trained team members on standard work outlining the process and protocols for case accuracy sampling, enhanced the new hire On-the-Job Training process, and implemented revised standards for supervisory oversight of team members performing the work.

2020-107	
Assistance listing 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— Contrary to federal regulation, the Department of Environmental Quality (DEQ) did not perform the required after-the-fact reviews of payroll costs that it allocated and charged to the Performance Partnership Grants program (program) based on preliminary cost estimates of employees’ time expected to be spent on the program activities. After-the-fact reviews ensure that the payroll costs reflected or were adjusted to reflect employees’ actual work activities directly related to the specific federal programs. Our review of all DEQ employees’ program payroll costs charged to the program found that DEQ allocated payroll costs totaling \$4,899,075 to the program for the year using budgeted estimates.

Effect— Absent after-the-fact reviews to determine that its payroll costs reflect or are adjusted to reflect its employees’ work activities related to the program, DEQ risks that at least some of the estimated payroll costs charged to the program, which totaled \$4,899,075, or 51.6 percent of total program expenditures, may be unallowable. Once DEQ performs an after-the-fact analysis of the program’s payroll costs, it may be responsible for reimbursing the U.S. Environmental Protection Agency (U.S. EPA) that funded the award for any unallowable payroll costs. We could not determine if any of the payroll costs should be questioned without records to support an after-the-fact analysis. This deficiency has the potential to affect other federal programs DEQ administers that similarly record cost estimates of employees’ time expected to be spent on the program activities but for which they do not conduct after-the-fact reviews.

Cause— DEQ did not perform required after-the-fact reviews to ensure the estimated payroll costs it allocated to the program were accurate, allowable, and properly allocated because it did not have the information needed to conduct such reviews. Specifically, DEQ allocated payroll costs to the program based on predetermined percentages of time employees were expected to work on the program activities and did not have a process to determine and document the actual percentage of time employees worked on those activities

so it could then reconcile these numbers. DEQ periodically adjusted the predetermined percentages but did not have supporting documentation explaining how it determined those new percentages were based on actual time employees spent on program activities. Further, without that same information needed to conduct after-the-fact reviews, we were unable to determine the amount of questioned costs, if any, that may result from this finding.

Criteria— Federal regulation allows DEQ to use budgeted estimates to allocate payroll costs to federal programs for interim accounting purposes, provided it performs an after-the-fact review of those estimated costs to ensure that they reflected or were adjusted to reflect employees’ actual work activities directly related to federal programs (2 Code of Federal Regulations [CFR] §200.430[i]). Further, federal regulation requires establishing and maintaining effective internal control over federal awards that provides reasonable assurance that federal programs are being managed in compliance with all applicable laws, regulations, and award terms (2 CFR §200.303).

Recommendations— DEQ should develop written policies and conduct procedures to:

1. Ensure that the actual time employees spend working on federal program activities is tracked and documented.
2. Perform and document after-the-fact reviews of estimated payroll costs it allocates to federal programs to ensure those payroll costs reflect or are adjusted to reflect actual time spent on program activities that is accurate, allowable, and properly allocated. The after-the-fact reviews should be completed no later than the end of the award period when reporting final amounts to the U.S. EPA.

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

Agency Response: Concur

Agency: Department of Environmental Quality
Name of contact persons and titles: Jared Sprunger, CFO
Robyne Clark, Grants Administrator
Anticipated completion date: Fiscal Year 2022

Recommendation 1: DEQ should develop written policies and conduct procedures to ensure that the actual time employees spend working on federal program activities is tracked and documented.

Corrective action planned: DEQ will expand its usage of the time tracking system to all federal program activities and implement supporting documentation and staff training. DEQ will also continue working with ADOA GAO to implement unique grant fund numbers to simplify reporting and improve time tracking reconciliation accuracy.

Recommendation 2: DEQ should develop written policies and conduct procedures to perform and document after-the-fact reviews of estimated payroll costs it allocates to federal programs to ensure those payroll costs reflect or are adjusted to reflect actual time spent on program activities that is accurate, allowable, and properly allocated. The after-the-fact reviews should be completed no later than the end of the award period when reporting final amounts to the U.S. EPA.

Corrective action planned: DEQ will implement procedures with supporting written policies to integrate regular after-the-fact labor reviews as part of its monthly budget reviews to allow for payroll allocation adjustments. Allocation adjustments will also be reflected in federal program plan changes and with scheduled award period performance reports as required to the U.S EPA.

2020-108

Assistance listing number and name: 66.605 Performance Partnership Grants
Award numbers and years: 99T73519, July 1, 2018 through June 30, 2020
Federal agency: U.S. Environmental Protection Agency
Compliance requirement: Subrecipient monitoring

Questioned costs:

None

Condition— Contrary to State policies and federal regulation, the Department of Environmental Quality (DEQ) established contract agreements with 2 counties without correctly determining those counties should be subrecipients rather than contractors for the Performance Partnership Grants program (program). Therefore, DEQ did not inform them they were subrecipients and include all the federal program information that federal regulations require for a subrecipient agreement and necessary for the subrecipient counties to administer and report the program in their schedules of expenditures of federal awards in accordance with federal requirements. Further, for 1 other county, although DEQ had previously determined it was a subrecipient in accordance with the federal requirements, it did not include the necessary subrecipient information when it renewed that county's agreement. Specifically, DEQ omitted current program information, such as the program's federal assistance listing number, title, and applicable federal compliance requirements from all 3 county contract agreements. DEQ did, however, monitor the 3 counties' program activities for the year as required, since they were responsible for certain compliance requirements, and did not identify any noncompliance. The 3 counties' expenditures comprised \$545,450, or 5.5 percent, of the \$9.8 million in total program expenditures for the fiscal year.

Effect— Because DEQ did not correctly determine the 2 counties were subrecipients and inform them and include necessary subrecipient program information in their contract agreements, those counties did not know they were required to and did not report the program's expenditures on their schedules of expenditures of federal awards as federal regulations require. Further, although the other county reported its actual federal program expenditures on its schedule, because DEQ did not include the necessary information in that county's contract agreement, the county did not identify the correct federal program assistance listing number and program name. Moreover, because DEQ did not include subrecipient program information in their contract agreements, the 3 counties were at increased risk of noncompliance with federal program requirements. However, because DEQ monitored the 3 counties' program activities as required and did not find any unallowable costs made by those counties, there are no questioned costs to report.

Cause— DEQ employees who managed the program were not trained on and did not fully understand the federal subrecipient requirements to accurately determine that the 2 counties were subrecipients rather than contractors. Also, for the 1 other county that DEQ had previously identified as a subrecipient, DEQ employees did not realize that the federal government made changes to the program assistance listing number and name that needed to be updated when renewing the county's contract agreement.

Criteria— Federal regulations and State policies require DEQ to make a case-by-case determination for each federal contract term and agreement whether the contracted entity is a subrecipient or contractor and then evaluate subrecipient activities and expenditures to ensure they are complying with the applicable federal regulations. Further, DEQ is required to provide all subrecipients and contractors that have federal compliance requirement responsibilities with the federal program information, such as the program's federal assistance listing number, title, and applicable compliance requirements imposed on them (2 CFR §§200.331 and 200.332 and *State of Arizona Accounting Manual*, Topic 70: Grants, Section 10: Subrecipient and Contractor Determinations). In addition, federal regulation requires establishing and maintaining effective internal control over federal awards that provides reasonable assurance that federal programs are being managed in compliance with all applicable laws, regulations, and award terms (2 CFR §200.303).

Recommendations— DEQ should train its employees administering the program to follow federal regulations and State policies requiring it to:

1. Make a case-by-case determination for each established contract term and agreement whether the contracted entity is a subrecipient and should be monitored.
2. Include all federal program information, such as the program's federal assistance listing number, title, award date and period of performance, and applicable compliance requirements, in all contract agreements for any subrecipients and contractors having compliance requirement responsibilities. Any subsequent changes in the contract agreement information should be communicated and reflected in an amendment to the agreement.

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

Agency Response: Concur

Agency: Department of Environmental Quality

Name of contact persons and titles: Jared Sprunger, CFO

Anticipated completion date: Fiscal Year 2022

Recommendation 1: DEQ should train its employees administering the program to follow federal regulations and State policies requiring it to make a case-by-case determination for each established contract term and agreement whether the contracted entity is a subrecipient and should be monitored.

Corrective action planned: DEQ will implement documented training for all employees administering federal programs, including case-by-case evaluation for federal and State subrecipient requirements.

Recommendation 2: DEQ should train its employees administering the program to follow federal regulations and State policies requiring it to include all federal program information, such as the program's federal assistance listing number, title, award date and period of performance, and applicable compliance requirements, in all contract agreements for any subrecipients and contractors having compliance requirement responsibilities. Any subsequent changes in the contract agreement information should be communicated and reflected in an amendment to the agreement.

Corrective action planned: DEQ will implement documented training for all employees administering federal programs, including compliance to federal regulations and State policies requiring it to include all federal program information, such as the program's federal assistance listing number, title, award date and period of performance, and applicable compliance requirements, in all contract agreements for any subrecipients and contractors having compliance requirement responsibilities.

2020-109

Assistance listing number and name:	93.659 Adoption Assistance and COVID-19 Adoption Assistance
Award numbers and years:	1901AZADPT, 2019; 2001AZADPT, 2020
Federal agency:	U.S. Department of Health and Human Services
Compliance requirement:	Cash management
Questioned costs:	None

Condition— The Department of Child Safety (DCS) requested \$102,196,036 in total reimbursements from the federal grantor earlier than the federal regulation allowed as outlined in the State's agreement with the U.S. Department of Treasury. Specifically, we reviewed DCS' reimbursements from October 1, 2019 through June 30, 2020, and found that DCS submitted 8 of 11 requests for \$99,438,795 in total federal monies to pay vendors and service providers 2 days early and 52 of 69 requests for \$2,757,241 in total payroll and other operating costs 1 to 13 days early for the federal Adoption Assistance program.

Effect— The Arizona Department of Administration (ADOA) determined that DCS earned \$9,529 of interest on the idle program monies that it requested earlier than federal regulation allowed and before it was ready to pay employees, vendors, and contractors. After ADOA determined the interest earned and notified DCS of this issue, DCS remitted the interest-earned amount to the federal government as required.

Cause— DCS' policies and procedures for requesting federal reimbursement were not designed to ensure it requested reimbursement on the required designated day, and therefore, DCS staff responsible to submit reimbursement requests did not realize they had sent them earlier than the required date. DCS was waiting to update its policies and procedures until its new financial system was installed and functioning as designed in fiscal year 2021. As such, DCS was in the process of revising them to correct for this oversight on June 30, 2020, as part of its preparation for implementing the new financial system.

Criteria— Federal regulation requires DCS to request federal monies for the program in accordance with the timing of reimbursement requests as outlined in the State's agreement (31 CFR §205, Subpart A).¹ Additionally, federal regulation requires establishing and maintaining effective internal controls over federal awards that provides reasonable assurance that federal programs are being managed in compliance with laws, regulations, and award terms (45 CFR §75.303).

Recommendations— DCS should:

- Develop and implement policies and procedures for requesting program monies that comply with the of reimbursement requests as outlined in the State's agreement.

- Ensure responsible staff are trained to follow the newly developed policies and procedures.

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

This finding is similar to prior year finding 2019-104.

¹The State’s agreement outlines the federal regulation and mandates that for payments to vendors and service providers, DCS should request monies 2 days after it makes payments. Further, the agreement mandates that 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: Reynaldo Saenz, Controller
 Anticipated completion date: Fiscal Year 2022

Recommendation 1: Develop and implement policies and procedures for requesting federal program monies that comply with the timing of reimbursement requests as outlined in the State’s agreement.

The Department of Child Safety (Department) launched Guardian, a new Comprehensive Child Welfare Information System (CCWIS) in February 2021.

The Department’s funding technique will comply with the Treasury-State Agreement (TSA), with the implementation of the following:

- Install an automatic two-day delay cycle on IV-E Adoption reimbursement requests.
- Integrate the two-day delay for reimbursement on accrued expenses in the Arizona Financial Information System (AFIS) from the Guardian system, removing human error from the process.
- Incorporate adjustable delay mechanism based on changes to the TSA agreement.
- Modify policies and procedures to reflect the new automatic two-day delay reimbursement process
- Implement specific Cash Management Improvement Act (CMIA) workbook for bi-weekly administrative draws that ensures draws will occur with administrative payroll (26 transactions)
- Modify administrative cost reimbursement pattern to only occur on Wednesday in alignment with payroll costs

Recommendation 2: Ensure responsible staff are trained to follow the newly developed policies and procedures.

The Department will comply with this recommendation by:

- Distributing the revised two-day delay reimbursement policy and procedures to the affected parties.
- Providing individual training on the new two-day delay reimbursement policy and procedures to impacted staff.

2020-110

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

Condition—The Arizona Department of Administration (ADOA) reported to us that during fiscal year 2020, the State may have used an estimated \$1.2 million of restricted federal program monies, including interest, for unallowable purposes, contrary to federal regulations.

Effect— ADOA will be required to repay the U.S. Department of Health and Human Services (U.S. HHS) the total amount of restricted federal program monies the State spent for unallowable purposes once U.S. HHS finalizes its review of ADOA’s estimate and either approves or adjusts it. This finding could potentially affect any federal programs the State administers through its various agencies that have State legislatively mandated transfers that include restricted federal program monies.

Cause— Despite ADOA having informed us that the State may have used restricted federal program monies for unallowable purposes, and our having included this finding in the State Single Audit report for at least the past 10 years, during the 2019 legislative session, laws were enacted that mandated or directed transfers of monies from specific State agency account balances that included restricted federal program monies. These laws directed the transferred monies to be used for general operating expenses or other specific purposes, such as child safety litigation services and information technology systems projects. For example, Laws 2019, Ch. 263, §80, transferred unused monies from the State’s Risk Management Revolving Fund, which included a proportional share of monies from restricted federal program sources to the Department of Public Safety (DPS) for general operating expenses. When the State transferred and DPS spent the monies, which included the restricted federal program monies to pay for the legislatively mandated uses, it did not have a basis to show the relative benefits for each specific federal program’s objectives.

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

Recommendations—DOA should:

1. Continue to work with U.S. HHS for remittance of any disallowed costs identified.
2. Continue to inform the Legislature, the Arizona Governor’s Office of Strategic Planning and Budgeting, and other State agencies of the State agency funds that include restricted federal program monies in their fund balance.
3. Continue to monitor legislative bills being considered during legislative sessions and recommend bill revisions to help prevent transferring restricted federal program monies.

This finding is similar to prior year finding 2019-101.

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

Agency Response: Concur

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

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

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

2020-111
Assistance listing number and name: Not applicable

Condition— Contrary to federal regulations and guidance, the Arizona Department of Administration (ADOA) submitted the State's June 30, 2020, Single Audit Report to the federal audit clearinghouse on October 29, 2021, which was 29 days later than allowed by the COVID-19-related single audit extension of September 30, 2021.

Effect— The State's late Single Audit Report submission may have prevented the U.S. Department of Health and Human Services, which is the State's federal cognizant agency, as well as the U.S. Department of Education, which oversees the State's 3 universities' student financial aid programs, and other federal agencies that oversee the State's federal programs from having timely information to effectively monitor federal programs and impose corrective actions for any findings we report. Further, the State, including its 3 universities, could potentially face actions taken by federal agencies that may affect the State's and universities' future federal awards, such as additional cash monitoring, other compliance monitoring, and funding restrictions or penalties. Finally, significant changes to the State's required schedule of expenditures of federal awards (SEFA) (see cause section) resulted in us having conducted federal program test work that ultimately was not required by federal standards.

Cause— The State's single audit report was late because State agencies experienced personnel and resource challenges throughout the year responding to the COVID-19 pandemic and administering the COVID-19 federal program monies and navigating their new requirements. These challenges caused State agencies to be late in finalizing program expenditures for ADOA to include on the SEFA, also delaying ADOA's completion of the State's financial statements. For example, the Department of Economic Security experienced delays in completing necessary SEFA and financial statement information because of problems in administering COVID-19 federal unemployment insurance program monies as described in this report (see findings 2020-102 through 2020-103) and in our *Report on Internal Control and on Compliance* (see findings 2020-01 and 2020-02).¹ Further, as described in this report's finding 2020-101, the Arizona Governor's Office of Strategic Planning and Budgeting had deficiencies in administering the State's Coronavirus Relief Fund program monies that caused it to have to follow up with State agencies and local governments to determine unallowable costs. Lastly, ADOA's and other State agencies' delays in finalizing program expenditures caused ADOA to have to subsequently make at least 4 significant SEFA revisions, which is atypical.

Criteria— Federal regulations normally require the State to submit its Single Audit Report to the federal audit clearinghouse no later than 9 months after fiscal year-end (2 CFR §200.512). However, due to the COVID-19 pandemic, the U.S. Office of Management and Budget (OMB) extended this deadline by allowing an additional 6 months—until September 30, 2021—for the State to file its June 30, 2020, Single Audit Report.²

Recommendations— DOA should:

1. Submit all future Single Audit Reports on or before the federally required submission deadline, which is normally no later than 9 months after fiscal year-end, or by March 31 of the subsequent year. However, as allowed by OMB for the June 30, 2021, report, the deadline was extended to and is due no later than September 30, 2022.
2. Allocate personnel and resources, as appropriate, to ensure significant State agencies complete and timely submit the necessary accurate and final financial information for audit to meet the State's and universities' single audit submission requirements.

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

¹ Arizona Auditor General. (2020). *Report on Internal Control and Compliance, June 30, 2020*. Phoenix, AZ. https://www.azauditor.gov/sites/default/files/StateOfArizonaJune30_2020ReportOnInternalControlAndOnCompliance.pdf

² Executive Office of the President, OMB. (March 19, 2021). OMB Memorandum M-21-20, *Promoting Public Trust in the Federal Government through Effective Implementation of the American Rescue Plan Act and Stewardship of the Taxpayer Resources. Grants Policies & Regulations*. U.S. Department of Health and Human Services. Retrieved on October 4, 2021. <https://www.hhs.gov/grants/grants/grants-policies-regulations/index.html>

Agency Response: Concur

Agency: Department of Administration

Name of contact person and title: Ashley Ruiz, Assistant Director

Anticipated completion date: September 30, 2022

This reporting cycle was unprecedentedly difficult, with turnover and changing Federal guidance. We concur timely submittal of the Single Audit is vital for Federal oversight and decision making purposes. We strive to comply with the Federal timelines and will actively work with the state agencies and directors of those agencies communicating regularly to help ensure timely reporting of the next Single Audit.