

## Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY2016 Single Audit Report)

### 2016-101

CFDA Number and Name:	Not applicable
Questioned Costs:	N/A

#### Finding

Criteria: Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), Subpart F, §.512, requires the State to submit its single audit reporting package to the federal audit 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, 2017; however, the State did not issue its single audit reporting package until June 2017 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 2016-01, 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 audit clearinghouse no later than 9 months after fiscal year-end.

This finding is similar to prior-year finding 2015-101.

#### Agency Response: Concur

The FY16 State of Arizona Single Audit Reporting Package is expected to be completed in June 2017. The Single Audit Reporting Package is dependent upon the completion of the State's Comprehensive Annual Financial Report (CAFR). The CAFR was delayed several months due to the implementation of the State's new accounting system. The State will develop a plan to complete the FY17 Single Audit timely.

### 2016-102

CFDA Number and Name:	Not Applicable
Questioned Costs:	N/A

#### Finding

Criteria: In accordance with 2 CFR 200.302(b), the State should have effective control over, and accountability for, all funds. This should include preparing an accurate schedule of expenditures of federal awards (SEFA) and reconciling its general ledger accounting records that support the SEFA to the various state agencies' accounting subsystems that post financial information to the State's general ledger accounting system. This will help ensure all transactions are accounted for and recorded in the proper accounting period.

Condition and context: The Department of Administration (Department) implemented a new state-wide general ledger accounting system on July 1, 2015, and required all state agencies to use the new system to account for their financial transactions. However, many state agencies use their own subsystems to initially process financial transactions and facilitate their case management of federal programs. Although the subsystems interface with the state-wide general ledger, the Department did not have policies and procedures to ensure that each agency reconciled its financial data recorded on the subsystems and posted to the state-wide general ledger for completeness and accuracy. As a result, not all subsystems were reconciled to the state-wide general ledger, resulting in numerous errors on the SEFA. In addition, the Department experienced delays in obtaining information from the state-wide general ledger for

auditors to perform the necessary procedures on the SEFA. Further, agencies did not properly identify subrecipients in the state-wide general ledger and incorrectly included payments to vendors and other agencies as subrecipients on the SEFA. The State corrected all significant errors identified.

Effect: On the State's original SEFA, federal program expenditures and amounts provided to subrecipients were misstated by \$49 million and \$89.5 million, respectively. In addition, the State submitted its single audit reporting package almost 3 months late to the federal audit clearinghouse. See audit finding 2016-101.

Cause: The State implemented a new state-wide general ledger accounting system at the beginning of the fiscal year and did not provide sufficient guidance to state agencies for recording their federal program activity on the system and for SEFA preparation. As the State relies on some state agencies to prepare their own SEFAs for compilation into the State's SEFA, a number of agencies experienced difficulties compiling accurate federal program expenditure information from the state-wide general ledger in part due to the system's complexity.

Recommendation: To help ensure all of the State's financial transactions are accurately recorded in the state-wide general ledger and on the State's SEFA, the Department should improve its policies and procedures to assist state agencies in reporting federal expenditures using the proper accounting basis, properly accounting for payments to subrecipients and vendors, and verifying that monies passed through to other state agencies are not duplicated on the SEFA. Further, this information should be communicated to those state agencies preparing their own SEFAs. In addition, the agencies should prepare detailed policies and procedures for reconciling financial data on the subsystems and posted to the state-wide general ledger for completeness and accuracy.

This finding is similar to prior-year finding 2015-114.

**Agency Response: Concur**

While we have policy and guidance, we will review and strengthen as appropriate to help ensure agencies reconcile and record their federal expenditures properly.

**2016-103**

CFDA Number and Name:	Various
Award Numbers and Years:	Various
Federal Agency:	Various
Compliance Requirement:	Allowable Costs/Cost Principles
Questioned Costs:	Unknown

**Finding**

Criteria: In accordance with 2 CFR §§225, Appendix A, C.1.b and 3.a and 200.405(a), costs charged to federal programs should be based on the relative benefits received.

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

- Senate Bill 1469 of the 52nd Legislature, First Regular Session, Chapter 8, §135, mandated transfers from the State's Automation Operations Fund to its Automation Projects Fund.
- House Bill 2695 of the 52nd Legislature, Second Regular Session, Chapter 117, §157, mandated transfers from the Special Employee Health Insurance Trust Fund to the State's General Fund to help provide support and maintenance for state agencies.

Further, the Department of Public Safety (Public Safety) transferred monies from its Risk Management Fund to a fund 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 not finalized the calculation for the federal portion of these transfers that occurred during fiscal year 2016; however, it is estimated that questioned costs will exceed \$25,000. It was not practical to extend our auditing procedures sufficiently to determine the amount of questioned costs that resulted from this finding or to identify all the federal programs this finding affected. Once calculated, this amount will be subject to the U.S. Department of Health and Human Services's review and approval. 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 transfers resulted from state legislation and, therefore, was not caused by the federal programs' administration. Further, for the Public Safety transfers, the noncompliance resulted from an agency decision to transfer monies that included federal monies from its Risk Management Fund to a fund to pay department-wide administrative costs.

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 2015-103.

**Agency Response: Concur**

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

This is a cross-cutting finding and is appropriately being addressed with the U.S. Department of Health and Human Services, Cost Allocation Services (DHHS-CAS) for the payment and appropriate resolution of the questioned costs. We agree and commit to continue to work with the DHHS-CAS and appropriate bodies within the State, to the best of our ability, to find an equitable resolution to this issue. It should be noted that the number of fund transfers required by legislation have diminished significantly.

**2016-104**

CFDA Number and Name:	10.558 Child and Adult Care Food Program
Award Numbers and Years:	7AZ300AZ3, 2014, 2015, 2016; 7AZ300AZ4, 2014, 2015, 2016
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. Additionally, in accordance with 7 CFR §226.16, recipients are eligible to participate in the program only if the budgeted administrative costs do not exceed 15 percent of estimated program reimbursements. Recipient budgeted administrative costs may exceed the limit if the Department determines that the recipient will have adequate funding to provide meals to participants and waives the requirement. This waiver must be documented and submitted to the federal grantor. 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 ensuring that they contain required rights and responsibilities of the parties participating in the program.

Condition and context: During fiscal year 2016, the Department disbursed over \$52 million in program monies to a total of 343 subrecipients for this program. However, the Department did not always obtain required eligibility information demonstrating a subrecipient's capability to operate the program in accordance with federal regulations. Specifically, for 4 of 60 subrecipients tested, the Department did not collect all required eligibility information. In addition, for one of the subrecipients tested, the Department

determined a participant to be eligible for the program even though budgeted administrative costs exceeded the federally mandated limit. The Department did not provide the recipient with a waiver of the requirement. Further, for 7 of the subrecipients tested, the Department approved the written agreements between subrecipients and their sponsored day care homes that did not contain the required rights and responsibilities.

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 did not always follow its application review procedures to ensure that all eligibility requirements were met prior to awarding federal monies to its subrecipients. In addition, the Department's review procedures for calculating the limit for budgeted administrative costs did not agree to the requirements of 7 CFR §226.16. Further, the Department had not established adequate review procedures to ensure that written agreements that recipients enter into with each of their sponsored day care homes contained the required rights and responsibilities.

Recommendation: The Department should follow its existing policies and procedures to ensure that all eligibility requirements were met prior to awarding federal monies to its subrecipients. In addition, the Department should revise its review procedures to ensure that budgeted administrative costs are limited or written waivers are granted in accordance with the requirements of 7 CFR §226.16. Finally, the Department should establish adequate review procedures to ensure that the recipient's written agreements with their sponsored day care homes contain the required rights and responsibilities.

This finding is similar to prior-year finding 2015-117

**Agency Response: Concur**

The Arizona Department of Education (ADE) agrees with this finding and will implement the recommendations. Analysis of the budgeted administrative costs showed that these calculations were performed incorrectly and once Health and Nutrition was notified of the error, the particular spreadsheet used to perform the calculations was corrected. According to the Associate Superintendent for Health and Nutrition, the new application and renewal application are now calculating the administrative costs correctly and the internal reporting of the administrative costs also has been updated with the new calculation. Additionally, Sponsor/Provider agreements are being updated by the sponsoring organizations. Sponsors will receive training in June 2017 and will submit the updated agreements as part of their renewal packet. All new applicants (providers) will use the state agency approved agreement and all current providers will be allowed to sign an addendum to be attached to their current permanent agreement. ADE will collect all updated agreements to ensure providers are aware of all regulatory rights and responsibilities.

**2016-105**

Cluster name:	Special Education Cluster (IDEA)
CFDA Numbers and Names:	84.027 Special Education—Grants to States 84.173 Special Education—Preschool Grants
Award Numbers and Years:	H027A130120, 2013; H027A140007, 2014; H027A150007, 2015; H173A130003, 2013; H173A140003, 2014; H173A150003, 2015
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 specified in federal regulations. 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 proportionately allocated unused program monies in the following fiscal year based on enrolled children with disabilities and the number of children living in poverty instead of proportionally redistributing those monies to eligible LEAs in the current fiscal year.

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.

This finding is similar to prior-year finding 2015-118.

**Agency Response: Concur**

The Arizona Department of Education (ADE) agrees with the finding and will implement the recommendation. Exceptional Student Services (ESS) is currently in the process of revising policies and procedures regarding grant monies to ensure they are in accordance with 34 CFR §§300.705(a)-(b), 300.815, and 300.816. Additionally, ESS is currently in the process of recalculating the base payment amounts beginning as far back as student information in Student Accountability Information System (SAIS) will allow (2003). This recalculation will bring all Local Education Agencies (LEAs) whole through adjustments to the entitled amounts completed in fiscal year 2018.

Additionally, ESS is revising its policies and procedures to reflect three major changes in how the base allocations are generated. First, ESS will utilize the October Special Education Census for its mechanism to track students movement over fiscal years. This contrasts the current process of using the grant application as a user input in retrieving this information. Second, ESS will generate a base allocation for entities in the first year that they provide services to any students with a disability. Currently, ESS generates an allocation only when an LEA requests it regardless if they were providing services. Finally, base allocations will be adjusted through the appropriate tracking of students and their October Special Education Census count for that year to determine the amount of base allocation moving. Many entities in the current process would not receive any base allocation as they were interpreted to be ineligible due to the fact they did not exist in 1998 (611) or 1996 (619).

**2016-106**

Cluster name:	Special Education Cluster (IDEA)
CFDA Numbers and Names:	84.027 Special Education—Grants to States 84.173 Special Education—Preschool Grants
Award Numbers and Years:	H027A130120, 2013; H027A140007, 2014; H027A150007, 2015; H173A130003, 2013; H173A140003, 2014; H173A150003, 2015
Federal agency:	U.S. Department of Education
Compliance requirement:	Level of effort
Questioned costs:	None

**Finding**

Criteria: In accordance with 34 CFR §300.203(a), a local educational agency (LEA) is eligible to receive program monies only if the State determines that the LEA has demonstrated that it will meet its required level of effort. The State must provide LEAs the opportunity to meet the level of effort requirement based on the comparison of the following sources: (1) local funds only, (2) the combination of state and local funds, (3) local funds only on a per capita basis, and (4) the combination of state and local funds on a per capita basis. The LEA will have demonstrated that it met the required level of effort if at least one of the sources show that the LEA's budgeted expenditures, for the education of children with disabilities, were not less than actual expenditures for the preceding fiscal year.

Condition and context: The Department did not have adequate policies and procedures to ensure that the LEAs were provided the opportunity to meet the level of effort requirement. Specifically, the Department did not permit LEAs to demonstrate that they met the required level of effort based on a comparison of local funds only or local funds only on a per capita basis.

Effect: The Department could have inappropriately denied federal monies to LEAs who were eligible to participate in the program.

Cause: The Department did not have adequate policies and procedures to ensure that LEAs were provided the opportunity to demonstrate that they met the level of effort requirement based on the sources specified in federal regulations.

Recommendation: The Department should revise its policies and procedures to ensure that LEAs are provided the opportunity to demonstrate that they meet the level of effort requirement in accordance with federal regulations, including the use of local funds only or local funds only on a per capita basis.

**Agency Response: Concur**

The Arizona Department of Education (ADE) agrees with this finding and will implement the recommendation. Specifically, Exceptional Student Services (ESS), with Grants Management, is currently modifying and streamlining the Maintenance of Effort (MoE) testing. Part of this modification is ensuring that LEAs will be provided the opportunity to process through all four tests in accordance with 34 CFR §300.203(a). Additionally, policies and procedures are being revised since the resources and staffing that calculated MoE has been restructured underneath Grants Management as part of the grant approval process.

Currently, ADE is only processing two tests which use an aggregate of state & local funds spent on special education students. The revised policies and procedures will allow users to submit a value indicating local only SPED expenditures. This value will let ADE fully test MoE with all four testing mechanics if a user indicates they wish to provide the local only value.

**2016-107**

Cluster Name:	Child Nutrition Cluster
CFDA Numbers and Names:	10.553 School Breakfast Program 10.555 National School Lunch Program 10.556 Special Milk Program for Children 10.559 Summer Food Service Program for Children
Award Numbers and Years:	7AZ300AZ3, 2014, 2015, 2016
Federal Agency:	U.S. Department of Education
Compliance Requirement:	Eligibility
Questioned Costs:	Unknown (10.555 National School Lunch Program)

**Finding**

Criteria: In accordance with 42 United States Code 1766a, the Department of Education (Department) can approve subrecipients as eligible to serve after-school snacks for free regardless of the participants income eligibility if the site at which the snacks are served is located in the attendance area of a school in which at least 50 percent of the enrolled children are income eligible for free and reduced price school meals. Alternatively, if the site at which snacks are served was not located in such an area, the Department can approve subrecipients as eligible to serve after-school snacks for free, reduced price, or full price to participants based on their income eligibility. The subrecipient must maintain support for participants' income eligibility unless they have been approved to serve all snacks for free.

Condition and context: The Department's application system has been programmed to calculate the percentage of participants who were eligible for free and reduced price school meals using historical data and department staff review this system calculation to determine if the school site is eligible to serve after-school snacks for free. For 1 of 40 subrecipients tested, department staff did not review the eligibility calculation and approved 2 of its 30 site applications to serve free after-school snacks to all of the children in the after-school program. Both sites were located in the attendance areas of schools which had less than 50 percent of enrolled children who were income eligible for free and reduced price school meals. Auditing procedures were extended, 20 additional subrecipients were tested, and no additional noncompliance was identified.

Effect: During fiscal year 2016, the Department paid the subrecipient \$17,683 of federal program monies for serving after-school snacks based on the highest reimbursement rate for all snacks served at the two school sites noted above. This resulted in an overpayment to the subrecipient. It was not practical to extend our auditing procedures to determine the amount of questioned costs, if any, that may have resulted from this finding.

Cause: The Department did not always follow its policies and procedures for reviewing the calculated percentage of enrolled children who were income eligible for free and reduced price school meals for reimbursing its subrecipients for the after-school snack program.

Recommendation: The Department should provide training to staff to ensure they approve subrecipient site applications in accordance with the Department's documented policies and procedures. Specifically, department staff should review its system calculation to determine if the site is located in attendance areas of a school in which at least 50 percent of enrolled children are income eligible for free and reduced price school meals. In addition, the Department should consider implementing a detailed review procedure to ensure that subrecipients are reimbursed at the proper rates.

**Agency Response: Concur**

The Arizona Department of Education (ADE) agrees with this finding and will implement the recommendations. Specifically, the current CNP Web system training for staff, which takes place annually, will be enhanced to include a review of the specific After School Care Snack Program guidance and eligibility determination process. Additionally, the training will be conducted twice each year instead of annually.

Further, the CNP Web system that houses the subrecipient application information and payment information will be modified to provide a new label for the section used to make eligibility determination/calculation for the snacks' reimbursement. This change was prompted by this audit finding as the current label/text for the section used to make eligibility determinations/calculations for the snacks' reimbursement was inadvertently misleading to staff.

In addition, ADE has implemented an additional review procedure which will serve as a secondary assurance that eligibility approvals for the snack reimbursements will be appropriately applied. Specifically, a CNP Web site application query of program approvals (section 10) and eligibility data (section 6) will be conducted in the second quarter of each program year and it has been designed to reveal if any approvals of reimbursement rates for the After School Care Snack Program have been made incorrectly.

<b>2016-108</b>	
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:	H027A130120, 2013; H027A140007, 2014; H027A150007, 2015; H173A130003, 2013; H173A140003, 2014; H173A150003, 2015
Federal Agency:	U.S. Department of Education
Compliance Requirement:	Procurement and subrecipient monitoring
Questioned Costs:	\$3,539 (84.027 Special Education—Grants to States)

**Finding**

Criteria: The Department of Education (Department) is responsible for awarding over \$1 billion in federal awards and contracts to local educational agencies and other organizations. 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 2 CFR §200.317. 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 ensure that management and employee conflicts of interest were disclosed and recorded in accordance with the state personnel rules and laws and federal regulations. In addition, the Department did not ensure that an employee with a conflict of interest abstained from any involvement in award decisions and monitoring program compliance. Specifically, auditors found that an Arizona state university had employed three department employees to develop and teach classes that were partially funded by the SELECT program grant the Department awarded to the university, including an associate

superintendent, a program administrator, and a program specialist. Auditors examined the annual disclosure forms these employees submitted and determined that the associate superintendent did not disclose the employment with the university, and the program administrator and program specialist did not describe the employment sufficiently to clearly indicate that a conflict existed for the SELECT program. Further, the program administrator was responsible for approving the annual intergovernmental agreement between the Department and the university, assisting the university in recruiting teachers for the program, and monitoring program compliance. The university paid \$3,539 in SELECT program monies to the program administrator during the fiscal year, and auditors questioned this amount because of the employee's conflict of interest and these incompatible job responsibilities. The amounts paid to the other two employees were not questioned because they were not responsible for making award decisions or monitoring program compliance, and the expenditures for teaching the SELECT program classes complied with program requirements.

Effect: Conflicts of interest were not adequately disclosed, and federal grant monies were awarded to a subrecipient by department management when a conflict of interest existed in violation of state personnel rules, A.R.S. §38-501 et seq. and 2 CFR §200.317.

Cause: The State's policies regarding conflict of interest were not followed.

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 enforce existing policies and procedures requiring employees to complete and update disclosures for any conflicts of interest as they arise and to abstain from making award and compliance decisions that involve entities for which conflicts of interest exist.

**Agency Response: Concur**

The Associate Superintendent of Highly Effective Schools along with the Deputy Associate Superintendent of Exceptional Student Services will comply with conflict-of-interest rules, law, and regulations, and help ensure that federal awards are made in accordance with its policies and procedures. As such, the Arizona Department of Education (ADE) is requiring an annual submission of disclosure forms and updates to disclosure forms as any potential conflicts of interest arise. To avoid making award and compliance decisions that involve entities for which conflicts of interest exist or may exist, any contracted partners or partners under an Interagency Service Agreement, including the SELECT program, will no longer pay additional SELECT program monies or other ESS funds, to any ADE staff member, including facilitating SELECT courses or other contracted or agreed upon external training or services.

**2016-109**

CFDA No. and Name:	84.048 Career and Technical Education—Basic Grants
Award Numbers and Years:	V048A130003, 2014; V048A140003, 2015; V048A150003, 2016
Federal Agency:	U.S. Department of Education
Compliance Requirement:	Procurement and Subrecipient Monitoring
Questioned Costs:	\$56,659

**Finding**

Criteria: The Department of Education (Department) is responsible for awarding over \$1 billion in federal awards and contracts to local educational agencies and other organizations. 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 2 CFR §200.317. 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 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 program 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 a JTED to which the CTE Director awarded federal monies during fiscal year 2016 until November 2015 when the CTE Director's

employment with the Department was terminated. Specifically, auditors identified instances of the JTED making payments to the CTE Director with federal monies from the Career and Technical Education—Basic Grants program. These payments were made to cover the CTE Director’s travel expenses totaling \$1,900, some of which were abusive, including excessive meal charges and a rental car upgrade. The CTE Director 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.

In addition, supporting documentation was inadequate and did not comply with federal requirements or the Department’s policies for \$56,659 of expenditures for the program for the period July 2015 through November 2015 out of a total of \$57,476 of program expenditures for this period.

**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 2 CFR §200.317. 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 addition, in response to the prior years’ audit findings, the Department revised its conflict-of-interest policies and procedures in March 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. As the CTE Director’s employment was terminated in November 2015, an updated disclosure statement was not completed during fiscal year 2016. 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.

**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 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.

This finding is similar to prior-year finding 2015-123.

**Agency Response: Concur**

The Arizona Department of Education (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:

- 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.
- ADE requires all staff 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. Staff must submit these forms 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 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.

**2016-110**

CFDA numbers and names: 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children  
Award Numbers and Years: 15157AZAZ7W1003, 2015; 15157AZAZ7W1006, 2015;  
15157AZAZW1002, 2015; 16157AZAZW1002, 2016;  
16167AZAZW5412, 2016; 16167AZAZW1003, 2016;

	16167AZAZW1006, 2016
Federal Agency:	U.S. Department of Agriculture
Compliance Requirement:	Subrecipient Monitoring
Questioned Costs:	N/A

**Finding**

Criteria: Pass-through entities must ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the information specified in 2 CFR §200.331(a).

Condition and context: The Department of Health Services (Department) passed through \$27 million to subrecipients during fiscal year 2016 and did not include all of the required information in the subaward documents it provided to the subrecipients. Specifically, the documents did not include the subrecipient’s unique entity identifier, the federal award identification number, the total amount of the federal award, the federal awarding agency’s name, the pass-through entity’s name, the contact information for the pass-through entity’s awarding official, and the CFDA number and name. Further, the Department did not identify the dollar amount made available under each federal award and the CFDA number at the time of disbursement.

Effect: The Department did not comply with subrecipient-monitoring requirements. Auditors performed additional audit work and determined that the Department worked closely with the subrecipients to ensure compliance with program requirements.

Cause: The Department was unaware that the information was required to be included in the subaward documents.

Recommendation: To ensure the Department complies with subrecipient-monitoring requirements, it should update subaward documents to ensure that they include all the requirements outlined in 2 CFR §200.331(a) prior to making additional federal awards. Further, current subaward agreements should be updated to include all subaward requirements.

**Agency Response:** Concur

To ensure the Department of Health Services complies with subrecipient-monitoring requirements, we will update subaward documents in FFY2018 (effective October 1, 2017) to ensure that they include all the requirements outlined in 2 CFR §200.331(a) prior to making additional federal awards.

<b>2016-111</b>	
Cluster name:	TANF Cluster
CFDA Number and Name:	93.558 Temporary Assistance for Needy Families
Award Numbers and Years:	1502AZTANF, October 1, 2014 through September 30, 2015; 1602AZTANF, October 1, 2015 through September 30, 2016
Federal Agency:	U.S. Department of Health and Human Services
Compliance Requirement:	Suspension and debarment
Questioned Costs:	None

**Finding**

Criteria: In accordance with 45 CFR §75.213, nonfederal entities are prohibited from contracting or making subawards to any party that is debarred, suspended, or otherwise excluded from or ineligible for participating in federal assistance programs or activities.

Condition and context: The Department of Child Safety (Department) did not always follow its policies and procedures to verify that vendors providing goods or services paid with federal monies of \$25,000 or more had not been suspended, debarred, or otherwise excluded from participating in federal assistance programs. Specifically, for 4 of 17 vendors tested, the Department did not follow its policies and procedures and verify that the vendors were not suspended or debarred by obtaining a certification from the vendor as outlined in their contract or verifying the vendor had not been suspended or debarred using the System for Awards Management (SAMS) the General Services Administration maintains. Auditors performed additional procedures for the vendors tested and determined no payments were made to suspended or debarred parties.

Effect: The Department could make payments to suspended or debarred vendors.

Cause: Not all department staff were aware that the Department had policies and procedures to help ensure payments were not made to debarred, suspended, or otherwise excluded parties from participating in federal assistance programs, and accordingly, such policies and procedures were not always followed.

Recommendation: The Department should follow its existing policies and procedures to document its determinations that vendors being paid over \$25,000 or more in federal monies have not been suspended, debarred, or otherwise excluded from participating in federal assistance programs or activities. This verification should be accomplished by requiring vendors to provide the certification outlined in the Department's contract and by checking the vendor's status on SAMS.

**Agency Response: Concur**

Previous contracts solicited and awarded by the Arizona Department of Economic Security (DES) used a form which the vendor filled out to affirm their status. When the Department of Child Safety (Department) split from DES, those contracts were still in effect and that affirmation was still valid. Since that time, the Department has started to solicit new contracts and this form was not included in the template. Because the debarment status had previously been affirmed by the vendor there was no standard process to use the SAMS website for validation.

As part of the standard work for awarding contracts, the SAMS website will be used to validate the debarment and suspension status of awardees. The standard contract award process and checklist will be developed and deployed within the Office of Procurement.

**2016-112**

CFDA Numbers and Names:	93.658 Foster Care—Title IV-E
Award Numbers and Year:	1501AZFOST; October 1, 2014 through September 30, 2015; 1601AZFOST; October 1, 2015 through September 30, 2016
Federal Agency:	U.S. Department of Health and Human Services
Compliance Requirement:	Eligibility
Questioned Costs:	Unknown

**Finding**

Criteria: In accordance with 45 CFR §1356.30(f), for a child care institution, such as a foster care group home to be eligible for Title IV-E funding, the Department of Child Safety (Department) must address safety considerations associated with employees that have direct contact with children. The State's safety consideration standards are outlined in A.R.S. §8-804(B)(3) and requires the Department to complete a background check using the State's central registry for all employees of contracted and subcontracted child care institutions' employees because they provide direct services to children. The background check must be completed within a reasonable period after their hire date.

Condition and context: The Department did not always follow its policies and procedures to ensure background checks of its contracted child care institutions' employees were performed within a reasonable time. To conduct background checks, the Department must obtain proper documentation to process the background check of all new employees of child care institutions that provide direct services to children. Specifically, we tested whether the Department had evidence that all of its contracted vendors employees with direct contact to children had completed background checks. Auditors noted that for 2 of the 12 tested child care institutions, the Department did not complete new employee background checks within a reasonable time of the employee's hire date. Auditors noted that the employees' background checks were not completed until 7 to 13 months after the child care institution submitted the new hire's information to the Department.

Effect: During the time the child care institution was in noncompliance, the Department paid the child care institution an estimated \$22,451 in federal funds for the audit period July 1, 2015 through June 30, 2016. The Department subsequently performed the background checks and all employees passed the background check. Therefore, it was not practical to extend our auditing procedures sufficiently to determine the actual questioned costs, if any, that may have resulted from this finding.

Cause: The Department did not enforce existing procedures to and perform background checks of new hire employees at child care institutions within a reasonable amount of time of their hire date.

Recommendation: The Department should ensure that all background check of new hires at child care institutions are completed within 2 weeks of the employees hire date. Also, the Department should review its current records of all group homes to verify they are complete and employees' information is up to date. In addition, maintenance payments should be made only to child care institutions that have complete documentation on file.

**Agency Response: Concur**

It is recognized that during the period under the audit, the Department of Child Safety (Department) lacked adequate documentation that Central Registry checks were conducted timely on two employees in group homes. As part of the audit, the Department conducted Central Registry checks on these employees and no employees were known to the Central Registry system, meaning none had a substantiated child abuse or neglect report.

The Department plans to replace the manual process by submitting a written form for a Central Registry background check for each newly hired group home employee to an electronic submittal process for requesting a Central Registry background check. The electronic transmittal process will facilitate better recordkeeping on part of the Department and the group home provider.

The Department is currently implementing a process to review current records of all group home employees' who provide direct care to children to ensure the information is up to date. Communication will occur with Payment Processing Unit to communicate any potential programs with maintenance payments.

**2016-113**

CFDA No. and Name:	93.658 Foster Care—Title IV-E
Award Numbers and year:	1501AZFOST; October 1, 2014 through September 30, 2015; 1601AZFOST; October 1, 2015 through September 30, 2016
CFDA number and name:	93.659 Adoption Assistance
Award numbers and years:	1501AZADPT; October 1, 2014 through September 30, 2015; 1601AZADPT; October 1, 2015 through September 30, 2016
Federal Agency:	U.S. Department of Health and Human Services
Compliance Requirement:	Reporting
Questioned Costs:	None

**Finding**

Criteria: In accordance with 2 CFR §§200.61 and 200.62, the Department of Child Safety (Department) must maintain effective internal controls to provide reasonable assurance over the reliability of reporting for internal and external reports. The Department should design proper internal controls to provide reasonable assurance that transactions are properly recorded and accounted for to permit the preparation of reliable federal reports.

Condition and context: The Department did not adequately compile and review the CB-496, Title IV-E Programs Quarterly Financial Reports. Specifically, the Department incorrectly reported expenditures for line items such as maintenance payments, administrative costs, training costs, and total costs for the September 2015 and March 2016 reports for both foster care and adoption assistance. In addition, auditors noted that on the March 31, 2016 report the average monthly number of children assisted were overstated for both programs. The remaining quarterly reports were not tested because similar errors were expected. The Department provided corrected reports to the federal agency after auditors brought the errors to its attention.

Effect: The reports the Department submitted included errors that ranged from \$52,249 to \$1,165,411 for the Adoption Assistance program and \$4,675 to \$9,364,876 for the Foster Care program that could affect future budget allocations from the federal grantor agency. However, this finding did not result in questioned costs because the reports were not used to request reimbursement of federal expenditures.

Cause: The Department's staff did not understand the new accounting structure used for the State's new general ledger accounting system to compile the reports accurately.

Recommendation: To help ensure the CB-496 reports are accurate and complete, the Department should establish more detailed policies and procedures to help staff responsible for compiling its federal reports and compilation process for preparing these reports. In addition, a responsible employee should perform a detailed review of the reports and reconcile them to supporting records.

**Agency Response: Concur**

The reporting period in question is the first reporting period of the new financial system and the first reporting that required use of the newly setup chart of accounts. The Department was in the process of establishing new queries and proper reporting tools. This was also the time when separation of the Department officially started and the first independent reporting. With little to no institutional knowledge, the Department did the best to report as accurately as possible. The errors were corrected in January 2017. The Department established a new unit for managing Grants revenue, expenditure, and reporting, and in December hired an experienced manager to review and approve financial reporting.

The Department has developed a desk procedure on PMS Grant’s inquiry for reporting the reconciliation which was approved on May 19, 2017. A Quarterly review of CB-496 with the grants manager was implemented in January 2017. A desk procedure on CB-496 reporting protocols and a cross training of Grants staff on the CB-496 reporting is in process.

**2016-114**

CFDA No. and Name:	93.659 Adoption Assistance
Award Numbers and Years:	1501AZADPT; October 1, 2014 through September 30, 2015; 1601AZADPT; October 1, 2015 through September 30, 2016
Federal Agency:	U.S. Department of Health and Human Services
Compliance Requirement:	Cash management
Questioned Costs:	None

**Finding**

Criteria: In accordance with 31 CFR §§205.11, 205.12(b), and 205.33(a) the Department of Child Safety (Department) must request federal monies in accordance with the funding techniques agreed to in the Treasury-State Agreement. The Department uses an average clearance methodology to request funding from the federal agency for payments to vendors and service providers. For the average clearance methodology, the Department should only request funds for the exact amount of the disbursements to be paid in three days.

Condition and context: The Department did not always follow the State of Arizona’s Treasury-State Agreement and request federal funds to comply with the program’s cash-management funding techniques for payments to its vendors and service providers. Specifically, for 2 of 40 cash-management drawdowns tested, the Department drew down more than the amount required to meet their expected cash-management needs. The Department requested over \$2.8 million and \$42,000 more, respectively, than what was needed for the programs' expenditures. Further, auditors analyzed the programs cash balances and noted that for approximately 4 months of the fiscal year, the Department maintained a positive cash balance ranging from \$2,182,678 up to \$17,479,549 that was not reduced from the amount of future cash-management requests. During this time period, the Department maintained almost \$6.8 million in federal funds for more than a month. The Department noted the error in applying the funding technique in August 2016 and corrected their procedures at that time and remitted monies back to the federal agency.

Effect: The Department did not comply with the required cash-management funding technique outlined in the Treasury-State Agreement, which resulted in a positive cash balances for 125 days. The Department remitted interest back to the federal government for these positive cash balances. It was not practical to extend our auditing procedures sufficiently to determine the amount of questioned costs, if any, that may have resulted from this finding.

Cause: The Department had ineffective procedures to ensure that staff completed and reviewed cash-management requests using the proper funding techniques outlined in the Treasury-State Agreement.

Recommendation: To help ensure compliance with the Treasury-State Agreement, the Department should develop detailed policies and procedures to calculate the amount of cash drawdown requests based on the approved funding techniques and provide training to staff responsible for preparing the drawdown requests. Also, future cash-management requests should be reduced for any positive cash balances to ensure monies requested are for the Department’s immediate cash needs. In addition, the cash-management

drawdowns should be reviewed and approved by a knowledgeable employee with the Department's funding techniques and compared to the program's cash balances.

**Agency Response: Concur**

The Department established a new Grants, Cost and Reporting Unit in April 2016 to deal with all grant revenue, expenditure, and reporting. In the process of establishing the unit, knowledge transfer, and hiring new staff, the cash management function was not reconciled timely to address this issue. This has since been corrected, and internal controls established, to avoid future cash management errors. The Department, at the time, had an excessive negative balance on the Federal draw for FY15 due to the negative AFIS conversion impact on the FY15 state fund that had to be corrected by appropriation transfers. With time needed for appropriation transfer and first new AFIS yearend closure, it took additional time to reconcile and reduce the draw, which was done in August 2016. In December 2016, the Department hired an experienced manager to review and approve federal cash draws.

Full cash to expenditure reconciliation inception to end of FY16 was completed in August 2016. Federal cash draw process flow charts were approved and implemented in September 2016. Monthly cash/expenditure reconciliation was implemented in January 2017. A desk procedure on Federal cash draw process was approved on July 25, 2016 and revised on April 18, 2017. The Department has developed a desk procedure on Payment Management System's (PMS) Grants inquiry for reporting and reconciliation purpose was approved on May 19, 2017. AFIS System driven federal grants draw setup and processing is in process. State and federal fund balance monthly reporting is also in process.

**2016-115**

CFDA No. and Name:	84.126 Rehabilitation Services—Vocational Rehabilitation Grants to States
Award numbers and years:	H126A150002, 2015 and H126A160002, 2016
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 applicant is eligible for vocational rehabilitation services within 60 days after the applicant 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 ineligibility within 60 days for 2 of 40 applications tested. Specifically, it took the Administration 69 and 118 days to determine the applicants were not eligible for the program.

Effect: Noncompliance with program requirements and failure to make timely eligibility determinations may result in delayed services.

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

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

This finding is similar to prior-year finding 2015-105

**Agency Response: Concur**

RSA will continue to monitor eligibility compliance timeliness. Specifically, RSA will:

- Perform management reviews of eligibility compliance statistics on a weekly basis.
- Develop an eligibility compliance data tool to review eligibility compliance at both a regional and office level.

- 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%. Staff not meeting compliance standards will be required to retake the course.
- Include a performance measure on the supervisor and counselor performance management tool 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 the required client signature.

**2016-116**

CFDA No. and Name:	84.126 Rehabilitation Services—Vocational Rehabilitation Grants to States
Award Numbers and Years:	H126A150002, 2015 and H126A160002, 2016
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 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, and they did not have a way to properly monitor which of their expenditures would meet this requirement.

Effect: Noncompliance with program requirements and failure to establish policies and procedures could result in not providing sufficient employment transition services to students with disabilities.

Cause: The Administration did not have policies and procedures relating to pre-employment transition services to students with disabilities.

Recommendation: To help ensure compliance with earmarking requirements, the Administration should establish written policies and procedures to reserve and monitor 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.

This finding is similar to prior-year finding 2015-107

**Agency Response: Concur**

- Separate budgets have been set up in AFIS, earmarking 15% of the State’s VR allotment for each fiscal year for the provision of services under pre-employment transition services. This will ensure that required funds are reserved and expenditures are identified and tracked separately to meet the threshold.
- DERS will prepare a monthly expenditure report to track the data pertaining to pre-employment transition services. This information will be shared with DES leadership at monthly budget review meetings.
- RSA will continue to monitor field staff time records to ensure appropriate time charging, with separate function codes when conducting pre-employment transition services for clients and potentially eligible clients.
- RSA will develop workshop curriculum and train VR staff to provide the curriculum to potentially eligible students.
- RSA will develop a scope of work and solicit vendors to provide pre-employment transition services to eligible and potentially eligible students.

**2016-117**

CFDA Nos. and Names	84.126 Rehabilitation Services—Vocational Rehabilitation Grants to States
Award Numbers and Year:	H126A150002, 2015 and H126A160002, 2016

Federal Agency:	U.S. Department of Education
Compliance Requirement:	Special tests and provisions
Questioned Costs:	N/A

**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 for an eligible individual 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 for eligible individuals. Consequently, for 6 of 60 case files tested, the Administration did not develop an individualized plan for employment within 90 days of the eligibility determination date or the date of the agreed-upon extension.

Effect: Noncompliance with program requirements and 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 program requirements, the Administration should establish written policies and procedures that include the following:

- Ensuring individualized plans for employment are completed no later than 90 days after the eligibility determination date or within the extension period.
- 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. Both the Administration and the program participant should sign this letter.

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

This finding is similar to prior-year finding 2015-106.

**Agency Response: Concur**

RSA will continue to monitor IPE compliance. Specifically, RSA will:

- Conduct management reviews of IPE compliance statistics on a weekly basis.
- Develop an eligibility compliance data tool to review IPE compliance at both the regional and office levels.
- Provide mandatory IPE Planning and Developing training to all newly hired supervisors and counselors. The training will be followed by a mandatory IPE compliance test with a requirement to pass the test with 100%. Staff not meeting compliance standards will be required to retake the course.
- Include a performance measure on the supervisor and counselor performance management tool to track compliance and institute Performance Improvement Plans with supervisors and counselors who are not meeting the 90 day eligibility timeframe or have failed to execute a valid IPE extension with client signature.

**2016-118**

CFDA No. and Name:	17.225 Unemployment Insurance
Award Numbers and Years:	UI-21086-11-55-A-4, 2011; UI-23879-13-55-A-4, 2013; UI-26382-14-60-A-4 and UI-25189-14-55-A-4, 2014; UI-26521-15-55-A-4 and UI-27101-15-55-A-4, 2015; and UI-27963-16-55-A-4 and UI-28119-16-60-A-4, 2016
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 (6), 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 2016 unemployment insurance reports. Auditors noted errors in 3 of the 12 reports tested. Specifically, auditors noted the following:

- For the March 31, 2016, quarterly ETA 581—Contribution Operations report, the Department’s financial management system did not support the liquidated contributory employers receivables amount of \$3,390,455 and the liquidated reimbursing employers receivables amount of \$440,094.
- For the June 30, 2016, quarterly ETA 227—Overpayment Detection and Recovery Activities report, the Administration could not support the following reported amounts:

Section C. Recovery/Reconciliation				
	Fraud		Nonfraud	
	Additions	(Subtractions)	Additions	(Subtractions)
UI	\$	(1,087,765)	\$	(1,677,203)
UCFE/UCX		(48,639)		45,004
EB		59,416		

- For the March 31, 2016, quarterly ETA 227—EUC—Overpayment Detection and Recovery Activities report, the Administration could not support the following reported amounts:

Section C. Recovery/Reconciliation				
	Fraud Additions		Nonfraud Additions	
	(Subtractions)		(Subtractions)	
UI	\$	(348,180)	\$	(266,191)
UCFE/UCX		8,717		

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: Because of some programming deficiencies in system-generated reports, the Administration made manual adjustments to the ETA 581 and ETA 227 reports to report ending balances that were not supported.

Recommendation: To help ensure federal reports are accurate and complete, the Administration should investigate the system reporting deficiencies and correct programming errors to ensure that reports generated are accurate.

This finding is similar to prior-year finding 2015-108.

**Agency Response: Concur**

The programming issues that caused the ETA 227 report to be inaccurate are currently unknown. The analyst that had been investigating the report to identify and document any remaining issues left UI, and a new analyst will need to be hired and trained. The new analyst is expected to be hired during the third quarter of FFY 2017. This analyst will most likely come from outside the UI

program and will have to learn all the various UI systems and the intricacies of overpayments. Once training has commenced the analyst will begin the process of identifying any issues that may exist, documenting those issues, and working toward completing programming changes. The anticipated completion date is June 30, 2018.

The programming issues that caused the ETA 581 report to be inaccurate are not known. The analysts will continue to analyze, identify, and document the circumstances creating balances that were not supported. It has been determined that accounts with timely payment(s) that contain an inaccurate receivable have liquidated quarterly wage report(s). The ETA-581 requires further analysis from 2015/Q4 (02-12-16) thru 2017/Q1 (05-12-17) to assist with identifying any other factors that may be causing the inaccurate receivable amounts. Once the data analysis has been performed and conditions identified the next phase will be to work to implement programming changes. The anticipated completion date is September 30, 2017.

#### **2016-119**

CFDA Nos. and Name:	17.225 Unemployment Insurance
Award Numbers and Years:	UI-21086-11-55-A-4, 2011; UI-23879-13-55-A-4, 2013; UI-26382-14-60-A-4 and UI-25189-14-55-A-4, 2014; UI-26521-15-55-A-4 and UI-27101-15-55-A-4, 2015; and UI-27963-16-55-A-4 and UI-28119-16-60-A-4, 2016
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 the 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 was established.
- Maintain policies and procedures to identify credits and charges to employer accounts that allows the Department to take appropriate action in determining if an employer has established a "pattern of failure" and determining whether to charge an employer a penalty.

Also, in accordance with the quality control requirements of 20 CFR §§602.11(d) and 602.21(b)-(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 select and 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 recorded and reported to the U.S. Department of Labor.

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, 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.

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 ensure it selected or completed the minimum number of cases during the time frame specified in the Handbook. Specifically, for fiscal year 2016, the BAM Unit did not select any denied claims during the first prescribed time period although it was required to select 2 monetary, 2 separations, and 2 nonseparation denied cases. Also, the BAM Unit completed only 39 percent of case investigations within 60 days instead of the required 70 percent, and 53 percent of case investigations within 90 days instead of the required 95 percent. Further, for 2 of 40 cases tested, a summary of investigation was not completed. Lastly, for 2 of 40 cases tested, the BAM Unit incorrectly reported case findings to the U.S. 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 the quality control requirements, the BAM Unit did not always follow its policies and procedures to select and perform case investigations and prepare a summary of investigations performed. Also, 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 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.

In addition, to help ensure compliance with the quality control requirements, the BAM Unit should follow its policies and procedures to help ensure it selects and 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 supervisory review. Also, the BAM Unit should follow its policies and procedures to complete a summary of investigation that includes a narrative explaining pertinent case facts. Finally, the BAM Unit should establish policies and procedures for the nature and extent of supervisory reviews.

This finding is similar to prior-year finding 2015-109.

**Agency Response: Concur**

**Pattern of Failure:** The division will initiate new procedures to address the pattern of failure. The Unemployment (UI) Policy Unit, on a weekly basis, will receive a report listing overpayments that are established as a result of Appeal Reversals and Determinations of Deputy to ascertain if the pattern of failure criteria have been applied correctly. If it is determined, based on the assessment, that the criteria were not applied correctly, an email to a UI call center supervisor will be issued, directing correction.

In addition, the pattern of failure will be established by tracking this information during the course of a twelve (12) month period of time. The criteria established to determine when an employer has an established pattern of failure is: five instances or five percent of untimely or inadequate responses over a twelve-month period. Once this criterion is met, imposition of a penalty will occur.

**Denied Claims:** A designated auditor, in addition to a back-up, has been assigned the primary responsibility of focusing on these case types. In addition, in order to prevent the possibility of samples not being drawn from this subset of cases, the ability to access the Department of Labor (DOL) system has been broadened from 1 person to 3, effective June 2017. This will ensure that the requisite cases are pulled for review by the designated Auditor(s) in the absence of the Supervisor and/or Lead Auditor.

**Timeliness:** As of July 2016, the BAM unit has met the timeliness requirements outlined by the DOL. The corrective measures instituted to address this shortcoming was the implementation of a supervisory review of a weekly case aging report (i.e. identifies the number of days since the sample draw) and the addition of a Lead Auditor to assist with the monitoring and assessment of case activities within the unit. The BAM arena has also developed and implemented a robust on-the job (OJT) outline that will act to ensure that new team members are provided with consistent, meaningful and timely coaching in regard to BAM requirements, including timeliness and expectations. The OJT is supplemented by specific SMART evaluation objectives, for each auditor, which outline timeframe requirements for case processing.

**Supervisory Review:** The BAM supervisor will augment the current case review process with a more detailed "Case Audit Checklist" in order to ensure that the necessary supporting documentation (summary of investigations) is contained within each case. Although a tool currently exists, the revised form will specifically outline the requirement for the case file to contain the report of investigation and case summary. This, in addition to the Lead Auditor who will also be tasked with case reviews, will guarantee that the appropriate information is contained within the case file.

Use of the revised document will be implemented on July 3, 2017.

Cluster Name:	CCDF Cluster
CFDA No. and Name:	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 Years:	G1301AZCCDF, 2013; G1401AZCCDF, 2014; C1501AZCCDF, 2015; and G1601AZCCDF, 2016
Federal Agency:	U.S. Department of Health and Human Services
Compliance Requirement:	Activities Allowed or Unallowed and Allowable Costs/Cost Principles
Questioned Costs:	\$206

## 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 2 of 21 child care subsidies tested, the child care provider did not retain 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 billing 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.

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

As indicated in the auditor’s findings, the provider who billed for hours not provided is Kids First Preschool and Child Care (P0000177901). This provider billed for a full day when, in fact, care was only provided for a half day. Consequently, we have written up an overpayment in the amount of \$7.03 which includes \$6.00 for the half day that care was not provided and an additional \$1.03 for the accreditation rate that was paid out by the Child Care Administration (CCA).

CCA was unable to obtain Sign-In/Sign-Out Records to support the amount billed by El Presidio Day School (P0001931304) due to the new director of the facility being unable to locate the records for the period in question. While CCA will continue trying to obtain the requested records from this provider, we have also written up an overpayment in the amount of \$218.16 which includes \$200.00 for 8 full days (D’s) billed and \$18.16 for 1 half day (L).

CCA holds agreements with approximately 1,350 child care group homes and facilities. The child care contracts team monitors billing documents for a select group of providers on a monthly basis. The group of providers monitored includes new providers, providers who were found to have discrepancies on their previous billing documents, and randomly pulled providers. Additionally, the team audits child care providers’ records for previously paid billing documents.

During the processing of billing documents, the payment processing unit also monitors the billing documents for common billing errors or red flag patterns and, if any errors or patterns are discovered, the billing document is referred to the assigned contract administrator. The contract administrator will then follow up with the provider and request the supporting documents and audit the billing document prior to payment.

In addition, CCA funds an investigation team positioned in the Office of the Inspector General to investigate child care providers who are believed to be engaged in fraudulent activities.

CCA will continue to educate contracted providers on the importance of proper record retention, protocols, and maintaining supporting documentation for 5 years. Furthermore, CCA will continue emphasizing the importance of ensuring that billing statements should always be based on actual child care hours provided. Such reinforcement of their contractual duties will continue to occur during regular site visits, with notices sent via email, and while addressing findings with providers during our own internal monthly desk audits.

**2016-121**

Cluster Name:	SNAP Cluster
CFDA No. and Name:	10.551 Supplemental Nutrition Assistance Program 10.561 State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
Award Numbers and Years:	7AZ400AZ4, 2014, 2015, and 2016
Federal Agency:	U.S. Department of Agriculture
CFDA No. and Name:	17.225 Unemployment Insurance
Award Numbers and Years:	UI-21086-11-55-A-4, 2011; UI-23879-13-55-A-4, 2013; UI-26382-14-60-A-4 and UI-25189-14-55-A-4, 2014; UI-26521-15-55-A-4 and UI-27101-15-55-A-4, 2015; and UI-27963-16-55-A-4 and UI-28119-16-60-A-4, 2016
Federal Agency:	U.S. Department of Labor
CFDA number and name:	84.126 Rehabilitation Services—Vocational Rehabilitation Grants to States
Award numbers and years:	H126A150002, 2015 and H126A160002, 2016
Federal agency:	U.S. Department of Education
Cluster name:	TANF Cluster
Award numbers and years:	1402AZTANF, 2014; 1502AZTANF and 1502AZTAN3, 2015; and 1602AZTANF and 1602AZTAN3, 2016
Cluster name:	CCDF Cluster
CFDA numbers 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 years:	G1301AZCCDF, 2013; G1401AZCCDF, 2014; C1501AZCCDF, 2015; and G1601AZCCDF, 2016
CFDA number and name:	93.658 Foster Care—Title IV-E
Award numbers and years:	1501AZFOST, 2015 and 1601AZFOST, 2016
CFDA number and name:	93.659 Adoption Assistance
Award numbers and years:	1501AZADPT, 2015 and 1601AZADPT, 2016
CFDA number and name:	93.667 Social Services Block Grant
Award numbers and years:	G1401AZSOSR, 2014; G1501AZSOSR, 2015; and G1601AZSOSR, 2016
Federal agency:	U.S. Department of Health and Human Services
Compliance Requirement:	Activities allowed or unallowed, allowable costs/cost principles, cash management, eligibility, matching, level of effort, earmarking, period of availability of federal funds/period of performance, and special tests and provisions
Questioned Costs:	Not applicable

**Finding**

Criteria: It is critical that the Department of Economic Security (Department) have contingency-planning procedures in place to provide for the continuity of operations and to help ensure that vital information technology (IT) resources, which include its systems, network, infrastructure, and data, can be recovered in the event of a disaster, system or equipment failure, or other interruption. Contingency-planning procedures include having a comprehensive, up-to-date contingency plan; taking steps to facilitate activation of the plan; and having system and data backup policies and procedures.

Condition and context: The Department's contingency plan lacked certain key elements related to restoring operations in the event of a disaster or other system interruption of its IT resources and did not include all systems. Also, although the Department was performing system and data backups, it did not have documented policies and procedures for performing the backups or testing them to ensure they were operational and could be used to restore its IT resources. The Department of Child Safety (DCS) also uses the Department's IT resources.

Effect: The Department and DCS risks not being able to provide for the continuity of operations, recover vital IT systems and data, and conduct daily operations in the event of a disaster, system or equipment failure, or other interruption, which could cause inaccurate or incomplete system and data recovery. This finding could potentially affect all federal programs the Department and DCS administer.

Cause: The Department's corrective action plan was partially completed as of June 30, 2016.

Recommendation: To help ensure department operations continue in the event of a disaster, system or equipment failure, or other interruption, the Department needs to further develop its contingency-planning procedures. The information below provides guidance and best practices to help the Department achieve this objective:

- Update the contingency plan and ensure it includes all required elements to restore operations—Contingency plans should be updated at least annually for all critical information or when changes are made to IT resources, and updates to the plan should be communicated to key personnel. The plan should include essential business functions and associated contingency requirements, including recovery objectives and restoration priorities and metrics as determined in the entity's business-impact analysis; contingency roles and responsibilities and assigned individuals with contact information; identification of critical information assets and processes for migrating to the alternative processing site; processes for eventual system recovery and reconstitution to return the IT resources to a fully operational state and ensure all transactions have been recovered; and review and approval by appropriate personnel. The contingency plan should also be coordinated with incident-handling activities and stored in a secure location, accessible to those who need to use it, and protected from unauthorized disclosure or modification.
- Move critical operations to a separate alternative site—Policies and procedures should be developed and documented for migrating critical IT operations to a separate alternative site for essential business functions, including putting contracts in place or equipping the alternative site to resume essential business functions, if necessary. The alternative site's information security safeguards should be equivalent to the primary site.
- Test the contingency plan—A process should be developed and documented to perform regularly scheduled tests of the contingency plan and document the tests performed and results. This process should include updating and testing the contingency plan at least annually or as changes necessitate, and coordinating testing with other plans of the entity such as its continuity of operations, cyber incident response, and emergency response plans. Plan testing may include actual tests, simulations, or table top discussions and should be comprehensive enough to evaluate whether the plan can be successfully carried out. The test results should be used to update or change the plan.
- Train staff responsible for implementing the contingency plan—An ongoing training schedule should be developed for staff responsible for implementing the plan that is specific to each user's assigned role and responsibilities.
- Backup systems and data—Establish and document policies and procedures for testing IT system software and data backups to help ensure they could be recovered if needed. Policies and procedures should require system software and data backups to be protected and stored in an alternative site with security equivalent to the primary storage site. Backups should include user-level information, system-level information, and system documentation, including security-related documentation. In addition, critical information system software and security-related information should be stored at an alternative site or in a fire-rated container.

This is similar to prior-year finding 2015-115. This finding was also reported as a financial reporting finding. See finding 2016-07.

**Agency Response: Concur**

By September 30, 2017, the Department will have performed the following corrective actions.

The Department has an Information Systems Contingency Planning Policy that was published November 2, 2016. It is currently drafting an Information Systems Contingency Planning Procedure that is scheduled for publication by July 2017. The procedure documents the process for producing contingency plans, contingency test plans, and contingency testing. It requires plans for the common network and each critical system or application within the Department. Contingency plans will include the following elements:

- Identification of essential missions and business functions;
- Identification of the business impact during contingencies;
- Recovery objectives and priorities;
- Roles and responsibilities during the recovery process;
- Security safeguards during the contingency and recovery;
- Contingency communications and training plans;
- Contingency training;
- Contingency plan testing;
- Alternate storage sites;
- Alternate processing sites;
- Telecommunications services during the contingency;
- Information system backups; and
- Information system recovery.

The Department uses a commercial data center which holds Tier III, ACPA SOC 1, SOC 2, and ISO 27001 certifications. It has several redundant systems for resiliency and recovery. Extensive redundant systems exist for power and network access. The Department equipment common to its systems are all redundant. The calculated risk for data center system failure is low. The Department will implement an alternate site for the Active Directory services in the Azure cloud by August 2017. The Department is evaluating several potential recovery sites.

The Department has purchased a state-of-the-art virtual backup solution for distributed and network storage. The mainframe computer is replicated at an offsite location on another mainframe.

#### 2016-122

Cluster name:	Highway Planning and Construction Cluster
CFDA No. and Name:	20.205 Highway Planning and Construction 20.219 Recreational Trails Program
Award Numbers and Years:	2015
Federal Agency:	U.S. Department of Transportation
Compliance Requirement:	Subrecipient Monitoring
Questioned Costs:	None

#### Finding

Criteria: Title 2 CFR Part 200, Subpart D, requires that all pass-through entities determine at the time of the award, that an entity is a subrecipient, further they must ensure that every subaward is clearly identified to the subrecipient as a subaward and includes a unique identifier at the time of the subaward.

Condition and context: The Arizona Department of Transportation (Department), at the time of subaward, did not clearly identify to the subrecipient as a subaward, and did not have unique subrecipient identifiers included in the subaward contracts.

Effect: The Department is not in compliance with grant provisions and internal control weaknesses over subrecipient monitoring.

Cause: Management oversight.

Recommendation: In order to comply with the Uniform Guidance, we recommend the Department review procedures to ensure current procedures require that a determination of subrecipient is made at the time of the subaward and each subrecipient has a unique identifier.

#### Agency Response: Concur

- The Arizona Department of Transportation (ADOT) concurs with the finding and will address the concerns by September 30, 2017 by:
- Meeting with the contract awarding groups within the agency to discuss the unique identifier to be used.

- Establishing the language to be used in the contracts to ensure that all the elements of 2 CFR Part 200, Subpart D are addressed.
- Have the legal department review and approve the contract changes.
- Implement the new contract language by September 30, 2017.

#### 2016-123

Cluster name:	Highway Planning and Construction Cluster
CFDA No. and Name:	20.205 Highway Planning and Construction 20.219 Recreational Trails Program
Award Numbers and Years:	2015
Federal Agency:	U.S. Department of Transportation
Compliance Requirement:	Subrecipient monitoring
Questioned Costs:	None

#### Finding

Criteria: Title 2 CFR Part 200, Subpart F, requires that all recipients must prepare a Schedule of Expenditures of Federal Awards (SEFA) for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with §200.502 Basis for determining Federal awards expended. That schedule must include the total amount provided to subrecipients from each Federal program.

Condition and context: Due to a change in administration, key personnel, as well as the implementation of the Uniform Guidance, the Arizona Department of Transportation (Department) did not have a system of internal controls that would enable management to timely and properly identify expenditures that were subawards to be disclosed on the SEFA. The identification process is highly manual, and has an increased risk of error.

Effect: The Department is not in compliance with the grant agreements.

Cause: Management oversight.

Recommendation: We recommend the Department evaluate its internal control processes to determine if an award is a subaward prior to expenditure, that a system be put in place to more easily identify expenditures that were subawards to be disclosed on the SEFA.

#### Agency Response: Concur

The Arizona Department of Transportation (ADOT) concurs with the finding and will address the concerns by July 1, 2017 by:

- Establishing new chart of accounts (COA) elements for pass through payments.
- Work with entities that will need to change the Purchase Order information to reflect the new COA and train AP on any necessary changes to watch for on those POs that cannot be changed.
- Identify the payments made in FY17 and record expenditure corrections on them so that they will be correctly captured in the FY17 SEFA.

#### 2016-124

CFDA No. and Name:	93.767 Children's Health Insurance Program
Award Numbers and Years:	21-W-00064/9; July 1, 2015 through June 30, 2016
Federal Agency:	U.S. Department of Health and Human Services
Compliance Requirement:	Eligibility
Questioned Costs:	\$40,037

#### Finding

Criteria: According to the Arizona Health Care Cost Containment System (AHCCCS) eligibility requirements, the Kidscare eligibility category allows enrollment/participation for participants through age 18. The month after reaching the age of 19 and maintaining other eligibility criteria, participants should be moved out of the Kidscare eligibility category and into a comparable AHCCCS program.

Internal controls should be in place to provide reasonable assurance that participants are moved out of the Kidscare eligibility category the month after they turn 19 (aged out).

Condition and context: In order to test eligibility, we selected a sample of 40 participants to verify the participant met the applicable eligibility criteria. In connection with our testing, we noted one instance where a participant was enrolled in the Kidscare eligibility category and was not transferred from the Kidscare eligibility category the month after they turned 19. As a result of this exception, we expanded our testing to the entire population of the Kidscare eligibility category to ensure that participants were being properly transferred out of the Kidscare eligibility category the month after the participant turned 19 (aged out). Using eligibility data, we identified 235 individuals enrolled in the Kidscare eligibility category who were not transferred timely out of the Kidscare eligibility category in the month after the participant turned 19 in fiscal year 2016.

Effect: AHCCCS pays contracted health plans to provide services to the participants in the Kidscare eligibility category using a capitated per member, per month payment methodology. As a result, given the 235 exceptions and the number of months participants were incorrectly left in the eligibility category we determined that AHCCCS improperly paid to contracted health plans approximately \$40,037 as a result of the untimely transfer between eligibility categories.

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

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

**Agency Response: Concur**

Management of Arizona Health Care Cost Containment System concurs with the finding. To ensure individuals who turn 19 are transitioned out of the KidsCare category timely, AHCCCS has implemented two system enhancements to support the automatic transfer out of the KidsCare program and redetermination of eligibility in the month following the youth's 19th birthday. The initial enhancement implementing an automated age-out job was implemented at the end of 2014. A further enhancement was identified for scenarios when the ageout month and the renewal month coincide. A system change was implemented at the end of March 2016 that changed the order of the automated jobs and runs the age-out job before the renewal job to prevent a pending renewal from extending eligibility in the wrong category. To identify and correct records that were processed before this date or that failed to transition timely for any reason, an ad hoc report and manual reconciliation process was implemented in October 2016 to identify records with members in an age-limited category past the month they aged out. Once identified, the reported records are distributed to the appropriate staff at each agency to redetermine eligibility or make corrections to the date of birth as needed. Increasing the number of staff working the report will expedite the process and reduce backlogs.

**2016-125**

CFDA No. and Name:	93.767 Children's Health Insurance Program
Award number and year:	21-W-00064/9; July 1, 2015 through June 30, 2016
Federal agency:	U.S. Department of Health and Human Services
Compliance requirement:	Eligibility
Questioned Costs:	N/A

**Finding**

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

Condition and context: In order to test eligibility, we selected a sample of 40 participants to verify the participant met the applicable eligibility criteria. In connection with our testing, we noted one instance where a participant was enrolled in the Kidscare eligibility

category with an open eligibility determination that was not set to expire at the end of their eligibility period. The participant was noted as eligible for the month of June 2016 and capitation payments in the amount of \$153.34 were made for the participant.

Effect: AHCCCS pays contracted health plans to provide services to the participants in the Kidscare eligibility category using a capitated per member, per month payment methodology. As a result, given the exception AHCCCS improperly overpaid contracted health plans for one month of the capitated rate as a result of the open determination.

Cause: AHCCCS' eligibility department had combined a participant file that previously had assigned two AHCCCS identifying numbers. As the files were combined the older of the two files had an open eligibility determination for the Kidscare eligibility category that was not closed and as such the member was still shown as eligible for the Kidscare population.

Recommendation: We recommend that AHCCCS establish policies and procedures to ensure that all previous eligibility files that are required to be merged with a current file be closed at the time of the merger to avoid any open determinations. We further recommend that AHCCCS review the size and compliment of their eligibility department to ensure the staffing is adequate to address eligibility changes in a timely manner.

**Agency Response: Concur**

Management of Arizona Health Care Cost Containment System concurs with the finding. If followed, AHCCCS' established policies and procedures for record corrections would have prevented this error. The staff member was counseled in October 2016 regarding the error and its potential impacts to the customer and the agency. This worker was given additional training on processing multiple ID and overlaid eligibility corrections in the PMMIS database in October 2016, and was on 100% QA review to monitor work quality for three months and intermittent review afterward with no further error occurrences. We also continue to work on system enhancements to reduce or eliminate root causes of multiple IDs and overlays that necessitate manual record corrections. We have implemented several system edits and validations in 2016 that prevent system users (both customers and staff) from accidentally creating new unique ID numbers for someone already known to the system, as well as restricting the number and types of users that can change certain demographic data. DES and AHCCS continue to address these potential issues in a dedicated workgroup to reduce and clean-up multiple unique person IDs.