

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from the FY 2011 Single Audit Report)**

11-101

**SNAP Cluster:**

CFDA No.: 10.551 **Supplemental Nutrition Assistance Program**

10.561 **State Administrative Matching Grants for the Supplemental Nutrition Assistance Program**

10.561 **ARRA—State Administrative Matching Grants for the Supplemental Nutrition Assistance Program**

Award Period: October 1, 2009 through September 30, 2010

October 1, 2010 through September 30, 2011

Award Number: 7AZ400AZ4

**Child Nutrition Cluster:**

CFDA No.: 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 Period: October 1, 2009 through September 30, 2010

October 1, 2010 through September 30, 2011

Award Number: 7AZ300AZ3

CFDA No.: 10.558 **Child and Adult Care Food Program**

Award Period: October 1, 2009 through September 30, 2010

October 1, 2010 through September 30, 2011

Award Number: 7AZ300AZ3

**U.S. Department of Agriculture**

CFDA No.: 12.401 **National Guard Military Operations and Maintenance (O&M) Projects**

12.401 **ARRA—National Guard Military Operations and Maintenance (O&M) Projects**

Award Period: October 1, 2009 through September 30, 2010

October 1, 2010 through September 30, 2011

Award Numbers: Various

**U.S. Department of Defense**

**WIA Cluster:**

CFDA No.: 17.258 **WIA Adult Program**

17.258 **ARRA—WIA Adult Program**

17.259 **WIA Youth Activities**

17.259 **ARRA—WIA Youth Activities**

17.260 **WIA Dislocated Workers**

17.260 **ARRA—WIA Dislocated Workers**

17.278 **WIA Dislocated Worker Formula Grants**

Award Period: April 1, 2008 through June 30, 2011

April 1, 2009 through June 30, 2012

April 1, 2010 through June 30, 2013  
Award Numbers: AA-17107-08-55, AA-18266-09-55,  
and AA-20181-10-55

**U.S. Department of Labor**

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**Highway Planning and Construction Cluster:**

CFDA No.: 20.205 **Highway Planning and Construction**  
20.205 **ARRA—Highway Planning and Construction**  
20.219 **Recreational Trails Program**

Award Period: Various  
Award Numbers: Various

**U.S. Department of Transportation**

CFDA No.: 81.041 **State Energy Program**  
81.041 **ARRA—State Energy Program**

Award Period: April 21, 2009 through April 30, 2012  
July 1, 2010 through June 30, 2011

Award Numbers: DE-EE0000106 and DE-EE003872

**U.S. Department of Energy**

**Title I, Part A Cluster:**

CFDA No.: 84.010 **Title I Grants to Local Educational Agencies**  
84.389 **ARRA—Title I Grants to Local Educational Agencies, Recovery Act**

Award Period: July 1, 2008 through September 30, 2009  
February 17, 2009 through September 30, 2011  
July 1, 2009 through September 30, 2010  
July 1, 2010 through September 30, 2011

Award Numbers: S010A080003, S010A090003, S010A100003, and S389A090003A

**Special Education Cluster (IDEA):**

CFDA No.: 84.027 **Special Education—Grants to States**  
84.173 **Special Education—Preschool Grants**  
84.391 **ARRA—Special Education—Grants to States, Recovery Act**  
84.392 **ARRA—Special Education—Preschool Grants, Recovery Act**

Award Period: July 1, 2008 through September 30, 2009  
February 17, 2009 through September 30, 2011  
July 1, 2009 through September 30, 2010  
July 1, 2010 through September 30, 2011

Award Numbers: H027A080007, H027A090007A, H027A100007, H173A080003, H173A090003,  
H173A100003, H391A090007A, and H392A090003

**Vocational Rehabilitation Cluster:**

CFDA No.: 84.126 **Rehabilitation Services—Vocational Rehabilitation Grants to States**  
84.390 **ARRA—Rehabilitation Services—Vocational Rehabilitation Grants to States, Recovery Act**

Award Period: October 1, 2008 through September 30, 2009  
October 1, 2009 through September 30, 2010  
October 1, 2010 through September 30, 2011

Award Numbers: H126A8000209, H126A1000210, H126A110002, and H390A090002

**Educational Technology State Grants Cluster:**

CFDA No.: 84.318 **Educational Technology State Grants**  
84.386 **ARRA—Education Technology State Grants, Recovery Act**

Award Period: February 17, 2009 through September 30, 2011  
July 1, 2009 through September 30, 2010  
July 1, 2010 through September 30, 2011

Award Numbers: S318X090003A, S318X100003, and S386A090003

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**School Improvement Grants Cluster:**

CFDA No.: 84.377 **School Improvement Grants**

84.388 **ARRA—School Improvement Grants, Recovery Act**

Award Period: July 1, 2008 through September 30, 2009  
February 17, 2009 through September 30, 2011  
July 1, 2009 through September 30, 2010  
July 1, 2010 through September 30, 2011

Award Numbers: S377A080004, S377A090003, S377A100003, and S388A090003

**State Fiscal Stabilization Fund Cluster:**

CFDA No.: 84.394 **ARRA—State Fiscal Stabilization Fund (SFSF)—Education State Grants, Recovery Act**

84.397 **ARRA—State Fiscal Stabilization Fund (SFSF)—Government Services, Recovery Act**

Award Period: June 4, 2009 through September 30, 2011  
Award Numbers: S394A09003, S394A09003A, S397A09003, and S397A09003A

CFDA No.: 84.367 **Improving Teacher Quality State Grants**

Award Period: July 1, 2008 through September 30, 2009  
July 1, 2009 through September 30, 2010  
July 1, 2010 through September 30, 2011

Award Numbers: S367A080049, S367B080003, S367A090049, S367B090003, S367A100049, and S367B100003A

**U.S. Department of Education**

**Medicaid Cluster:**

CFDA No.: 93.720 **ARRA—Survey Certification Ambulatory Surgical Center Healthcare-Associated Infection (ASC-HAI) Prevention Initiative**

93.775 **State Medicaid Fraud Control Units**

93.777 **State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare**

93.778 **Medical Assistance Program**

93.778 **ARRA—Medical Assistance Program**

Award Period: Various  
Award Numbers: 1005AZ5ADM, 1005AZ5MAP, and 1005AZARRA

CFDA No.: 93.767 **Children's Health Insurance Program**

Award Period: Various  
Award Numbers: 1105AZ5021

CFDA No.: 93.889 **National Bioterrorism Hospital Preparedness Program**

Award Period: July 1, 2010 through June 30, 2011  
Award Number: 5U3REP090227-02-00

CFDA No.: 93.917 **HIV Care Formula Grants**

Award Period: April 1, 2010 through March 31, 2011  
September 20, 2010 through September 29, 2011  
April 1, 2011 through March 31, 2012

Award Numbers: X07HA00080-20-00, X07HA00080-20-01, X07HA00080-20-04, X07HA00080-21-00, and X08HA19857-01-00

**U.S. Department of Health and Human Services**

Allowable Costs/Cost Principles

Questioned Cost: \$534,234

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
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**Finding**

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

Condition and context: The State of Arizona did not comply with the allowable costs/cost principles requirements with respect to the general agency counsel service costs provided by the Office of the Attorney General that were charged to federal programs administered by various state agencies. A.R.S. §41-191.09 created the Attorney General Legal Services Cost Allocation Fund (Fund) to reimburse the Attorney General's Department of Law for general agency counsel services. Beginning on July 1, 2006, all state agency funds, except those specifically exempted by the statute, were required to reimburse the Fund for the costs of general agency counsel services. Reimbursements were obtained by charging 0.675 percent of each applicable agency's total payroll expenditures, including those paid with federal monies, each pay period.

Effect: During fiscal year 2011, these charges totaled \$534,234, including \$203,791 for the major federal programs listed above and \$330,443 for all other federal programs. This finding is in noncompliance with the allowable costs/cost principles requirements and could potentially affect all federal programs administered by the affected state agencies that incurred payroll costs.

Cause: The noncompliance resulted from a statutory requirement that these programs be charged for general agency counsel service costs, and therefore, this was not caused by the federal programs' administration.

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

This finding is similar to a prior-year finding.

**Agency Response: Concur**

Agency Corrective Action Plan: We have an established process in place for monitoring legislation. In fact, a concern was raised for over two years prior to actually becoming law. On multiple occasions during that period we advised that this was, in our opinion, not consistent with established federal cost principles and almost certainly would be disallowed. This item is controlled by statute and cannot be resolved without a legislative change. Until the methodology is acceptably modified, there will likely continue to be disallowed costs which will require repayment with applicable interest. We will continue efforts to develop a solution to this issue.

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

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
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**SNAP Cluster:**

CFDA No.: 10.551 **Supplemental Nutrition Assistance Program**

10.561 **State Administrative Matching Grants for the Supplemental Nutrition Assistance Program**

10.561 **ARRA—State Administrative Matching Grants for the Supplemental Nutrition Assistance Program**

Award Period: October 1, 2009 through September 30, 2010

October 1, 2010 through September 30, 2011

Award Number: 7AZ400AZ4

**Child Nutrition Cluster:**

CFDA No.: 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 Period: October 1, 2009 through September 30, 2010

October 1, 2010 through September 30, 2011

Award Number: 7AZ300AZ3

CFDA No.: 10.558 **Child and Adult Care Food Program**

Award Period: October 1, 2009 through September 30, 2010

October 1, 2010 through September 30, 2011

Award Number: 7AZ300AZ3

**U.S. Department of Agriculture**

CFDA No.: 12.401 **National Guard Military Operations and Maintenance (O&M) Projects**

12.401 **ARRA—National Guard Military Operations and Maintenance (O&M) Projects**

Award Period: October 1, 2009 through September 30, 2010

October 1, 2010 through September 30, 2011

Award Numbers: Various

**U.S. Department of Defense**

**WIA Cluster:**

CFDA No.: 17.258 **WIA Adult Program**

17.258 **ARRA—WIA Adult Program**

17.259 **WIA Youth Activities**

17.259 **ARRA—WIA Youth Activities**

17.260 **WIA Dislocated Workers**

17.260 **ARRA—WIA Dislocated Workers**

17.278 **WIA Dislocated Worker Formula Grants**

Award Period: April 1, 2008 through June 30, 2011

April 1, 2009 through June 30, 2012

April 1, 2010 through June 30, 2013

Award Numbers: AA-17107-08-55, AA-18266-09-55, and AA-20181-10-55

CFDA No.: 17.225 **Unemployment Insurance**

17.225 **ARRA—Unemployment Insurance**

Award Period: October 1, 2008 through September 30, 2011

October 1, 2009 through September 30, 2012

October 1, 2010 through September 30, 2013

Award Numbers: UI-18007-09-55, UI-19569-10-55, and UI-21086-11-55

**U.S. Department of Labor**

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**Highway Planning and Construction Cluster:**

CFDA No.: 20.205 **Highway Planning and Construction**  
20.205 **ARRA—Highway Planning and Construction**  
20.219 **Recreational Trails Program**

Award Period: Various  
Award Numbers: Various

**U.S. Department of Transportation**

CFDA No.: 81.041 **State Energy Program**

81.041 **ARRA—State Energy Program**

Award Period: April 21, 2009 through April 30, 2012  
July 1, 2010 through June 30, 2011

Award Numbers: DE-EE0000106 and DE-EE003872

**U.S. Department of Energy**

**Title I, Part A Cluster:**

CFDA No.: 84.010 **Title I Grants to Local Educational Agencies**

84.389 **Title I Grants to Local Educational Agencies, Recovery Act**

Award Period: July 1, 2008 through September 30, 2009  
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July 1, 2010 through September 30, 2011

Award Numbers: S010A080003, S010A090003, S010A100003, and S389A090003A

**Special Education Cluster (IDEA):**

CFDA No.: 84.027 **Special Education—Grants to States**

84.173 **Special Education—Preschool Grants**

84.391 **ARRA—Special Education—Grants to States, Recovery Act**

84.392 **ARRA—Special Education—Preschool Grants, Recovery Act**

Award Period: July 1, 2008 through September 30, 2009  
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July 1, 2009 through September 30, 2010  
July 1, 2010 through September 30, 2011

Award Numbers: H027A080007, H027A090007A, H027A100007, H173A080003, H173A090003,  
H173A100003, H391A090007A, and H392A090003

**Vocational Rehabilitation Cluster:**

CFDA No.: 84.126 **Rehabilitation Services—Vocational Rehabilitation Grants to States**

84.390 **ARRA—Rehabilitation Services—Vocational Rehabilitation Grants to States,  
Recovery Act**

Award Period: October 1, 2008 through September 30, 2009  
October 1, 2009 through September 30, 2010  
October 1, 2010 through September 30, 2011

Award Numbers: H126A8000209, H126A1000210, H126A110002, and H390A090002

**Educational Technology State Grants Cluster:**

CFDA No.: 84.318 **Educational Technology State Grants**

84.386 **ARRA—Education Technology State Grants, Recovery Act**

Award Period: February 17, 2009 through September 30, 2011  
July 1, 2009 through September 30, 2010  
July 1, 2010 through September 30, 2011

Award Numbers: S318X090003A, S318X100003, and S386A090003

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July 1, 2010 through September 30, 2011

Award Numbers: S377A080004, S377A090003, S377A100003, and S388A090003

**State Fiscal Stabilization Fund Cluster:**

CFDA No.: 84.394 **ARRA—State Fiscal Stabilization Fund (SFSF)—Education State Grants, Recovery Act**

84.397 **ARRA—State Fiscal Stabilization Fund (SFSF)—Government Services, Recovery Act**

Award Period: June 4, 2009 through September 30, 2011  
Award Numbers: S394A09003, S394A09003A, S397A09003, and S397A09003A

CFDA No.: 84.367 **Improving Teacher Quality State Grants**

Award Period: July 1, 2008 through September 30, 2009  
July 1, 2009 through September 30, 2010  
July 1, 2010 through September 30, 2011

Award Numbers: S367A080049, S367B080003, S367A090049, S367B090003, S367A100049, and S367B100003A

CFDA No.: 84.410 **Education Jobs Fund**

Award Period: August 10, 2010 through September 30, 2011  
Award Number: S410A10003

**U.S. Department of Education**

**TANF Cluster:**

CFDA No.: 93.558 **Temporary Assistance for Needy Families**

93.714 **ARRA—Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program**

Award Period: October 1, 2008 through September 30, 2009  
October 1, 2009 through September 30, 2010  
October 1, 2010 through September 30, 2011

Award Numbers: G0902AZTANF, G1002AZTANF, and G1102AZTANF

**Medicaid Cluster:**

CFDA No.: 93.720 **ARRA—Survey and Certification Ambulatory Surgical Center Healthcare-Associated Infection (ASC-HAI) Prevention Initiative**

93.775 **State Medicaid Fraud Control Units**

93.777 **State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare**

93.778 **Medical Assistance Program**

93.778 **ARRA—Medical Assistance Program**

Award Period: October 1, 2010 through September 30, 2011  
Award Numbers: 05-1105-AZ-5001, 05-1105-AZ-5000, and 05-1105-AZ-5002

CFDA No.: 93.563 **Child Support Enforcement**

93.563 **ARRA—Child Support Enforcement**

Award Period: October 1, 2009 through September 30, 2011  
October 1, 2010 through September 30, 2011

Award Numbers: G1004AZ4002, G1004AZ4004, and G1104AZ4004

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**CFDA No.: 93.568 Low-Income Home Energy Assistance**

Award Period: October 1, 2008 through September 30, 2010  
October 1, 2009 through September 30, 2011  
October 1, 2010 through September 30, 2012

Award Numbers: G-09B1AZLIEA, G-0901AZLIE2, G-10B1AZLIEA, G-1001AZLIE2, and G-11B1AZLIEA

**CFDA No.: 93.658 Foster Care—Title IV-E  
93.658 ARRA—Foster Care—Title IV-E**

Award Period: October 1, 2007 through September 30, 2008  
October 1, 2008 through September 30, 2009  
January 1, 2009 through September 30, 2009  
October 1, 2009 through September 30, 2010  
October 1, 2010 through September 30, 2011

Award Numbers: 0801AZ1401, 0901AZ1401, 0901AZ1402, 1001AZ1401, 1001AZ1402, 1001AZ1402, 1101AZ1401, 1101AZ1402, 1101AZ1404

**CFDA No.: 93.667 Social Services Block Grant**

Award Period: October 1, 2008 through September 30, 2009  
October 1, 2009 through September 30, 2010  
October 1, 2010 through September 30, 2011

Award Numbers: G0901AZSOSR, G1001AZSOSR, and G1101AZSOSR

**CFDA No.: 93.767 Children's Health Insurance Program**

Award Period: Various

Award Numbers: 1005AZADM, 1005AZ5MAP, and 1005AZARRA

**CFDA No.: 93.889 National Bioterrorism Hospital Preparedness Program**

Award Period: July 1, 2010 through June 30, 2011

Award Number: 5U3REP090227-02-00

**CFDA No.: 93.917 HIV Care Formula Grants**

Award Period: April 1, 2010 through March 31, 2011  
September 20, 2010 through September 29, 2011  
April 1, 2011 through March 31, 2012

Award Numbers: X07HA00080-20-00, X07HA00080-20-01, X07HA00080-20-04, X07HA00080-21-00, and X08HA19857-01-00

**U.S. Department of Health and Human Services**

**Disability Insurance/SSI Cluster:**

**CFDA No.: 96.001 Social Security—Disability Insurance**

Award Period: October 1, 2009 through September 30, 2010  
October 1, 2010 through September 30, 2011

Award Numbers: 011004AZD100 and 011104AZD100

**U.S. Social Security Administration**

Allowable Costs/Cost Principles

Questioned Cost: Unknown

**Finding**

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

Condition and context: The State of Arizona did not comply with the allowable costs/cost principles requirements with respect to information technology service costs provided by the Government Information Technology Agency (GITA) that were charged to federal programs administered by various

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state agencies. A.R.S. §41-3505 created the Information Technology Fund (Fund) for GITA to provide information technology services. Beginning on July 1, 1997, all state agency funds were required to contribute to the Fund for the costs of information technology services. These contributions were obtained by charging 0.2 percent of each applicable agency's total payroll expenditures, including those paid with federal monies, each pay period. The information technology services GITA provided included information technology coordination, strategic planning, information security and privacy, technology project oversight services for all information technology projects costing more than \$25,000, and digital government services. The technology project oversight services were performed through a Project Investment Justification process, which allowed GITA to implement its strategic vision by requiring agencies to comply with state-wide policies and standards along with the strategic direction in the state-wide plan. The digital government services included developing strategies and deploying accessible, reliable, and cost-effective digital government services through the State's web portal, such as application website development, hosting and support services. The costs of these technology project oversight services and digital government services were determined to be unallowable because the services involved were not chargeable in accordance with relative benefits received.

Effect: It was not practical to extend our auditing procedures to determine questioned costs that may have resulted from this finding. This finding is in noncompliance with the allowable costs/cost principles requirements and could potentially affect all federal programs administered by the affected state agencies that incurred payroll costs.

Cause: The noncompliance resulted from a statutory requirement that these programs be charged for information technology service costs and digital government services, and therefore, this was not caused by the federal programs' administration.

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

This finding is similar to a prior-year finding.

**Agency Response: Concur**

Agency Corrective Action Plan: We have an established process in place for monitoring legislation. On multiple occasions we have advised that this was, in our opinion, not consistent with established federal cost principles and almost certainly would be disallowed. This item is controlled by statute and cannot be resolved without a legislative change. Until the methodology is acceptably modified, there will likely continue to be disallowed costs which will require repayment with applicable interest. We will continue efforts to develop a solution to this issue.

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

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
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CFDA No.: **Various**

Award Period: Various

Award Numbers: Various

Allowable Costs/Cost Principles

Questioned Costs: Unknown

**Finding**

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

Condition and context: House Bill 2001 of the 49<sup>th</sup> Legislature, Seventh Special Session 2010, Chapter 1, §§112, 113, and 148, and Senate Bill 1612 of the 50<sup>th</sup> Legislature, First Regular Session 2011, Chapter 24, §§108 and 129, mandated transfers of fund balances from various state agencies to the State of Arizona's General Fund to help provide support and maintenance for the agencies of the State. A portion of the balances transferred included federal monies and were therefore unallowable since the transfers were not based on the relative benefits received. The Department of Administration has estimated the federal portion of the transfers to be \$2,474,591 during fiscal year 2011. However, the Department has not compiled the information by federal agency and program. In addition, this amount is still subject to review and approval by the U.S. Department of Health and Human Services.

Effect: The State is responsible for reimbursing the federal agencies the amount of unallowable costs. It was not practical to extend our auditing procedures sufficiently to determine whether any additional questioned costs resulted from this finding or to identify all the federal programs that were affected by this finding. This finding is in noncompliance with the allowable costs/cost principles requirements and could potentially affect all federal programs administered by state agencies that had legislatively mandated transfers of fund balances.

Cause: The noncompliance resulted from legislatively mandated transfers of fund balances, and therefore, was not caused by the federal programs' administration.

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

**Agency Response: Concur**

Agency Corrective Action Plan: We have requested authority to pay the federal government its corresponding prorata share related to the transferred monies. This resolution is pending legislative authorization.

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 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.

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

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CFDA No.: 17.225 **Unemployment Insurance**

17.225 **ARRA—Unemployment Insurance**

Award Period: October 1, 2008 through September 30, 2011

October 1, 2009 through September 30, 2012

October 1, 2010 through September 30, 2013

Award Numbers: UI-18007-09-55, UI-19569-10-55, and UI-21086-11-55

**U.S. Department of Labor**

Reporting

Questioned Cost: N/A

**Finding**

Criteria: In accordance with 29 CFR §97.20(b)(1),(2), and (6), the Department of Economic Security must report financial information through authorized reports, in accordance with instructions from the federal agency, and report information that agrees to its financial records.

Condition and context: The Department did not accurately prepare or provide support for various Unemployment Insurance reports submitted during fiscal year 2011. Auditors noted errors in five of the eight reports tested. Specifically, auditors noted the following:

*Financial Services Administration (FSA)*

- For the March 31, 2011, quarterly ETA 9130—Financial Status Report, the FSA omitted \$10,505 of expended program income for award number UI-19569-10-55.
- For the June 30, 2011, quarterly ETA 9130—Financial Status Report, the FSA overstated total federal program income earned by \$1,132 and omitted \$10,224 of expended program income for award number UI-21086-11-55.

*Division of Employment and Rehabilitation Services (DERS)*

- For the March 31, 2011, quarterly ETA 581—Contribution Operations report, the financial management system did not support amounts reported for Liquidated Contributory Employers Receivables of \$1,025,816 and for Liquidated Reimbursing Employers Receivables of \$1,945,533.
- For the March 31, 2011, quarterly ETA 227—Overpayment Detection and Recovery Activities report, the DERS could not support the amounts reported for Additions—UI Fraud of \$695,073 and Subtractions—UCFE/UCX Fraud of \$7,302.
- For the September 30, 2010, quarterly ETA 227 EUC—Overpayment Detection and Recovery Activities report, the DERS could not support the numbers reported for Non-Fraud Total—UCFE/UCX of three cases and the amount reported for Recovered Total—UCFE/UCX Fraud of \$1,553.

Effect: Incorrect financial and nonfinancial data was submitted to the federal grantor that may result in potential errors in analysis or other determinations. This finding did not result in questioned costs since the reports were not used to request reimbursement of federal expenditures. This finding is a material weakness in internal control over compliance and material noncompliance with the program's reporting requirements.

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Cause: The FSA did not adequately implement procedures to ensure that all relevant financial data was included on the ETA 9130 reports. Furthermore, as a result of some programming deficiencies in system-generated reports, the DERS made manual adjustments to the ETA 581 and ETA 227 reports to accurately report ending balances that were supported by the financial management system.

Recommendation: The FSA and the DERS should establish the following procedures to help ensure compliance with reporting requirements:

- Require documentation to be retained to support the amounts reported.
- Establish a detailed review process to help ensure federal reports are complete and accurate before they are submitted to the U.S. Department of Labor.

In addition, the DERS should investigate the system deficiencies and correct programming errors to ensure that accurate internal reports are generated to support various financial and nonfinancial information.

This finding is similar to a prior-year finding.

**Agency Response: Concur**

Agency Corrective Action Plan: The DES Financial Services Administration (FSA) identified the report discrepancies prior to the audit and had planned to make adjustments. However, because the discrepancy amounts were small in comparison to the amounts reported for the affected grant awards, FSA made inception-to-date adjustments in the reports for the fiscal quarter ended December 31, 2011. Reporting procedures for this grant are unique with respect to program income reporting. With FSA now being cognizant of the problem, the existing report preparation and detailed review process already in place should be adequate to prevent discrepancies of this nature in the future.

The DES Unemployment Insurance Administration (UI) completed an analysis of these issues and believes they have identified the system programming errors that resulted in incorrect information in the ETA-581, ETA-227, and ETA-227-EUC reports. UI will complete the programming changes so that manual adjustments in these two categories will no longer be necessary. It is expected these changes will be completed for the next annual Data Validation submittal due to DOL by June 10, 2012.

11-105

CFDA No.: 17.225 **Unemployment Insurance**

17.225 **ARRA—Unemployment Insurance**

Award Period: October 1, 2008 through September 30, 2011

October 1, 2009 through September 30, 2012

October 1, 2010 through September 30, 2013

Award Numbers: UI-18007-09-55, UI-19569-10-55, and UI-21086-11-55

**U.S. Department of Labor**

Period of Availability and Special Tests and Provisions

Questioned Cost: \$7,956,927

**Finding**

Criteria: In accordance with 20 CFR §§602.11(d) and 602.21(c), the Department of Economic Security is required to operate a quality control program to assess the accuracy of unemployment insurance benefit payments and denied claims. In addition, this quality control program should require all claimants selected for investigation to complete a questionnaire designed by the Department. The *Benefit Accuracy Measurement State Operations Handbook, ET Handbook No. 395, 5th Edition*,

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requires the Department to select a minimum number of payments and denied claims each week, quarter, and calendar year and review them for accuracy. Also, work search investigations are to take place to determine the claimant met work search requirements.

In accordance with the Supplemental Appropriations Act of 2008, Public Law 110-252, section 4001, the Department should make payments of emergency unemployment compensation only to individuals with no rights to regular compensation. In addition, in accordance with the Supplemental Appropriations Act of 2008 and Public Law 111-157, the Department should have adequate internal control procedures to ensure claimants receive compensation only during the program's funding period.

In accordance with the Supplemental Appropriations Act of 2008, Public Law 110-252, section 4005, the Department should require individuals to repay the amounts or offset overpayments from future benefit payments when they have received Emergency Unemployment Compensation (EUC) or Federal Additional Compensation (FAC) to which they were not entitled.

Condition and context: The Department did not always follow its policies and procedures for three of the Unemployment Insurance program's special tests and provisions compliance requirements and for the period of availability compliance requirement related to FAC Benefit Payments. Specifically, auditors noted the following errors.

*Unemployment Insurance Benefit Payments*—The Benefit Accuracy Measurement Unit (BAM Unit) did not always follow its policies and procedures and select the minimum number of benefit payments for quality control testing. Although the BAM Unit exceeded the minimum requirements for the year, the quarterly minimum requirements were not met. Specifically, for the fourth quarter of calendar year 2010, the BAM Unit selected 103 paid and 101 denied cases instead of the minimum of 108 for each test. In addition, for 1 of 40 cases tested, the BAM Unit did not require the claimant to complete the questionnaire and provide work search contacts for the key week. As the claimant questionnaire and work search efforts were not provided, auditors determined that the key week should have been disqualified, resulting in questioned costs of \$240. This error did not affect any American Recovery and Reinvestment Act (ARRA) monies.

*Emergency Unemployment Compensation Benefit Payments*—A system programming error caused the Division of Employment and Rehabilitation Services (Division) to potentially make 5,061 EUC and associated FAC payments for weeks when they were eligible for regular benefits. Division programmers developed a solution in March 2011 that involved shifting payments to the correct funding source for benefits; however, the Division failed to calculate and record EUC overpayments that may have resulted from this shifting. Auditors were unable to determine the amount of EUC overpayments. In addition, FAC payments totaling \$114,325, which were originally associated with the EUC payments, were paid outside of the period of availability and overpayments had not been calculated and recorded.

*Federal Additional Compensation Benefit Payments*—The Division failed to recover FAC benefit payments resulting from fraud and overpayments. Specifically, the Division did not record all FAC overpayments on its financial accounting system. As a result, the Division did not recover the overpayments from individuals through repayment or reducing future benefit payments. Auditors noted that FAC overpayments totaling \$7,842,362 should have been recorded as of June 30, 2011.

Questioned costs totaling \$7,956,687 were from ARRA monies.

Effect: Failure to operate the BAM Unit program in accordance with the requirements can result in noncompliance with federal regulations and failure to identify overpaid, underpaid, or erroneously denied claims. Failure to calculate and record overpayments inhibits the Division's ability to notify the

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appropriate individuals of their overpayment and recover the overpayments. It was not practical to extend our auditing procedures sufficiently to determine whether any additional questioned costs resulted from this finding. This finding is a material weakness in internal control over compliance and material noncompliance with the programs' special tests and provisions requirements and a significant deficiency in internal control over compliance and noncompliance with the program's period of availability requirements.

Cause: Due to staffing shortages during the period, the BAM Unit was unable to test the minimum number of benefit payments. In addition, the Division did not implement the necessary software changes in the financial accounting system to record all overpayments. The EUC and FAC overpayments related to the shifting of payments to the proper funding source, were not calculated and recorded due to a pending review of the overpayments.

Recommendation: The BAM Unit and the Division should enforce the following policies and procedures to help ensure compliance with special tests and provisions requirements:

- Test the minimum number of benefit payments for each week, quarter, and year as required by the U.S. Department of Labor.
- Stop future benefit payments until the claimant has fulfilled the program's requirements.
- Implement the necessary software changes to calculate and record overpayments.
- Perform a system review on a quarterly basis to ensure that claimants are being paid from the proper funding source.
- Follow its policies and procedures to ensure that benefit payments are made during the period of availability.

This finding is similar to a prior-year finding.

**Agency Response: Concur**

Agency Corrective Action Plan: The DES Unemployment Insurance Administration (UI) developed and began using new reports to ensure the proper quarterly and yearly reviews are completed as required by the DOL Handbook 395. The UI Quality Assurance Manager focused on removing Arizona from the State Quality Service Plan (SQSP) where Arizona was not meeting the yearly sample of 480 paid and 450 denied cases. The manager did not realize overcompensating in prior quarters to meet the yearly sample did not remove the quarterly requirement. Arizona met the yearly SQSP sample requirement in calendar year 2010 and will meet all quarterly and yearly requirements in the future.

As of March 2011, a Benefit Accuracy Measurement (BAM) Unit Supervisor was hired to focus on reviewing cases and identifying errors prior to signoff. The BAM Supervisor is aware of the finding and met with all BAM staff to ensure they understand a stop must be set when the claimant fails to comply with requirements.

UI and the DES Division of Technology Services (DTS) completed all the programming and initial testing required for the GUIDE system to correctly identify and process FAC overpayments. These programming changes were migrated into the GUIDE on May 8, 2011. Following the migration, UI identified additional necessary programming adjustments. UI Business & Technology Solutions continues testing the changes made by UI Systems and Programming. The expected completion date is April 30, 2012. Following implementation, the UI Benefit Processing Control Unit will establish the FAC overpayments as the program changes add them to the GUIDE system.

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11-106

**Vocational Rehabilitation Cluster:**

CFDA No.: 84.126 **Rehabilitation Services—Vocational Rehabilitation Grants to States**

**84.390 ARRA—Rehabilitation Services—Vocational Rehabilitation Grants to States,  
Recovery Act**

Award Period: October 1, 2008 through September 30, 2009

October 1, 2009 through September 30, 2010

October 1, 2010 through September 30, 2011

Award Numbers: H126A8000209, H126A1000210, H126A110002, and H390A090002

**U.S. Department of Education**

Eligibility

Questioned Cost: None

**Finding**

Criteria: In accordance with 29 U.S. Code 722(a)(6), the Department of Economic Security must determine whether an individual is eligible for vocational rehabilitation services within a reasonable period of time, not to exceed 60 days, after the individual has submitted an application for the services, unless exceptional and unforeseen circumstances exist beyond the Department's control and the Department and the applicant agree to a specific extension of time or the Department is exploring the individual's abilities, capabilities, and capacity in order to be able to make the eligibility determination or close the case.

Condition and context: The Department of Economic Security, Division of Employment and Rehabilitation Services, Rehabilitation Services Administration (Administration), did not always follow its policies and procedures to prepare and retain documentation of an extension beyond the 60 days.

Specifically, for 12 of 40 applications tested, it took the Administration between 62 and 706 days, or an average of 196 days, to determine if the applicants were eligible for the program or close the case. For 6 of the 12 applicants, the Administration had no documentation regarding the late determination or had only a case note documenting the reason for the late eligibility determination. For 4 of the 12 applicants, the Administration included an extension letter in the applicant's case file; however, it lacked the applicant's signature evidencing that the applicant agreed to a specific extension of time. Finally, for the 2 remaining applicants, the extension letter was prepared and signed after the 60-day period.

Effect: Failure to make eligibility determinations in a timely manner may result in a delay of services provided. This finding is a material weakness in internal control over compliance and material noncompliance with the Cluster's eligibility requirements.

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

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

- Determine an applicant's eligibility within 60 days of the application submission date.
- Prepare a letter before the end of the 60-day eligibility period to establish a specific extension of time and to justify exceeding the 60-day period. This letter should be signed by both the Administration and the applicant.

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- Document the Administration's continued exploration of the applicant's abilities, capabilities, and capacity to perform in work situations.

Furthermore, the Administration should establish a control system, such as a checklist, to ensure all documentation to determine eligibility is retained in the applicant's case file.

This finding is similar to a prior-year finding.

**Agency Response: Concur**

Agency Corrective Action Plan: The Department of Economic Security Rehabilitation Services Administration (RSA) continues to stress to staff through training, email reminders, and alert lists the importance of:

- Determining client eligibility within 60 days from application date,
- Documenting all efforts to communicate with the client, and
- Obtaining a signed and dated extension letter should eligibility determination take longer than the 60 days.

RSA will continue to conduct routine reviews of random VR case files in an effort to ensure compliance in this area.

In addition, the RSA Policy Unit has contacted other state programs to explore policies and practices that address this issue.

11-107

**TANF Cluster:**

CFDA No.: 93.558 **Temporary Assistance for Needy Families**

93.714 **ARRA—Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Programs**

Award Period: October 1, 2008 through September 30, 2009

October 1, 2009 through September 30, 2010

October 1, 2010 through September 30, 2011

Award Numbers: G0902AZTANF, G1002AZTANF, and G1102AZTANF

**U.S. Department of Health and Human Services**

Reporting

Questioned Cost: None

**Finding**

Criteria: In accordance with 45 CFR §265.7(a), reporting for the ACF-196 TANF Financial Report and ACF-199 TANF Data Report must be complete and accurate.

In accordance with 45 CFR §§92.24(b)(7) and 265.9(c)(4), reporting for the ACF-204 Annual Report, including the Annual Report on State Maintenance-of-Effort Programs, third-party in-kind contributions count toward satisfying a cost-sharing requirement only when the costs would be allowable if the party receiving the contributions were to pay for them. Also, each state must provide the total annual state expenditures claimed as maintenance of effort (MOE) for each program.

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
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Condition and context: The Department of Economic Security did not accurately prepare or provide support for various reports submitted during fiscal year 2011 for the Temporary Assistance for Needy Families program. Auditors noted errors in four of the seven reports tested. Specifically, auditors noted the following:

*Financial Services Administration (FSA)*

- For the March 31, 2011, quarterly ACF-196 TANF Financial Report for award year 2011, the FSA misreported \$4,659,668 of cumulative child support services expenditures in the Non-Assistance Authorized Solely Under Prior Law reporting line when these expenditures should have been included in the Other reporting line. This error was not corrected until the following quarter; thus all reports within the first three quarters were inaccurate during the fiscal year.
- For the fiscal year 2010 ACF-204 Annual Report including the Annual Report on State Maintenance-of-Effort Programs, the Department may claim third-party, in-kind contributions toward satisfying a cost-sharing requirement. The FSA established relationships with seven community partners for this purpose; however, the FSA did not obtain sufficient evidence from two of the seven partners to determine that expenditures totaling \$517,282 were allowable.
- For the fiscal year 2010 ACF-204 Annual Report, including the Annual Report on State Maintenance-of-Effort Programs, the FSA omitted \$3,000 from the state MOE expenditures total for the Adoption Maintenance program and overstated state MOE expenditures in the Child In-Home Services program by \$3,000.

*Family Assistance Administration (FAA)*—Auditors tested 13 case files from the June 30, 2011, quarterly ACF-199 TANF Data Report and found that for one case the reported number of months countable toward the federal time limit was overstated by 7 months.

Effect: Incorrect financial and nonfinancial data was submitted to the federal grantor that may result in potential errors in analysis or other determinations. In addition, possible unallowable state expenditures were reported and used to count toward the maintenance-of-effort requirements; however, the MOE requirement would have been met without these expenditures. In addition, this finding did not result in questioned costs since the report errors did not affect total federal expenditures. This finding is a material weakness in internal control over compliance and material noncompliance with the Temporary Assistance for Needy Families program's reporting requirements.

Cause: The Department did not have procedures in place to ensure expenditures are reported in the proper reporting categories. Additionally, the Department did not have controls in place for preparation and review of program reports to prevent or detect errors.

Recommendation: The Department should establish policies and procedures to help ensure compliance with reporting requirements. Specifically, the Department should have procedures to identify how to accumulate data for reports, and supervisors should perform a detailed review over federal reports to ensure accurate amounts are reported.

This finding is similar to a prior-year finding.

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
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**Agency Response: Concur**

Agency Corrective Action Plan: To accurately prepare and provide support for reports the DES Financial Services Administration (FSA) will implement the following procedures by June 30, 2012:

- FSA modified the quarterly ACF-196 TANF Financial Report criterion to exclude expenditures categorized as “Non-Assist Authorized Solely Under Prior Law” and instead properly classify them as “Other”. FSA resubmitted the reports with the correction in the subsequent quarter (ending June 30, 2011).
- The discrepancies in the 2010 ACF-204 Annual Report and the Annual Report on State Maintenance-of-Effort (MOE) Programs were due to keying errors that occurred while inputting data into the report. However, because the errors consisted of an understatement and an overstatement of the same amount, the report as a whole was unaffected. In the future, FSA will more carefully review figures for keying accuracy and implement a signoff process for review.
- To ensure community providers expenditures in the ACF-204 Annual Report and the MOE Report are allowable, FSA will work more closely with the providers to obtain a detailed description of expenditures determined to be allowable and will more closely review submitted expenditures for appropriateness.

To correct the error identified in the ACF-199 TANF Data Report, the DES Family Assistance Administration Systems Unit completed an extensive review of the case in question. In November 2011, the unit ran a report that clarified how the error occurred and corrected the case. In addition, the unit ran further reports and no other similar errors were detected. A repeat of this error is unlikely. DES Division of Benefits & Medical Eligibility management will continue to perform detailed reviews of the ACF-199 Report to ensure its accuracy.

11-108

**TANF Cluster:**

CFDA No.: 93.558 **Temporary Assistance for Needy Families**

93.714 **ARRA—Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Programs**

Award Period: October 1, 2008 through September 30, 2009

October 1, 2009 through September 30, 2010

October 1, 2010 through September 30, 2011

Award Numbers: G0902AZTANF, G1002AZTANF, and G1102AZTANF

**U.S. Department of Health and Human Services**

Subrecipient Monitoring

Questioned Cost: Unknown

**Finding**

Criteria: In accordance with OMB Circular A-133 §.210(e), the pass-through entity is responsible for establishing requirements to ensure compliance by for-profit subrecipients.

Condition and context: The Division of Employment and Rehabilitation Services (DERS) performed a review over TANF subrecipients to ensure their expenditures were in compliance with the TANF program’s terms; however, no evidence supported that these reviews occurred during fiscal year 2011. Additionally, the DERS monitored the performance of each subrecipient, by district, by preparing quarterly report cards that included the program’s performance goals and the percentage that each district achieved during each quarter of the federal fiscal year. Auditors examined two districts’ quarterly

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report cards and found that over a period of 4 quarters, 94 of the 168 performance goals were not achieved. Finally, the DERS did not require the subrecipients to prepare a corrective action plan in response to those deficiencies.

Effect: Potentially unallowable expenditures were paid for with TANF program monies. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a material weakness in internal control over compliance and material noncompliance with the TANF program's subrecipient monitoring requirements.

Cause: The DERS did not have adequate policies and procedures in place to ensure that documentation for monitoring was properly maintained and that subrecipients submitted corrective action plans in a timely manner when program performance goals were not met.

Recommendation: The DERS should establish policies to ensure subrecipient monitoring documentation is prepared and retained. In addition, the DERS should require timely corrective action plans from its subrecipients when performance goals are not met.

**Agency Response: Concur**

Agency Corrective Action Plan: Following a review of the subrecipient monitoring policy, the DERS Unemployment Insurance Quality and Assurance Unit (QA) and Employment Services Support Unit managers revised the corrective action plan (CAP) format and requirements. DERS finalized the revised CAP in January 2012. Upon receipt of the annual report cards, DERS placed both contractors on a CAP. Both contractors submitted plans to improve the deficient performance measures. As of February 2012, the QA Manager approved both plans.

The DES Unemployment Administration (UI) routinely reviews policies at the bimonthly TANF Economic Alliance Meetings (TEAM). Based on TEAM findings, UI makes changes to processes. Quarterly meetings are held with each contractor, to discuss best practices, policy concerns, and CAP progress.

11-109

**TANF Cluster:**

CFDA No.: 93.558 **Temporary Assistance for Needy Families**

93.714 **ARRA—Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Programs**

Award Period: October 1, 2008 through September 30, 2009

October 1, 2009 through September 30, 2010

October 1, 2010 through September 30, 2011

Award Numbers: G0902AZTANF, G1002AZTANF, and G1102AZTANF

**U.S. Department of Health and Human Services**

Special Tests and Provisions

Questioned Cost: None

**Finding**

Criteria: In accordance with 45 CFR §§205.55(a) and 205.60(a), income and benefit information must be requested from other federally assisted programs and federal agencies through automated data exchanges and used for identifying ineligible recipients. In addition, the information used to support wage and unemployment compensation verification through the data exchange must be retained.

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Condition and context: The Department of Economic Security, Division of Benefits and Medical Eligibility (Division), recorded and stored eligibility information and supporting documents for participants on a documentation management system, including the support obtained from using the Income Eligibility and Verification System (IEVS). However, for 12 of 40 case files tested, no documentation was retained to evidence that the IEVS was used when determining applicant eligibility.

Effect: Assistance may be granted to ineligible recipients, or incorrect benefit determinations may result in over- or underpayments. This finding did not result in questioned costs since the Division was able to provide documentation to support its eligibility determinations. This finding is a significant deficiency in internal control over compliance and noncompliance with the Cluster's special tests and provisions requirements.

Cause: The Division did not follow its policies and procedures to use the IEVS to determine eligibility; or, if it was used, documentation was not retained to support its use.

Recommendation: The Division should ensure that employees request and use income and benefit information from the IEVS when determining eligibility for all applicants applying for cash assistance. Additionally, employees should retain support in the document management system to evidence the review.

**Agency Response: Concur**

Agency Corrective Action Plan: The DES Division of Benefits & Medical Eligibility (DBME) implemented a change to the AZTECS system that would automatically upload the necessary documentation to the imaging database. When DBME determined that some of the documents were not uploading properly, they began analyzing the document imaging system to determine the cause. In addition, the inability to locate screens in case files was also a problem in the document imaging system. The vendor is working with DES on solutions to these issues and a report of their findings is forthcoming.

11-110

CFDA No.: 93.568 **Low-Income Home Energy Assistance**

Award Period: October 1, 2008 through September 30, 2010

October 1, 2009 through September 30, 2011

October 1, 2010 through September 30, 2012

Award Numbers: G-09B1AZLIEA, G-0901AZLIE2, G-10B1AZLIEA, G-1001AZLIE2, and G-11B1AZLIEA

**U.S. Department of Health and Human Services**

Reporting

Questioned Cost: None

**Finding**

Criteria: In accordance with 45 CFR §96.30(b)(2)(ii) and the U.S. Department of Health and Human Services, Administration for Children and Families, Office of Community Services' action transmittal number LIHEAP-AT-2011-02, the Department of Economic Security must include the date of the last obligation of monies for the reporting periods on the annual SF-269A financial report. Also, in accordance with 45 CFR §96.81(b)(1) and action transmittal number LIHEAP-AT-2010-8 and its attached instructions, the Department must report the projected unobligated balance and carryover amount on the annual Carryover and Reallotment special report as well as submit a corrected Carryover and Reallotment special report as soon as possible if the estimated amounts submitted on its original Carryover and Reallotment special report were later found to be inaccurate. Finally, in accordance with 45 CFR §96.82(b) and action transmittal number LIHEAP-AT-2010-9 and its attached

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instructions, the Department must submit the annual LIHEAP Household Report, which includes data on the number of households that were assisted with program monies and the number of households that applied for program assistance. In accordance with the action transmittal, grantees are required to submit actual, not estimated, household data.

Condition and context: The Department of Economic Security did not accurately prepare or provide support for various Low-Income Home Energy Assistance reports submitted during fiscal year 2011. Auditors noted errors in all five of the reports tested. Specifically, auditors noted the following:

*Financial Services Administration (FSA)*—For all three SF-269A financial reports tested, the FSA did not include the date of the last obligation of monies for the reporting period ended September 30, 2010.

*Division of Aging and Adult Services (DAAS)*

- For the September 30, 2010, Carryover and Reallotment special report, the DAAS reported an inaccurate projected unobligated balance and carryover amount and did not submit a revised report to include changes to the current year amount payable, projected unobligated balance, and carryover amount. Specifically, the DAAS reported \$0 as both the projected unobligated balance and the carryover amount; however, at the time of the report submission, the projected unobligated balance and carryover amount was an estimated \$1,830,000. Furthermore, the DAAS did not submit a corrected Carryover and Reallotment special report to include the additional grant monies in the current year amount payable line and the changes to the projected unobligated balance, and carryover amount. This resulted in the DAAS not determining a revised projected unobligated balance which caused an ultimate understatement of \$386,465 for the reported current year amount payable and an ultimate understatement of \$1,299,170 for the unobligated balance and carryover amount.
- For the September 30, 2010, LIHEAP Household Report, the DAAS reported inaccurate amounts for the number of households assisted. Specifically, out of the 27 discretely presented amounts on Part 1 of the report, 23 amounts were erroneous. Discrepancies ranged from 1 unit to 573 units. In addition, the DAAS did not obtain applicant household information from its subrecipients; therefore, the number of applicant households presented on the report did not include pending and denied applications. Additionally, although the DAAS obtained the actual aggregate amounts of households with at least one member who is elderly, disabled, or a young child for the Heating and Winter/Year-round Crisis types of assistance, the DAAS estimated the breakout of such households by the two types of assistance, resulting in estimated amounts being included in the report.

Effect: Incorrect financial and nonfinancial data was submitted to the federal grantor that may result in potential errors in analysis or other determinations and in the *LIHEAP Report to Congress*. This finding did not result in questioned costs since the reports were not used to request reimbursement of federal expenditures. This finding is a material weakness in internal control over compliance and material noncompliance with the program's reporting requirements.

Cause: The FSA did not adequately implement procedures to ensure that all relevant financial data was included on the annual SF-269A financial reports. The DAAS did not adequately implement procedures to ensure that accurate amounts were reported on the Carryover and Reallotment special report and the LIHEAP Household Report and that a corrected Carryover and Reallotment special report was submitted if previously submitted information was found to be inaccurate.

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Recommendation: The FSA and DAAS should establish the following procedures to help ensure compliance with reporting requirements:

- Integrate a review of the annual reporting requirements into the overall review and approval process already in place.
- Stay apprised of the requirements related to reported data elements to ensure that preparers are able to obtain the required information.

**Agency Response: Concur**

Agency Corrective Action Plan: Although, the DES Financial Services Administration (FSA) did not include the date of the last obligation of monies as required by LIHEAP regulations for the three SF-269A reports tested, all dollar amounts reported were accurate. To ensure FSA accurately prepares and provides support for the LIHEAP SF-269A Report, FSA implemented the following procedures on February 13, 2012:

- FSA updated the report working documents to include reminders that the date of the last obligation of monies for the reporting period must be included.
- FSA added a link on the working documents that will display the report requirements.
- FSA staff will follow all processes regarding the review of the report to ensure all reporting requirements are met prior to future report submittals.

In addition, FSA contacted the federal grant representative to obtain direction on the specific course of action they deem necessary to provide the missing dates.

To ensure the DES Division of Aging & Adult Services (DAAS) accurately prepares and provides support for various Low-Income Home Energy Assistance reports DAAS has implemented the following changes and protocol:

- To ensure DAAS updates estimated numbers to actual figures before reporting to the Federal Office of Community Services (OCS), the DAAS Finance & Business Operations (FBO) will complete the Carryover and Re-allotment Report rather than the program unit. Upon receipt of the SF-269A report from the DES Financial Services Administration, FBO will generate a revised Carryover and Re-allotment Report reflecting the actual Carryover figure taken from the SF-269A and submit to OCS.
- To ensure DAAS reports accurate amounts for the number of households assisted, DAAS revised the databases provided to the contractors to track this data. All of the preprogrammed formulas and fields have been protected to ensure they cannot be overwritten so future calculations should be accurate.
- To ensure that contractors know what is required when reporting, DAAS will issue an ALERT on March 16, 2012. The ALERT will provide all Community Action Program contractors the correct form for reporting actual numbers and detailed instructions on how to complete each of the report fields.
- To ensure DAAS captures information related to approved, pending, and denied applications, DAAS has provided instructions for completion of the Monthly Case Management Report. The instructions specifically address the need to capture the number of applications whether approved, pending, or denied. This information will be included in the March 16, 2012 ALERT. In addition, the need to collect and report applicant data will be reviewed with contractors during the monthly Directors Conference Call. DAAS will also review each monthly report to ensure the report is accurate and complete prior to approval of payment for that month.

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11-111

**TANF Cluster:**

CFDA No.: 93.558 **Temporary Assistance for Needy Families**

93.714 **ARRA—Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Programs**

Award Period: October 1, 2008 through September 30, 2009

October 1, 2009 through September 30, 2010

October 1, 2010 through September 30, 2011

Award Numbers: G0902AZTANF, G1002AZTANF, and G1102AZTANF

CFDA No.: 93.563 **Child Support Enforcement**

93.563 **ARRA—Child Support Enforcement**

Award Period: October 1, 2008 through September 30, 2010

October 1, 2010 through September 30, 2011

Award Numbers: G1004AZ4002, G1004AZ4004, and G1104AZ4004

CFDA No.: 93.568 **Low-Income Home Energy Assistance**

Award Period: October 1, 2008 through September 30, 2010

October 1, 2010 through September 30, 2012

Award Numbers: G-09B1AZLIEA, G-0901AZLIE2, G-10B1AZLIEA, G-1001AZLIE2, and G-11B1AZLIEA

CFDA No.: 93.667 **Social Services Block Grant**

Award Period: October 1, 2008 through September 30, 2009

October 1, 2009 through September 30, 2010

October 1, 2010 through September 30, 2011

Award Numbers: G0901AZSOSR, G1001AZSOSR, and G1101AZSOSR

**U.S. Department of Health and Human Services**

Reporting

Questioned Cost: N/A

**Finding**

Criteria: In accordance with 2 CFR §170 Appendix A, and the Federal Funding Accountability and Transparency Act of 2006 (FFATA), for grant awards beginning on October 1, 2010, or later, the Department of Economic Security must report each subaward to a subrecipient that amounts to \$25,000 or more, not including subawards of American Reinvestment & Recovery Act (ARRA) monies. Each subaward action must be reported no later than the end of the month following the month in which the obligation was made.

Condition and context: The Department of Economic Security, Financial Services Administration (FSA) did not submit any reports of subawards. Auditors could not determine the number of monthly reports that should have been submitted for each cluster and program. Although the FSA provided evidence it communicated with the State's General Accounting Office regarding FFATA during the fiscal year, the FSA did not provide evidence it communicated with the awarding agencies or the General Services Office to sufficiently demonstrate it made a "good faith" effort to comply with the FFATA requirements. Additionally, the FSA did not request or obtain permission from the Office of Management and Budget to deviate from this requirement.

Effect: Obligations to subrecipients were not posted to the federal FRS.gov website, resulting in a lack of information on USASpending.gov. This finding is a material weakness in internal control over compliance and material noncompliance with the TANF Clusters' and Low-Income Home Energy Assistance programs' reporting requirements. This finding is a significant deficiency in internal control

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
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over compliance and noncompliance with the Child Support Enforcement and Social Services Block Grant programs' reporting requirements.

Cause: The FSA did not accurately apply the FFATA regulations and did not have the resources necessary to develop and follow policies and procedures to ensure compliance with the FFATA reporting requirements.

Recommendation: The FSA should work with its federal agency representatives or the General Services Office to clarify the FFATA reporting requirements. In addition, the FSA should establish the following procedures to help ensure compliance with the FFATA reporting requirements:

- Develop internal control policies and procedures to identify all subawards made to subrecipients from individual awards.
- Develop internal control policies and procedures to ensure the required reports are accurately compiled, reviewed, and submitted in a timely manner.

**Agency Response: Concur**

Agency Corrective Action Plan: The DES Financial Services Administration (FSA) attempted to follow the FFATA regulations. FSA staff read the requirements, listened to webcasts, registered on FSRS, and had many discussions internally and with Arizona's General Accounting Office pertaining to the reporting requirements. In addition, FSA added a field for the Federal Aid Identification Number (FAIN) to both the financial system (FMCS) and the data warehouse.

FSA concluded that most DES contracts would not meet the requirements for reporting, because contracts for goods and services and contracts with individuals do not meet reporting requirements. However, to ensure FSA accurately reports sub-awards, the department identified some issues that could require changes to the FMCS, the contract process, and/or certain business processes.

DES filed some reports in FY 2012. In addition, FSA will contact federal agencies for those grants FSA determines may have qualifying sub-awards for guidance on how best to report those sub-awards and to determine how to resolve the various issues identified.

11-112

**TANF Cluster:**

CFDA No.: 93.558 **Temporary Assistance for Needy Families**

93.714 **ARRA—Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Programs**

Award Period: October 1, 2008 through September 30, 2009

October 1, 2009 through September 30, 2010

October 1, 2010 through September 30, 2011

Award Numbers: G0902AZTANF, G1002AZTANF, and G1102AZTANF

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CFDA No.: 93.667 **Social Services Block Grant**

Award Period: October 1, 2008 through September 30, 2009

October 1, 2009 through September 30, 2010

October 1, 2010 through September 30, 2011

Award Numbers: G0901AZSOSR, G1001AZSOSR, and G1101AZSOSR

**U.S. Department of Health and Human Services**

Allowable Costs/Cost Principles

Questioned Cost: \$89,681

**Finding**

Criteria: In accordance with 2 CFR §225 Appendix C, A.1, allocated costs distributed across different federal programs should be supported by formal accounting and other records that will support the propriety of those costs assigned to the federal awards.

Condition and context: The Department of Economic Security, Division of Children, Youth, and Families, misstated the eligible TANF population used in the December 2010 population case factor calculation. As a result, the TANF program was overcharged \$89,681, and the Social Services Block Grant program was undercharged \$89,681. This finding did not affect any American Recovery and Reinvestment Act (ARRA) monies.

Effect: Failure to use proper supporting documentation when allocating costs can lead to improper charges. It was not practical to extend our auditing procedures sufficiently to determine whether any additional questioned costs resulted from this finding. This finding results in noncompliance with allowable costs/cost principles requirements for the TANF Cluster and the Social Services Block Grant program.

Cause: The Division did not use the proper eligible TANF population when calculating the population factor used in the cost allocation.

Recommendation: The Division should ensure that appropriate reviews are performed to verify the accuracy of the cost allocations to each program.

**Agency Response: Concur**

Agency Corrective Action Plan: The DES Division of Children, Youth and Families (DCYF) misstatement of the eligible TANF population resulted in the understatement/overstatement of charges to the TANF and Social Services Block Grant Program. The DCYF corrected this oversight and adjusted the necessary data. The Financial Management and Control System (FMCS) accepted the amendment on November 4, 2011.

The DCYF reviewed the finding with the staff involved in compiling this information and emphasized the importance of accurately charging the correct funding source. To ensure that the appropriate allocation of costs is reflected on future submissions, a secondary level of review was implemented in November 2011. The DCYF Budget Manager will continue to examine the information to certify the veracity of the data.

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
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**Child Nutrition Cluster:**

CFDA No.: 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 Period: October 1, 2009 through September 30, 2010

October 1, 2010 through September 30, 2011

Award Number: 7AZ300AZ3

CFDA No.: 10.558 **Child and Adult Care Food Program**

Award Period: October 1, 2009 through September 30, 2010

October 1, 2010 through September 30, 2011

Award Number: 7AZ300AZ3

**U.S. Department of Agriculture**

**Title I, Part A Cluster:**

CFDA No.: 84.010 **Title I Grants to Local Educational Agencies**

84.389 **ARRA—Title I Grants to Local Educational Agencies, Recovery Act**

Award Period: July 1, 2008 through September 30, 2009

February 17, 2009 through September 30, 2011

July 1, 2009 through September 30, 2010

July 1, 2010 through September 30, 2011

Award Numbers: S010A080003, S010A090003, S010A100003, and S389A090003A

**Special Education Cluster (IDEA):**

CFDA No.: 84.027 **Special Education—Grants to States**

84.173 **Special Education—Preschool Grants**

84.391 **ARRA—Special Education—Grants to States, Recovery Act**

84.392 **ARRA—Special Education—Preschool Grants, Recovery Act**

Award Period: July 1, 2008 through September 30, 2009

February 17, 2009 through September 30, 2011

July 1, 2009 through September 30, 2010

July 1, 2010 through September 30, 2011

Award Numbers: H027A080007, H027A090007A, H027A100007, H173A080003, H173A090003,

H173A100003, H391A090007A, and H392A090003

**Educational Technology State Grants Cluster:**

CFDA No.: 84.318 **Educational Technology State Grants**

84.386 **ARRA—Education Technology State Grants, Recovery Act**

Award Period: February 17, 2009 through September 30, 2011

July 1, 2009 through September 30, 2010

July 1, 2010 through September 30, 2011

Award Numbers: S318X090003A, S318X100003, and S386A090003

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
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**School Improvement Grants Cluster:**

CFDA No.: 84.377 **School Improvement Grants**

84.388 **ARRA—School Improvement Grants, Recovery Act**

Award Period: July 1, 2008 through September 30, 2009  
February 17, 2009 through September 30, 2011  
July 1, 2009 through September 30, 2010  
July 1, 2010 through September 30, 2011

Award Numbers: S377A080004, S377A090003, S377A100003, and S388A090003

CFDA No.: 84.367 **Improving Teacher Quality State Grants**

Award Period: July 1, 2008 through September 30, 2009  
July 1, 2009 through September 30, 2010  
July 1, 2010 through September 30, 2011

Award Numbers: S367A080049, S367B080003, S367A090049, S367B090003, S367A100049, and S367B100003A

**U.S. Department of Education**

Cash Management, Eligibility, Reporting, Subrecipient Monitoring, and Special Tests and Provisions

Questioned Cost: Unknown

**Finding**

Criteria: A state should have effective policies and procedures in place to prevent and detect unauthorized access to its information systems and to protect against unauthorized system and program changes. In addition, states should have an updated and fully tested disaster recovery plan to provide for the continuity of operations and ensure that data can be recovered in the event of a system or equipment failure or other interruption.

Condition and context: The Department of Education's Grants Management System and Child Nutrition Program Web application were used by internal and external users to apply for, approve, and disburse federal grant awards; record federal award expenditures and budget information; and report and monitor compliance with federal requirements. Auditors tested the Department's controls over these systems and applications and noted the following deficiencies:

- *Access controls*—The Department did not always maintain documentation for employees' and external users' access, and granted access for several users without proper approval and without ensuring that the access rights were necessary and compatible with employees' job responsibilities. Also, the Department did not immediately remove terminated employees' access rights.
- *Change controls*—The Department did not maintain documentation of all system and program changes.
- *Recovery controls*—The Department did not have an up-to-date and tested disaster recovery plan for its significant systems and applications.

Effect: There is a risk of noncompliance with federal requirements and of theft, manipulation, or misuse of confidential or sensitive data due to unauthorized access or changes. Additionally, the Department may not be able to recover data or materially comply with compliance requirements in the event of system or equipment failure or other interruption. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a significant deficiency in internal control over compliance with the programs' and clusters' cash management, eligibility, reporting, subrecipient monitoring, and special tests and provisions

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
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requirements. In addition, this finding could potentially affect other federal programs, including American Recovery and Reinvestment Act (ARRA) programs, that the Department administered.

Cause: The Department did not consistently follow its policies and procedures for granting access to users and making changes to its information systems and applications. Additionally, the Department had not updated and tested the disaster recovery plan because of changes in administration.

Recommendation: To strengthen internal controls over its systems and applications, and to help ensure compliance with federal requirements for the programs it administers, the Department should:

- Ensure that system access granted to all users is documented and authorized. Grant only access rights that are necessary and compatible with users' job responsibilities, and immediately revoke access for terminated employees.
- Periodically perform a comprehensive review of user access granted to all of its applications and systems, and remove inappropriate access.
- Follow procedures for documenting and approving all changes to its systems and applications.
- Update and test its disaster recovery plan annually.

This finding is similar to a prior-year finding.

**Agency Response: Concur**

Agency Corrective Action Plan: The Arizona Department of Education (ADE) will perform the following in order to improve access, change, and recovery controls over the Grants Management Enterprise System (GMS) and the Child Nutrition Program (CNP Web) system:

- *Access Controls*
  - The following ADE policies and procedures updates are planned to be implemented by June 30, 2012:
    - Units responsible for their own software, such as Grants Management (GM) and Health and Nutrition Services (HNS), will now manage the permissions and documentation specific to their software.
    - Agency-level End User Network Agreement (EUNA) and the permissions granted by ADE IT will be restricted to Agency-level permissions, such as email and initial computer setups for new employees. HNS and GM will develop their own EUNA forms to grant their employees permissions for their specific systems.
    - Units responsible for their own software, such as GM and HNS, will be added to the Agency Termination Form allowing them to remove permissions, update documentation, and sign off on the formal removal of the terminated employees.
    - Units responsible for their own software, such as GM and HNS, will now include human resources in their quarterly review process to verify that terminated employees do not have any active permissions.

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
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- *Change Controls*
  - The ADE Information Technology Unit (IT) now has an organized Change Management group that meets weekly to review and approve all changes that will be migrated to any production environment. Migrations are scheduled for Thursdays of each week and all exceptions to the scheduled migration day must meet the requirements to be considered an emergency and must be approved by the Change Management team. All migrations are fully documented.
- *Recovery Controls*
  - The ADA is working on the Business Continuity/Disaster Plan based on the new organization. The first phase for critical and essential functions is scheduled to be completed in June 2012 and tested in September 2012.

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**Title I, Part A Cluster:**

CFDA No.:84.010 **Title I Grants to Local Educational Agencies**

84.389 **ARRA—Title I Grants to Local Educational Agencies, Recovery Act**

Award Period: July 1, 2008 through September 30, 2009  
February 17, 2009 through September 30, 2011  
July 1, 2009 through September 30, 2010  
July 1, 2010 through September 30, 2011

Award Numbers: S010A080003, S010A090003, S010A100003, and S389A090003A

**Special Education Cluster (IDEA):**

CFDA No.:84.027 **Special Education—Grants to States**

84.173 **Special Education—Preschool Grants**

84.391 **ARRA—Special Education—Grants to States, Recovery Act**

84.392 **ARRA—Special Education—Preschool Grants, Recovery Act**

Award Period: July 1, 2008 through September 30, 2009  
February 17, 2009 through September 30, 2011  
July 1, 2009 through September 30, 2010  
July 1, 2010 through September 30, 2011

Award Numbers: H027A080007, H027A090007A, H027A100007, H173A080003, H173A090003,  
H173A100003, H391A090007A, and H392A090003

**Educational Technology State Grants Cluster:**

CFDA No.:84.318 **Educational Technology State Grants**

84.386 **ARRA—Education Technology State Grants, Recovery Act**

Award Period: February 17, 2009 through September 30, 2011  
July 1, 2009 through September 30, 2010  
July 1, 2010 through September 30, 2011

Award Numbers: S318X090003A, S318X100003, and S386A090003

CFDA No.:84.367 **Improving Teacher Quality State Grants**

Award Period: July 1, 2008 through September 30, 2009  
July 1, 2009 through September 30, 2010  
July 1, 2010 through September 30, 2011

Award Numbers: S367A080049, S367B080003, S367A090049, S367B090003, S367A100049, and  
S367B100003A

**U.S. Department of Education**

Cash Management and Subrecipient Monitoring

Questioned Cost: Unknown

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
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**Finding**

Criteria: As required by 34 CFR §80.21, state educational agencies should have procedures in place to minimize the time elapsing between the transfer of monies to and disbursement by the Local Educational Agencies (LEAs). The LEAs may be paid in advance if they are able to minimize the time elapsing between the receipt of the monies and their disbursement so that they do not accumulate excess cash balances of federal monies. Further, LEAs that earn interest over \$100 on excess cash balances should remit the interest to the Department of Education.

Condition and context: The Department did not always sufficiently monitor LEAs' monthly cash management reports and annual completion reports to ensure that LEAs did not have excess cash balances of federal monies before disbursing more monies for the subsequent grant award. Auditors tested a sample of monthly cash management reports and completion reports for each of the major federal programs administered through the Department's Grants Management System and found similar deficiencies for the major federal programs tested. Specifically, auditors found that, for several LEAs, the Department disbursed monies for subsequent grant awards because LEAs did not carry forward the excess cash balances from the previous grant award to the subsequent grant award's budget as directed by the Department. Auditors also found that a few of the LEAs reported excess cash balances on their monthly cash management reports although additional monies were not disbursed in these cases because of adequate system controls. Additionally, auditors noted that the Department did not have written procedures for monitoring those LEAs that did not file the required monthly cash management reports. Finally, the Department did not have specific monitoring controls in place to address remaining cash balances for its American Recovery and Reinvestment Act (ARRA) programs or for LEAs that did not apply for subsequent grant awards.

Effect: Because the Department did not monitor LEAs' monthly cash management reports, LEAs were allowed to maintain excess cash balances throughout the year, and some LEAs did not report their cash balances monthly, as required. Further, the Department disbursed monies for subsequent grant awards when LEAs had excess cash balances and, therefore, did not comply with its major federal programs' cash management requirements. In addition, any interest that may have been earned on the excess cash balances may not have been remitted to the Department. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a significant deficiency in internal control over compliance and noncompliance with cash management and subrecipient monitoring requirements for the major federal programs administered through the Department's Grants Management System. This finding could potentially affect other federal programs, including ARRA programs that the Department administered.

Cause: The Department's Grants Management System does not prohibit the disbursement of monies after the award period-end when excess cash balances are reported on completion reports. As a result, the Department must manually monitor LEAs to prevent the improper disbursement of federal monies when LEAs have remaining cash balances from the previous grant award but have not made the proper amendments to the next grant award's budget. Further, while the Department can generate reports from the system to manually monitor those LEAs that did not file the required monthly cash management reports or reported excess cash balances, it does not have written procedures for this level of monitoring. In addition, the Department does not have formal procedures for requesting the return of excess cash balances, especially with respect to ARRA programs and in instances when the LEA did not apply for program funding for the subsequent year.

Recommendation: To help ensure compliance with its major federal programs' cash management requirements, the Department should improve its policies and procedures for monitoring LEAs' cash balances throughout the year using its current system. For example, the Department could require LEAs to amend the subsequent award's budget for excess cash balances immediately after the

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
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completion reports have been approved and better enforce its policies to place future grant awards on hold, or require LEAs to remit all unspent cash balances to the Department upon approval of the completion reports. In addition, the Department should establish procedures to request LEAs to return excess cash balances when LEAs have not applied for program funding in the subsequent year, and for remitting interest earned in excess of \$100.

This finding is similar to a prior-year finding.

**Agency Response: Concur**

Agency Corrective Action Plan: The Arizona Department of Education (ADE) Grants Management Unit is in the process of developing an improved cash management reporting process which will allow program areas to monitor subrecipients' expenditures throughout the year.

The improvements will accomplish the following:

1. It will reduce the time necessary for staff to manually review completion reports at the end of the project, as the data being submitted throughout the project period will be grouped by comp object and function code.
2. It will allow subrecipients to request payment more frequently and only for expenditures that have been or are soon to be liquidated (e.g., forthcoming payroll).

The Grants Management Unit is already drafting and circulating these proposed changes to its practices. Furthermore, these changes also include requirements for LEAs to return interest in excess of \$100 *per LEA* at least quarterly to ensure compliance with Federal rule. All updated internal policies and procedures surrounding grant disbursement will be completed prior to the start of FY 2013.

11-115

**Educational Technology State Grants Cluster:**

CFDA No.: 84.318 **Educational Technology State Grants**

84.386 **ARRA—Education Technology State Grants, Recovery Act**

Award Period: February 17, 2009 through September 30, 2010

July 1, 2009 through September 30, 2010

July 1, 2010 through September 30, 2011

Award Numbers: S318X090003A, S3181X00003, and S386A090003

**School Improvement Grants Cluster:**

CFDA No.: 84.377 **School Improvement Grants**

84.388 **ARRA—School Improvement Grants, Recovery Act**

Award Period: July 1, 2008 through September 30, 2009

February 17, 2009 through September 30, 2010

July 1, 2009 through September 30, 2010

July 1, 2010 through September 30, 2011

Award Numbers: S377A080004, S377A090003, S377A10003, and S388A090003

**U.S. Department of Education**

Reporting

Questioned Cost: None

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
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**Finding**

Criteria: In accordance with the *American Recovery and Reinvestment Act (ARRA) of 2009*, P.L. 111-5, Section 1512(c), total ARRA monies received and expended are required data elements that should be reported accurately. The amounts included in the 1512 Report should be supported by accounting records and schedules documenting the cumulative revenue and expenditure data.

Condition and context: The Department of Education's revenues and expenditures reported on the 1512 Report did not agree to its accounting system. In addition, the Department did not maintain documentation supporting the amounts that it presented on the State of Arizona's 1512 Report and were unable to account for the differences.

Effect: Revenues reported on the 1512 Reports were understated by \$415,256 and expenditures reported on the 1512 Reports were overstated by \$492,619. This finding is a significant deficiency in internal control over compliance and noncompliance with the clusters' reporting requirements. In addition, this finding could potentially affect other ARRA programs that the Department administered.

Cause: The errors occurred because the Department did not maintain supporting documentation for amounts reported on the 1512 Reports.

Recommendation: To help ensure that its ARRA 1512 Reports are compiled accurately, the Department should strengthen its internal control policies and procedures over ARRA reporting and maintain supporting documentation for all amounts reported. In addition, if any material errors are subsequently noted within the 1512 Reports, the errors should be corrected during the continuous corrections period.

**Agency Response: Concur**

Agency Corrective Action Plan: The Arizona Department of Education will develop and implement procedures for routing ARRA 1512 reporting data through its IT Department, with the Grants Management Division being ultimately responsible for submitting data to the Governor's Office/Arizona Department of Administration. The IT Department will consolidate information from the Grants Management Enterprise, including expenditures of grants as well as the number of subrecipients and other programmatic information required (such as the numbers of jobs created through grant funds at the subrecipient level). The Grants Management Division will then take this information and compare the expenditures pulled from Grants Management against total expenditures under the grant pulled from AFIS (via the Department's existing AFIS reporting capabilities). Any discrepancies will be researched and resolved prior to the Grants Management Division submitting the data. One employee in the Program Operations unit currently ensures that the data is transmitted and other narrative is entered into the system for statewide reporting.

In addition, the Division will submit to the centralized reporting system the revenue figures for each grant as recorded in AFIS during the reporting period. The Grants Management Division will ensure at least one other person besides the individual responsible for submitting the data will assist with reconciliation of all expenditure as well as revenue data against AFIS figures. After submittal, the Division will be responsible for storage of the reconciled data, and will keep each quarter's submittal on a dedicated SharePoint intranet site as well as hard copies of each submission in central files. The archived data will include the submittal and dated AFIS reports that the submitted report was reconciled to, as well as any documentation of errors that were found and resolved.

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**Title I, Part A Cluster:**

CFDA No.:84.010 **Title I Grants to Local Educational Agencies**

84.389 **ARRA—Title I Grants to Local Educational Agencies, Recovery Act**

Award Period: July 1, 2008 through September 30, 2009

February 17, 2009 through September 30, 2011

July 1, 2009 through September 30, 2010

July 1, 2010 through September 30, 2011

Award Numbers: S010A080003, S010A090003, S010A100003, and S389A090003A

**Educational Technology State Grants Cluster:**

CFDA No.:84.318 **Educational Technology State Grants**

84.386 **ARRA—Education Technology State Grants, Recovery Act**

Award Period: February 17, 2009 through September 30, 2011

July 1, 2009 through September 30, 2010

July 1, 2010 through September 30, 2011

Award Numbers: S318X090003A, S318X100003, and S386A090003

CFDA No.:84.367 **Improving Teacher Quality State Grants**

Award Period: July 1, 2008 through September 30, 2009

July 1, 2009 through September 30, 2010

July 1, 2010 through September 30, 2011

Award Numbers: S367A080049, S367B080003, S367A090049, S367B090003, S367A100049, and S367B100003A

**U.S. Department of Education**

Level of Effort

Questioned Cost: None

**Finding**

Criteria: In accordance with 34 CFR §299.5(a), the Department of Education is required to determine that Local Educational Agencies (LEAs) have maintained fiscal effort prior to allocating federal monies to them. Additionally, the Department should maintain documentation supporting its level of effort calculation.

Condition and context: The Department did not always maintain documentation supporting the level of effort calculation performed for its LEAs. Specifically, for 6 of 43 LEAs tested, the Department did not have supporting documentation for the LEAs' average daily membership (ADM) numbers used in the level of effort calculation.

Effect: There is the potential risk that LEAs may not meet level of effort requirements. Auditors performed additional audit procedures to recalculate the level of effort using the LEAs' available ADM numbers and determined that the LEAs in the sample maintained the required fiscal effort; therefore, no questioned costs were noted. This finding is a significant deficiency in internal control over compliance with the clusters' and program's level of effort requirement.

Cause: The Department did not maintain supporting documentation for the ADM data used to prepare the level of effort calculations.

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Recommendation: To help ensure that it complies with level of effort requirements, the Department should maintain documentation to support the level of effort calculations for its LEAs.

This finding is similar to a prior-year finding.

**Agency Response: Concur**

Agency Corrective Action Plan: The Arizona Department of Education is meeting with their School Finance unit to determine the best way to maintain the records used to determine whether LEAs have maintained fiscal effort. At a minimum, the Operations unit will maintain the file prepared by the School Finance unit as an Excel worksheet, with the creation date and other meta data.

11-117

**Title I, Part A Cluster:**

CFDA No.:84.010 **Title I Grants to Local Educational Agencies**

84.389 **ARRA—Title I Grants to Local Educational Agencies, Recovery Act**

Award Period: July 1, 2008 through September 30, 2009  
February 17, 2009 through September 30, 2011  
July 1, 2009 through September 30, 2010  
July 1, 2010 through September 30, 2011

Award Numbers: S010A080003, S010A090003, S010A100003, and S389A090003A

**Educational Technology State Grants Cluster:**

CFDA No.:84.318 **Educational Technology State Grants**

84.386 **ARRA—Education Technology State Grants, Recovery Act**

Award Period: February 17, 2009 through September 30, 2011  
July 1, 2009 through September 30, 2010  
July 1, 2010 through September 30, 2011

Award Numbers: S318X090003A, S318X100003, and S386A090003

CFDA No.:84.367 **Improving Teacher Quality State Grants**

Award Period: July 1, 2008 through September 30, 2009  
July 1, 2009 through September 30, 2010  
July 1, 2010 through September 30, 2011

Award Numbers: S367A080049, S367B080003, S367A090049, S367B090003, S367A100049, and S367B100003A

**U.S. Department of Education**

Subrecipient Monitoring

Questioned Cost: Unknown

**Finding**

Criteria: According to 34 CFR §80.40(a) and OMB Circular A 133, §400(d)(3), grantees must monitor the activities of subrecipients to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements. Therefore, the Department of Education is responsible for identifying the federal award information, including applicable compliance requirements, and monitoring the subrecipient's use of federal awards through reporting, site visits, and regular contact. The Department performs monitoring reviews of subrecipients' activities on a 6-year cycle, each year reviewing a different aspect of the grant. As such, the Department requires each subrecipient to state its program goals in a Continuous Improvement Plan and affirm in writing, through Statements of Assurance, that it is aware of the applicable compliance requirements and the Department's policies and procedures.

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
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Condition and context: The Department of Education did not obtain all monitoring documentation from Local Educational Agencies (LEAs), approve monitoring documents in a timely manner, or maintain regular contact with its subrecipients during the year. In addition, the Department did not always follow up in a timely manner with subrecipients who were found to be in noncompliance with requirements. Specifically, auditors noted the following deficiencies:

- For 4 of 40 LEAs tested for the Title I, Part A Cluster and the Improving Teacher Quality State Grants program, the Department did not obtain a Statement of Assurance from the LEA. For 2 of the 40 LEAs tested, the Department did not obtain the LEA's Continuous Improvement Plan. Further, for 16 of the LEAs tested, the Department did not review the documentation submitted by the LEAs in a timely manner in accordance with its policies.
- For 2 of 25 LEAs tested for the Educational Technology State Grants Cluster, the Department did not review the documentation submitted by the LEAs in a timely manner in accordance with its policies. Additionally, for 1 of these LEAs, there was no evidence that the Department reviewed the information the LEA submitted.

Effect: There is an increased risk that the LEAs may not comply with all applicable compliance requirements because the Department did not receive assurances from its LEAs. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a significant deficiency in internal control over compliance and noncompliance with subrecipient monitoring requirements. This finding could potentially affect other federal programs, including American Recovery and Reinvestment Act (ARRA) programs, that the Department administered.

Cause: The Department uses the Arizona Local Education Agency Tracker (ALEAT) system to track its monitoring of LEAs' compliance, but did not follow up on its monitoring in accordance with its policies.

Recommendation: To help ensure that it complies with subrecipient monitoring requirements, the Department should follow its policies and procedures and:

- Maintain regular contact with subrecipients and ensure that they are aware of the applicable compliance requirements.
- Review all the LEAs' files in the ALEAT to ensure the applicable documents are submitted by the LEAs and reviewed in a timely manner.

This finding is similar to a prior-year finding.

**Agency Response: Concur**

Agency Corrective Action Plan: Annually, upon completion of the grants application cycle for Titles I and II, the Assistant Deputy Associate Superintendent will review the Arizona Local Education Agency Tracker (ALEAT) to ensure that all LEAs were correctly identified as being required to submit the Statement of Assurance and LEA Continuous Improvement plans in ALEAT and to ensure that all approved grants from those LEAs have been accompanied by the Assurances. The FY12 grant cycle ended on February 15, 2012 and final review will be completed by April 1, 2012.

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from the FY 2011 Single Audit Report)**

Additionally, the Director of Plans and Systems will review monthly activity reports, which are currently being developed, for all Title I and Title II staff. This will ensure that the supervisor is aware of staff that are not meeting review deadlines and can take appropriate action. Activity reports will be available beginning February 15, 2012.

11-118

**Title I, Part A Cluster:**

CFDA No.: 84.010 **Title I Grants to Local Educational Agencies**

84.389 **ARRA—Title I Grants to Local Educational Agencies, Recovery Act**

Award Period: July 1, 2008 through September 30, 2009

February 17, 2009 through September 30, 2011

July 1, 2009 through September 30, 2010

July 1, 2010 through September 30, 2011

Award Numbers: S010A080003, S010A090003, S010A100003, and S389A090003A

**U.S. Department of Education**

Subrecipient Monitoring and Special Tests and Provisions

Questioned Cost: Unknown

**Finding**

Criteria: In accordance with 20 U.S. Code 6321(c), a Local Educational Agency (LEA) may receive federal monies under Title I, Part A, if state and local monies are used in schools to provide services that, taken as a whole, are at least comparable to services in schools that are not receiving these federal monies. The Department of Education requires the LEAs to submit an Assurance of Comparability, indicating that they meet this requirement or that it is not applicable.

Condition and context: The Department's internal control procedures were not adequate to ensure all the LEAs' forms were collected and reviewed. Specifically, for 9 of 40 LEAs tested, the Department did not ensure that the LEAs submitted the Assurance of Comparability forms. Further, the Department did not approve any of the forms submitted.

Effect: There is an increased risk of noncompliance with the subrecipient monitoring and special tests and provisions requirements since the Department did not always obtain the Assurance of Comparability forms and did not approve submitted forms. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a significant deficiency in internal control over compliance and noncompliance with subrecipient monitoring and special tests and provisions requirements.

Cause: The employee responsible for this procedure did not collect all forms for the affected LEAs and subsequently terminated employment with the Department. The Department did not have policies and procedures in place to ensure that the employee was requesting and reviewing these forms from the LEAs.

Recommendation: To help ensure that it complies with the Cluster's requirements for subrecipient monitoring and special tests and provisions, the Department should develop policies and procedures to obtain and review LEAs' Assurance of Comparability forms.

This finding is similar to a prior-year finding.

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from the FY 2011 Single Audit Report)**

**Agency Response: Concur**

Agency Corrective Action Plan: This finding was a result of a staff shortage. The current procedures identify staff responsible for this process and this error should not occur in the future.

11-119

**Special Education Cluster (IDEA):**

CFDA No.: 84.027 **Special Education—Grants to States**

84.173 **Special Education—Preschool Grants**

84.391 **ARRA—Special Education—Grants to States, Recovery Act**

84.392 **ARRA—Special Education—Preschool Grants, Recovery Act**

Award Period: July 1, 2008 through September 30, 2009

February 17, 2009 through September 30, 2011

July 1, 2009 through September 30, 2010

July 1, 2010 through September 30, 2011

Award Numbers: H027A080007, H027A090007A, H027A100007, H173A080003, H173A090003,  
H173A100003, H391A090007A, and H392A090003

**U.S. Department of Education**

Level of Effort

Questioned Cost: None

**Finding**

Criteria: In accordance with 34 CFR §300.163(a), the State must not reduce the amount of state financial support made available for special education and related services for children with disabilities below the amount of that support for the preceding year. State educational agencies are responsible for demonstrating that the state complies with this requirement.

Condition and context: The Department of Education did not implement policies and procedures during the fiscal year to identify the financial support made available within the Department and other state agencies for special education and related services for children with disabilities. Further, the Department did not verify the adequacy of information received from other state agencies when preparing an analysis of the State's level of effort.

Effect: The Department risks noncompliance if it is not able to verify the accuracy and consistency of information obtained to demonstrate that level of effort was maintained. Auditors were able to verify that amounts made available were reasonable and that the State's level of effort was maintained. Therefore, no questioned costs were noted. This finding is a significant deficiency in internal control over compliance with the Cluster's level of effort requirements.

Cause: The Department did not begin analyzing amounts that it had made available to schools for special education and related services for children with disabilities until February 2011. In addition, the Department did not begin gathering information from other state agencies until June 2011 and did not ensure that it understood how the information was obtained and whether it was reasonable.

Recommendation: The Department should develop policies and procedures to ensure that it obtains consistent information to identify all state monies made available to provide special education and related services for children with disabilities to demonstrate that the State did not reduce the amount of financial support provided from the preceding year.

This finding is similar to a prior-year finding.

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from the FY 2011 Single Audit Report)**

**Agency Response: Concur**

Agency Corrective Action Plan: The Arizona Department of Education's Exceptional Student Services (ESS) division will develop policies and procedures to ensure it obtains consistent information to identify all state monies made available to provide special education and related services for children with disabilities to demonstrate that the State did not reduce the amount of financial support provided from the preceding year.

A list of contacts for other state agencies will be maintained in the ESS funding unit. Each of those contacts will be notified that they need to provide backup, such as appropriation numbers or other AFIS detail reports, to certify amounts reported as "made available" to provide special education and related services for children with disabilities. The ESS division director will contact each of these agencies to obtain backup for amounts previously provided for FY11. In addition, we will obtain information for FY12 prior to June 30, 2012.

11-120

**Educational Technology State Grants Cluster:**

CFDA No.: 84.318 **Educational Technology State Grants**

84.386 **ARRA—Education Technology State Grants, Recovery Act**

Award Period: February 17, 2009 through September 30, 2011

July 1, 2009 through September 30, 2010

July 1, 2010 through September 30, 2011

Award Numbers: S318X090003A, S318X100003, and S386A090003

**U.S. Department of Education**

Earmarking and Subrecipient Monitoring

Questioned Cost: Unknown

**Finding**

Criteria: As required by 20 U.S. Code 6766(a), Local Educational Agencies (LEAs) must use a minimum of 25 percent of this Cluster's monies for professional development.

Condition and context: The Department of Education awarded program monies to only those LEAs whose applications included a minimum of 25 percent of total budgeted expenditures dedicated for professional development. However, auditors noted that 4 of 41 LEAs tested did not meet the earmarking requirements.

Effect: LEAs did not comply with the Cluster's earmarking requirements. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a significant deficiency in internal control over compliance and noncompliance with the Cluster's earmarking and subrecipient monitoring compliance requirements.

Cause: When an LEA does not meet the 25 percent professional development requirement for the program year, the Department's policy is to request that the LEA amend the subsequent year's budget to correct for the shortfall; however, the Department did not always monitor the LEA to ensure that the LEA amended its budget. Additionally, the Department did not have policies and procedures in place to follow up with its LEAs who were not awarded subsequent projects to require the LEAs to remit monies that were not spent in accordance with the Cluster's requirements.

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from the FY 2011 Single Audit Report)**

Recommendation: The Department should monitor LEAs to ensure they meet the 25 percent professional development earmarking requirement each grant year. In addition, the Department should develop policies and procedures to require LEAs to return monies to the Department when necessary to comply with the earmarking requirements.

This finding is similar to a prior-year finding.

**Agency Response: Concur**

Agency Corrective Action Plan: The Educational Technology State Grants (EETT) program was eliminated in the Arizona Department of Education (ADE) budget for FY2012 and FY2013. ARRA EETT carryover funds will not be reallocated back to LEAs; instead, two competitive ARRA EETT projects will be funded and at least 35% of the funding will be used to provide professional development stipends. Thus, the 25% requirement will be met and funds will be expended by June 30, 2012.

For EETT regular funds, upon filing of the completion report, if it is determined that an LEA spent less than 25% of the total funds expended on professional development, ADE will require the LEA to return the amount of funds required to ensure their expended budget meets the 25% of total budgeted funds dedicated for professional development and the LEA will need to revise and resubmit the completion report accordingly. The agency will alert all subrecipients prior to the end of project that the 25% professional development requirement must be met for the amount of funds spent during that fiscal year or the ADE would be requesting a return of funds in order to bring them into compliance. The cut-off for EETT regular funds is June 30, 2012 and then close-out will begin.

11-121

**Child Nutrition Cluster:**

CFDA No.: 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 Period: October 1, 2009 through September 30, 2010  
October 1, 2010 through September 30, 2011

Award Number: 7AZ300AZ3

CFDA No.: 10.558 **Child and Adult Care Food Program**

Award Period: October 1, 2009 through September 30, 2010  
October 1, 2010 through September 30, 2011

Award Number: 7AZ300AZ3

**U.S. Department of Agriculture**

Reporting

Questioned Cost: N/A

**Finding**

Criteria: In accordance with 2 CFR §170 Appendix A, and the Federal Funding Accountability and Transparency Act (FFATA) of 2006, for grant awards beginning on October 1, 2010, or later, the Department of Education must report each subaward to a subrecipient that amounts to \$25,000 or more, not including American Recovery and Reinvestment Act awards. Each subaward payment must be reported no later than the end of the month following the month in which the obligation was made.

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from the FY 2011 Single Audit Report)**

Condition and context: The Department did not submit the required FFATA reports. Additionally, the Department did not request or obtain permission from the Office of Management and Budget to deviate from this requirement and did not contact the federal awarding agency to attempt a “good faith” effort to comply with this requirement.

Effect: The Department did not comply with FFATA requirements for reporting subawards to subrecipients. This finding is a significant deficiency in internal control over compliance and noncompliance with the Cluster’s and Program’s reporting requirements.

Cause: The Department did not have the resources necessary to develop policies and procedures to ensure compliance with the FFATA reporting requirements.

Recommendation: To comply with FFATA requirements for reporting subawards to subrecipients, the Department should develop policies and procedures to ensure the required reports are accurately compiled, reviewed, and submitted in a timely manner.

**Agency Response: Concur**

Agency Corrective Action Plan: By June 30, 2012, the Arizona Department of Education will ensure that subrecipients receiving Federal Child Nutrition Programs funding will be reported in accordance with Federal Funding Accountability and Transparency Act (FFATA) reporting requirements, and consistent with the current FFATA reporting process completed by the Department for subrecipients funded through the Grants Management system.

11-122

CFDA No.:81.041 **State Energy Program**

81.041 **ARRA—State Energy Program**

Award Period: April 21, 2009 through April 30, 2012

July 1, 2010 through June 30, 2015

Award Numbers: DE-EE0000106 and DE-EE0003872

**U.S. Department of Energy**

Suspension and Debarment

Questioned Cost: N/A

**Finding**

Criteria: In accordance with 2 CFR §180 and 10 CFR §600.235, the School Facilities Board (Board) and the State Land Department (Department) must not make any subaward to or contract with any party that has been suspended or debarred or is otherwise excluded from or ineligible for participation in federal assistance programs. This may be accomplished by checking the Excluded Parties List System maintained by the General Services Administration, obtaining vendor certifications, or adding clauses or conditions to the contracts.

Condition and context: The Board and the Department did not establish adequate internal control policies and procedures over suspension and debarment compliance requirements. Specifically, the Board did not verify its subrecipients and the Department did not ensure its vendors who received \$25,000 or more in federal monies had not been suspended or debarred, or otherwise excluded from entering into federal contracts. Auditors performed additional audit procedures and determined no payments were made to suspended or debarred parties.

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from the FY 2011 Single Audit Report)**

Effect: Payments could be made to suspended or debarred parties. This finding is a material weakness in internal control over compliance and noncompliance with the program's suspension and debarment requirements. This finding could affect other federal programs that the Board and Department administered.

Cause: The Board was unaware that the suspension and debarment compliance requirements were also applicable to subrecipients, whereas the Department was unaware of the suspension and debarment requirements.

Recommendation: The Board and Department should establish procedures to verify that all subrecipients or vendors awarded contracts in excess of \$25,000 are not suspended or debarred. Documentation of this verification must be retained.

*Land Department*

**Agency Response: Concur**

Agency Corrective Action Plan: The Land Department has added a "Suspension and Debarment" clause to all contracts that involve Federal funding. The language added is: "Suspension or Debarment: The State may, by written notice to the Contractor, immediately terminate this Contract if the State determines that the Contractor has been debarred, suspended or otherwise lawfully prohibited from participating in any public procurement activity, including but not limited to, being disapproved as a subcontractor of any public procurement unit or other governmental body. Submittal of an offer or execution of a contract shall attest that the Contractor is not currently suspended or debarred. If the Contractor becomes suspended or debarred, the Contractor shall immediately notify the State."

*School Facilities Board*

**Agency Response: Concur**

Agency Corrective Action Plan: While the School Facilities Board (SFB) maintained adequate control policies and procedures over suspension and debarment compliance requirements for contractors and subcontractors, the agency failed to screen sub-recipient school districts because it believed that they were already being screened under federal programs such as Title I, II and IV. The Auditor clarified that Federal Acquisition Regulations (2 CFR 180 and CFR 600.235) require each sub-recipient to be verified against the Denied Parties List maintained by the General Services Administration.

SFB immediately modified the sub-recipient approval process to include the verification of school districts to ensure that contracts are not awarded to school districts that have been suspended or debarred.

11-123

CFDA No.: 93.889 **National Bioterrorism Hospital Preparedness Program**

Award Period: July 1, 2010 through June 30, 2011

Award Number: 5U3REP090227-02-00

**U.S. Department of Health and Human Services**

Cash Management

Questioned Cost: Unknown

**Finding**

Criteria: In accordance with 45 CFR §74.22(2), cash advances to a recipient organization shall be limited to the minimum amounts needed and be timed to be in accordance with actual, immediate

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from the FY 2011 Single Audit Report)**

program expenditures. Further, in accordance with 45 CFR §74.22(k-l), recipients who receive \$120,000 or more in federal monies shall maintain advances in interest-bearing accounts and interest earned in excess of \$250 shall be remitted annually to the U.S. Department of Health and Human Services.

Condition and context: The Department of Health Services disbursed program monies to subrecipients for the entire program year without considering the immediate cash needs to carry out the program's purpose. In addition, the Department did not monitor its subrecipients to ensure that monies were deposited in interest-bearing accounts and aggregated interest earned in excess of \$250 was collected by the Department and remitted to the U.S. Department of Health and Human Services.

Effect: The Department may have advanced program monies to subrecipients in excess of their immediate cash needs, and interest earnings on the advanced monies have not been calculated and remitted to the federal agency. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a material weakness in internal control over compliance and material noncompliance with the program's cash management requirements.

Cause: The Department was unaware of the cash management requirements for program advances to subrecipients.

Recommendation: The Department should develop adequate internal control procedures to ensure that cash advanced to subrecipients is limited to the minimum amounts needed for program expenditures. Further, the Department should implement procedures to monitor subrecipients to ensure excess program monies are deposited in interest-bearing accounts and aggregated interest earnings in excess of \$250 are collected by the Department and remitted to the U.S. Department of Health and Human Services.

**Agency Response: Concur**

Agency Corrective Action Plan: The Agency's Bureau of Public Health Emergency Preparedness will facilitate further discussion with the U.S. Department of Health and Human Services. It will also: consider reducing the number of contracts in the grant, consider engaging a fiscal agent such as the Arizona Hospital Association to handle subrecipient payments, and consider the feasibility of paying subrecipients through working capital advances.

11-124

CFDA No.: 93.889 **National Bioterrorism Hospital Preparedness Program**

Award Period: July 1, 2010 through June 30, 2011

Award Number: 5U3REP090227-02-00

**U.S. Department of Health and Human Services**

Level of Effort

Questioned Cost: None

**Finding**

Criteria: In accordance with 42 U.S. Code 247d-3b(h)(1), the Department of Health Services must maintain its nonfederal health care preparedness expenditures at a level that is not less than the average of expenditures made during the preceding 2-year period. Further, in accordance with 45 CFR §92.20(b)(6), the costs must be verifiable from accounting records.

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from the FY 2011 Single Audit Report)**

Condition and context: The Department did not adequately monitor the program to ensure the level of effort requirements were met with allowable nonfederal sources. Specifically, the Department did not calculate or track the amount of monies from nonfederal sources that were used for health care preparedness.

Effect: During the audit, the Department was able to demonstrate that it had fulfilled its level of effort requirements, and therefore, there were no questioned costs. However, this finding is a material weakness in internal control over compliance with the program's level of effort requirements.

Cause: The Department did not adequately review program award notifications and guidance to determine the applicable requirements.

Recommendation: The Department should establish policies and procedures for determining the level of effort to be maintained based on actual nonfederal expenditures. In addition, the Department should maintain records to demonstrate that the level of effort requirements were met with allowable nonfederal sources.

**Agency Response: Concur**

Agency Corrective Action Plan: The Agency's Division for Planning and Operations, Financial Section partnered with the Division of Public Health Services, Bureau of Public Health Emergency Preparedness, and developed a listing of nonfederal expenditures for the preceding 2-year period. The dollar amounts were taken from Arizona Financial Information System (AFIS) and listed by account code (e.g. index and program cost account (PCA)). The Agency will now establish policies and procedures to calculate, track, and ensure that level of effort requirements are met with allowable nonfederal sources.

11-125

CFDA No.: 93.889 **National Bioterrorism Hospital Preparedness Program**

Award Period: July 1, 2010 through June 30, 2011

Award Number: 5U3REP090227-02-00

**U.S. Department of Health and Human Services**

Matching and Reporting

Questioned Cost: Unknown

**Finding**

Criteria: In accordance with 42 U.S. Code 247d-3a(i)(1)(c)(ii) and 45 CFR §92.24(b)(6), the Department of Health Services must match program monies with nonfederal expenditures of at least 10 percent of the award amount and these matching expenditures must be verifiable from accounting records. Further, in accordance with 45 CFR §92.20(b)(1), financial reports must be accurate, current, and complete and disclose the financial results of federal activities in accordance with the program's financial reporting requirements.

Condition and context: The Department calculated the nonfederal match required based on federal program expenditures and reported this amount on the financial reports; however, the amounts could not be supported by the Department's accounting records. Further, the Department relied on its subrecipients to meet the matching requirement on the monies awarded to them; however, it did not verify that the subrecipients maintained accounting records to support matching expenditures or that the expenditures were made with nonfederal monies.

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from the FY 2011 Single Audit Report)**

**Effect:** The Department was able to demonstrate that it met the matching requirements for the portion of expenditures that were not passed through to subrecipients. However, the Department did not substantiate that its subrecipients met their matching requirements and could not support the matching amounts reported on the financial reports submitted during the year. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a material weakness in internal control over compliance and noncompliance with the program's matching requirements and a significant deficiency in internal control over compliance and noncompliance with the program's reporting requirements.

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

**Recommendation:** The Department should establish procedures to ensure it complies with the program's matching requirements. This includes ensuring that matching expenditures as reported to the federal grantor are supported by the Department's and subrecipients' accounting records.

**Agency Response: Concur**

**Agency Corrective Action Plan:** The Agency's Division for Planning and Operations, Financial Section will partner with the Division of Public Health Services, Bureau of Public Health Emergency Preparedness to ensure that matching amounts reported on the FSR 269 report are supported by accounting records going forward. Also, the Bureau of Public Health Emergency Preparedness will verify subrecipient matching amounts as part of the hospital monitoring process, and ensure that these expenditures are made with nonfederal funds.

11-126

CFDA No.: 93.889 **National Bioterrorism Hospital Preparedness Program**

Award Period: July 1, 2010 through June 30, 2011

Award Number: 5U3REP090227-02-00

**U.S. Department of Health and Human Services**

Subrecipient Monitoring

Questioned Cost: Unknown

**Finding**

**Criteria:** In accordance with 45 CFR §92.40(a) and OMB Circular A-133, §.400(d)(3), the Department of Health Services must monitor subrecipients' activities to ensure that federal awards are used for authorized purposes and in accordance with laws, regulations, and the provisions of contracts or grant agreements. This can be accomplished by conducting site visits, reviewing financial and performance reports submitted by the subrecipients, contacting subrecipients and making inquiries concerning program activities, or conducting limited-scope audits.

**Condition and context:** During fiscal year 2011, the Department distributed approximately \$5 million in program monies to subrecipients. However, the Department did not perform monitoring procedures to ensure that subrecipient expenditures were allowable and supported. Specifically, auditors noted that the Department did not conduct site visits, review financial records, or evaluate the subrecipients' related internal controls.

**Effect:** There is an increased risk of noncompliance with applicable compliance requirements because the Department did not perform adequate monitoring procedures to determine whether the subrecipients complied with the grant agreements. It was not practical to extend our auditing

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from the FY 2011 Single Audit Report)**

procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a material weakness in internal control over compliance and material noncompliance with the program's subrecipient monitoring requirements.

Cause: The Department relied on the subrecipients to report accurate financial information without performing monitoring procedures to determine accuracy.

Recommendation: The Department should establish procedures to monitor subrecipients' use of federal monies by reviewing reports, conducting site visits, maintaining regular contact, or performing other procedures. This would help provide reasonable assurance that the subrecipient spends its federal monies in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

**Agency Response: Concur**

Agency Corrective Action Plan: As of February 2012, the Agency's Bureau of Public Health Emergency Preparedness has implemented a risk-based hospital monitoring process with regular site visits. This process includes verification of dollar amounts reported, and an evaluation of the hospital's financial records and internal controls

11-127

CFDA No.: 93.917 **HIV Care Formula Grants**

Award Period: April 1, 2010 through March 31, 2011

September 20, 2010 through September 29, 2011

April 1, 2011 through March 31, 2012

Award Numbers: X07HA00080-20-00, X07HA00080-20-01, X07HA00080-20-04, X07HA00080-21-00,  
and X08HA19857-01-00

**U.S. Department of Health and Human Services**

Matching and Level of Effort and Reporting

Questioned Cost: Unknown

**Finding**

Criteria: In accordance with 42 U.S. Code 300ff-27(b)(7)(E), 42 U.S. Code 300ff-27(d), and the Notice of Grant Award, the Department of Health Services must match program monies with nonfederal expenditures in an amount of \$1 for each \$2 of federal monies provided in the grant and must maintain its HIV-related expenditures at a level that is equal to, not less than, the level of expenditures made during the 1-year period preceding the grant year. In addition, the amounts contributed toward meeting the matching requirements may not include any nonfederal contributions provided as a condition of receiving federal monies under any related federal program. Further, in accordance with 45 CFR §92.24(b)(6) and 45 CFR §92.20(b)(1), costs used to meet matching and level of effort requirements must be verifiable from accounting records and financial reports must be accurate, current, and complete and disclose the financial results of federal activities in accordance with the program's financial reporting requirements.

Condition and context: The Department did not have adequate policies and procedures to help ensure compliance with matching and level of effort requirements for HIV-related expenditures. Specifically, the Department did not ensure that the amount of nonfederal expenditures used to meet matching requirements did not include other nonfederal contributions used to meet conditions of the award application. Also, the Department considered nonfederal expenditures used to meet level of effort requirements, which were a condition of the award application, as contributions to meet the matching

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from the FY 2011 Single Audit Report)**

requirements and reported these contributions on its financial reports. In addition, the Department did not verify that other state agencies that contributed expenditures to meet the matching and level of effort requirements maintained accounting records to support those expenditures or that the expenditures were made with nonfederal monies.

**Effect:** The Department did not demonstrate that it met the matching requirements and may not have maintained the required level of effort to support HIV-related activities as reported to the federal grantor. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a material weakness in internal control over compliance and material noncompliance with the program's matching and level of effort requirements and a significant deficiency in internal control over compliance and noncompliance with the program's reporting requirements.

**Cause:** The Department did not have adequate policies and procedures to ensure that contributions used to meet matching requirements were contributions other than those used to meet conditions of the award application. In addition, the Department's policies and procedures did not require contributions from other state agencies used to meet matching and level of effort requirements to be properly supported by accounting records.

**Recommendation:** The Department should establish policies and procedures to ensure that it complies with the program's matching and level of effort requirements. This includes ensuring that matching expenditures as reported to the federal grantor are nonfederal contributions that are not used to meet conditions of the award application and obtaining adequate support for expenditures from other state agencies used to meet the matching and level of effort requirements.

**Agency Response: Concur**

**Agency Corrective Action Plan:** The Department's Program Area has ensured that within the grant application for fiscal year 2012, no dollar amounts were included as both the state match and the level of effort requirements.

Also, the Department's Program Area is taking steps to ensure data from reporting agencies is valid, which will include seeking input from HRSA regarding implementation of a verification process for dollar amounts received from other agencies.

11-128

CFDA No.: 93.917 **HIV Care Formula Grants**

Award Period: September 20, 2010 through September 29, 2011

April 1, 2010 through March 31, 2011

April 1, 2011 through March 31, 2012

Award Numbers: X08HA19857-01-00, X07HA00080-20-00, X07HA00080-20-01, X07HA00080-20-04,  
and X07HA00080-21-00

**U.S. Department of Health and Human Services**

Subrecipient Monitoring

Questioned Cost: Unknown

**Finding**

**Criteria:** In accordance with 45 CFR §92.40(a) and OMB Circular A-133, §.400(d)(3), the Department of Health Services must monitor subrecipients' activities to ensure that federal awards are used for authorized purposes and in accordance with laws, regulations, and the provisions of contracts or grant

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from the FY 2011 Single Audit Report)**

agreements. This can be accomplished by conducting site visits, reviewing financial and performance reports submitted by the subrecipients, contacting subrecipients and making inquiries concerning program activities, or conducting limited-scope audits.

Condition and context: During fiscal year 2011, the Department distributed approximately \$4.9 million in program monies to subrecipients. However, the Department did not establish monitoring procedures to ensure that subrecipient expenditures were allowable and supported until June 2011. Specifically, auditors noted that for 10 of 11 subrecipients, the Department did not perform monitoring procedures by reviewing financial and performance records or evaluating the subrecipients' related internal controls.

Effect: There is an increased risk of noncompliance with applicable compliance requirements because the Department did not perform adequate monitoring procedures throughout the fiscal year to determine whether the subrecipients complied with the grant agreements. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a material weakness in internal control over compliance and material noncompliance with the program's subrecipient monitoring requirements.

Cause: The Department relied on the subrecipients to report accurate financial information without performing monitoring procedures to determine accuracy.

Recommendation: The Department should continue to monitor subrecipients' use of federal monies by reviewing reports, conducting site visits, maintaining regular contact, or performing other procedures. This would help provide reasonable assurance that the subrecipient spends its federal monies in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

**Agency Response: Concur**

Agency Corrective Action Plan: Beginning in June 2011, the Department's Program Area has been conducting site visits for all subrecipients, and will continue with these annual visits going forward.

11-129  
CFDA No.: 12.401 **National Guard Military Operations and Maintenance (O&M) Projects**  
12.401 **ARRA—National Guard Military Operations and Maintenance (O&M) Projects**  
Award Period: October 1, 2009 through September 30, 2010  
October 1, 2010 through September 30, 2011  
Award Numbers: Various  
CFDA No.: 12.404 **National Guard ChalleNGe Program**  
Award Period: July 1, 2010 through December 31, 2011  
Award Number: W912L2-10-2-4002  
**U.S. Department of Defense**

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Activities Allowed or Unallowed and Allowable Costs/Cost Principles Questioned Cost: Unknown

**Finding**

Criteria: In accordance with 32 CFR §33.20(b)(3), the Department of Emergency and Military Affairs must maintain effective control and accountability for all grant cash, real and personal property, and other assets, and must adequately safeguard all such property and ensure that it is used solely for authorized purposes.

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from the FY 2011 Single Audit Report)**

Condition and context: The Department did not establish adequate policies and procedures to ensure that grant monies were used solely for authorized purposes. During the period between October 2007 and July 2011, a department official embezzled monies from the National Guard Military Operations and Maintenance (O&M) Projects and National Guard ChalleNGe Program grants. Program monies were directed to a nonprofit organization for which the department official served as comptroller. The department official had unlimited access to the nonprofit organization's bank accounts and was able to redirect the program monies for his personal use. The Auditor General's Special Investigative Unit issued a special investigation report on this matter on February 23, 2012.

Effect: Inadequate internal control policies and procedures over program expenditures resulted in an increased risk of noncompliance with program requirements and potential fraud, waste, and abuse. The department official embezzled a total of \$643,140 between October 2007 and July 2011, including \$223,552 during fiscal year 2011. A total of \$363,140 was taken from the National Guard Military Operations and Maintenance (O&M) Projects grant and \$280,000 was taken from the National Guard ChalleNGe Program grant. In November 2011, the Department reimbursed the ChalleNGe Program grant for the total amount embezzled. Due to inadequate accounting records and commingling of state and federal monies, it was not practical to extend our auditing procedures to determine the total questioned cost that may have resulted from this finding. This finding is a material weakness in internal control over compliance and material noncompliance with the programs' activities allowed or unallowed and allowable costs/cost principles compliance requirements.

Cause: There was inadequate review and supervision of the department official's activities.

Recommendation: The Department should establish adequate written policies and procedures governing the disbursement and transfer of grant monies, which include the following:

- Outline the process for any requests made by management-level employees, which should include a review and approval from a supervisor or a periodic review of their activities.
- Require expenditures to be supported by proper documentation, including claim requests, purchase orders, vendor invoices, and vendor contracts.
- Require all intra-agency transfer of grant monies to be supported and approved by an appropriate official. In addition, all intra-agency transfers of grant monies should be reconciled to the Department's accounting records by an independent supervisor on a periodic basis.

**Agency Response: Concur**

Agency Corrective Action Plan: The Department has instituted internal policies and procedures to ensure that all public funds within the Department's control are used solely for authorized purposes. In regards to grant funds these include: monthly reconciliations with program managers on all open grants, quarterly reconciliations with the federal cognizant agent, increased internal audits, and strict guidance and adherence to the disbursement process.

The Department currently conducts monthly reconciliations on each open grant with federal program managers and on a quarterly basis with the Grants Officer Representative of the Department's federal cognizant agent pertaining to National Guard grants. Monthly reconciliations include a review of the detailed transactions for the month prior, year to date status of expenditures, verification of revenues advanced from the federal cognizant agent, and future monthly expenditure and revenue projections. All expenditures and revenues reported by the Department to the federal cognizant agent and program managers are validated to the Arizona Financial Information System. All information is provided to the

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from the FY 2011 Single Audit Report)**

program managers electronically and reconciliations are formally documented utilizing a reconciliation checklist which is maintained permanently in the grant file.

The Department has included in its internal policies and procedures the mandated requirements for claims disbursement. It includes the process to generate a disbursement and the required supporting documentation. The Department has given formal instruction and guidance to all finance staff on the requirements of a disbursement utilizing Section II H of the State Accounting Manual and its internal policies and procedures.

The Department is working on establishing an internal Whistle Blower policy which will maintain the anonymity and protect the individual reporting the fraud and formally document the complaint for review by the Department's Director, The Adjutant General (TAG). All complaints will be investigated by direction of TAG and the findings will be documented and reported as needed to the appropriate agencies.

The Department recently hired additional internal audit staff to allow for increased focus in the areas of procurement, human resources and finance. The staff is supervised on an operational basis by the Senior Executive Officer for the Department but they report directly to TAG. The Senior Executive Officer, with TAG's direction, works with the audit staff to develop the annual audit plan

11-130

CFDA No.: 12.401 **National Guard Military Operations and Maintenance (O&M) Projects**

12.401 **ARRA—National Guard Military Operations and Maintenance (O&M) Projects**

Award Period: October 1, 2009 through September 30, 2010

October 1, 2010 through September 30, 2011

Award Numbers: Various

**U.S. Department of Defense**

Cash Management

Questioned Cost: Unknown

**Finding**

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

Condition and context: The Department of Emergency and Military Affairs did not have effective internal control procedures in place to minimize the time elapsing between the transfer of monies from the U.S. Treasury and their disbursement. Specifically, the Department exceeded its allowable cash balance for 102 days during the fiscal year.

Effect: The Department could incur an interest liability on cash balances that exceed the required time frames. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a material weakness in internal control over compliance and noncompliance with the program's cash management requirements.

Cause: The Department did not minimize the time elapsing between the transfer of monies and their disbursement due to a lack of adequate procedures.

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from the FY 2011 Single Audit Report)**

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

This finding is similar to a prior-year finding.

**Agency Response: Concur**

Agency Corrective Action Plan: To ensure proper fiscal management, to include cash management, the Department has instituted a process by which cash flow will be projected and managed for each grant throughout the fiscal year. The process is designed to ensure sufficient funds are available to meet disbursement requirements yet not exceed the 45 days between the transfer of monies from the U.S. Treasury and their disbursement.

Monthly cash flow projections will be developed at the beginning of the federal fiscal year for each grant. The projections will be based upon staffing, reoccurring and known operational costs and any estimated costs such as repair, maintenance and operational supplies. These cash flow projections will be updated monthly reflecting actual expenditures and revenues from the prior month. During the monthly reconciliations with program managers, any necessary adjustments to the remaining monthly projections will be made. After adjustments are made, the Department will request advance funds for the next 60 days. The request will be based upon cumulative expenditures up to the next 60 days, minus advance funds already requested. Because it takes approximately 15 days from the close of a month to receive the request for advance funds, the agency will always maintain no more than 45 days cash on hand.

11-131

CFDA No.: 12.401 **National Guard Military Operations and Maintenance (O&M) Projects**

12.401 **ARRA—National Guard Military Operations and Maintenance (O&M) Projects**

Award Period: October 1, 2009 through September 30, 2010

October 1, 2010 through September 30, 2011

Award Numbers: Various

**U.S. Department of Defense**

Suspension and Debarment

Questioned Cost: N/A

**Finding**

Criteria: In accordance with 2 CFR §§180.220 and 180.300, the Department of Emergency and Military Affairs must not contract with any party that has been suspended or debarred or is otherwise excluded from or ineligible for participation in federal assistance programs. This may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration, obtaining vendor certifications, or adding clauses or conditions to the contracts.

Condition and context: For contracts greater than \$5,000 but less than \$50,000, the Department stated that it reviewed the EPLS website to verify that vendors providing goods and services paid with federal monies had not been suspended or debarred or otherwise excluded from federal contracts. However, the Department did not document or otherwise evidence that this procedure was performed. Specifically, for 6 of 25 vendors tested who were paid over \$25,000 in federal monies, auditors were unable to determine whether the Department performed procedures to ensure that the contracted vendors were not suspended or debarred. Auditors performed additional audit procedures and noted no instances of payments made to suspended or debarred individuals or organizations.

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
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Effect: Payments could be made to suspended or debarred parties. This finding is a significant deficiency in internal control over compliance and noncompliance with the program's suspension and debarment compliance requirements. This finding could affect other federal programs that the Department administered.

Cause: The Department did not have policies that required employees to document or otherwise evidence the review of the EPLS website.

Recommendation: The Department should document its determination that vendors being paid over \$25,000 in federal monies have not been suspended or debarred from doing business with governmental entities.

**Agency Response: Concur**

Agency Corrective Action Plan: The Department has instituted a process to ensure proper documentation exists which verifies that vendors are not suspended or debarred before entering into contracts greater than \$5,000 but less than \$50,000. The Department verifies through the Excluded Parties List System (EPLS) that a vendor has not been suspended or debarred and prints out the verification. The verification is placed either into the contract folders for contracts or attached to a purchase order within ProcureAZ for non-contracted purchases.

11-132

CFDA No.: 64.005 **Grants to States for Construction of State Home Facilities**

64.005 **ARRA—Grants to States for Construction of State Home Facilities**

Award Period: None

Award Numbers: FAI 04-002 and FAI 04-004

**U.S. Department of Veterans Affairs**

Davis-Bacon Act

Questioned Cost: Unknown

**Finding**

Criteria: In accordance with 29 CFR §5, the Department of Veterans' Services must include in its construction contracts over \$2,000 a requirement that the contractor or subcontractor pay wages at least equal to rates prevailing for similar projects in the area, as determined by the U.S. Secretary of Labor.

Condition and context: The Department spent \$34,714 in program monies for installation of fiber optic connections for the Arizona State Veterans' Home in Tucson, which was less than 1 percent of the program's total construction expenditures. However, the Department did not include in the contract a requirement that the contractor comply with the requirements of the Davis-Bacon Act. Additionally, the Department did not require the contractor to submit weekly certified payrolls.

Effect: The Department could not ensure that the contractor was paying prevailing wage rates. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a material weakness in internal control and noncompliance with Davis-Bacon Act requirements.

Cause: The Department did not have adequate policies and procedures in place to ensure that all contractors subject to Davis-Bacon Act requirements were sufficiently notified and monitored.

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from the FY 2011 Single Audit Report)**

Recommendation: To help ensure that the Department complies with Davis-Bacon Act requirements, it should require contractors and subcontractors who are awarded federal monies exceeding \$2,000 to pay employees the prevailing wage rates established by the U.S. Department of Labor. To accomplish this, the Department should include the prevailing wage rate contract clauses defined in 29 CFR §5 and request and review contractors' and subcontractors' payroll certification reports to verify that prevailing wages were paid. If the Department determines that the contractors or subcontractors did not pay prevailing wages or if the Department does not receive payroll certification reports, it should withhold payment until the requirements are met.

**Agency Response: Concur**

Agency Corrective Action Plan: As of February 22, 2012, award FAI 04-002 is 98% expended. For future construction grants, the Department will diligently monitor the performance to ensure compliance with the project charter.

11-133  
CFDA No.: 64.005 **Grants to States for Construction of State Home Facilities**  
64.005 **ARRA—Grants to States for Construction of State Home Facilities**  
Award Period: None  
Award Numbers: FAI 04-002 and FAI 04-004  
**U.S. Department of Veterans Affairs**  
  
Suspension and Debarment  
Questioned Cost: Unknown

**Finding**

Criteria: In accordance with 2 CFR §§180.220 and 180.300, the Department of Veterans' Services must not contract with any party that has been suspended or debarred or is otherwise excluded from or ineligible for participation in federal assistance programs. This may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration, obtaining vendor certifications, or adding clauses or conditions to the contracts.

Condition and context: For one of three vendors tested that were paid federal monies exceeding \$25,000, the Department did not ensure that the vendor was not suspended or debarred. Auditors performed additional audit procedures and noted no instances of payments made to suspended or debarred individuals or organizations.

Effect: Payments could be made to suspended or debarred parties. This finding is a significant deficiency in internal control over compliance and noncompliance with the program's suspension and debarment requirements. This finding could affect other federal programs that the Department administered.

Cause: The Department did not establish adequate procedures to verify that vendors providing goods and services paid with federal monies had not been suspended, debarred, or otherwise excluded from federal contracts.

Recommendation: The Department should establish procedures to verify that vendors awarded contracts in excess of \$25,000 are not suspended or debarred from doing business with governmental entities.

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from the FY 2011 Single Audit Report)**

**Agency Response: Concur**

Agency Corrective Action Plan: The Department of Veterans' Services uses the Excluded Parties List System (EPLS) to verify that vendors providing goods or services paid with federal monies have not been suspended or debarred, or otherwise excluded, from federal contracts. The Department will incorporate the requirement to document the verification in its Procurement Policies and Procedures.

11-134

**Student Financial Assistance Cluster:**

CFDA No.: 84.007 **Federal Supplemental Educational Opportunity Grants**

84.032 **Federal Family Education Loans**

84.033 **Federal Work-Study Program**

84.038 **Federal Perkins Loan Program—Federal Capital Contributions**

84.063 **Federal Pell Grant Program**

84.268 **Federal Direct Student Loans**

84.375 **Academic Competitiveness Grants**

84.376 **National Science and Mathematics Access to Retain Talent (SMART) Grants**

84.379 **Teacher Education Assistance for College and Higher Education Grants  
(TEACH Grants)**

84.408 **Postsecondary Education Scholarships for Veteran's Dependents**

Award Period: July 1, 2010 through June 30, 2011

Award Numbers: Various

**U.S. Department of Education**

CFDA No.: 93.264 **Nurse Faculty Loan Program**

93.342 **Health Professions Student Loans, Including Primary Care Loans/Loans for  
Disadvantaged Students**

93.364 **Nursing Student Loans**

93.407 **ARRA—Scholarships for Disadvantaged Students**

93.408 **ARRA—Nurse Faculty Loan Program**

93.925 **Scholarships for Health Professions Students from Disadvantaged  
Backgrounds**

Award Period: July 1, 2010 through June 30, 2011

Award Numbers: Various

**U.S. Department of Health and Human Services**

Special Tests and Provisions

Questioned Cost: \$1,932

**Finding**

Criteria: In accordance with 34 CFR §668.22, when a recipient of a Title IV grant or loan assistance withdraws from an institution, the institution must determine the amount of Title IV grant or loan assistance that the student earned as of the student's withdrawal date and calculate the amount that should be returned. Additionally, in accordance with 34 CFR §668.173(b), returns of Title IV monies are required to be made no later than 45 days after the date the institution determines that the student withdrew.

Condition and context: During the fiscal year, Arizona State University awarded approximately \$527 million in financial aid grants and loan assistance to 44,222 students, and 3,360 of those students withdrew and may have received assistance that should have been returned. However, the University's internal control policies and procedures were not sufficient to ensure that all returns of Title IV monies

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from the FY 2011 Single Audit Report)**

were calculated correctly and processed within the required time frame. Specifically, auditors noted the following:

- For 1 of 40 students tested for eligibility, the student had withdrawn from the University and received \$1,225 in Title IV monies from the Federal Pell Grant Program that had not been earned, but the return of monies was not processed because an incorrect code was entered into the student information system.
- For 1 of 40 students tested for return of Title IV monies, the return of Federal Direct Student Loans processed by the University was understated by \$360 as a result of a data entry error.
- For 1 of 40 students tested for return of Title IV monies, the student had unofficially withdrawn during the fall semester and this was determined by the University on December 23, 2010. However, the return of Federal Pell Grant Program monies of \$347 was not processed until January 23, 2012, since a counselor did not adjust the student's award on the student information system, and this issue was not identified until the subsequent fiscal year.

**Effect:** It was not practical to extend our auditing procedures sufficiently to determine whether any additional questioned costs resulted from this finding. This finding is a significant deficiency in internal control over compliance and noncompliance with the Cluster's special tests and provisions requirements.

**Cause:** The University did not have a control in place to ensure the accuracy of the data entered by accountants responsible for adjusting student awards on the University's student information system.

**Recommendation:** The University should establish policies and procedures requiring an independent review of data entered by employees responsible for processing returns of Title IV monies or other controls, such as system edit checks, to validate the data entered and ensure that returns are processed accurately by the required deadline.

**Agency Response: Concur**

Agency Corrective Action Plan: All recommendations have been implemented.

The University has fully implemented processes to validate the integrity of data entered and to ensure returns are processed by the required deadline. Through programming changes, the need for manual intervention has been significantly reduced, therefore minimizing the opportunity for clerical errors. Should clerical errors occur, new reports will immediately identify and flag suspect transactions for review by the accounting staff.

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**Student Financial Assistance Cluster:**

CFDA No.: 84.007 **Federal Supplemental Educational Opportunity Grants**

84.032 **Federal Family Education Loans**

84.033 **Federal Work-Study Program**

84.038 **Federal Perkins Loan—Federal Capital Contributions**

84.063 **Federal Pell Grant Program**

84.268 **Federal Direct Student Loans**

84.375 **Academic Competitiveness Grants**

84.376 **National Science and Mathematics Access to Retain Talent (SMART) Grants**

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
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84.379 **Teacher Education Assistance for College and Higher Education Grants  
(TEACH Grants)**

84.408 **Postsecondary Education Scholarships for Veteran's Dependents**

Award Period: July 1, 2010 through June 30, 2011

Award Numbers: Various

**U.S. Department of Education**

CFDA No.: 93.264 **Nurse Faculty Loan Program**

93.342 **Health Professions Student Loans, Including Primary Care Loans/Loans for  
Disadvantaged Students**

93.364 **Nursing Student Loans**

93.407 **ARRA—Scholarships for Disadvantaged Students**

93.408 **ARRA—Nurse Faculty Loan Program**

93.925 **Scholarships for Health Professions Students from Disadvantaged**

**Backgrounds**

Award Period: July 1, 2010 through June 30, 2011

Award Numbers: Various

**U.S. Department of Health and Human Services**

Eligibility

Questioned Cost: \$2,081

**Finding**

Criteria: In accordance with 34 CFR §§690.62 and 690.63, Pell Grant awards are required to be determined based on the student's enrollment status, expected family contribution, cost of attendance, and the academic year structure. Award amounts are calculated based on all of these factors and are specified on the U. S. Department of Education's (USDOE) payment and disbursement schedules.

Condition and context: Auditors tested 40 students and noted that the University of Arizona had awarded one student \$2,081 too much in Pell Grant monies. During the monthly process of reconciling Pell Grant award data between the University's and USDOE's computer systems, the University realized that it needed to update USDOE's reporting system for this student's enrollment status change to less than full time. However, rather than updating USDOE's reporting system with the correct enrollment status, the University manually adjusted its own system instead. Because the enrollment status in the University's system is used to determine the award amount, the student was overawarded. The University's established procedures failed to prevent this error.

Effect: The inaccurately recorded enrollment status resulted in the University's awarding and disbursing Pell Grant monies that were \$2,081 in excess of amounts established on the USDOE's Pell Grant payment and disbursement schedules. This finding is a significant deficiency in internal control over compliance and noncompliance with the Cluster's Pell Grant eligibility requirements. It was not practical to extend our auditing procedures to determine whether any additional questioned costs resulted from this finding.

Cause: The University implemented a new student information system during the fiscal year. University employees were unfamiliar with and misapplied the new procedures in effect for reconciling Pell Grant award data, which allowed for the improper change of enrollment status and resulting overaward.

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from the FY 2011 Single Audit Report)**

Recommendation: To help ensure that it complies with the Cluster's Pell Grant eligibility requirements, the University should clarify its policies and procedures for reconciling Pell Grant award data and provide employees with training to help prevent inaccurate enrollment changes from being entered into its student information system.

**Agency Response:** We do concur with the facts as stated in the case. However, we also believe that it is represented more accurately by "A deficiency in operation exists when a properly designed control does not operate as designed or the person performing the control does not possess the necessary authority or competence to perform the control effectively" as defined in auditing standards. This case resulted from the employee misapplying the procedure of a control that was specifically put in place to discover mismatches between COD and our administrative financial aid system (PeopleSoft). She updated the wrong system in this case.

Agency Corrective Action Plan: We had already recognized that PeopleSoft does not provide a sufficient comfort level of control against individual errors, especially in the area of manual award adjustments. We implemented an additional overarching control on August 31, 2011, looking at 2011-12 academic year disbursements. We now run this new Pell reconciliation, outside of PeopleSoft (programmed in Excel) that recalculates Pell awards based on EFC and enrollment, comparing the results to actual disbursements. This is an OSFA Calendar Item named "Pell Enrollment/EFC Check". It is timed at September 15, March 15 and July 30. This significant and intensive protocol picks up any errors or mismatches that might have to do with either enrollment status (at time of disbursement) or with EFC not perfectly matching scheduled Pell Amount. (This definitely would have picked up the case above, if we had had it in place at the time.) We are also including in our OSFA Staffing Proposal an identified position of a Compliance Specialist. I expect that this audit result will help us make the case for that position, and to reallocate divisional assets to fund it.

Other auditors' findings:

The other auditors who audited the Department of Transportation reported the following significant deficiencies in internal control over compliance and noncompliance:

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**Highway Planning and Construction Cluster:**

CFDA No.: 20.205 **Highway Planning and Construction**

20.205 **ARRA—Highway Planning and Construction**

20.219 **Recreational Trails Program**

Award Period: Various

Award Numbers: Various

**U. S. Department of Transportation**

Subrecipient Monitoring

Questioned Cost: N/A

**Finding**

Criteria: As a pass-through entity, the Arizona Department of Transportation (ADOT) must have adequate controls in place to ensure all aspects of subrecipient monitoring are in compliance with federal requirements. Prior to the award of a grant ADOT must determine whether the subrecipient has an adequate project delivery system and accounting controls (23 USC 106(g)(4)(A)). At the time of the award the ADOT must identify the CFDA title and number, award name and number, and the name of the awarding agency. Additionally, ADOT must identify ARRA allocations in the award and that the subrecipient is required to identify ARRA funds in their Schedule of Expenditures of Federal Awards

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from the FY 2011 Single Audit Report)**

(SEFA). Once the grant is awarded ADOT must design and perform monitoring procedures to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that those performance goals are achieved.

These requirements are outlined in OMB Circular A-133 Compliance Supplement under the Subrecipient Monitoring section for the Department of Transportation, Highway Planning and Construction Grant.

Condition and context: The following conditions were noted during the audit:

- ADOT does not have a set of policies in place that require recertification of certified accepted entities at regular intervals as required by the agreement between ADOT and the Federal Highway Administration (FHWA).
- ADOT does not explicitly identify the CFDA number, grant name, and ARRA allocation (if any) in the award letter to subrecipients.
- ADOT does not have a formal set of policies and procedures in place or perform any procedures for monitoring subrecipients after the award has been made, including the determination of subrecipients expending \$500,000 or more in Federal awards received a timely single audit.

Effect: There is increased risk of noncompliance with applicable compliance requirements by the subrecipients of Federal Highway Administration administered by ADOT. There was no specific questioned cost noted related to this control deficiency.

Cause: ADOT has not formally documented subrecipient monitoring policies and procedures.

Recommendation: ADOT should draft and adopt a set of written policies and procedures that ensure that subrecipient monitoring procedures are performed as required by Federal requirements.

**Agency Response: Concur**

Agency Corrective Action Plan: ADOT is in the process of drafting a set of policies and procedures that will be implemented to ensure that all aspects of subrecipient monitoring are performed.

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**Highway Planning and Construction Cluster:**

CFDA No.: 20.205 **Highway Planning and Construction**

20.205 **ARRA—Highway Planning and Construction**

20.219 **Recreational Trails Program**

Award Period: Various

Award Numbers: Various

**U. S. Department of Transportation**

Special Tests and Provisions

Questioned Cost: N/A

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from the FY 2011 Single Audit Report)**

**Finding**

Criteria: A State DOT or LPA must have a quality assurance (QA) program, approved by FHWA, for construction projects on the National Highway System to ensure that materials and workmanship conform to approved plans and specifications. Verification sampling must be performed by qualified testing personnel employed by the State DOT, or by its designated agent, excluding the contractor. (23 CFR sections 637.201, 637.205, and 637.207). Samples must fall within prescribed ranges determined by the Arizona Department of Transportation Standard Specifications for Road and Bridge Construction 2008 and the ADOT Materials Quality Assurance Program to be acceptable.

Condition and context: For three of 25 quality assurance samples reviewed we determined that the test results fell outside the acceptable deviation. No follow up or corrective action was noted. Additionally, for one of the twenty five quality assurance samples reviewed, the individual taking the sample was an employee of the subcontractor and did not note the presence of an ADOT technician.

Effect: Substandard materials may have been used in the construction of roads and/or highways.

Cause: The approved Quality Assurance Program was not followed due to insufficient manpower and training.

Recommendation: The materials lab should hire additional engineers and technicians to ensure that workload demands are met. The materials lab should also ensure that all construction administration personnel are adequately trained.

**Agency Response: Concur**

Agency Corrective Action Plan: Manpower at the Phoenix Regional lab has been increased through the addition of an additional Engineer and two additional Technicians. Staffing levels are also supplemented by Consultant Technicians as needed to support varying workload demands. These increases in manpower were fully implemented in the fall of 2011.

Training of construction administration personnel by the Materials Group is an on-going process. The instance noted in your report of improper computer entry related to the chain of custody of Construction Materials Samples is an example of a work duty that needs increased training. Materials Group has nearly completed development of "FAST End Users Manual" to assist technicians in the use of ADOT's Construction Administration computer program (FAST). This manual is scheduled to be completed in early 2012.