

State of Arizona

CONCLUSION: Based on our audits, we issued opinions on the State's financial statements and federal expenditure schedule concluding that the information in those statements and schedule is reliable. We also issued reports over the State's internal control and compliance over financial reporting and select federal programs, which identified internal control weaknesses over financial reporting and federal awards that are explained on the next page.

State overview

State provided wide range of services for its citizens—In fiscal year 2019, the State provided a wide range of government services for its over 7 million citizens. The services the State provided are administered through various agencies, departments, offices, and administrations; boards and commissions; and institutions of higher learning. In addition to assessing taxes, budgeting and finance, and other general government operations, other significant services include: public education, safety, and health and welfare; highway construction and transportation; inspection and regulation of consumer products and services; parks and recreation; and natural resources and wildlife preservation. Arizona is the 6th largest state in the nation by area, with 113,909 square miles, and 14th largest state by population size.

State responsible for accurate financial report—The State is responsible for accurately preparing its [Comprehensive Annual Financial Report \(CAFR\)](#), maintaining effective internal controls, and being accountable for its use of public monies. Select financial information from the State's CAFR is presented below. However, the State's CAFR should be read to fully understand its overall financial picture. Our Office's [Financial Report User Guide for State and Local Governments](#) will help readers identify and understand important and useful information in the State's CAFR.

State financial information

Asset, liability, and net position balances on June 30, 2019

Total assets/deferred outflows = \$53.1 billion

Select asset balances:

| | |
|----------|---------------------------------|
| \$31.0 B | Capital assets |
| 17.5 | Cash and investments |
| 3.3 | Due from others and receivables |

Total liabilities/deferred inflows = \$22.8 billion

Select liability balances:

| | |
|---------|---------------------------------------|
| \$8.8 B | Long-term debt and lease obligations |
| 6.1 | Noncurrent employee benefits |
| 4.8 | Due to others and accrued liabilities |

State's net position = \$30.3 billion

None of this net position is unrestricted

Revenues and expenses during fiscal year 2019¹

Total revenues = \$34.8 billion

Select revenue sources:

| | |
|----------|-----------------------------|
| \$16.2 B | Federal grants and programs |
| 7.7 | State sales taxes |
| 5.6 | State income taxes |
| 3.2 | Other taxes |

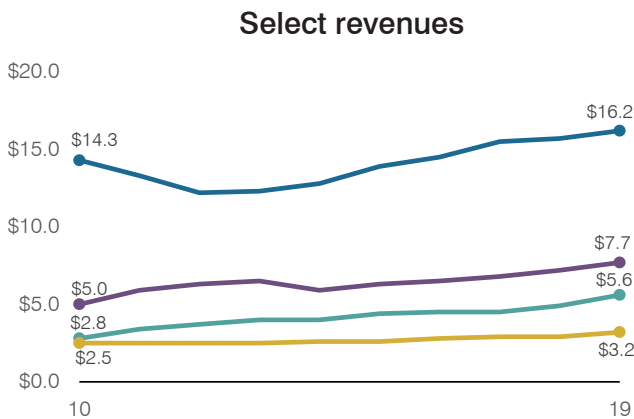
Total expenses = \$32.0 billion

Select expenses by function:

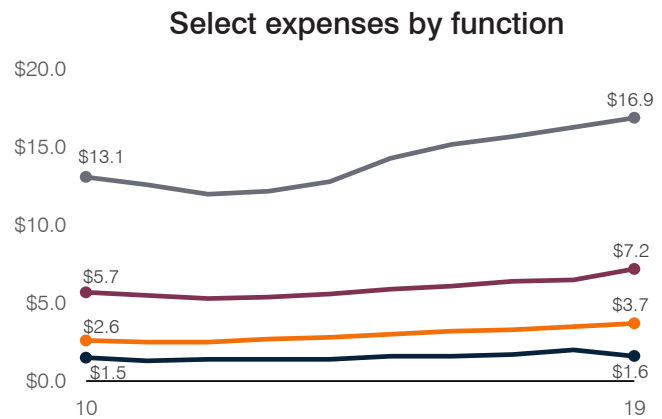
| | |
|----------|--------------------------|
| \$16.9 B | Health and welfare |
| 7.2 | Education |
| 3.7 | Shared State sales taxes |
| 1.6 | Protection and safety |

¹ The select revenues and expenses include only amounts from the State's governmental activities. The majority of the State's business-type activities is related to the educational services provided by the 3 State universities, the activities of which are reported in their separately issued CAFRs.

Select revenues and expenses by function Fiscal years 2010 through 2019 (In billions)



- **Federal grants and programs**—Federal government grants and programs awarded as assistance to the State and its citizens. Significant types of assistance include medical, welfare, nutrition, housing, education, and student financial assistance.
- **State sales taxes**—Taxes the State collects from businesses for selling a product or providing a service subject to sales tax.
- **State income taxes**—Taxes the State collects from corporations, partnerships, and individuals.
- **Other taxes**—Taxes the State collects from motor vehicle registration; sales of fuel, tobacco and liquor, and property; and other miscellaneous taxes.



- **Health and welfare**—Medical assistance provided through the State's Medicaid program, public assistance provided through the Department of Economic Security for individuals who are economically unable to provide for themselves, and services for the well-being of children in the State provided by the Department of Child Safety.
- **Education**—Federal and State monies provided to Arizona public schools for education of Arizona children and administrative oversight by the Department of Education.
- **Shared State sales taxes**—Sales taxes the State collects and the Arizona State Treasurer distributes to the local governments based on statutory distribution formulas.
- **Protection and safety**—Protection of citizens and property. The largest portion of these expenses is for the State prisons', Department of Public Safety's, and Department of Juvenile Corrections' operations.

Source: Auditor General staff summary of information obtained from the State's CAFRs.

Audit findings and recommendations

Below is a summary of our reports over the State's internal control and compliance over financial reporting and over federal programs that are included in the State's [Single Audit Report](#), where there is detailed information about our findings and the State's response. For help in understanding important information presented in these reports, please refer to our Office's [Internal Control and Compliance Reports User Guide](#).

Financial reporting internal control

We found that the State needed improvements in certain controls over financial reporting and compliance and reported 10 findings. Most importantly, we found that 4 State agencies and 1 university lacked adequate policies and procedures over IT systems and data to appropriately respond to risks and to prevent, detect, and respond to unauthorized or inappropriate access, damage, or loss, including protecting sensitive data. In addition, the State underreported Land Endowments Fund investments in its prior-year financial statements because the State's reporting process over investments was inadequate. The State corrected the underreported investments error by restating beginning balances.

Financial findings and recommendations

Federal internal control and compliance

The State spent nearly \$17.6 billion of federal program monies during the fiscal year. We tested 20 federal programs selected under the major program guidelines established by the Single Audit Act, which included Medicaid, welfare and community assistance, highway planning and construction, and health and education programs that totaled over \$14.3 billion in federal expenditures. We reported findings over the State's administration of 3 of those federal programs.

Federal award findings and recommendations