

State of Arizona

Annual financial statement and compliance audits

The State’s fiscal year 2022 reported financial information is reliable. However, we reported deficiencies and noncompliance over financial reporting and federal programs, summarized on the following pages.

Audits’ purpose

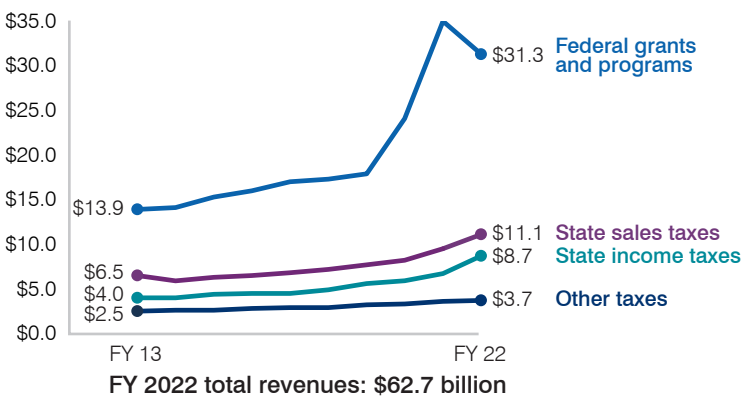
To express our opinions on the State’s financial statements and on compliance with certain federal requirements and, if applicable, to report findings over noncompliance with certain laws and regulations or other financial deficiencies.

Primary revenue sources and how they were spent

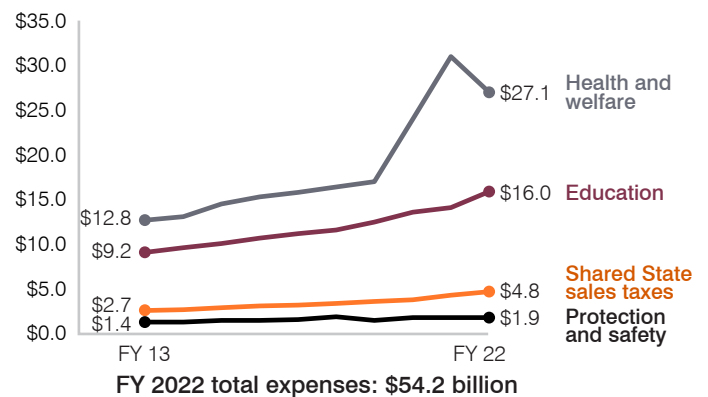
Fiscal years (FY) 2013 through 2022

(In billions)

Primary revenue sources



Primary expense purposes



Source: Auditor General staff summary of information obtained from the State of Arizona’s financial statements.

Largest primary revenue sources FY 2022

- **Federal grants and programs 49.9%**—Comes from federal government grants and programs awarded as assistance to the State and its citizens. Significant types of assistance include medical, health and welfare, food and nutrition, housing, education, and student financial assistance.
- **State sales taxes 17.7%**—Comes from taxes the State collects from businesses for selling a product or providing a service subject to sales tax.

Largest primary expense purposes FY 2022

- **Health and welfare 50.0%**—Costs for providing medical assistance through the State’s Medicaid program, economic relief and assistance to individuals through the Department of Economic Security, and services for the well-being of children in the State through the Department of Child Safety.
- **Education 29.6%**—Costs for providing federal and State monies to the Arizona public and charter schools for educating children and providing administrative oversight through the Arizona Department of Education and higher education services provided by the 3 State universities.

State’s net position increased by \$8.5 billion in FY 2022

The State’s revenues were \$8.5 billion greater than expenses, increasing total net position to \$46.4 billion at June 30, 2022. Net position includes all assets, such as buildings, vehicles, and cash and investments, less all liabilities, such as unpaid pension and other payroll obligations, long-term debt, and accounts payable. Of the total net position, \$40.2 billion is restricted by external parties or is not in spendable form, and the remaining \$6.2 billion is unrestricted.

Summary of significant internal control findings over financial information

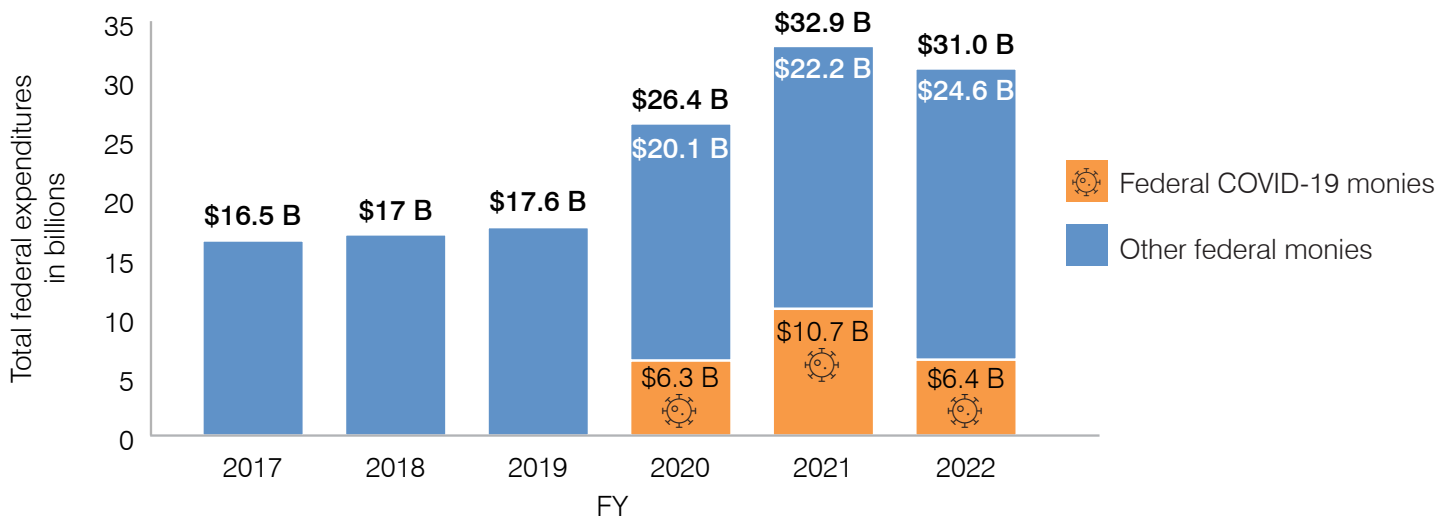
Summarized below are our and the other auditors' significant financial statement findings included in the [State of Arizona 2022 Single Audit Report](#), which includes 12 total financial findings and contains further information and the State's responses.

Findings summarized by State agency	Finding #	Similar finding in prior year?
Arizona Department of Administration (ADOA), Arizona Health Care Cost Containment System (AHCCCS), and Arizona Department of Economic Security (DES)		
<ul style="list-style-type: none"> Did not prepare and issue the State's financial statements in time to meet the State's federally mandated audit requirement deadline, resulting in untimely financial information for State legislators, federal grantors, creditors, and other stakeholders. 	2022-01 2022-09	X
Arizona Department of Revenue		
<ul style="list-style-type: none"> Did not ensure it collected all income taxes that were due to the State, increasing the risk that the State may not have received all its income tax revenues. 	2022-02	X
Arizona Land Department		
<ul style="list-style-type: none"> Prepared inaccurate lease information for inclusion in the State's financial statements that contained \$128.8 million in errors and required correction so that the State's financial statements were accurate, which increased the risk that those relying on the reported financial information could be misinformed. 	2022-04	

State's federal expenditures

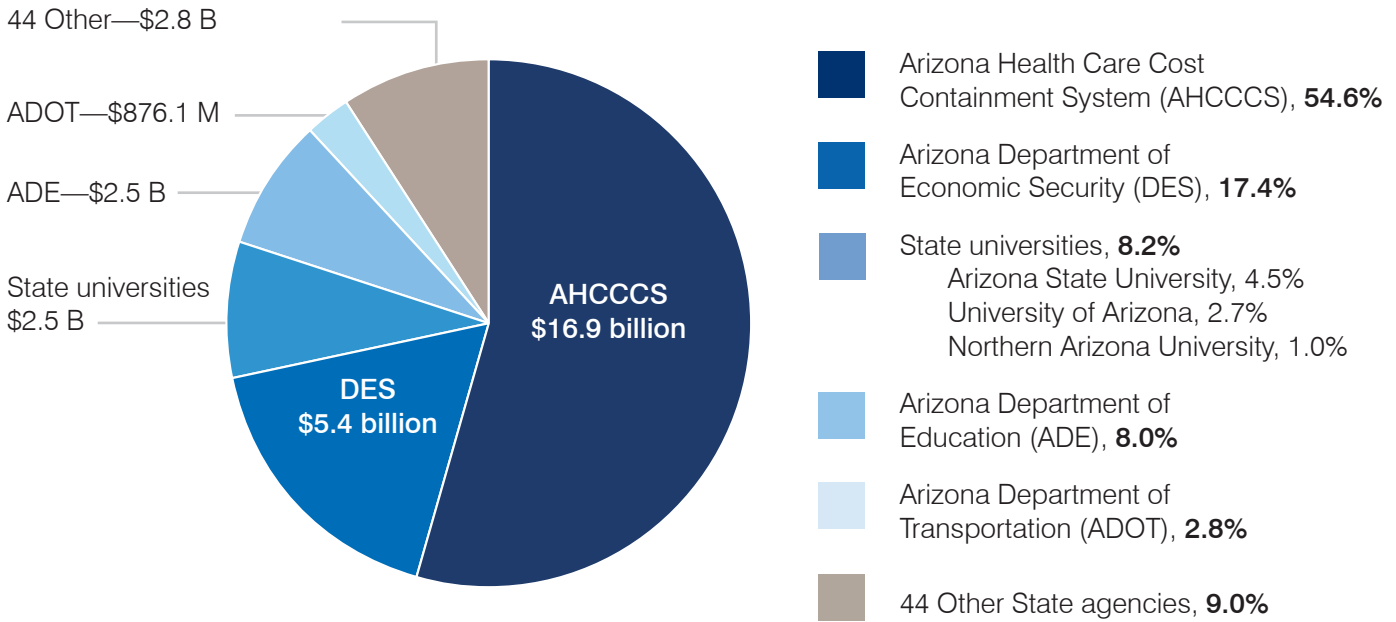
As shown below for fiscal years 2017 through 2019, the State's federal expenditures increased approximately 3 percent each fiscal year. However, in fiscal year 2020, federal expenditures increased by \$8.8 billion, or approximately 50 percent, from fiscal year 2019 and increased again by \$6.5 billion, or approximately 25 percent, in fiscal year 2021 as a direct result of the federal government providing COVID-19 pandemic response and relief monies to the State beginning in March 2020. During fiscal year 2022, federal expenditures decreased by \$1.9 billion, or approximately 6 percent, as a result of certain federal COVID-19 programs' spending periods expiring before or during fiscal year-end. In fiscal years 2020, 2021, and 2022, the State's federal expenditures included \$6.3 billion, \$10.7 billion, and \$6.4 billion, respectively, of federal COVID-19 monies.

Primary increases in federal expenditures for FYs 2020-2022 coincide with influx of federal COVID-19 monies



During fiscal year 2022, 48 of the State's agencies and the 3 State universities spent the \$31.0 billion in federal program monies performing services for purposes such as medical, health and welfare, and food assistance to individuals and families; economic relief and assistance to individuals, such as unemployment; public health emergency response and mitigation efforts for the COVID-19 pandemic; student financial assistance and research and development programs for higher education; education assistance to elementary and secondary schools; and highway planning and construction.

4 State agencies and 3 State universities administered over 91% of federal monies spent in FY 2022



State of Arizona's annual federal compliance audit

We audited the State's federal expenditures as part of the annual compliance audit of federal monies, which we performed in accordance with State law and federal regulation and in conjunction with our audit of the State's FY 2022 financial statements. Below is a breakdown of our FY 2022 federal compliance audit results.



19
federal programs audited



15
programs audited received at least 1 finding



23
findings for COVID-19-related programs



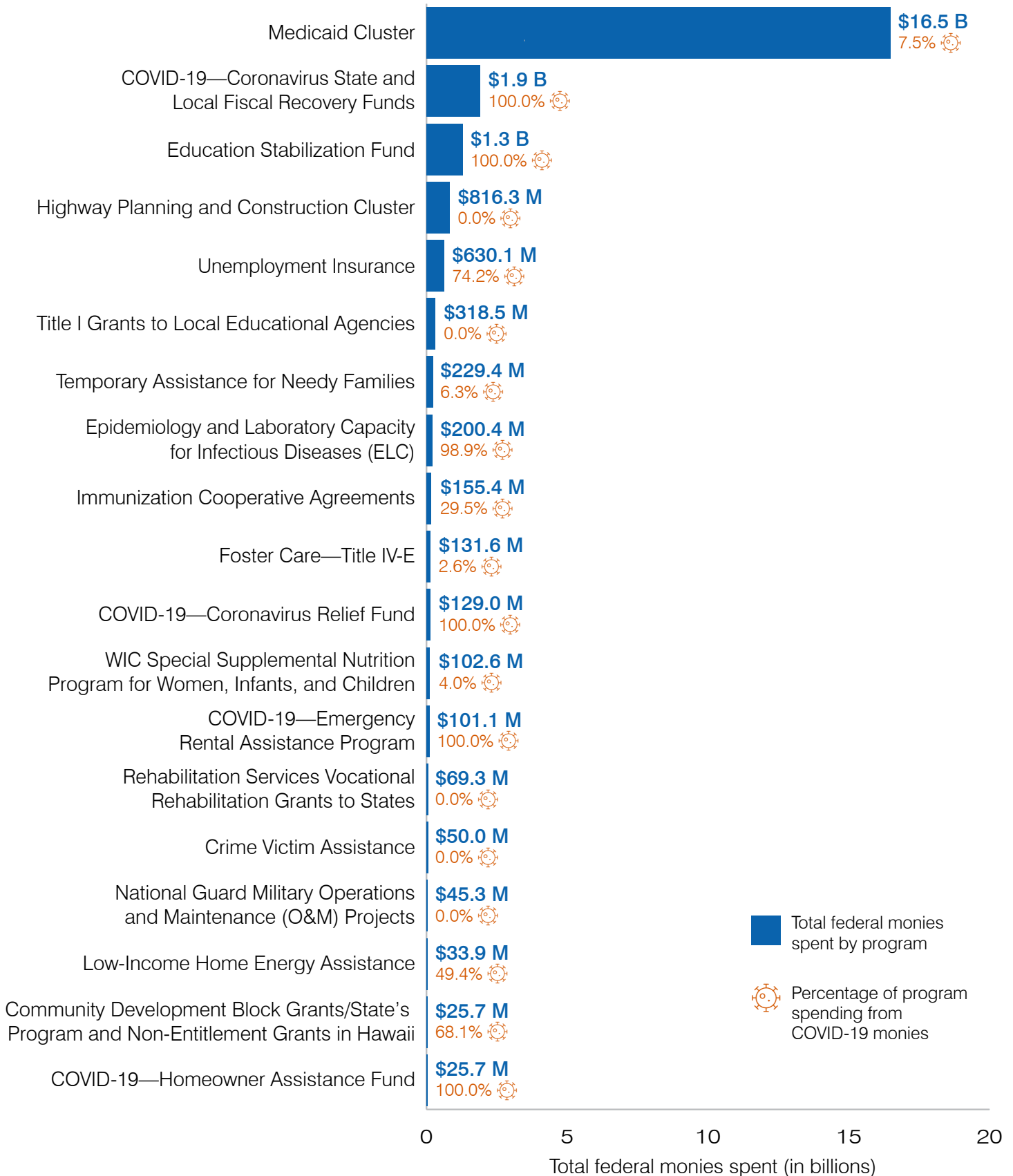
28
total findings¹



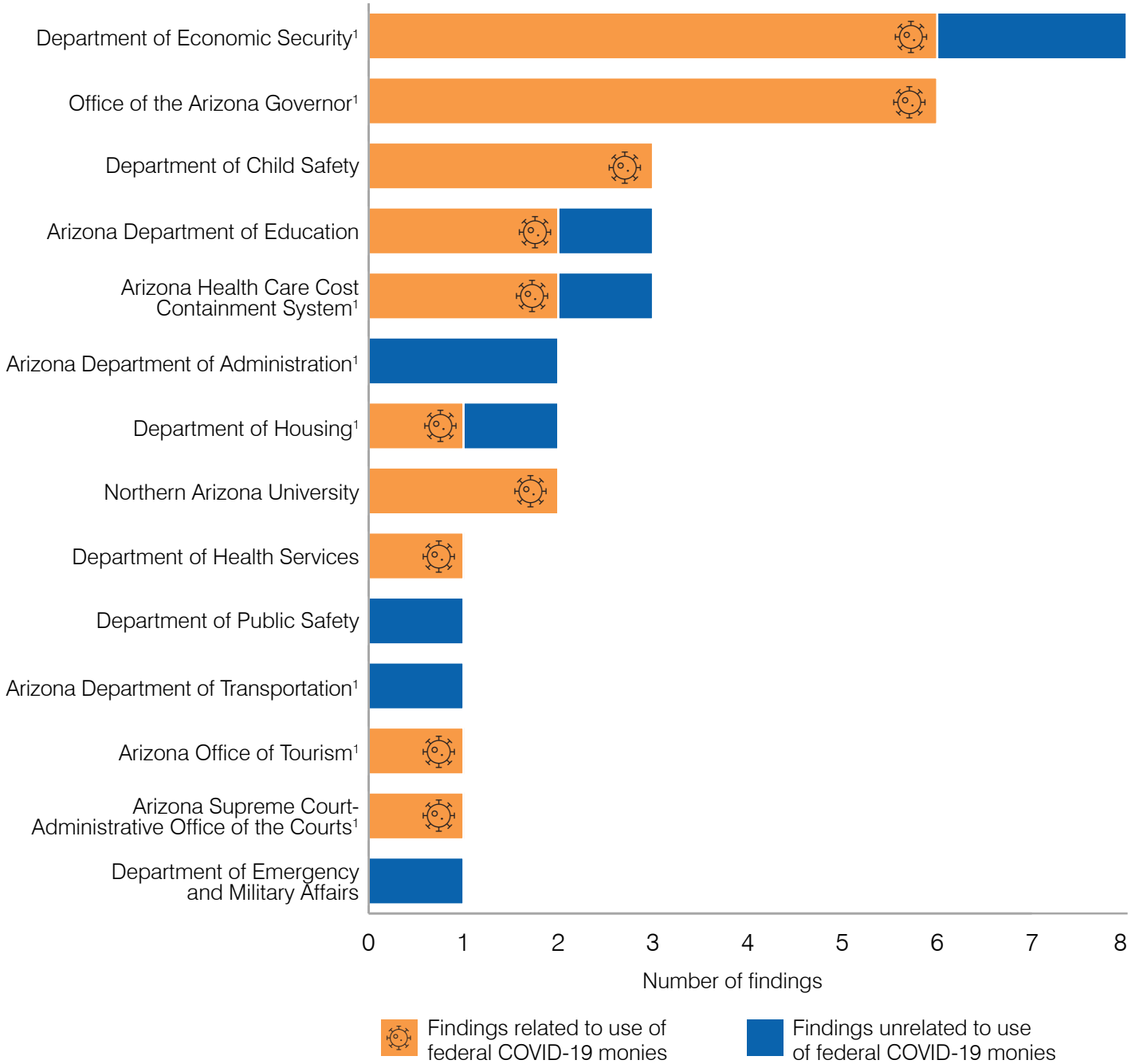
\$13,897,652
of questioned costs

¹ Two of the 28 findings did not directly result from a major program we audited, and they included multiple federal programs. One was administered at Northern Arizona University, and one was administered at the Arizona Department of Economic Security and Arizona Department of Housing.

19 federal programs with expenditures of \$22.8 billion, including \$5.5 billion from federal COVID-19 monies, were audited during FY 2022



Auditors reported 28 findings for 18 federal programs in 14 State agencies; 23 findings were related to the use of federal COVID-19 monies^{1,2}






¹ When a single finding included multiple agencies, we included that finding for each of the cited agencies in the graphic above to accurately represent the number of findings for each agency. For example, we reported 1 finding for the Arizona Departments of Administration, Transportation, Economic Security, and Education and the Arizona Health Care Cost Containment System, and therefore it is included for each of those 5 agencies.

² This figure includes 18 programs with findings: the 15 programs with at least 1 finding reported on page 3, which we audited as part of single audit requirements, plus 3 additional nonmajor programs that were required to be reported as part of single audit requirements but did not directly result from a program we audited.



Significant audit findings that could impact the State's future federal funding or result in the return of federal monies and/or increased monitoring from the federal government

Summarized below are our significant federal compliance audit findings included in the [State of Arizona 2022 Single Audit Report](#), which includes 28 total federal compliance audit findings and contains further information and the State's responses.

Findings summarized by State agency and federal program	Finding #	Similar finding in prior year?
Arizona Departments of Administration (ADOA), Transportation, Economic Security, and Education and Arizona Health Care Cost Containment System (AHCCCS)		
State's Single Audit Report Submission		
<ul style="list-style-type: none"> Did not timely submit the State's June 30, 2022, Single Audit Report to the federal audit clearinghouse by March 31, 2023. The State submitted on December 20, 2023, which is 9 months later than allowed by federal regulation. State agencies, including the 3 universities, could potentially face further actions taken by federal or pass-through agencies affecting the State's future federal award funding. Such actions include imposed suspensions, delays, or restrictions in federal award funding due to enhanced cash and compliance monitoring and/or denials of new federal award proposals. 	2022-101	X
Office of the Arizona Governor		
Coronavirus Relief Fund (CRF), Education Stabilization Fund—Governor's Emergency Education Relief (GEER) Fund, and Coronavirus State and Local Fiscal Recovery Funds		
<ul style="list-style-type: none"> Did not monitor its subrecipients' activities or compliance with the award terms and federal program requirements, which increased the risk that federal monies it awarded to subrecipients, totaling \$8.5 million, \$12.3 million, and \$127.1 million of CRF, GEER, and Coronavirus State and Local Fiscal Recovery Funds, respectively, may not have been properly spent. 	2022-102 2022-104 2022-106 	X
Arizona Department of Economic Security		
Emergency Rental Assistance Program		
<ul style="list-style-type: none"> Reported inaccurate or unsupported program information and did not retain reports and associated documentation for audit purposes resulting in the federal agency being unable to rely on the reports to effectively monitor the DES' program administration. 	2022-109 	
Unemployment Insurance		
<ul style="list-style-type: none"> Did not put all critical identity verification or other anti-fraud measures in place before paying 108,377 claimants \$218.4 million of Pandemic Unemployment Assistance benefits during fiscal years 2021 and 2022. These benefits exceeded the minimum weekly benefit but DES had not yet determined whether all 108,377 claimants were qualified to receive benefits over the weekly minimum, which may require DES to repay the federal government for amounts it overpaid claimants. 	2022-110 	X
Coronavirus State and Local Fiscal Recovery Funds		
<ul style="list-style-type: none"> Made benefit payments to 5 of 67 individuals we tested totaling \$10,000 for which it lacked the supporting documentation to support the eligibility determinations, which may result in DES having to return the monies to the federal agency. 	2022-113 	


Arizona Department of Child Safety

Foster Care—Title IV-E

<ul style="list-style-type: none"> • Paid 5 of 11 childcare institutions tested that provided foster care services \$514,154 in federal monies for foster care maintenance payments despite their ineligibility for payments and, contrary to federal regulations, allowed them to care for children. This put the children at potential risk before the Department completed all required child safety considerations, which included performing background checks on the childcare institutions' employees. 	<p>2022-117</p> 	<p>X</p>
<ul style="list-style-type: none"> • Did not perform all the required monitoring of its subrecipients' activities or compliance with the award terms and program requirements, which increased the risk that \$6.0 million of program monies it awarded to subrecipients may not have been properly spent. 	<p>2022-118</p> 	<p>X</p>

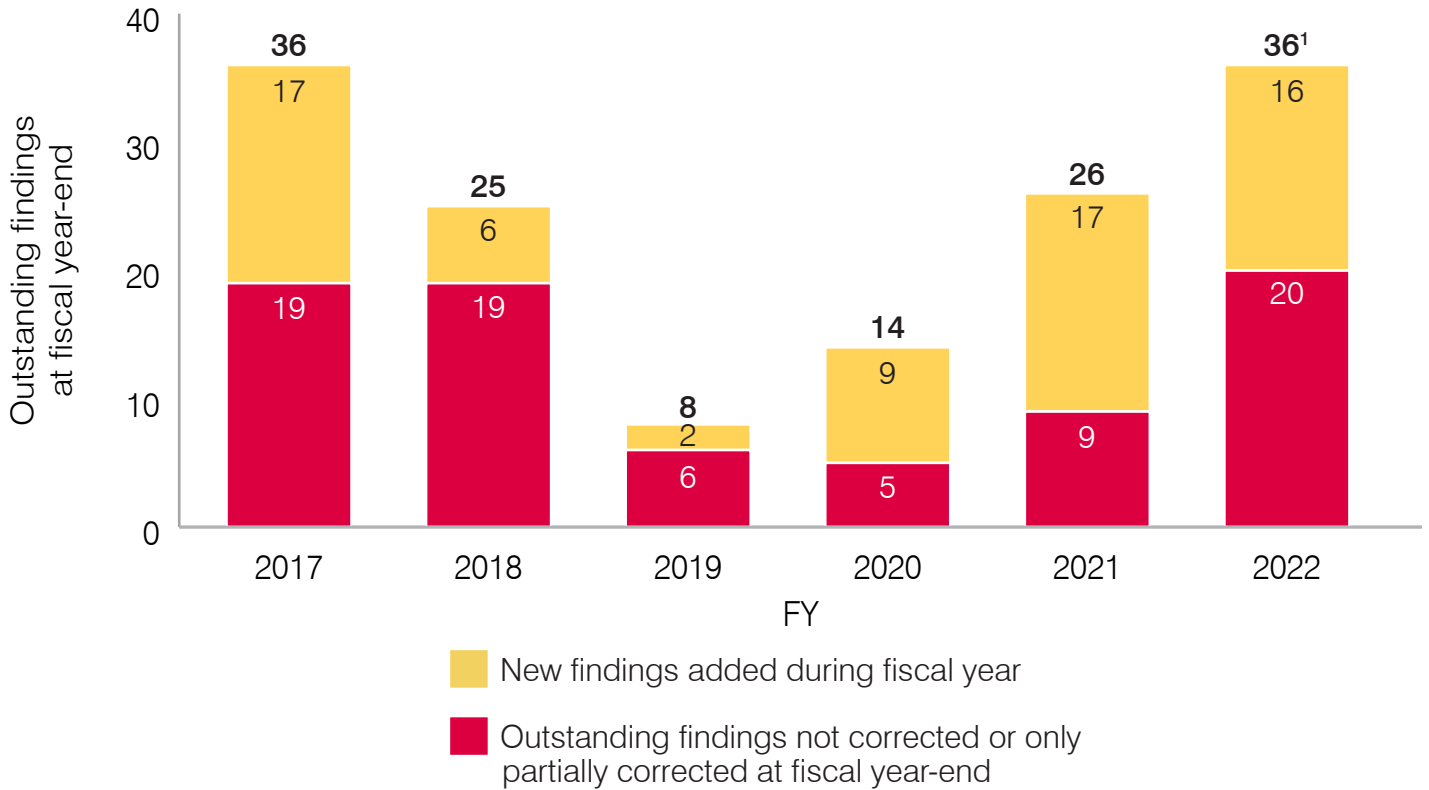
Arizona Health Care Cost Containment System (AHCCCS)

Medical Assistance Program (part of the Medicaid Cluster)

<ul style="list-style-type: none"> • Became aware of potential fraudulent billing practices, including significant increases in billing for outpatient behavioral health services. This led AHCCCS to connect the irregular billing of these services with alleged criminal activity targeting indigenous peoples and other vulnerable Arizonans. As of August 23, 2023, a total of 317 providers have been suspended from Medicaid payments. 	<p>2022-127</p> 	
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The State had made progress taking corrective action on its federal program findings during fiscal years 2018 and 2019. However, as a result of the influx of COVID-19 pandemic monies and additional federal program requirements, we reported new audit findings in fiscal years 2020 through 2022 that require corrective action to be taken by the State.

Management made progress correcting its federal program findings during FYs 2018 and 2019, but the number of federal program findings increased during FYs 2020, 2021, and 2022



¹ This count includes the 28 findings we reported on page 5 plus 8 findings we previously reported in the prior year. These 8 findings have not been fully corrected and either relate to programs that were not subject to audit in fiscal year 2022 or a repeat written finding was not warranted.

Auditor General website report links

- The June 30, 2022, State of Arizona Annual Comprehensive Financial Report and Single Audit Report that are summarized in these highlights can be found at this [link](#). These reports should be read to fully understand the State's overall financial picture and our reporting responsibilities.
- The State's reports from prior years are available at this [link](#).