

**REPORT HIGHLIGHTS**  
SINGLE AUDIT

**Subject**

The State of Arizona spent \$9.4 billion of federal monies for federal programs administered, in whole or in part, by 46 state agencies. The largest awards were for education, health services, highway construction, research and development, student financial aid, and welfare. The State must be accountable for its use of both federal and state monies, maintaining strong internal controls, and compliance with federal program requirements.

**Our Conclusion**

During the compliance audit, 26 federal programs were tested, including 11 program clusters. The State maintained adequate internal controls over, and complied with, the federal compliance requirements for 8 of the 26 federal programs tested. However, for 18 federal programs tested, auditors found that the State did not maintain adequate internal controls or comply with one or more of the compliance requirements. See page 2 for further information.



2006

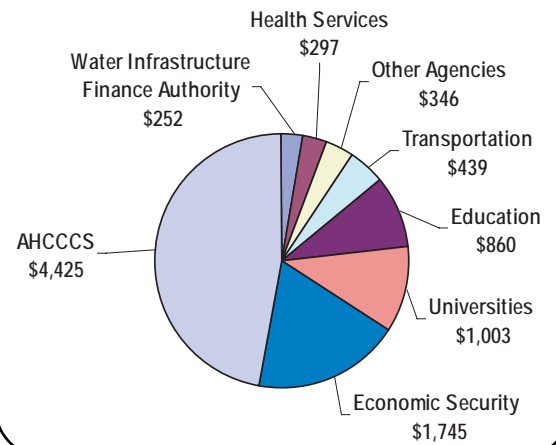
Year Ended June 30, 2006

**Expenditures of Federal Monies Increased by \$353 Million**

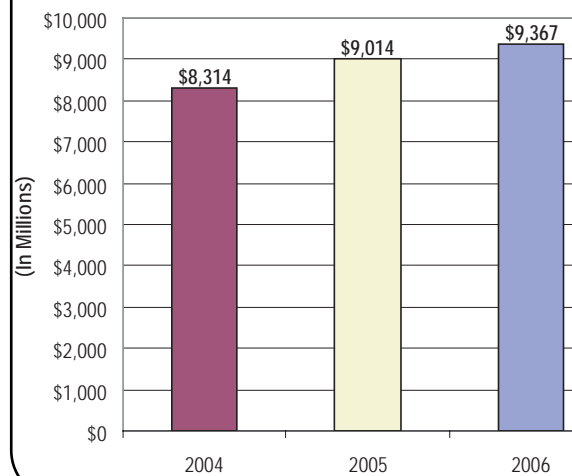
During fiscal year 2006, the State spent \$9.4 billion of federal monies. As shown in the chart to the right, seven entities administered 96 percent of these monies.

Overall, expenditures increased \$353 million, or 4 percent, from the \$9 billion expended in fiscal year 2005. The largest increase occurred in programs for indigent medical care, loan and loan guarantee programs, food stamps, and homeland security. Combined expenditures for these programs increased by \$363 million from the prior year. This increase was attributable to inflationary increases in healthcare and food costs, and additional funding for university student financial aid loans, other loan programs, and homeland security. The largest increase, \$254 million, occurred in federal monies expended for indigent medical care by the Arizona Health Care Cost Containment System (AHCCCS). As shown in the graph to the right, expenditures of federal monies have increased \$1.1 billion between fiscal years 2004 and 2006. Expenditures for indigent medical care and food stamps accounted for \$857 million of the increase.

**State Agencies that Administer Federal Awards (In Millions)**



**Federal Programs Expenditures Fiscal Years 2004-2006**



# The State Did Not Always Comply with Federal Program Requirements

Auditors identified and tested 26 federal programs, including 11 program clusters, under the guidelines established by the Single Audit Act. Audit tests included evaluating the State's compliance with each program's federal regulations generally related to expending, monitoring, matching, and reporting federal awards. Auditors noted internal control weaknesses and instances of noncompliance with program requirements for 18 of the programs tested (see table below). For 15 of the 18 programs, the internal control weaknesses and instances of noncompliance with program requirements were considered to be material. As a result, the audit opinion was modified due to noncompliance with

federal requirements for the following programs: Food Stamp Cluster, Child Nutrition Cluster, Child and Adult Care Food Program, Special Education Cluster, Title I Grants to Local Educational Agencies, Migrant Education—State Grant Program, Rehabilitation Services—Vocational Rehabilitation Grants to States, Even Start—State Educational Agencies, Temporary Assistance for Needy Families, Child Support Enforcement, Foster Care—Title VI-E, Social Services Block Grant, Social Security—Disability Insurance, Urban Areas Security Initiative, and Homeland Security Grant Program Cluster programs.

Summary of Internal Control Weaknesses and Instances of Noncompliance

Program	Responsible Department	Type of Compliance Requirement									
		Activities <sup>1</sup>	Cash <sup>2</sup>	Costs <sup>3</sup>	Eligibility <sup>4</sup>	Match <sup>5</sup>	Monitor <sup>6</sup>	Period <sup>7</sup>	Report <sup>8</sup>	Special <sup>9</sup>	Procurement <sup>10</sup>
Child Support Enforcement	Economic Security									X	X
Food Stamp Cluster	Economic Security									X	
Foster Care—Title IV-E	Economic Security	X		X							
SSBG	Economic Security	X		X			X				X
RS	Economic Security				X				X		X
SSDI	Economic Security	X		X							X
TANF	Economic Security	X		X	X					X	
Unemployment Insurance	Economic Security	X		X	X				X		
WIA Cluster	Economic Security						X	X	X		
Child Nutrition Cluster	Education	X		X	X		X		X		X
CACFP	Education	X		X			X		X		
Even Start	Education						X				
Migrant Education	Education						X		X	X	
Special Education Cluster	Education						X		X		
Title I Grants	Education		X				X		X		
Highway Safety Cluster	Gov. Office of Highway Safety						X				
Homeland Security Cluster	Military Affairs	X	X	X		X	X			X	
Urban Areas Security	Military Affairs	X	X	X			X				

- SSBG – Social Services Block Grant
- RS – Rehabilitation Services—Vocational Rehabilitation Grants to States
- SSDI – Social Security—Disability Insurance
- TANF – Temporary Assistance for Needy Families
- CACFP – Child and Adult Care Food Program

- <sup>1</sup>Activities: Federal monies were expended for unallowable activities.
- <sup>2</sup>Cash: Federal monies requested and received were in excess of, or not sufficient for, immediate program needs.
- <sup>3</sup>Costs: Federal monies were expended for unallowable costs.
- <sup>4</sup>Eligibility: Benefits were awarded to ineligible participants.
- <sup>5</sup>Match: Federal monies were not matched with state monies, or a specified level of service was not maintained.
- <sup>6</sup>Monitor: Subrecipients were not monitored to ensure they administered awards in compliance with federal requirements.
- <sup>7</sup>Period: Federal monies were not expended during the period allowed, or excess funds were carried forward.
- <sup>8</sup>Report: Financial information reported to federal grantors was not accurate or timely.
- <sup>9</sup>Special: Unique program requirements were not complied with.
- <sup>10</sup>Procurement: Procurement and suspension and debarment regulations were not complied with.

# The Department of Economic Security Did Not Materially Comply with Program Requirements for Seven Programs

The Arizona Department of Economic Security receives federal monies to help administer assistance programs to recipients throughout the State of Arizona. For the period July 1, 2005 through June 30, 2006, the Department received more than \$1.7 billion in federal financial assistance. However, for the audit period, the Department did not materially comply with federal requirements for seven of its programs. Our report indicates the following programs had material internal control weaknesses and material instances of noncompliance with federal requirements.

## Food Stamp Cluster

The Division of Benefits and Medical Eligibility, Family Assistance Administration offices, did not always follow the Division's policies and procedures when issuing electronic benefit transfer cards (EBT) or maintain documents used to calculate benefits in recipients' case files. As a result, auditors determined that the Division did not materially comply with special tests and provisions compliance requirements for the Food Stamp Cluster. These weaknesses resulted in known questioned costs of \$10,799.

## Rehabilitation Services—Vocational Rehabilitation Grants to States

The Division of Employment and Rehabilitation Services, Rehabilitation Services Administration, did not determine an applicant's eligibility for vocational rehabilitation services within the required timelines to ensure compliance with eligibility requirements. In addition, the Department did not consistently follow procurement rules and regulations when obtaining services to ensure compliance with procurement requirements. As a result, auditors determined that the Division did not materially comply with eligibility and procurement requirements for the Rehabilitation Services program.

## Temporary Assistance for Needy Families (TANF)

The Division of Benefits and Medical Eligibility, Family Assistance Administration offices, did not always follow the Division's policies and procedures when issuing EBT cards. In addition, the Division of Employment and Rehabilitation Services, Jobs Opportunities and Basic Skills (JOBS) Administration, did not ensure recipients were participating in the Administration's work activities program as required. As a result, auditors determined that the Divisions did not materially comply with activities allowed or unallowed, allowable costs/cost principles, eligibility, and special tests and provisions compliance requirements for the TANF program. These weaknesses resulted in known questioned costs of \$13,723.

## Child Support Enforcement

The Division of Child Support Enforcement did not always establish an order of child support within 90 calendar days after locating the alleged father or noncustodial parent, or enforce medical support obligations from the noncustodial parent to ensure compliance with special tests and provisions requirements.

## Foster Care—Title IV-E

The Division of Children, Youth, and Families received administrative cost reimbursements for non-licensed child care placements. Effective March 1, 2006, administrative cost reimbursements for non-licensed placements were no longer allowable charges to the program; however, the Division was not notified of this change by the grantor agency until August 2006. As a result, this instance of noncompliance resulted in a questioned cost of approximately \$5,678,295. The Department is currently working with the U.S. Department of Health and Human Services to resolve this questioned cost.

## Social Services Block Grant (SSBG)

The Department of Economic Security's management did not monitor four of its administrations to ensure its subrecipients were adequately monitored as required by subrecipient monitoring requirements.

## Social Security—Disability Insurance

The Division of Benefits and Medical Eligibility, Disability Determination Service Administration, did not always maintain documentation for payments made to vendors to ensure compliance with activities allowed or unallowed and allowable costs/cost principles requirements. In addition, the Administration did not consistently follow procurement rules and regulations when obtaining goods and services to ensure compliance with procurement requirements. These weaknesses resulted in known questioned costs of \$7,363.

### TO OBTAIN MORE INFORMATION

A copy of the full report can be obtained by calling  
**(602) 553-0333**



or by visiting  
our Web site at:  
[www.azauditor.gov](http://www.azauditor.gov)

Contact person for  
this report:  
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### Single Audit Fact Sheet

- Seven weaknesses in financial reporting internal controls, one of those noted a material weakness.
- Thirty-two findings identifying weaknesses in federal compliance internal controls, 20 of those noted material weaknesses.
- Thirty-one findings identifying violations of federal program compliance requirements, 17 of those noted material violations.
- Program costs totaling \$5,817,268 were questioned as a result of our audit.