



**REPORT  
 HIGHLIGHTS**  
 SINGLE AUDIT

**Subject**

The State of Arizona spent \$6.4 billion of federal monies this past year for 1,100 federal awards administered, in whole or in part, by 44 state agencies. The largest federal 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, maintain strong internal controls, and comply with federal program requirements.

**Our Conclusion**

The State maintained adequate controls over financial reporting. The State also maintained adequate internal controls over, and complied with, the federal compliance requirements for 16 of the 23 federal programs tested. For 7 federal programs auditors found that the State did not maintain adequate internal control or comply with one or more of the compliance requirements applicable to those programs. Further, for two of those programs, the auditors reported material internal control weaknesses and material non-compliance.



**2002**

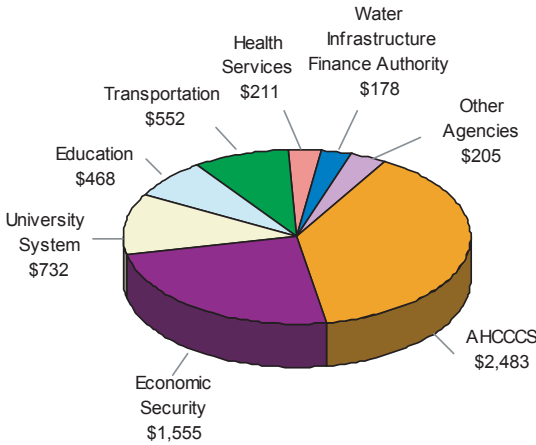
Year Ended June 30, 2002

**Expenditures of Federal Monies Increase by \$1.3 Billion**

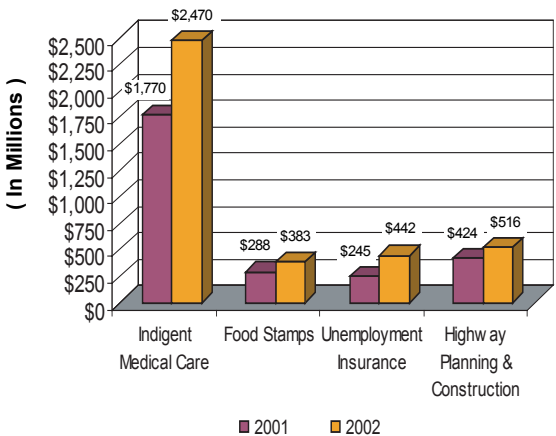
During fiscal year 2002, the State spent \$6.4 billion of federal monies. As shown in the graph to the right, seven state agencies administered 97 percent of these monies.

Overall expenditures increased \$1.3 billion, or 25 percent, from the \$5.1 billion expended in fiscal year 2001. The largest increase occurred in health and welfare programs for indigent medical care, food stamps, and unemployment insurance. Combined expenditures for these three programs increased \$992 million from the prior year. This increase was caused by the declining economy, expanded eligibility for the medical care program, and inflationary increases in health care costs. The next largest increase of \$92 million occurred in federal monies spent for highway planning and construction. The amount spent for the remaining federal awards administered by the State increased by \$216 million from the prior year.

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



**Federal Programs with Significant Expenditure Fluctuations Fiscal Year's 2001 and 2002**



# The State Did Not Comply with Federal Requirements for Seven Federal Programs

Auditors identified and tested 23 federal programs 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, reporting, and monitoring federal awards. Weaknesses in internal control and instances of noncompliance

were noted for 7 of the programs tested. The internal control weaknesses and instances of noncompliance for the Special Education Cluster and Emergency Food Assistance Cluster were material to those programs. The table below identifies the internal control weaknesses and instances of noncompliance noted during our audit.

## 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.auditorgen.state.az.us](http://www.auditorgen.state.az.us)

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### Type of Compliance Requirement

Program	Responsible Department	Type of Compliance Requirement			
		Cash <sup>1</sup>	Match <sup>2</sup>	Monitor <sup>3</sup>	Report <sup>4</sup>
Immunization Grants	Health Services			X	
Title I Grants to Local Educational Agencies	Education	X			X
Special Education Cluster	Education	X	X		
Vocational Education—Grants to States	Education	X			
Class Size Reduction	Education	X			
Title I Accountability Grants	Education	X			
Emergency Food Assistance Cluster	Economic Security			X	

<sup>1</sup>Cash: Federal monies were requested by subrecipients and received in excess of immediate program needs.

<sup>2</sup>Match: Federal monies were not matched with state monies, or a specified level of service was not maintained.

<sup>3</sup>Monitor: Subrecipients were not monitored to ensure they administered awards in compliance with federal requirements.

<sup>4</sup>Report: Financial information reported to federal grantors was not accurate.

### The Single Audit Fact Sheet

- One weakness in financial reporting internal controls
- No material weaknesses in financial reporting internal controls
- Four weaknesses in federal compliance internal controls
- Two material weaknesses in federal compliance internal controls
- Four violations of federal program compliance requirements
- Two material violations of federal program compliance requirements

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Year Ended June 30, 2002