



REPORT HIGHLIGHTS

FINANCIAL STATEMENT AND SINGLE AUDITS

Our Conclusion

The State of Arizona is responsible for preparing annual financial statements and a schedule of expenditures of federal awards, maintaining effective internal controls, and being accountable for its use of public monies. Our Office is responsible for auditing the State's financial statements, schedule, and major federal programs annually. A summary of the financial statements and schedule of expenditures of federal awards is presented to the right.

Based on our audits, we issued reports that included our opinions on the State's financial statements and its schedule of expenditures of federal awards and reports on its internal control and compliance over financial reporting and major federal programs. The information in the State's fiscal year 2013 financial statements and schedule of expenditures of federal awards is reliable. Our reports identified deficiencies the State should address to improve accountability. The most significant findings and recommendations are summarized on the next page.



2013

Year Ended June 30, 2013

Condensed financial information

Statement of net position—This statement reports all of the State of Arizona's assets, deferred outflows of resources, liabilities, and net position. Net position is reported in three major categories:

- **Net investment in capital assets**—shows the equity in land, buildings, equipment, and infrastructure.
- **Restricted**—shows the resources that must be used for restricted purposes as specified by donors and external entities, such as the federal government.
- **Unrestricted**—shows the resources available for general operations.

Statement of activities—This statement reports all revenues, expenses, and the year's change in net position. Revenues include program revenues—those generated by or dedicated to a specific program—and general revenues, such as taxes raised for general purposes. It also reports revenues and expenses as either governmental activities—primarily supported by taxes and grant monies—or business-type activities—primarily supported by user fees and charges. During fiscal year 2013, net position increased by \$2.3 billion, or 10.5 percent, as compared to an increase of \$1.9 billion, or 9.7 percent, in fiscal year 2012.

Schedule of expenditures of federal awards—During fiscal year 2013, the State expended \$13.9 billion in federal awards, which included \$557 million in research and development and \$902 million in loan and loan guarantees. The State's federal award expenditures decreased by \$657 million, or 4.5 percent, compared to fiscal year 2012.

Condensed statement of net position Governmental and business-type activities As of June 30, 2013 (In millions)

| | |
|---------------------------------------|-----------------|
| Assets | |
| Current assets | \$ 7,811 |
| Capital assets, net of depreciation | 25,327 |
| Other noncurrent assets | <u>7,482</u> |
| Total assets | <u>40,620</u> |
| Deferred outflows of resources | 14 |
| Liabilities | |
| Current liabilities | 5,598 |
| Noncurrent liabilities | <u>10,908</u> |
| Total liabilities | <u>16,506</u> |
| Net position | |
| Net investment in capital assets | 18,943 |
| Restricted | 6,648 |
| Unrestricted | <u>(1,463)</u> |
| Total net position | <u>\$24,128</u> |

Condensed statement of activities Governmental and business-type activities For the year ended June 30, 2013 (In millions)

| | |
|-------------------------------------|-----------------|
| Program revenues | |
| Governmental activities | \$13,092 |
| Business-type activities | 4,768 |
| General revenues | |
| Governmental activities | 12,809 |
| Business-type activities | <u>806</u> |
| Total revenues | <u>31,475</u> |
| Expenses | |
| Governmental activities | 23,939 |
| Business-type activities | <u>5,235</u> |
| Total expenses | <u>29,174</u> |
| Change in net position | 2,301 |
| Net position—beginning, as restated | <u>21,827</u> |
| Net position—ending | <u>\$24,128</u> |

Condensed schedule of expenditures of federal awards by grantor agency For the year ended June 30, 2013 (In millions)

| | |
|---|-----------------|
| Department of Health and Human Services | \$ 7,155 |
| Department of Agriculture | 2,356 |
| Department of Education | 1,905 |
| Department of Transportation | 839 |
| Other | 814 |
| Department of Labor | <u>806</u> |
| Total federal expenditures | <u>\$13,875</u> |

Summary of audit findings and recommendations

For the financial statement audit, we reported nine internal control weaknesses over various agencies and their processes related to financial reporting. For the federal compliance audit, we tested 29 federal programs under the major program guidelines established by the Single Audit Act and found that the State did not always have adequate internal controls and did not always comply with federal program requirements for some of its programs. Our Report on Internal Control and Compliance over financial reporting and our Single Audit Report over federal programs contain further details to help the State correct these deficiencies. The most significant federal findings and recommendations are summarized below.

Noncompliance with federal program requirements

- The Arizona Department of Economic Security, Division of Employment and Rehabilitation Services, Rehabilitation Services Administration (Administration), did not determine if all applicants were eligible for vocational rehabilitation services within 60 days or within the allowed extension period for the Vocational Rehabilitation Grants federal program. For 13 of 40 applicants we tested, the Administration took an average of 168 days to determine eligibility or close the case file. Consequently, some applicants may have experienced delayed services. This finding was also reported in the prior year.
- The Arizona Department of Education (Education) did not have policies and procedures to identify new or expanding charter schools and determine whether they were eligible to receive English Language Acquisition Grants federal program monies. Consequently, it did not provide new or expanding charter schools the opportunity to apply for and receive the program's monies to improve the education of students with limited English proficiency.
- The Arizona Department of Health Services (Health Services) expended approximately \$1.5 million of its Block Grants for Prevention and Treatment of Substance Abuse federal program monies on salaries and wages. Health Services charged the salaries and wages using predetermined distribution percentages before the employees' performed their services. However, Health Services did not compare distribution percentages to the actual time and effort employees spent working on the program to determine if amounts charged were reasonable approximations of employees' actual time and effort. This finding was also reported in the prior year.
- The Arizona Department of Emergency and Military Affairs (Emergency and Military Affairs) did not have effective internal controls for requesting federal monies needed to pay for its National Guard Military Operations and Maintenance program costs. According to the federal program's cash management requirements, Emergency and Military Affairs should limit the amount of cash advanced to ensure it is disbursed for program costs within 45 days of receipt. However, Emergency and Military Affairs requested and received monies that it did not spend within 45 days and, therefore, had excess cash balances throughout the fiscal year. The U.S. Treasury may charge interest if Emergency and Military Affairs continues to maintain excess cash balances.

Recommendations

- The Administration should adequately supervise its case workers and enforce its policies and procedures to help ensure it determines an applicant's eligibility within 60 days of the application submission date for the vocational rehabilitation program.
- Education should develop and implement policies and procedures to identify new or expanding charter schools and determine whether they are eligible to receive federal program monies based on enrollment and eligibility data.
- Health Services should implement internal controls to help ensure that salaries and wages reflect actual time and effort employees spent working on federal programs.
- Emergency and Military Affairs should develop and implement additional control procedures to ensure that it requests only the amount of federal monies that will be disbursed for program costs within 45 days of receipt.