



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 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 2014 financial statements and schedule of federal awards is reliable. Our Office identified internal control deficiencies over financial reporting and federal programs and instances of noncompliance over federal programs. The most significant federal program deficiencies are summarized on the next page.



2014

Year Ended June 30, 2014

Condensed financial information

Statement of net position—This statement reports all of the State'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 2014, net position increased by nearly \$1.6 billion, or 6.5 percent, compared to an increase of \$2.3 billion, or 10.5 percent, in fiscal year 2013.

Schedule of expenditures of federal awards—During fiscal year 2014, the State expended \$13.8 billion in federal awards, which included \$510 million in research and development and \$914 million in loans primarily to students. The State's federal award expenditures decreased by \$110 million, or 0.8 percent, compared to fiscal year 2013.

Condensed statement of net position Governmental and business-type activities As of June 30, 2014 (In millions)

Assets	
Current assets	\$ 7,065
Capital assets, net	26,118
Other noncurrent assets	<u>8,344</u>
Total assets	<u>41,527</u>
Deferred outflows of resources	<u>78</u>
Liabilities	
Current liabilities	5,294
Noncurrent liabilities	<u>10,648</u>
Total liabilities	<u>15,942</u>
Net position	
Net investment in capital assets	19,609
Restricted	7,490
Unrestricted	<u>(1,436)</u>
Total net position	<u>\$25,663</u>

Condensed statement of activities Governmental and business-type activities For the year ended June 30, 2014 (In millions)

Program revenues	
Governmental activities	\$13,656
Business-type activities	4,767
General revenues	
Governmental activities	12,263
Business-type activities	<u>840</u>
Total revenues	<u>31,526</u>
Expenses	
Governmental activities	24,725
Business-type activities	<u>5,245</u>
Total expenses	<u>29,970</u>
Change in net position	1,556
Net position—beginning, as restated	<u>24,107</u>
Net position—ending	<u>\$25,663</u>

Condensed schedule of expenditures of federal awards by grantor agency For the year ended June 30, 2014 (In millions)

Department of Health and Human Services	\$ 7,678
Department of Agriculture	2,233
Department of Education	1,857
Department of Transportation	705
Other	731
Department of Labor	<u>561</u>
Total federal expenditures	<u>\$13,765</u>

Summary of audit findings and recommendations

For the financial statement audit, we found internal control weaknesses at various agencies over their processes related to financial reporting. For the federal compliance audit, we tested 27 federal programs under the major program guidelines established by the Single Audit Act. Our audit found that the State did not always have adequate internal controls and did not always comply with federal program requirements for some of its federal programs. Our Single Audit Report over federal programs contains further details to help the State correct these deficiencies. The most significant federal findings are summarized below.

State failed to comply with federal program requirements

The Arizona Department of Emergency and Military Affairs (Emergency and Military Affairs) did not have effective internal controls for administering its Emergency Management Performance federal program. Specifically, Emergency and Military Affairs was required to spend \$6.75 million in nonfederal monies on the program's activities to match 100 percent of the federal program monies spent. However, Emergency and Military Affairs did not maintain support for the match amount or separately identify and track costs that could have been counted toward satisfying the matching requirement. Also, Emergency and Military Affairs inappropriately used over \$2 million of its current year's awarded federal program monies to reimburse cost overruns that occurred during the prior year's award period. Emergency and Military Affairs is working with the federal grantor agency to determine if any monies are due back to the grantor agency due to these deficiencies.

Emergency and Military Affairs lacked sufficient internal control policies and procedures related to its National Guard Military Operations and Maintenance Projects federal program. As a result, it received federal program monies over 45 days in advance of their being spent, causing excess cash balances that could result in interest penalty charges. Federal guidelines allow program monies to be received up to 45 days in advance of being spent. However, auditors found that Emergency and Military Affairs exceeded the allowed 45 days on 39 different occasions during the year because its internal control policies and procedures were insufficient to determine near-term cash needs. This finding was also reported in the prior year.

The Arizona Department of Economic Security (Economic Security) 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, which may have resulted in service delays for some applicants. Specifically, for 9 of 40 applicants we tested, Economic Security took an average of 182 days to determine eligibility or close the case file. This finding was also reported in the prior year.

Recommendations

Emergency and Military Affairs should develop and implement internal control policies and procedures to help ensure that it contributes the required matching amounts of nonfederal monies towards the Emergency Management Performance federal program and charges program costs in the award period in which those costs were incurred.

Emergency and Military Affairs should develop and implement internal control policies and procedures to better determine its near-term cash needs for the National Guard Military Operations and Maintenance Projects program.

Economic Security should adequately supervise its case workers and enforce its policies and procedures to help ensure the case workers determine an applicant's eligibility within the allowed time frames required by the Vocational Rehabilitation federal program.