



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 those 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 schedule of expenditures of federal awards and issued reports on its internal control and compliance over financial reporting and major federal programs. The information in the State's fiscal year 2015 financial statements and schedule is reliable. Our Office identified internal control weaknesses over financial reporting and internal control weaknesses and instances of noncompliance over major federal programs. The most significant finding is summarized on the next page.



2015

Year Ended June 30, 2015

Condensed financial information

Statement of net position—This statement reports all of the State's assets, deferred outflows of resources, liabilities, deferred inflows of resources, 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 remaining net position balance after allocating the net investment in capital assets and restricted balances. The balance was negative at June 30, 2015, because the State implemented new pension accounting standards. Additional information on these new standards is included on the next page.

Statement of activities—This statement reports all revenues, expenses, and other changes 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. Net position increased by nearly \$1.7 billion, or approximately 7.9 percent, in fiscal year 2015.

Schedule of expenditures of federal awards—During fiscal year 2015, the State expended nearly \$15.2 billion in federal awards. The State's federal award expenditures increased by approximately \$1.4 billion or 10.3 percent, compared to fiscal year 2014.

Condensed statement of net position Governmental and business-type activities As of June 30, 2015 (In millions)

Assets	
Current and other assets	\$16,497
Capital assets, net of depreciation	27,086
Total assets	<u>43,583</u>
Deferred outflows of resources	<u>1,020</u>
Liabilities	
Current liabilities	5,288
Noncurrent liabilities	
Net pension liability	4,907
Other	10,575
Total liabilities	<u>20,770</u>
Deferred inflows of resources	863
Net position	
Net investment in capital assets	20,452
Restricted	8,066
Unrestricted (deficit)	(5,548)
Total net position	<u>\$22,970</u>

Condensed statement of activities Governmental and business-type activities For the year ended June 30, 2015 (In millions)

Program revenues	
Governmental activities	\$15,030
Business-type activities	5,013
General revenues	
Governmental activities	13,199
Business-type activities	849
Total revenues	<u>34,091</u>
Expenses	
Governmental activities	26,996
Business-type activities	5,420
Total expenses	<u>32,416</u>
Change in net position	1,675
Net position—beginning, as restated	21,295
Net position—ending	<u>\$22,970</u>

Condensed schedule of expenditures of federal awards by grantor agency For the year ended June 30, 2015 (In millions)

Department of Health and Human Services	\$ 9,015
Department of Agriculture	2,195
Department of Education	1,981
Department of Transportation	885
Other	675
Department of Labor	428
Total federal expenditures	<u>\$15,179</u>

Significant pension reporting changes in fiscal year 2015

The Governmental Accounting Standards Board (GASB) issued new pension accounting standards for all state and local governments that resulted in significant reporting changes starting in fiscal year 2015. The State is required to follow these new standards because its employees are members in the State of Arizona's defined benefit pension plans. The new GASB standards are designed to increase the transparency, consistency, and comparability of pension information across governments. In addition, they require all governments to report more robust pension information, including their share of any unfunded, or net, pension liability, which was over \$4.9 billion for the State at June 30, 2015. The net pension liability is calculated by subtracting the pension plans' assets from the estimated pension obligations and means that the assets are less than estimated pension obligations. This liability reduced the State's unrestricted net position.

It is important to note that the new reporting requirements will not change the actual cost of providing pension benefits. As they always have, the State and its participating employees will continue to pay their required contributions to cover the estimated pension benefits. The State's contributions were \$319 million in fiscal year 2015.

Summary of audit findings and recommendations

For the financial statement audit, we found internal control weaknesses at various agencies over their financial reporting processes. For the federal compliance audit, we tested 26 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 federal programs. Our Single Audit Report includes a Schedule of Findings and Questioned Costs that contains further details to help the State correct the internal control weaknesses and instances of noncompliance. We summarized the most significant finding and recommendations below.

The State did not have adequate policies and procedures and system controls over its purchasing system

State employees purchase goods and services through the ProcureAZ system, a Web-based procurement and purchasing system. However, state agencies had not properly established system user responsibilities or an electronic document review and approval process to help ensure that all purchases were appropriately reviewed and approved. For example, some users who were responsible for creating requisitions or purchase orders could also approve them and receive the goods. Also, some users who were responsible for entering invoices could also approve them for payment. In addition, the Arizona Department of Administration (Department) provided limited training to system users and did not have established procedures to remove terminated employees' access in a timely manner. Finally, the Department could not produce ProcureAZ audit logs to adequately monitor system user access and activity.

Recommendations

To help reduce the risk of misuse, waste, theft of public monies, and unauthorized purchases, and help ensure purchases are properly reviewed and approved, the Department should develop and implement internal control policies and procedures to properly assign user responsibilities and approval levels. Also, the Department should develop and implement trainings for system users. In addition, the Department should remove terminated employees' system access in a timely manner and develop system reports and audit logs to review and monitor user access and activities.