

State of Arizona

CONCLUSION: The State of Arizona is responsible for preparing its annual financial report and a federal expenditure schedule, 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 State's financial statements and federal expenditure schedule is presented below.

Based on our audits, we issued opinions on the State's financial statements and federal expenditure schedule and issued reports on internal control and on compliance over financial reporting and major federal programs. The information in the State's fiscal year 2017 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 findings are summarized on the next page.

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 other 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.

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. 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 over \$1.7 billion, or 7.1 percent, in fiscal year 2017.

Federal expenditure schedule—During fiscal year 2017, the State expended approximately \$16.5 billion in federal awards. The State's federal award expenditures increased by \$514 million, or 3.2 percent, compared to fiscal year 2016.

Statement of net position As of June 30, 2017 (In millions)

Assets and deferred outflows	
Current and other assets	\$17,848
Capital assets, net of depreciation	29,113
Deferred outflows of resources	1,415
Total assets and deferred outflows	48,376
Liabilities and deferred inflows	
Current liabilities	5,695
Noncurrent liabilities:	
Net pension liability	5,578
Other	9,939
Deferred inflows of resources	803
Total liabilities and deferred inflows	22,015
Net position	
Net investment in capital assets	22,464
Restricted	8,869
Unrestricted (deficit)	(4,972)
Total net position	\$26,361

Statement of activities Year ended June 30, 2017 (In millions)

Program revenues	
Governmental activities	\$16,679
Business-type activities	5,686
General revenues	
Governmental activities	14,421
Business-type activities	767
Total revenues	37,553
Expenses	
Governmental activities	29,808
Business-type activities	5,999
Total expenses	35,807
Increase in net position	1,746
Net position—beginning, as restated	24,615
Net position—ending	\$26,361

Federal expenditure schedule Year ended June 30, 2017 (In millions)

Federal grantor agency	
Department of Health and Human Services	\$10,405
Department of Education	2,113
Department of Agriculture	2,070
Department of Transportation	807
Department of Labor	391
Other	684
Total federal expenditures	\$16,470

Summary of audit findings and recommendations

For the financial statement audit, we found internal control weaknesses related to the State's information technology (IT) resources, contract oversight, expenditures, claims management, and tax revenues and refunds. For the federal compliance audit, we tested 15 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. The most significant findings and recommendations are summarized below.

State should improve internal controls over its IT resources—The State's IT resources, which include its systems, network, infrastructure, and data, are vital to its daily operations. We reviewed the IT controls at the Departments of Administration, Economic Security, Child Safety, and Revenue (agencies) and found that these agencies did not have adequate policies and procedures over their IT resources to effectively identify, analyze, and respond to risks and protect sensitive information; sufficiently manage access, including preventing, detecting, and responding to unauthorized or inappropriate access or use, manipulation, damage, or loss; ensure changes to IT resources do not adversely affect security or operations; and ensure comprehensive up-to-date contingency plans provide for the continuity of operations in the event of a disaster, system or equipment failure, or other interruption.

Recommendations

To help identify, analyze, and respond to risks and protect sensitive information; prevent, detect, and respond to unauthorized or inappropriate access or use, manipulation, damage, or loss to IT resources; ensure changes to IT resources do not adversely affect security or operations; and ensure operations can continue in the event of a disaster, system or equipment failure, or other interruption, these agencies should review their policies and procedures against current IT standards and best practices, update them where needed and implement them agency-wide, as appropriate. Further, these agencies should train staff on the policies and procedures. The information below provides guidance and best practices to help these agencies achieve these objectives:

- **Risk-assessment process**—The risk-assessment process should include the identification of risk scenarios, including the scenario's likelihood and magnitude; documentation and dissemination of results; review by appropriate personnel; and prioritization of risks identified for remediation.
- **Sensitive information**—Security measures should be developed to identify, classify, and inventory sensitive information and protect it.
- **Logging and log monitoring**—Key user activity should be logged and monitored, particularly for users with elevated access privileges and remote access.
- **User access**—A periodic, comprehensive review should be performed of all existing employee accounts to help ensure that network and system access granted is needed and compatible with job responsibilities.
- **Change management**—A change management process should be established for each type of change, and all changes should be documented, authorized, reviewed, tested, and approved.
- **Contingency planning**—The contingency plan should be updated at least annually for all critical information or when changes are made to IT resources, and updates to the plan should be communicated to key personnel.