

State of Arizona

Annual financial statement and compliance audits

The State's fiscal year 2020 reported financial information is generally reliable. However, we qualified our financial statement opinion because of deficiencies in reported COVID-19 unemployment insurance (UI) amounts.¹ Also, we reported deficiencies and noncompliance over financial reporting and federal programs, summarized on the next page.

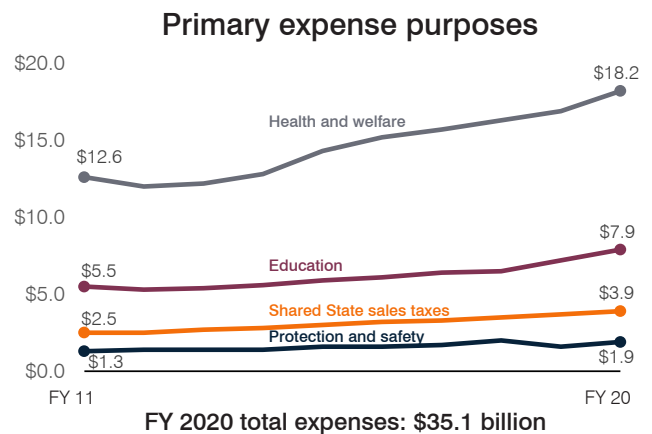
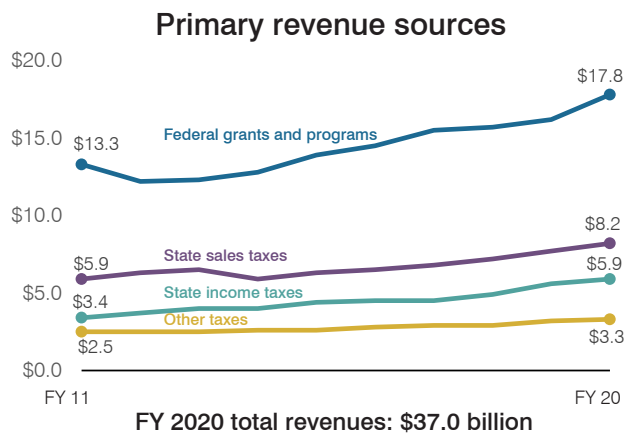
Audits' purpose

To express our opinions on the State's financial statements and on compliance with certain federal requirements and, if applicable, to report findings over noncompliance with certain laws and regulations or other financial deficiencies.

Primary revenue sources and how they were spent²

Fiscal years (FY) 2011 through 2020

(In billions)



Source: Auditor General staff summary of information obtained from the State of Arizona's financial statements.

Largest primary revenue sources FY 2020

- **Federal grants and programs 48.0%**—Includes federal government grants and programs awarded as assistance to the State for various programs. Significant assistance programs include monies to provide medical, welfare, education, and housing assistance to the State's residents.
- **State sales taxes 22.1%**—The State collects these sales taxes from businesses for selling a product or providing a service subject to the State's sales tax rate of 5.6 percent.

Largest primary expense purposes FY 2020

- **Health and welfare 51.9%**—Costs for providing medical assistance through the State's Medicaid program, public assistance through the Department of Economic Security (DES) for individuals who are economically unable to provide for themselves, and services for the well-being of children in the State through the Department of Child Safety (DCS).
- **Education 22.4%**—Costs for providing federal and State monies to Arizona public schools for children's education and administrative oversight through the Department of Education.

¹ We qualified our opinion on the State's Unemployment Compensation Fund's other receivables and amounts due to the U.S. government financial statement line items because we were not able to obtain sufficient appropriate audit evidence. Our opinion is included in the *State of Arizona June 30, 2020 Comprehensive Annual Financial Report* available on our website at www.azauditor.gov/reports-publications/state-agencies/arizona-state/report/state-arizona-june-30-2020-annual-financial.

² The primary revenue sources and expense purposes include only amounts from the State's governmental activities. The majority of the State's business-type activities is related to the educational services provided by the 3 State universities, the activities of which are reported in their separately issued financial statements, available on our website at www.azauditor.gov/reports-publications/universities.

State's net position increased by \$1.9 billion in FY 2020

During FY 2020, State governmental revenues were \$1.9 billion greater than expenses, increasing total net position to \$28.1 billion at June 30, 2020. Net position includes all assets, such as buildings, vehicles, and cash and investments, less all liabilities, such as unpaid pension and other payroll obligations, long-term debt, and accounts payable. None of this net position is unrestricted, meaning some is not in spendable form, and the rest is restricted by external parties.

State's federal expenditures increased due to federal COVID-19 funding in FY 2020

The State's FY 2020 federal expenditures increased \$8.8 billion over the prior year to a total of \$26.4 billion for the year ended June 30, 2020. The increase is primarily a result of the federal government providing Arizona State government funding for COVID-19 pandemic response and relief efforts beginning in March 2020. We have also issued a [Special COVID-19 Funding Report](#), which contains further information on Arizona State government's allocated federal COVID-19 monies and the monies it spent and distributed during fiscal year 2020. That special report also includes summaries of our reported findings related to COVID-19 federal programs, including a finding regarding the DES having paid fraudulent identify theft federal UI benefit claims totaling \$4.4 billion, through September 4, 2021; other findings over managing federal UI benefits and federal Coronavirus Relief Fund monies; and a finding because the Arizona Department of Administration (ADOA) submitted the *State of Arizona 2020 Single Audit Report* (Single Audit Report) 29 days late primarily due to State agencies experiencing personnel and resource challenges throughout the year responding to the COVID-19 pandemic.

Auditor findings and recommendations

In addition to our findings summarized in our *Special COVID-19 Funding Report* (see above), below are summaries of some of our other findings and recommendations included in the *State of Arizona 2020 Report on Internal Control and on Compliance* (Internal Control and Compliance Report), which includes 14 total findings, and Single Audit Report, which includes 11 total findings, and both contain further information and the State's responses.

- The Department of Revenue (DOR) needs to perform necessary reconciliations to ensure it has collected all income taxes taxpayers owe the State; otherwise, the State risks not receiving all its income tax revenues. See finding number 2020-04 in the Internal Control and Compliance Report. We reported a similar finding in prior years.
- DOR needs to address system limitations for publishing unclaimed taxpayer overpayments of at least \$50 on its website for taxpayers to search and claim. Arizona taxpayers cannot readily search and claim abandoned tax overpayments that totaled \$18.5 million and dated as far back as 2007. See finding number 2020-05 in the Internal Control and Compliance Report. We reported a similar finding in the prior year.
- Four State agencies—ADOA, DES, DOR, and DCS—need to develop, document, and implement policies and procedures to effectively prevent, detect, and respond to unauthorized or inappropriate access or use, damage, or loss to information technology (IT) systems and data, including financial and sensitive data. These State agencies' administration and IT management may put their operations and IT systems and data at unintended and unnecessary risk without these improvements. See finding numbers 2020-07 and 2020-08 in the Internal Control and Compliance Report. We reported similar findings in prior years.
- The Department of Environmental Quality (DEQ) needs to perform and document after-the-fact reviews of the estimated payroll costs it allocates to federal programs. Otherwise, DEQ risks charging unallowable payroll costs to federal programs and having to reimburse the federal government for these unallowable costs. See finding number 2020-107 in the Single Audit Report.

To correct these deficiencies, each applicable State agency needs to develop policies and procedures and monitor their implementation and effectiveness to help ensure that Arizona State government is accountable for public monies, including federal program monies, it spends and accurately reports financial information.

Auditor General website report links

- The *June 30, 2020, State of Arizona Comprehensive Annual Financial Report, Report on Internal Control and on Compliance*, and *Single Audit Report* that are summarized in these highlights can be found at this [link](#). These reports should be read to fully understand the State's overall financial picture and our reporting responsibilities.
- The State's reports from prior years are available at this [link](#).