

State of Arizona

Annual financial statement and compliance audits

The State’s fiscal year 2021 reported financial information is reliable. However, we reported deficiencies and noncompliance over financial reporting and federal programs, summarized on the following pages.

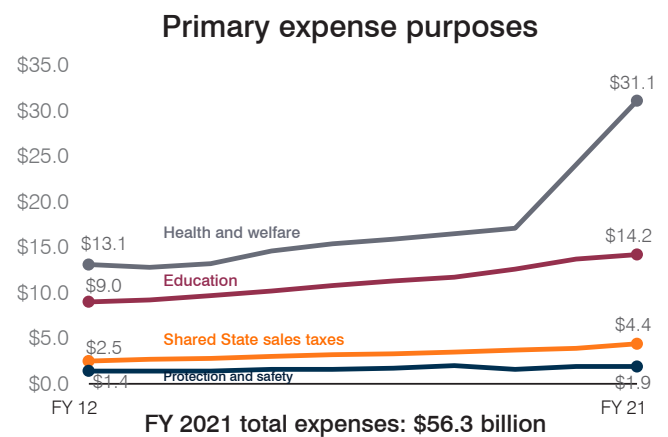
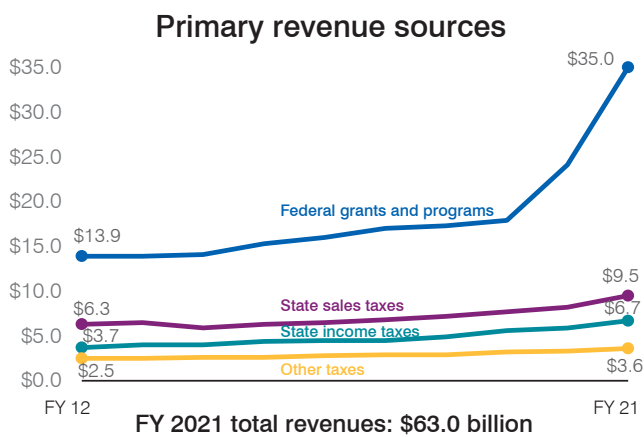
Audits’ purpose

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 spent

Fiscal years (FY) 2012 through 2021

(In billions)



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

Largest primary revenue sources FY 2021

- **Federal grants and programs 55.6%**—Comes from federal government grants and programs awarded as assistance to the State and its citizens. Significant types of assistance include medical, health and welfare, food and nutrition, housing, education, and student financial aid.
- **State sales taxes 15.1%**—Comes from taxes the State collects from businesses for selling a product or providing a service subject to sales tax.

Largest primary expense purposes FY 2021

- **Health and welfare 55.3%**—Costs for providing medical assistance through the State’s Medicaid program, economic relief and assistance to individuals through the Department of Economic Security, and services for the well-being of children in the State through the Department of Child Safety.
- **Education 25.2%**—Costs for providing federal and State monies to Arizona public and charter schools for education of children and providing administrative oversight through the Arizona Department of Education and higher education services provided by the 3 State universities.

State’s net position increased by \$6.7 billion in FY 2021

The State’s revenues were \$6.7 billion greater than expenses, increasing total net position to \$37.8 billion at June 30, 2021. 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.

Summary of significant internal control findings over financial information

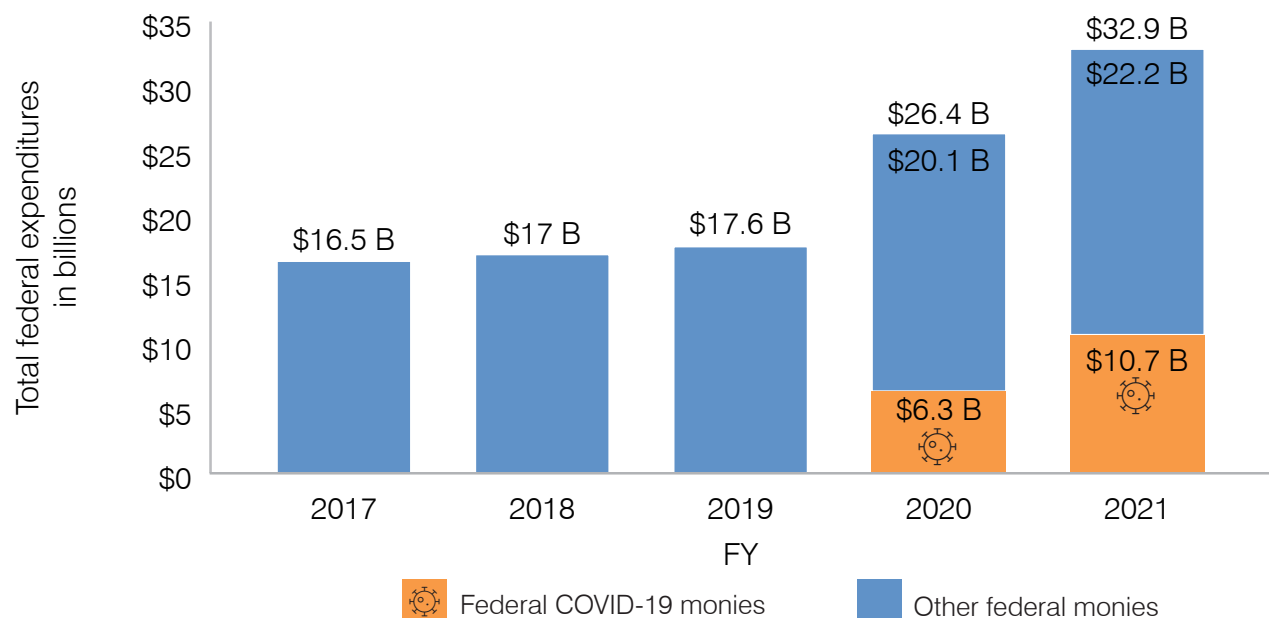
Summarized below are our significant financial statement findings included in the [State of Arizona 2021 Single Audit Report](#), which includes 19 total financial findings, and contains further information and the State's responses.

Findings summarized by State agency	Finding #	Similar finding in prior year?
Arizona Department of Economic Security (DES)		
<ul style="list-style-type: none"> Did not put all critical identity verification or other anti-fraud measures in place before paying COVID-19 funded unemployment insurance benefits and reported it paid over \$4.3 billion, or 37 percent of total claims, in fraudulent identity theft claims, for fiscal years 2020 and 2021. 	2021-01	X
<ul style="list-style-type: none"> Excluded and reported inaccurate financial information in its initial financial statements submitted for audit, which could have misinformed financial statement users. 	2021-02	X
<ul style="list-style-type: none"> Paid 108,377 claimants \$218.4 million of federal Pandemic Unemployment Assistance benefits during fiscal years 2020 and 2021 that exceeded the minimum weekly benefit but has not yet determined whether all 108,377 claimants were qualified to receive benefits over the weekly minimum, which may require DES to repay the federal government for amounts it overpaid claimants. 	2021-03	X
Arizona Department of Administration (ADOA)		
<ul style="list-style-type: none"> Issued the State's financial statements late, resulting in untimely financial information for State legislators, federal grantors, creditors, and other stakeholders. 	2021-04	
Arizona Department of Revenue (DOR)		
<ul style="list-style-type: none"> Did not ensure it collected all income taxes that were due to the State, increasing the risk that the State may not have received all its income tax revenues. 	2021-05	X

State's federal expenditures

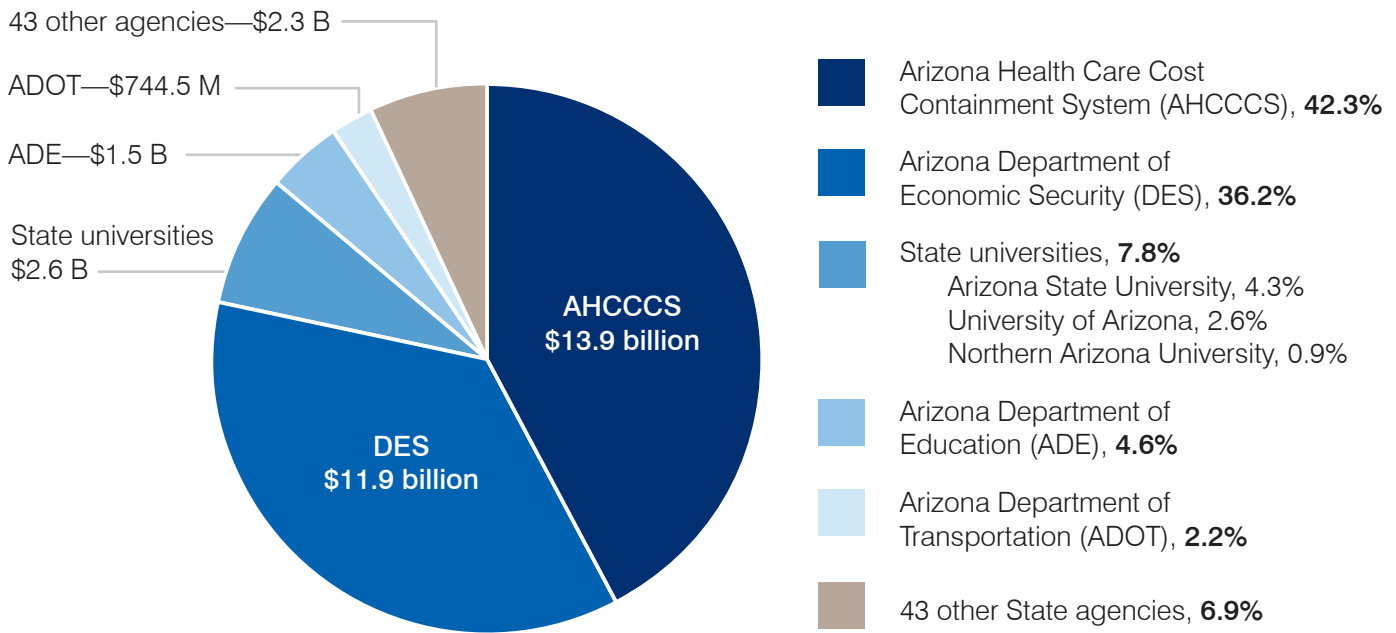
As shown below for fiscal years 2017 through 2019, the State's federal expenditures have historically increased approximately 3 percent each fiscal year. However, in fiscal year 2020, federal expenditures increased by \$8.8 billion, or approximately 50 percent, from fiscal year 2019 and increased again by \$6.5 billion, or approximately 25 percent, in fiscal year 2021 as a direct result of the federal government providing COVID-19 pandemic response and relief monies to the State beginning in March 2020. Of the total increase in fiscal years 2020 and 2021 federal expenditures, \$6.3 billion and \$10.7 billion, respectively, were related to the additional federal COVID-19 monies. 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 how Arizona spent and distributed those monies for fiscal year 2021.

Increased federal expenditures for FYs 2020 and 2021 coincide with influx of federal COVID-19 monies



During FY 2021, 47 of the State’s agencies and the 3 State universities spent the \$32.9 billion in federal program monies for purposes such as medical, health and welfare, and food and nutrition assistance to individuals and families; economic relief and assistance to individuals, such as unemployment; public health emergency response and mitigation efforts for the COVID-19 pandemic; student financial assistance and research and development programs for higher education; education assistance to elementary and secondary schools; and highway planning and construction.

4 State agencies and 3 State universities administered over 93% of federal monies spent in FY 2021



State of Arizona’s annual federal compliance audit

We audited the State’s federal expenditures as part of the annual compliance audit of federal monies, which we performed in accordance with State law and federal regulation and in conjunction with our audit of the State’s FY 2021 financial statements. Below is a breakdown of our FY 2021 federal compliance audit results.



18
federal programs audited



8
programs audited received at least 1 finding



12
findings for COVID-19-related programs



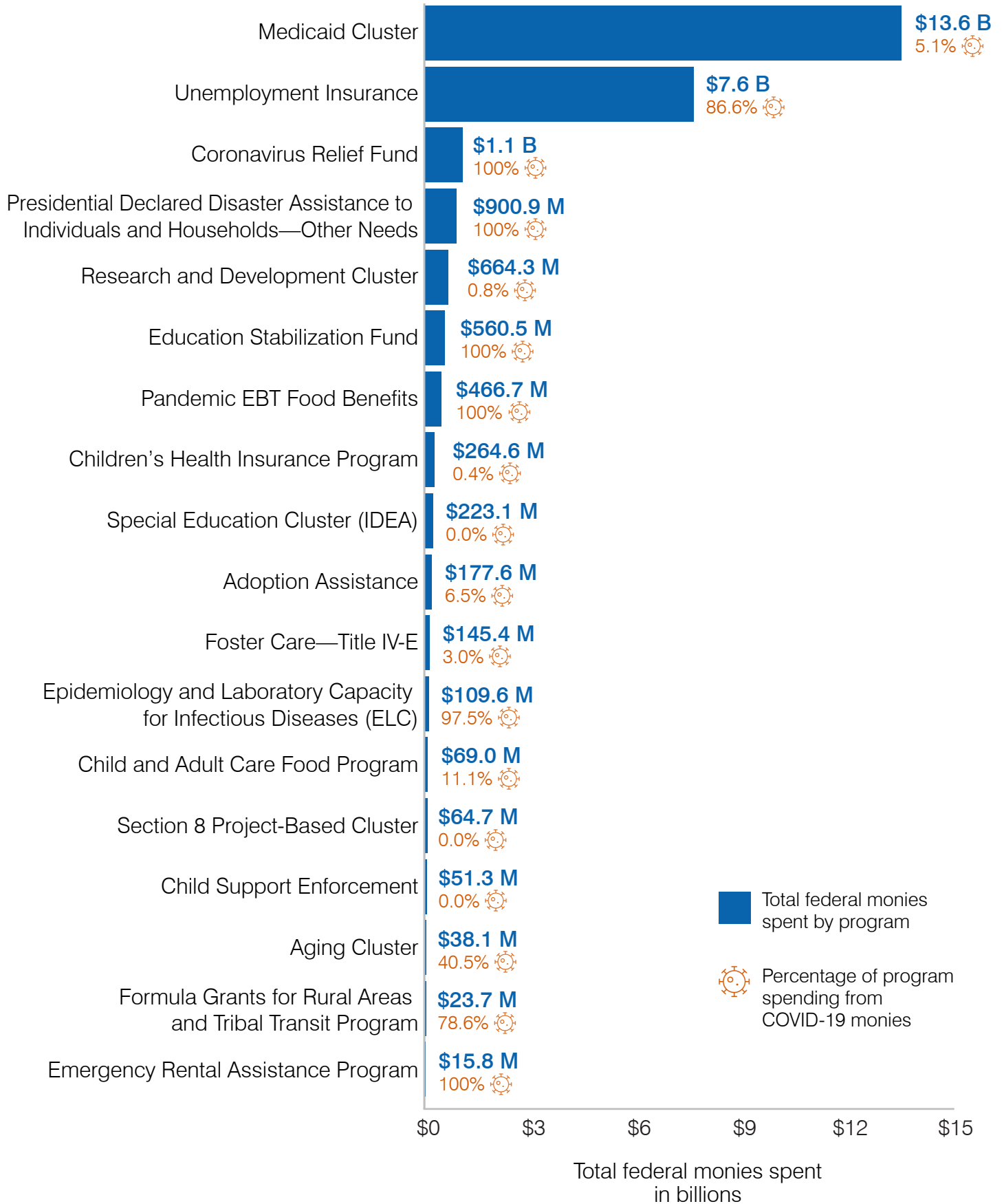
22
total findings¹



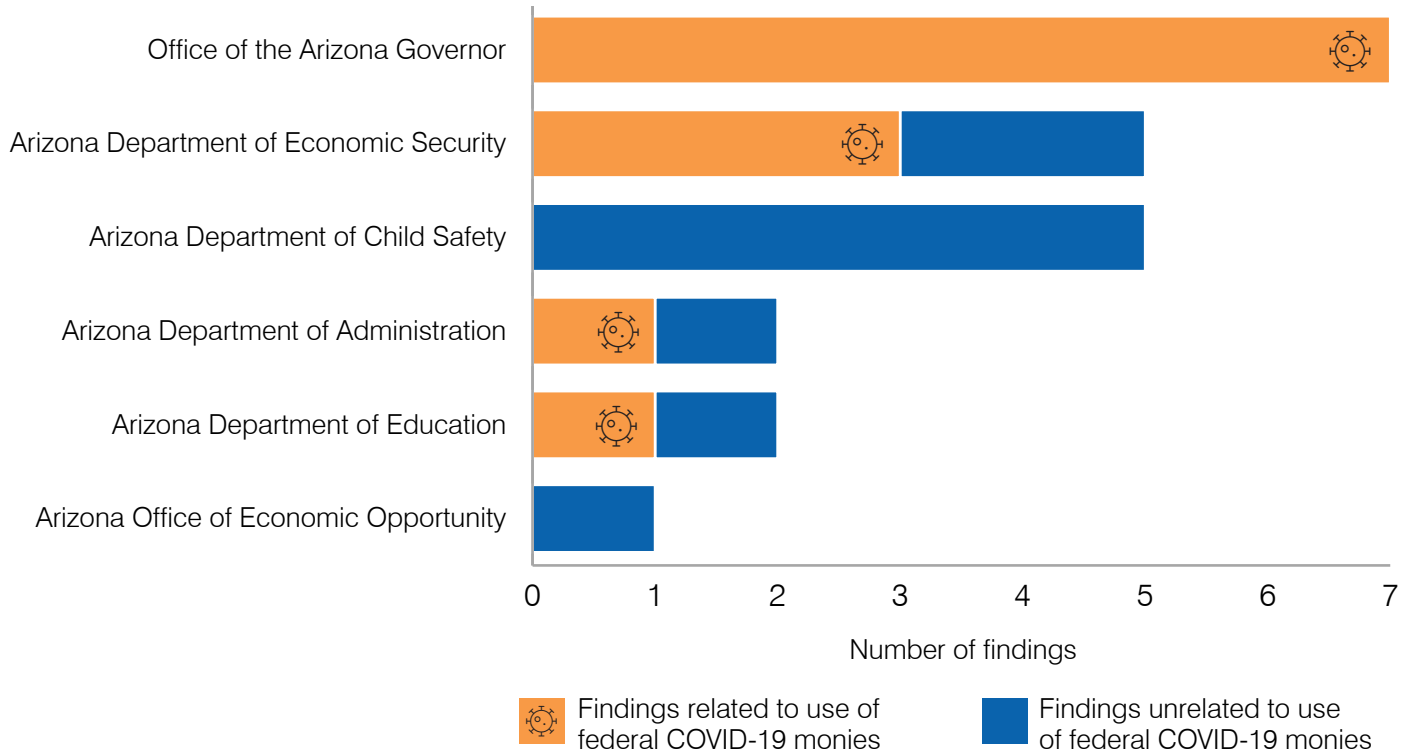
\$2,263,655
of questioned costs

¹ Three of the 22 findings did not directly result from a program we audited. One was at the Office of Economic Opportunity and 2 were at the Arizona Department of Administration.

18 federal programs that spent \$26 billion in federal monies, including \$10.5 billion from federal COVID-19 monies, were audited during FY 2021



Auditors reported 22 findings for 11¹ federal programs in 6 State agencies; 12 findings were related to the use of federal COVID-19 monies







¹ This amount includes the 8 programs reported on page 3, which we audited as part of single audit requirements, plus 3 additional nonmajor programs at the Arizona Office of Economic Opportunity (Office). Specifically, in our performance audit and sunset review of the Office issued September 30, 2022, we identified and reported potential unallowable costs in 3 nonmajor programs that the Office administers.

Significant audit findings that could result in the return of federal monies and/or increased monitoring from the federal government

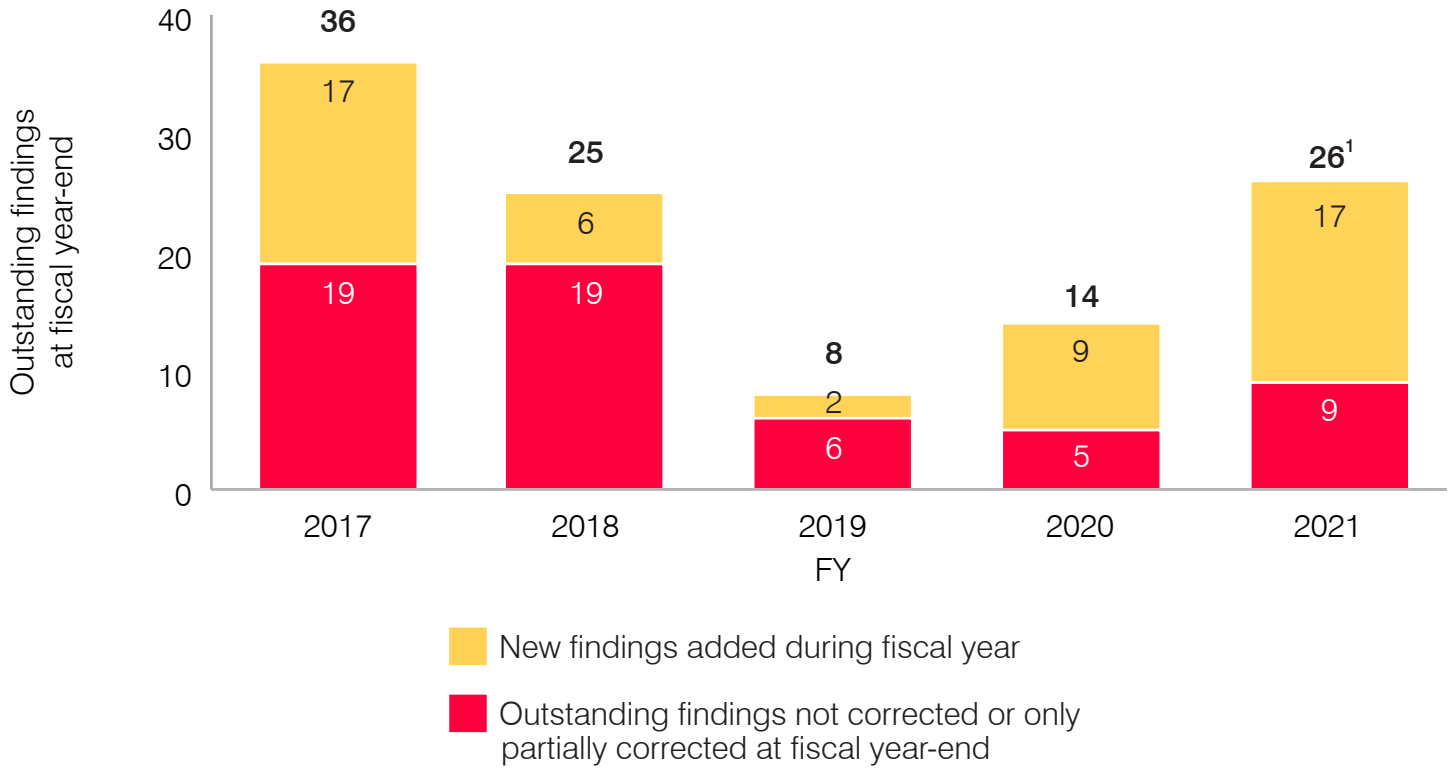
Summarized below are our significant federal compliance audit findings included in the State of Arizona 2021 Single Audit Report, which includes 22 total federal compliance audit findings and contains further information and the State's responses. We have also included summaries of our report findings below that relate to the use of COVID-19 monies in a *Special COVID-19 Funding report*, issued separately.

Findings summarized by State agency and federal program	Finding #	Similar finding in prior year?
Office of the Arizona Governor (Office)		
Coronavirus Relief Fund		
<ul style="list-style-type: none"> Did not monitor its subrecipients' activities or compliance with the award terms and program requirements, which may require the Office to repay the federal government \$277,438 for noncompliance we identified and increased the risk that more of the \$567 million of program monies it awarded to subrecipients may not have been properly spent. 	2021-101 	
<ul style="list-style-type: none"> Reimbursed other State agencies for unallowable costs, which may require the Office to repay the federal government \$978,864 for noncompliance we identified. 	2021-102 	X
Education Stabilization Fund—Governor's Emergency Education Relief (GEER) Fund		
<ul style="list-style-type: none"> Did not ensure the timely disbursement to and spending of program monies by another State agency and nonprofit organizations, which required the Office to return unspent monies to the federal government. 	2021-104 	
<ul style="list-style-type: none"> Did not monitor its subrecipients' activities or compliance with the award terms and program requirements, which may require the Office to repay the federal government \$164,221 for noncompliance we identified and increased the risk that more of the \$3.2 million of program monies it awarded to subrecipients may not have been properly spent. 	2021-105 	

Findings summarized by State agency and federal program	Finding #	Similar finding in prior year?
Arizona Department of Economic Security (DES)		
Unemployment Insurance		
<ul style="list-style-type: none"> Did not put all critical identity verification or other anti-fraud measures in place before paying COVID-19-funded unemployment insurance (UI) benefits and reported it paid over \$4.3 billion, or 37 percent of total claims, in fraudulent identity theft claims for fiscal years 2020 and 2021. <p>Also paid 108,377 claimants \$218.4 million of federal Pandemic Unemployment Assistance benefits during fiscal years 2020 and 2021 that exceeded the minimum weekly benefit but had not yet determined whether all 108,377 claimants were qualified to receive benefits over the weekly minimum, which may require DES to repay the federal government for amounts it overpaid claimants.</p>	2021-108 	X
<ul style="list-style-type: none"> Did not establish, until February 2022, a program-integrity process for its COVID-19-funded UI benefit programs necessary to bill claimants and recover overpayments, increasing the risk that DES will be unable to recover overpayments. 	2021-109 	X
Arizona Department of Child Safety (DCS)		
Foster Care—Title IV-E		
<ul style="list-style-type: none"> Did not complete the required criminal records background checks on all childcare institutions' employees before allowing them to care for children and paid the childcare institutions, placing children in State care at potential risk. 	2021-113	
<ul style="list-style-type: none"> Paid incorrect amounts to foster care service providers for 22 of 106 payments, which may require DCS to recover some of these monies from the foster care service providers, potentially placing a burden on them and impacting the services they provide to children in their care. 	2021-114	
Foster Care—Title IV-E and Adoption Assistance		
<ul style="list-style-type: none"> Overpaid \$465,402 and \$113,575 to foster care service providers and adoptive parents, respectively, and then forgave and wrote off \$331,896 and \$92,702, respectively, without federal approval, which may require DCS to repay the federal government for the overpayments. 	2021-115	
Arizona Department of Administration (ADOA)		
State's Single Audit Report submission		
<ul style="list-style-type: none"> Submitted the State's June 30, 2021, Single Audit Report to the federal audit clearinghouse on November 29, 2022, which was 60 days later than allowed by the COVID-19-related single audit extension of September 30, 2022, hindering federal agencies' ability to oversee and monitor the State's administration of federal programs with timely information and impose corrective actions for audit findings we reported. 	2021-122 	X
Arizona Department of Education (ADE)		
Education Stabilization Fund—Elementary and Secondary School Emergency Relief (ESSER) Fund		
<ul style="list-style-type: none"> Failed to report complete and accurate information on the federal government's reporting system related to its \$257.7 million in subawards it made to schools, leaving the State's stakeholders and the public without transparent and timely information. 	2021-118 	

The State has made progress taking corrective action on its federal program findings during fiscal years 2018 and 2019. However, as a result of the influx of federal COVID-19 pandemic monies and additional federal program requirements, we reported new audit findings in fiscal years 2020 and 2021 that require corrective action to be taken by the State.

Management made progress correcting its federal program findings during FYs 2018 and 2019, but the number of federal program findings increased during FYs 2020 and 2021



¹ This count includes the 22 findings we reported on page 5 plus 4 findings we previously reported in the prior year, but these 4 findings have not been corrected, and the related programs were not subject to audit in fiscal year 2021.

Auditor General website report links

- The *June 30, 2021, State of Arizona Comprehensive Annual Financial Report 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](#).
- The *Special COVID-19 Funding Report* can be found at this [link](#).