



REPORT HIGHLIGHTS
SINGLE AUDIT

Subject

The State of Arizona spent \$9 billion of federal monies for 1,318 federal awards administered, in whole or in part, by 44 state agencies. The largest awards were for education, health services, highway construction, research and development, student financial aid, and welfare. The State must be accountable for its use of both federal and state monies, maintaining strong internal controls, and complying with federal program requirements.

Our Conclusion

The State maintained adequate controls over financial reporting. During the compliance audit, 24 federal programs were tested, including 8 program clusters. The State maintained adequate internal controls over, and complied with, the federal compliance requirements for 12 of the 24 federal programs tested. However, for 12 federal programs tested, auditors found that the State did not maintain adequate internal controls or comply with one or more of the compliance requirements. See page 2 for further information.



2005

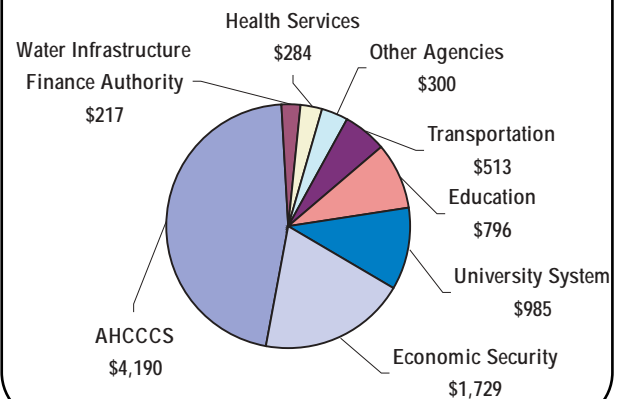
Year Ended June 30, 2005

Expenditures of Federal Monies Increased by \$700 Million

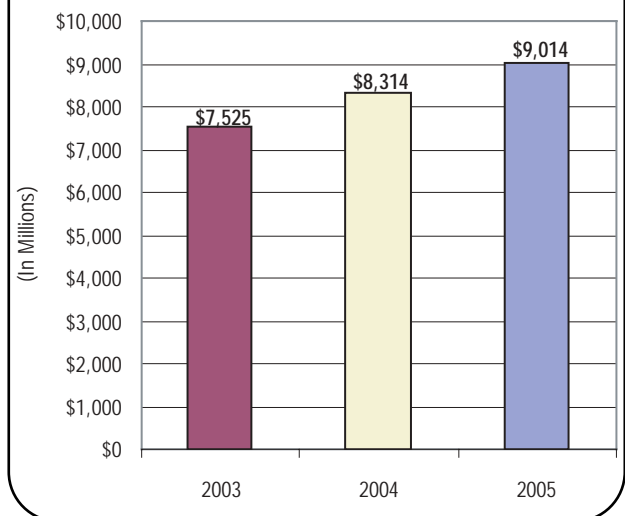
During fiscal year 2005, the State spent \$9 billion of federal monies. As shown in the chart to the right, seven entities spent 97 percent of these monies.

Overall, expenditures increased \$700 million, or 8 percent, from the \$8.3 billion expended in fiscal year 2004. The largest increase occurred in programs for indigent medical care, food stamps, child nutrition, loan and loan guarantee programs, and research and development. Combined expenditures for these programs increased by \$703 million from the prior year. This increase was attributable to expanded eligibility for indigent medical care, inflationary increases in healthcare costs, additional funding for university student financial aid loans and research and development projects, and other loan programs. The largest increase, \$530 million, occurred in federal monies expended for indigent medical care at Arizona Health Care Cost Containment System. As shown in the graph to the right, expenditures of federal monies have increased \$1.5 billion between fiscal years 2003 and 2005. Expenditures for indigent medical care and food stamps accounted for \$1.26 billion of the increase.

State Agencies that Administer 2005 Federal Awards (In Millions)



Federal Programs Expenditures Fiscal Years 2003-2005



The State Did Not Always Comply with Federal Program Requirements

Auditors identified and tested 24 federal programs, including 8 program clusters, under the guidelines established by the Single Audit Act. Audit tests included evaluating the State's compliance with each program's federal regulations generally related to expending, monitoring, matching, and reporting federal awards. Weaknesses in internal control and instances of noncompliance were noted for 12 of the programs tested. Auditors found material internal control weaknesses and material instances of noncompliance for the Food Stamp Cluster, Child Nutrition Cluster,

Child and Adult Care Food Program, Homeland Security Grant Program Cluster, Title I Grants to Local Educational Agencies, Special Education Cluster, Rehabilitation Services—Vocational Rehabilitation Grants to States, Even Start—State Educational Agencies, Temporary Assistance for Needy Families, and Social Services Block Grant programs.

The table below identifies the findings reported in our audit by program, responsible department, and type of compliance requirement.

Program	Responsible Department	Type of Compliance Requirement									
		Activities ¹	Cash ²	Costs ³	Eligibility ⁴	Match ⁵	Monitor ⁶	Period ⁷	Report ⁸	Special ⁹	Procurement ¹⁰
Child Support Enforcement	Economic Security			X							X
Food Stamp Cluster	Economic Security							X	X		
SSBG	Economic Security						X				
RS	Economic Security				X		X				X
TANF	Economic Security	X		X	X				X		
Unemployment Insurance	Economic Security	X		X	X			X			
Child Nutrition Cluster	Education	X		X	X		X	X			
CACFP	Education	X		X	X		X	X			
Even Start	Education					X	X				
Special Education Cluster	Education	X		X		X	X	X			
Title I Grants	Education	X		X		X	X	X			
Homeland Security Cluster	Military Affairs		X				X			X	

SSBG – Social Services Block Grant

RS – Rehabilitation Services—Vocational Rehabilitation Grants to States

TANF – Temporary Assistance for Needy Families

CACFP – Child and Adult Care Food Program

¹Activities: Federal monies were expended for unallowable activities.

²Cash: Federal monies requested and received were in excess of, or not sufficient for, immediate program needs.

³Costs: Federal monies were expended for unallowable costs.

⁴Eligibility: Benefits were awarded to ineligible participants.

⁵Match: Federal monies were not matched with state monies, or a specified level of service was not maintained.

⁶Monitor: Subrecipients were not monitored to ensure they administered awards in compliance with federal requirements.

⁷Period: Federal monies were not expended during the period allowed, or excess funds were carried forward.

⁸Report: Financial information reported to federal grantors was not accurate or timely.

⁹Special: Unique program requirements were not complied with.

¹⁰Procurement: Procurement and suspension and debarment regulations were not complied with.

The Department of Education's On-Line System for Administering the Child Nutrition Cluster and Child and Adult Care Food Program Had Security Deficiencies

The Arizona Department of Education administers the Child Nutrition Cluster and Child and Adult Care Food Program. Reimbursement payments are issued to eligible subrecipients that provide meals to attending eligible children or adults in their service area. The Department manages these programs through a Web-based application system named CNP Web that the Department developed itself. Through the CNP Web system, eligible subrecipients are able to submit their program applications and reimbursement claim information to the Department through the Internet. Auditors reviewed the internal controls over the CNP Web system and noted several deficiencies associated with the system. For instance, auditors noted several security deficiencies covering areas such as software security patch management, password management, network vulnerability, basic security awareness, user access and privileges, and intrusion detection. These deficiencies put the Department's CNP Web system and information at risk of potential theft, manipulation, or misuse.

In addition, auditors examined system access rights for external users and determined that access rights granted were not restricted to only authorized Local Educational Agency employees. For 28 of 45 external users tested, the Department was unable to provide documentation that the users had been approved and authorized to submit program applications and claim information. While the Department has a tracking mechanism for changes made to the CNP Web system, the Department had not updated comprehensive systems documentation to reflect changes made since placing the CNP Web system in operation. Finally, system programmers had direct access to the database and were able to make data changes. Cumulatively these deficiencies constitute a material weakness in internal controls for the Child Nutrition Cluster and Child and Adult Care Food Program. Auditors performed sufficient analyses and tests to determine that no material instances of noncompliance occurred.

Single Audit Fact Sheet

- No weaknesses in financial reporting internal controls.
- Twenty-seven findings identifying weaknesses in federal compliance internal controls, 15 of those noted material weaknesses.
- Twenty-six findings identifying violations of federal program compliance requirements, 14 of those noted material violations.
- Program costs totaling \$701,120 were questioned as a result of our audit.

The Department of Economic Security Did Not Correct Previous Audit Findings for the Food Stamp Cluster and the Temporary Assistance for Needy Families Program

The Arizona Department of Economic Security, Division of Benefits and Medical Eligibility, administers the Food Stamp Cluster and the Temporary Assistance for Needy Families (TANF) programs. Our report indicates that these programs had material internal control weaknesses and instances of material noncompliance with the programs' requirements for the last three years.

Food Stamps and TANF—Issuance of EBT Cards

The Division of Benefits and Medical Eligibility, Family Assistance Administration offices did not request identification or document a recipient's identity before issuing an EBT card, destroy damaged or inactivated EBT cards, document eligibility determinations in the eligibility computer system prior to awarding benefits, or review EBT card reconciliations. In addition, employees manipulated the eligibility computer system and awarded themselves \$31,206 in cash assistance and \$24,487 in food stamps benefits. As a result, auditors were unable to determine that the Department materially complied with special tests

and provisions compliance requirements for the Food Stamp Cluster or the activities allowed or unallowed, allowable costs and cost principles, and eligibility compliance requirements for the TANF program.

TANF—Case Management

The Division of Benefits and Medical Eligibility, Family Assistance Administration offices did not always retain recipients' case files that contained all required data to ensure that the compliance requirements were followed for activities allowed or unallowed, allowable costs and cost principles, and eligibility. This weakness resulted in known questioned costs of \$8,325.

Food Stamps—Cash Management

The Division of Benefits and Medical Eligibility, Family Assistance Administration offices did not always update and maintain recipients' case files for income, shelter costs, and rent expense to ensure that compliance requirements were followed for special tests and provisions. This weakness resulted in known questioned costs of \$2,460.

TO OBTAIN MORE INFORMATION

A copy of the full report can be obtained by calling
(602) 553-0333



or by visiting our Web site at:
www.azauditor.gov

Contact person for this report:
Rick Meyer