



**REPORT HIGHLIGHTS**  
 Single Audit

**Subject**

The State of Arizona spent \$7.5 billion of federal monies this past year for 1,200 federal awards administered, in whole or in part, by 45 state agencies. The largest federal 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, maintain strong internal controls, and comply with federal program requirements.

**Our Conclusion**

The State maintained adequate controls over financial reporting. Also, the State maintained adequate internal controls over, and complied with, the federal compliance requirements for 10 of the 20 federal programs tested. However, for 10 federal programs, auditors found that the State did not maintain adequate internal controls or comply with one or more of the compliance requirements applicable to those programs. See page two for further information.



**2003**

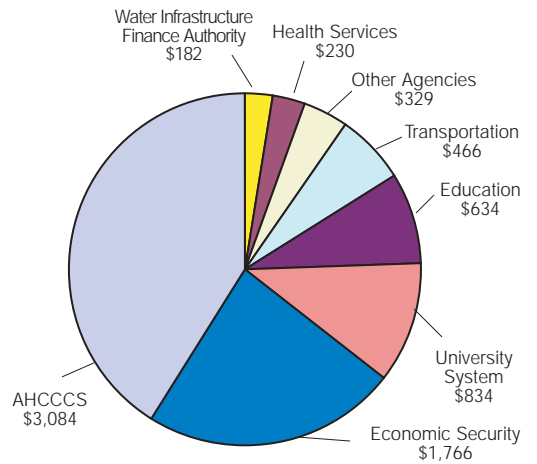
Year Ended June 30, 2003

**Expenditures of Federal Monies Increase by \$1.1 Billion**

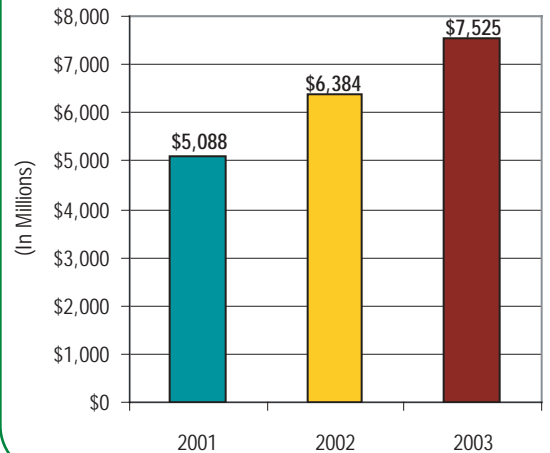
During fiscal year 2003, the State spent \$7.5 billion of federal monies. As shown in the chart to the right, seven state agencies administered 96 percent of these monies.

Overall, expenditures increased \$1.1 billion, or 17 percent, from the \$6.4 billion expended in fiscal year 2002. The largest increase occurred in health and welfare programs for indigent medical care, food stamps, unemployment insurance, research and development, special education, Title I monies for school districts, and temporary state fiscal relief. Combined expenditures for these seven programs increased by \$997 million from the prior year. This increase was attributable to the declining economy, expanded eligibility for indigent medical care, inflationary increases in healthcare costs, additional funding for university research and development projects, K-12 programs, and state fiscal relief. The largest increase, \$604 million, occurred in federal monies expended for indigent medical care. As shown in the graph to the right, expenditures of federal monies have increased \$2.4 billion between fiscal year 2001 and 2003. Expenditures for indigent medical care, food stamps, and unemployment insurance accounted for \$1.76 billion of the increase.

**State Agencies that Administer Federal Awards (In Millions)**



**Federal Programs Expenditures Fiscal Years 2001-2003**



# The State Did Not Comply with Federal Requirements for Ten Federal Programs

Auditors identified and tested 20 federal programs 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 10 of the programs tested. Auditors found material internal control weaknesses and material

instances of noncompliance for the Food Stamps, Special Education Cluster, Temporary Assistance for Needy Families, Social Security-Disability Insurance, and Special Supplemental Nutrition Program for Woman, Infants, and Children 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 <sup>1</sup>	Cash <sup>2</sup>	Costs <sup>3</sup>	Eligibility <sup>4</sup>	Match <sup>5</sup>	Monitor <sup>6</sup>	Report <sup>7</sup>	Special <sup>8</sup>
Food Stamps	Economic Security							X	X
TANF	Economic Security	X		X	X				
SSDI	Economic Security	X		X					
TAAW	Economic Security	X		X					
WIA Cluster	Economic Security	X		X			X	X	
WIC	Health Services		X						
Title I Grants	Education		X			X		X	
Special Education Cluster	Education		X			X			
Vocational Education	Education		X						
Improving Teacher Quality State Grants	Education		X			X			

TANF – Temporary Assistance for Needy Families  
 SSDI – Social Security-Disability Insurance  
 TAAW – Trade Adjustment Assistance-Workers  
 WIA – Workforce Investment Act  
 WIC – Special Supplemental Nutrition Program for Women, Infants, and Children

<sup>1</sup>Activities: Federal monies were expended for unallowable activities.  
<sup>2</sup>Cash: Federal monies requested and received were in excess of immediate program needs.  
<sup>3</sup>Costs: Federal monies were expended for unallowable costs.  
<sup>4</sup>Eligibility: Benefits were awarded to ineligible participants.  
<sup>5</sup>Match: Federal monies were not matched with state monies, or a specified level of service was not maintained.  
<sup>6</sup>Monitor: Subrecipients were not monitored to ensure they administered awards in compliance with federal requirements.  
<sup>7</sup>Report: Financial information reported to federal grantors was not accurate.  
<sup>8</sup>Special: Unique program requirements were not complied with.

## The Single Audit Fact Sheet

- No weaknesses in financial reporting internal controls.
- Seventeen weaknesses in federal compliance internal controls, seven of these were considered material weaknesses.
- Seventeen violations of federal program compliance requirements, six of these were considered material violations.
- Program costs totaling \$547,947 were questioned as a result of our audit.

## Significant Deficiencies Noted for the Food Stamps and TANF Programs

The Department of Economic Security administers the Food Stamps and Temporary Assistance for Needy Families (TANF) programs. Benefits are issued to eligible recipients at its local offices using Electronic Benefits Transfer (EBT) cards. Auditors reviewed internal controls at 10 of the Department's 94 local offices and noted that these offices did not follow the Department's established policies and procedures. For example, at some locations, the same employee was able to activate and issue EBT cards, and the machines that activated these cards were not always safeguarded. In some instances, employees failed to request identification to document the identities of EBT card recipients. Furthermore, at most of these locations, a reconciliation of EBT cards issued

to inventory records was not performed and damaged cards were not destroyed. Finally, the Department could not locate 7 of the 40 cash assistance recipient case files that auditors selected for review. As a result of these internal control weaknesses, the Department's internal auditors have found instances in which employees issued additional food stamp and cash assistance benefits to eligible recipients, and kept these benefits for themselves. These cases have been forwarded to the Arizona Attorney General's Office for prosecution. Our report indicates that these conditions resulted in a material internal control weakness and material noncompliance with the Food Stamps and TANF programs' requirements. Unallowable program costs of \$112,449 were noted as a result of these internal control weaknesses.



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