

State of Arizona

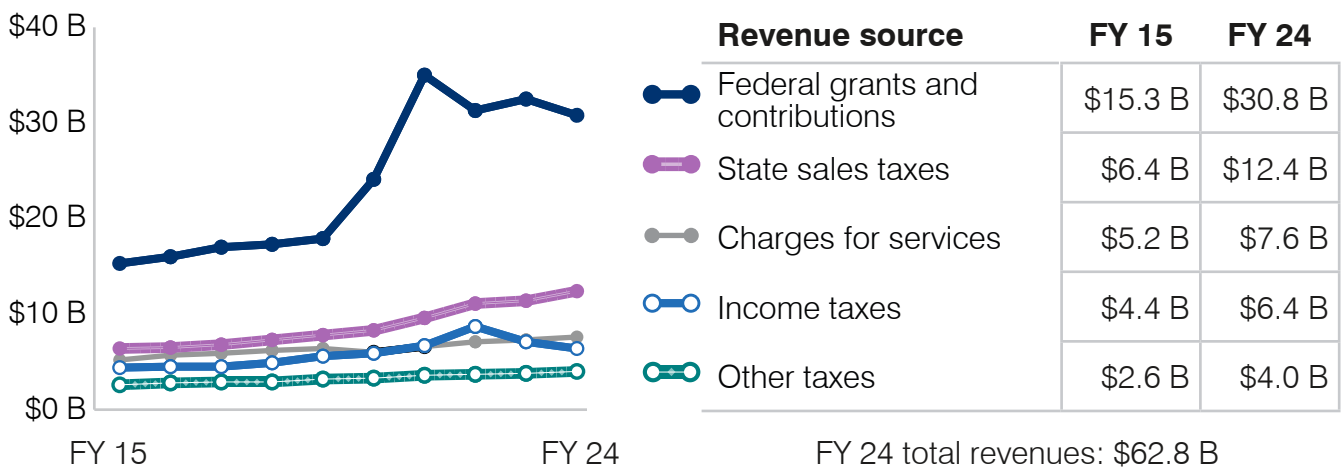
Annual financial statement and compliance audits

The State’s fiscal year 2024 reported financial information is reliable, except for some of the Arizona Health Care Cost Containment System (AHCCCS) and Department of Economic Security (DES) activity for which we and the other auditors were unable to obtain sufficient appropriate audit evidence. We also reported deficiencies and noncompliance at various other State agencies, boards, and programs over financial reporting and federal programs, summarized on the subsequent pages.

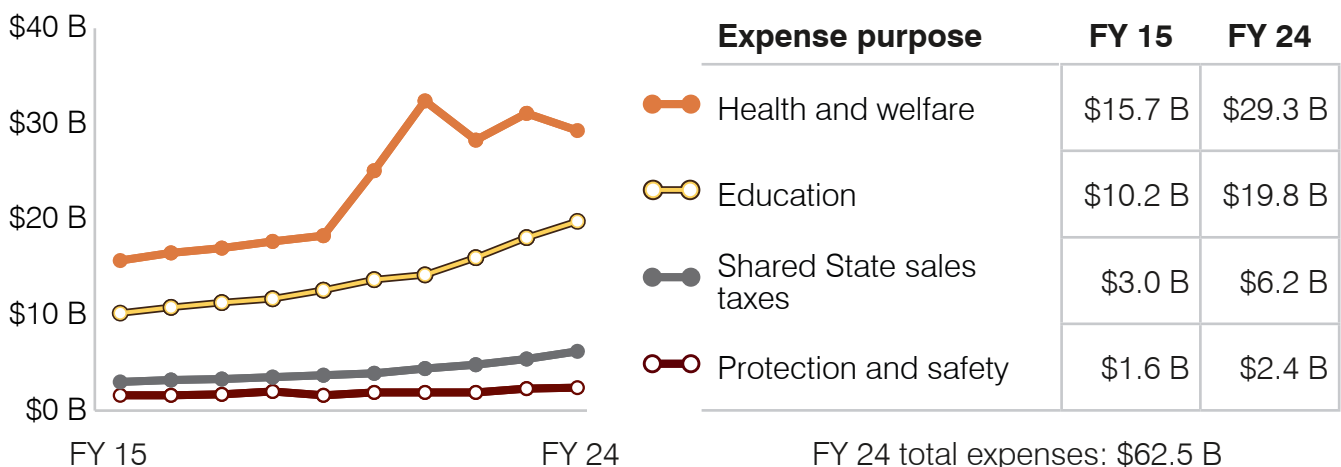
Audits’ purpose

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, in billions (FY 2015 through FY 2024)



Primary expense purposes, in billions (FY 2015 through FY 2024)



Source: Auditor General staff summary of information obtained from the State’s fiscal years 2015 through 2024 financial statements.

FY 2024 largest primary revenue sources as a percentage of total revenues

▶ Federal grants and contributions, 49.0%

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 assistance.

▶ State sales taxes, 19.7%

Taxes the State collects from businesses for selling a product or providing a service subject to sales tax.

FY 2024 largest primary expense purposes as a percentage of total expenses

▶ Health and welfare, 46.9%

Costs for providing medical assistance through the State's Medicaid program, economic relief and assistance to individuals through DES, and services for the well-being of children in the State through the Department of Child Safety.

▶ Education, 31.7%

Costs for providing federal and State monies to Arizona public district and charter schools for educating children and providing administrative oversight through the Department of Education (ADE), providing payments to Empowerment Scholarship Accounts (ESA) for eligible student educational expenses and higher education services provided by the 3 State universities.

State's net position increased by \$259 million in FY 2024

The State's revenues were \$259 million greater than expenses, increasing total net position to \$49.4 billion at June 30, 2024. 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. Of the total net position, \$44.3 billion was restricted by external parties or was not in spendable form, and the remaining \$5.1 billion was unrestricted.

We issued qualified opinions on certain financial statement opinion units and line items, indicating financial information is largely reliable, except for certain matters

Our audit found that the State's financial statement information is reliable, except for AHCCCS and DES activity described in Table 1, page 3, for which we and the other auditors were unable to obtain sufficient appropriate audit evidence and, therefore, have issued qualified opinions. A qualified opinion means the financial statements are largely reliable, except for the matters identified, and the users of the financial statements should exercise caution when relying on the financial statements as it relates to those areas.

Table 1

Unreliable financial statement line items and related disclosures by qualified opinion unit

Fiscal year 2024

Qualified opinion unit	Unreliable financial statement line items and related disclosures
Governmental activities	AHCCCS' activity in other receivables, due to U.S. government, and operating grants and contributions line items
Business-type activities	DES' activity in unearned revenues, due to U.S. government, accrued liabilities, charges for services revenues, net position line items, including related disclosures
Major fund—General Fund	AHCCCS' activity in other receivables, due to U.S. government, and intergovernmental revenues line items
Major fund—Unemployment Compensation Fund	DES' activity in unearned revenues, due to U.S. government, accrued liabilities, other operating revenues, and net position line items, including related disclosures

Source: Auditor General staff summary of information obtained from the State's fiscal year 2024 financial statements.

AHCCCS and law enforcement agencies continue to investigate findings of credible and willful fraud by sober-living providers across the State and have yet to determine the amount of fraud or improper payments, potential recoveries from the providers, or amount that may be due back to the federal government. Also, DES did not support how its reported \$257.4 million unearned revenues, consisting of cash received from the federal government in prior fiscal years, could be earned in a future period and did not determine whether the financial statements needed to be adjusted and if it would be required to return monies to the federal government. Additionally, DES could not support how an estimated \$51.3 million of its \$173.8 million of reported accrued liabilities for unemployment insurance tax overpayments that were past the 3-year statute of limitations for requesting adjustment or refund were still due and payable to employers. Neither AHCCCS nor DES made any related financial statement adjustments because they lacked evidence. Consequently, we and the other auditors were unable to determine whether any adjustments to the above financial statement line items or additional disclosures were necessary, and the information regarding these financial statement line items is unreliable.

Summary of key internal control findings auditors reported over fiscal year 2024 financial statement information

Summarized below and through page 7 are our and the other auditors' key financial statement findings included in the [State of Arizona FY 2024 Single Audit Report](#), which includes 28 total financial statement findings and contains further information and the State's responses.

The State issued its Annual Comprehensive Financial Report late, resulting in untimely financial information for State legislators, federal grantors, creditors, and other stakeholders

- ▶ AHCCCS and DES did not timely provide required information to the Arizona Department of Administration (ADOA) to prepare and issue the State's financial statements in time to meet the State's federally mandated audit deadline. Further, AHCCCS, DES, ADE, the Arizona State Treasurer's Office (ASTO), and ADOA failed to provide timely responses to audit requests, resulting in untimely financial information for State legislators, federal grantors, creditors, and other stakeholders. [Finding: 2024-01](#)

ADE management's lack of adequate internal controls for its Empowerment Scholarship Account Program (Program) continues to put Program monies at risk of misuse

- ▶ The Program does not utilize a comprehensive risk-based audit approach. Throughout our test work, Program management described to us different variations of their audit methodology with varying numbers of transactions selected and criteria used to select transactions for audit, but none of the variations use a comprehensive risk-based audit approach. In addition to the deficiencies we noted in the Program's risk-based approach, we found that the Program was not adhering to its transaction audit methodology when selecting and performing its weekly audits. Specifically, the Program did not always select for audit 30% of the expenditure transactions that were \$2,000 or less that were automatically processed. We also found that the Program did not consistently include expenditure transactions from the reimbursement or direct pay spend types in its list of transactions that, according to its reported process, should be subject to and could potentially be selected for an audit. As a result, the Program may increase the likelihood that it is not detecting purchases that are unallowable or missing documentation, or do not comply with Program regulations, risking the misuse of public monies. [Finding: 2024-02](#)
- ▶ ADE has not addressed discrepancies between reported conflicts of interest (COI) and the Program's COI log, nor ensured that Program transactions with reported conflicts were independently reviewed. We found that the Program's review of transactions for ESA account holders for which Program management and other Program employees who had a disclosed personal relationship was not independently performed and did not always identify issues including unallowable expenses, missing documentation, and overpayments.

Additionally, we found that Program management overrode controls by adding 2 families to a list that allowed for their transactions to be manually reviewed and receive expedited payment and reimbursement processing. As some of these transactions occurred during fiscal year 2024, due to administrative rules limiting the Program's ability to audit account activity from the last 2 fiscal years, including the current fiscal year, the Program is at risk of not being able to recover any monies spent inappropriately. [Finding: 2024-03](#)

- ▶ The Program did not conduct or timely conduct reviews of transactions that may be indicative of unallowable expenses or fraudulent activity and did not always take further required action, such as issuing a suspension notice or termination letter, which may have resulted in \$86,599 of Program monies we reviewed being misused. [Finding: 2024-04](#)

DES did not maintain adequate records to support the classification of \$257.4 million in unemployment insurance liabilities as unearned revenues, increasing the risk that the State may be required to return all or a portion of the \$257.4 million to the federal government

- ▶ DES did not maintain detailed records to support how cash received from the federal government in prior fiscal years for COVID-19 pandemic federal unemployment compensation and assistance programs (pandemic federal programs) can be earned in a future period through disbursement to eligible claimants. Although DES management reported that cash could still be earned through benefit payments associated with pandemic federal programs' appeals, DES did not provide evidence of the total number and amounts of appeals outstanding to support it continuing to keep \$257.4 million of federal program monies. [Finding: 2024-06](#)

DES did not prepare complete and accurate monthly bank reconciliations for 3 bank accounts holding unemployment insurance monies and was unable to support why its cash balance reported in bank records exceeded the amount reported in the unemployment compensation fund financial statements by \$19.9 million, resulting in the risk of fraudulent activity and undetected errors

- ▶ DES identified but did not investigate and resolve a \$19.9 million difference between the cash balance reported in the Unemployment Compensation Fund financial statements and cash reported in the bank records. As a result, DES may be required to return all or a portion of the unreconciled difference to the federal government if the unreconciled cash consisted of recovered overpayments and/or fraudulent payments of federal unemployment insurance monies.

By allowing unresolved differences to accumulate over time, DES is at risk of incurring additional costs and needing additional resources for remediation. For example, the State spent approximately \$739,000 on a contract with outside consultants to perform corrective actions related to a similar prior year finding. [Finding: 2024-05](#)

DES did not accurately record unemployment insurance tax overpayments to support an estimated \$51.3 million in accrued liabilities reported in the State’s financial statements, increasing the risk that DES may refund employers overpayments they are no longer legally entitled to

- ▶ DES did not update its benefits subsystem after the 3-year deadline for requesting an adjustment or refund of unemployment insurance taxes passed. Any tax overpayment amounts not in appeal were automatically returned to DES. DES did not configure its benefits system to record the payment due date, and it is unknown whether employers overpaid before or after the due date, increasing the risk of public monies being misused when refunding employers for monies they were no longer legally entitled to.

[Finding: 2024-07](#)

DES may be required to return monies to the Social Security Administration because it did not separately account for or report developmentally disabled members’ invested social security disability insurance benefit payments for members for whom it was no longer the representative payee, resulting in members potentially being deprived of needed goods or services

- ▶ DES did not separately account for or annually report to the Social Security Administration each developmentally disabled member’s invested social security disability insurance benefit payments, including individuals for whom it is no longer serving as the representative payee, held in 4 ASTO’s investment pool accounts totaling \$1.7 million. As a result, members may have been deprived of needed goods or services since they were unaware these monies were available to spend. [Finding: 2024-08](#)

ADOA and ASTO were unable to support why cash and pooled investments reported in ASTO’s financial statements exceeded the State’s accounting system by \$68 million

- ▶ ADOA and ASTO could not support why ASTO’s balances were \$68 million more than the State of Arizona’s accounting system’s cash and pooled investments balances. While ASTO submitted initial and revised reconciliations to ADOA that showed its balance having an unreconciled difference of \$55 million and \$68 million more than the State’s balance, respectively, after our repeated requests, ASTO modified its reconciliation process and reconciled the cash and investment balances for fiscal year 2024 with a difference of \$31,000. However, ADOA management reported to us that they had exhausted all resources and would not review the revised reconciliation ASTO provided. This results in an increased risk that the State’s financial statements could contain significant errors, misinform those who are relying on the information, and result in fraud or misuse of public monies. [Finding: 2024-09](#)

Arizona Department of Corrections, Rehabilitation, and Reentry (DCRR) lacked records supporting that \$50.9 million of opioid settlement monies were spent for approved purchases

- ▶ DCRR spent \$50.9 million of opioid settlement monies to provide medication to treat inmates for hepatitis C without documenting that the infectious disease was a result of intravenous opioid use as outlined in the One Arizona Distribution of Opioid Settlement Funds Agreement. By not preparing and retaining these records, DCRR may be required to return these monies and could have future distributions suspended. [Finding: 2024-10](#)

AHCCCS' previously issued fiscal year 2024 financial statements contained errors, which required the financial statements to be reissued and increased the risk of those relying on the reported financial information could be misinformed with conflicting information

- ▶ AHCCCS did not accurately report its financial statements and its auditors noted 7 audit adjustments, which included a decrease of approximately \$20.1 million in assets, \$13.4 million in liabilities, and other adjustments that were necessary to properly present financial information in the financial statements and schedule of expenditures of federal awards. This increased the risk that those relying on the reported financial information could be misinformed. [Finding: 2024-21](#)
- ▶ Subsequent to the issuance of AHCCCS' fiscal year 2024 financial statements, management identified errors and misclassifications in its General Fund and Other Governmental Fund resulting in adjustments to total assets in these funds by \$384.8 million and \$30.5 million, respectively. These errors resulted in AHCCCS reissuing its previously issued 2024 financial statements which caused further delays to the State's financial statement report. [Finding: 2024-22](#)

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 fiscal year 2024 financial statements. The subsequent pages contain a general summary of our federal compliance audit results, federal program spending trends, key audit finding summaries, and the State's progress in correcting federal program findings.

Federal program/cluster opinions

Our fiscal year 2024 federal compliance audit reviewed 25 federal programs/clusters.



2

**received an
adverse opinion**

State did not materially comply with the federal program requirements, and those matters were pervasive to the federal program.



5

**received a
qualified opinion**

State generally complied with the federal program requirements, except for the matters described in the report.



18

**received an
unmodified opinion**

State materially complied with the federal program requirements.

Findings

Our fiscal year 2024 federal compliance audit resulted in 22 findings.¹



14

federal programs/clusters we audited received at least 1 finding



13

findings pertained to COVID-19-related federal programs/clusters



\$40,802,572

of questioned costs were identified

¹ One of the 22 findings included a federal program that was not audited as a major federal program and was administered at the Office of Equal Opportunity.

Source: Auditor General staff summary of FY 2024 federal compliance audit findings.

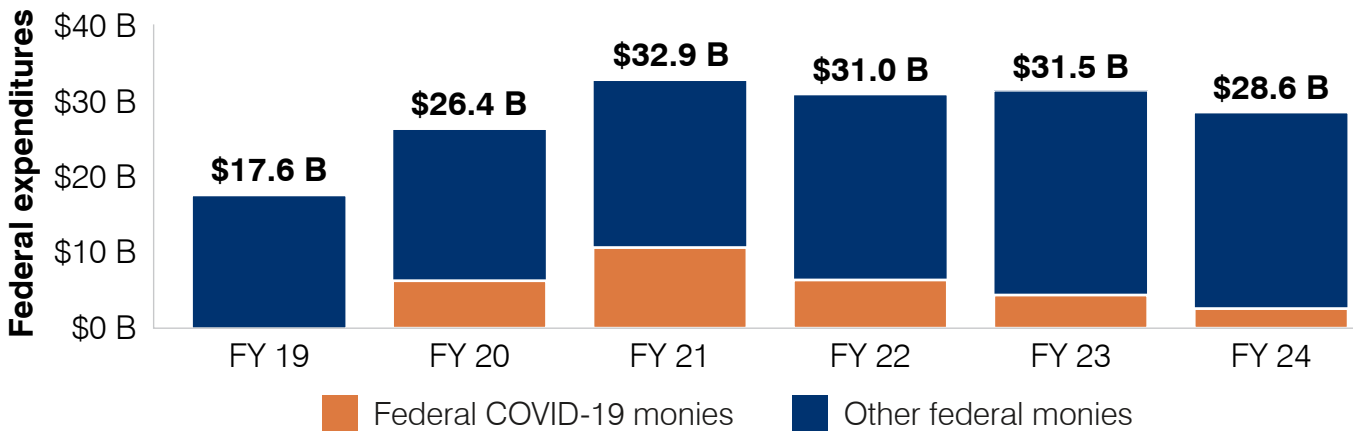
State's federal expenditures

As illustrated in Figure 1, page 9, the State's federal expenditures increased significantly in fiscal years 2020 and 2021 as a result of increased federal monies relating to COVID-19 programs. However, while federal expenditures have decreased slightly since fiscal year 2021, except for fiscal year 2023, due to the expiration of previous COVID-19 programs, federal expenditures remain significantly higher than they were prior to the COVID-19 pandemic.

Figure 1

Federal expenditures increased in FYs 2020 and 2021 due to influx of federal COVID-19 monies; since then federal expenditures decreased in all but FY 2023

Fiscal years 2019 through 2024



Year	Amount from other federal monies	Amount from COVID-19 monies	Total	Percentage increase/decrease from prior year	Contextual information
FY 19	\$17.6 B	N/A	\$17.6 B	+ 3.6%	
FY 20	\$20.1 B	\$6.3 B	\$26.4 B	+ 49.8%	Increased due to federal COVID-19 monies starting in March 2020
FY 21	\$22.2 B	\$10.7 B	\$32.9 B	+ 24.9%	Continued increase due to federal COVID-19 monies
FY 22	\$24.6 B	\$6.4 B	\$31.0 B	- 6.0%	Decreased due to certain federal COVID-19 programs' spending periods expiring
FY 23	\$27.1 B	\$4.4 B	\$31.5 B	+ 1.7%	Although COVID-19 spending decreased by \$1.9 billion, other program spending increased by \$2.5 billion
FY 24	\$26.5 B	\$2.1 B	\$28.6 B	- 9.2%	Although overall decrease of 9.2%, COVID-19 spending decreased by 41% from FY 23

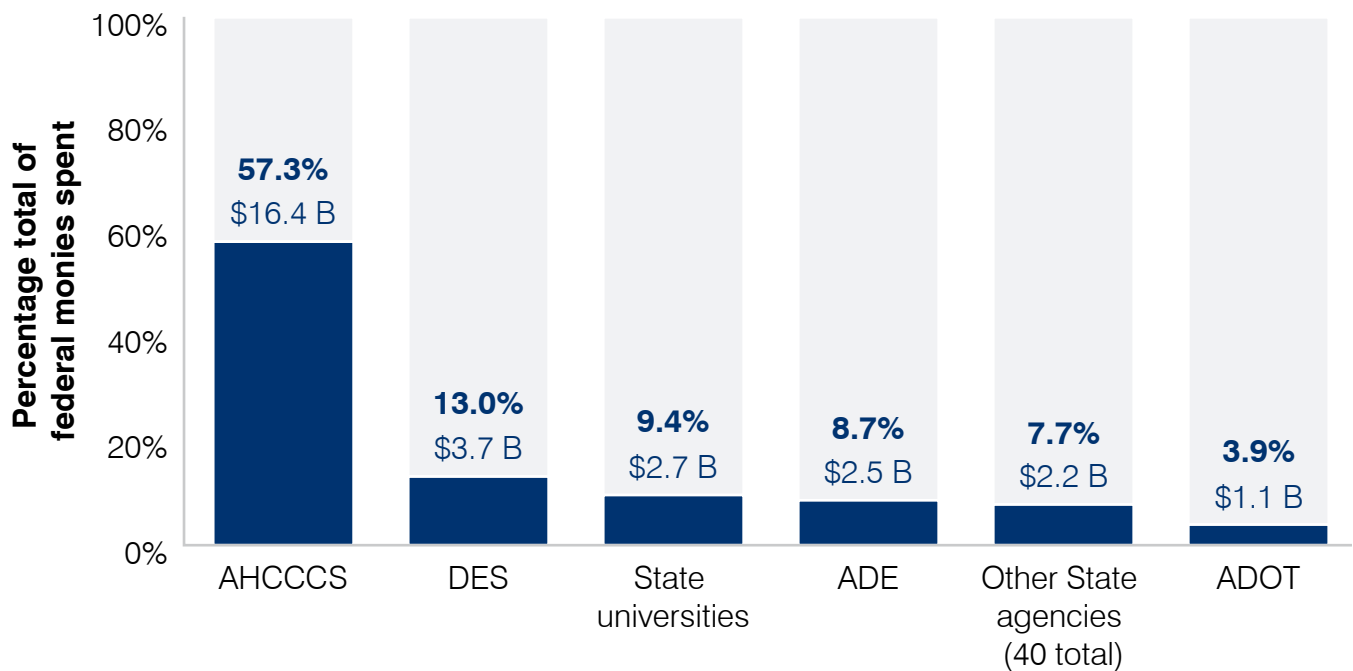
Source: Auditor General staff summary of information obtained from the State's fiscal years 2019 through 2024 schedule of expenditures of federal awards.

During fiscal year 2024, 44 of the State’s agencies and the 3 State universities spent the \$28.6 billion in federal program monies performing services for purposes such as medical, health and welfare, and food 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.

As illustrated in Figure 2 below, 4 State agencies and the 3 State universities managed the majority of the \$28.6 billion in federal program monies spent in fiscal year 2024. Additionally, we audited \$21.0 billion of these monies and reported 22 total federal findings in 12 State agencies and 1 university. See Table 2, page 11, for more information regarding the number and types of federal findings we issued for each entity in fiscal year 2024.

Figure 2

4 State agencies and the 3 State universities managed over 92% of total federal monies spent in FY 2024



Source: Auditor General staff summary of information obtained from the State’s fiscal year 2024 schedule of expenditures of federal awards.

Table 2**Auditors reported 22 distinct findings for 12 State agencies and 1 university¹**

Fiscal year 2024

State agencies and universities	Findings related to use of federal COVID-19 monies	Findings related to other federal program monies	Total number of findings per entity
DES ¹	5	1	6
ADE	2	3	5
AHCCCS	3	0	3
Arizona Governor’s Office of Strategic Planning and Budgeting (OSPB) ²	2	0	2
ADOA	0	2	2
Arizona Department of Military and Emergency Affairs (DEMA)	0	2	2
Arizona Department of Health Services (DHS)	1	0	1
Arizona Department of Housing (HDA) ²	1	0	1
Arizona Department of Water Resources (WCA) ²	1	0	1
Arizona Office of Tourism (TOA) ²	1	0	1
Industrial Commission of Arizona (ICA) ²	1	0	1
University of Arizona (UAA)	0	1	1
Office of Equal Opportunity (OEO) ¹	0	1	1

When a single finding applied to multiple entities, we included that finding in each applicable entity’s finding counts. This intentional double-counting allowed us to accurately represent the number of findings associated with each entity. The totals represented below, however, include each unique finding only once and therefore will not correspond to a direct summation of the values presented above.

Total unique findings	13	9	22
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¹ One finding for OEO and DES relates to a federal program that was not audited as a major federal program. We reported 1 finding that included both OEO and DES, and therefore it is included in both agencies’ finding counts.

² We reported 1 finding that included HDA, WCA, TOA, ICA, and OSPB, and therefore it is included in each of those 5 agencies’ finding counts.

Source: Auditor General staff summary of FY 2024 federal compliance audit findings.

We identified key audit findings that could impact the State’s future federal funding, require the return of federal monies, and/or cause increased federal monitoring

Summarized below and through page 14 are our and the other auditors’ key federal compliance audit findings including common problems we identified across 7 State agencies. These significant findings are included in the State of Arizona FY 2024 Single Audit Report, which includes 22 total federal compliance audit findings and contains further information and the State’s responses.

The State could face corrective actions for issuing its Single Audit Report late

- ▶ The State submitted its Single Audit Report on April 23, 2026, which was nearly 13 months later than allowed by federal regulation. State agencies, including the 3 State universities, could face future corrective actions, including imposed suspensions, delays, or restrictions in federal award funding. [Finding: 2024-101](#)

6 State agencies are at risk of returning federal monies because they did not perform all the required subrecipient monitoring to ensure monies were spent as intended

- ▶ TOA, ICA, WCA, HDA, DES, and ADE did not perform all the required monitoring of their subrecipients’ activities for 3 federal programs, which increased the risk that \$114.6 million may not have been properly spent. These agencies are required to monitor their subrecipients to ensure the federal monies they awarded to them were used for the intended purposes and services, as allowed by the federal programs. [Findings: 2024-102, 2024-105, and 2024-109](#)

Federal agencies, stakeholders, and the public were unable to rely on reports submitted by 5 State agencies because they were inaccurate, incomplete, and/or unsupported

- ▶ OSPB, DES, and DEMA reported inaccurate, incomplete, and/or unsupported program expenditures on quarterly or annual reports to federal agencies. The accuracy of these reports is critical because the federal government uses them to monitor the programs’ spending and operations and to prevent and detect fraud. [Findings: 2024-103, 2024-106, and 2024-117](#)
- ▶ DES, ADE, and DHS submitted late or inaccurate reports for \$93.9 million they passed along to others (i.e., subawards) that were at least \$30,000 each. These reports required information about the organization that received the subaward to be reported, such as organization name, award amount, and award term. It is important that these reports are complete and accurate to allow the public access to transparent and timely information about federal award spending decisions. [Findings: 2024-108, 2024-112, and 2024-115](#)

2 State agencies are at risk of returning federal monies because they made payments to ineligible program participants or did not prepare and/or retain documentation to demonstrate how the expenditure was an allowable use of program monies

- ▶ DES did not retain documentation, such as a signed payment form, to support childcare provider's expenditures paid as part of the CCDF Cluster. We found for 1 of 40 provider payments selected for test work that DES could not provide the signed payment form for a payment totaling \$181,703. We tested all 126 payments DES made to this provider during this fiscal year and determined \$2,880,442 did not include the required documentation. [Finding: 2024-107](#)
- ▶ DES made unallowable benefits payments totaling \$64,131 to ineligible emergency rental assistance program applicants, applicants for which it did not obtain required documentation to verify their eligibility, and for unallowable items or services. As a result, DES is at an increased risk that the program applicants received payments for which they were not entitled. [Finding: 2024-104](#)
- ▶ DEMA did not always retain documentation supporting and approving employees' pay rates and/or authorization to work on the Emergency Management Performance Grants federal program. As a result, DEMA's \$1.7 million overall program payroll costs paid to 76 employees during the fiscal year are at an increased risk of not being spent in accordance with the award terms and conditions. [Finding: 2024-116](#)

AHCCCS is at risk of returning federal monies because of sober-living providers' alleged fraudulent billing practices

- ▶ AHCCCS became aware of potential fraudulent billing practices, including significant increases in billing for outpatient behavioral health services. This led AHCCCS to connect the irregular billing of these services with alleged criminal activity targeting indigenous peoples and other vulnerable Arizonans. Since May 2023, AHCCCS has suspended more than 300 Medical Assistance Program sober-living providers from receiving Medicaid payments. The investigation is ongoing, and AHCCCS is not currently able to estimate a total overpayment or amount of improper payments made to the providers and is unable to estimate any questioned costs related to the fraud allegations. [Finding: 2024-120](#)

ADE is at risk of not receiving the most advantageous price for \$37.3 million paid to 57 vendors using federal program monies

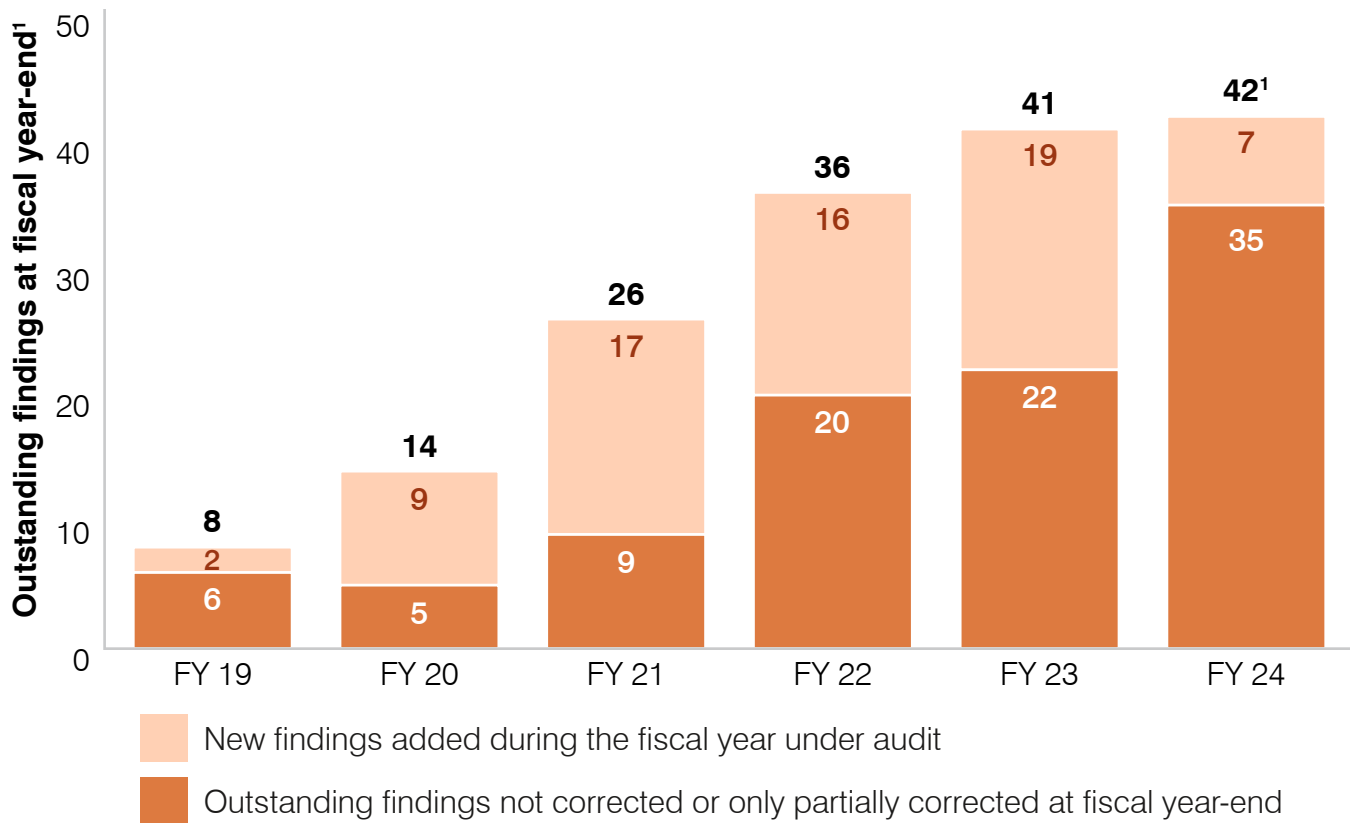
- ▶ ADE did not use the proper procurement method ensuring fair and open competition for procurements made with Education Stabilization Fund program monies. Further, unauthorized employees signed and approved a noncompetitive waiver. [Finding: 2024-111](#)

State's progress is delayed in correcting federal program findings

As shown in Figure 3 below, the number of uncorrected federal program findings outstanding that require corrective actions to be taken by the State has been increasing since fiscal year 2020. This may be attributed, in part, to the influx of the COVID-19 pandemic monies and additional federal program requirements. In addition, as reported in finding 2024-101, the State's submitting its single audit report late since fiscal year 2019 caused the State to be unable to implement audit recommendations timely, delayed it timely identifying problems, and often resulted in additional audit work.

Figure 3

The number of uncorrected federal program findings has been increasing since FY 2020



¹ This count includes the 22 findings we reported on page 8 plus 20 findings we previously reported in the fiscal year 2023 report. These 20 findings have not been fully corrected and either relate to programs that were not subject to audit in fiscal year 2024, a repeat written finding was not warranted, or a repeat finding was combined.

Source: Auditor General staff analysis of the State of Arizona's Single Audit Reports for fiscal years 2019 through 2024.

Auditor General website report links

- ▶ **June 30, 2024, [State of Arizona Annual Comprehensive Financial Report and Single Audit Report.](#)**

These Highlights summarize the reports above. The full reports explain the State's overall financial picture and our reporting responsibilities.

- ▶ The [State's reports from prior years.](#)