



Report on Internal Control and on Compliance Year Ended June 30, 2025

Office of the Arizona State Treasurer



Lindsey A. Perry
Auditor General

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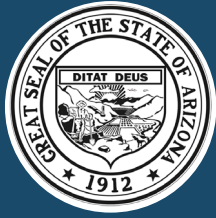
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**ARIZONA
AUDITOR
GENERAL**

Lindsey A. Perry, Auditor General

Independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*

Members of the Arizona State Legislature

The Honorable Kimberly Yee
Office of the Arizona State Treasurer

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the U.S. Comptroller General, the financial statements of the investment pools and individual investment account of the Office of the Arizona State Treasurer (ASTO) as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the ASTO's financial statements, and have issued our report thereon dated September 21, 2026.

Report on internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the ASTO's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the ASTO's internal control. Accordingly, we do not express an opinion on the effectiveness of the ASTO's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the ASTO's financial statements will not be prevented, or detected and

corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and recommendations as item 2025-01 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and recommendations as item 2025-02 to be a significant deficiency.

Report on compliance and other matters

As part of obtaining reasonable assurance about whether the ASTO's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

ASTO response to findings

Government Auditing Standards requires the auditor to perform limited procedures on the ASTO's responses to the findings identified in our audit that are presented in its corrective action plan at the end of this report. The ASTO is responsible for preparing a corrective action plan to address each finding. The ASTO's responses and corrective action plan were not subjected to the other auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

Purpose of this report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the ASTO's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the ASTO's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

September 21, 2026

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

The subsequent pages present the Arizona Auditor General's findings and recommendations resulting from our audit of the ASTO's financial statements.

The Office of the Arizona State Treasurer (ASTO) did not ensure its reconciliation of cash and investments balances to the State's accounting records and its Annual Financial Report (AFR) was completed accurately and timely

Condition

Contrary to State law and policy, the ASTO did not submit an accurate and valid cash and investment reconciliation to account for all of its financial activity recorded in its accounting records and financial statements to the State's accounting records to the Arizona Department of Administration (ADOA) for fiscal year ended June 30, 2025.¹ The ADOA relies on the ASTO's reconciliation and audited financial statements so that it can accurately record cash and investment balances pooled with the ASTO's balances on the State's financial statements. Specifically, for the fiscal year ended June 30, 2025, the ASTO submitted its original reconciliation to the ADOA on time but with continued accuracy issues, showing its balance with an unreconciled difference of \$39 million more than the State's balance.

After our repeated requests, discussions regarding the accuracy and validity of the reconciliations, and things it should consider to ensure its reconciliations are accurate and valid, the ASTO modified its reconciliation process and provided several versions to ADOA, with a final version submitted on August 17, 2026, with a difference of \$9.5 million.² Further, through the reconciliation process, the ASTO identified that they posted \$377.7 million in duplicated and invalid adjusting journal entries to the June 30, 2025, cash balance recorded in their financial statements. The ASTO corrected its final financial statements for the overstatements to the cash balances. Because of these errors and delays in providing records to us, the final financial statements were issued 10 months past their original estimated issuance date of October 31, 2025.³

Effect

The ASTO did not detect that it included 2 duplicate adjusting entries resulting in a net \$23 million overstatement in its issued fiscal year ended June 30, 2024, financial statements' cash

¹ The ASTO is responsible for banking and investment management for the State and providing investment services to local governments within Arizona. As of June 30, 2025, the ASTO managed over \$33.0 billion in cash and investments for the State (internal participants) and local governments (external participants) held by the ASTO in external investment pools, an individual investment account, and internal investment pools that became part of the State of Arizona's governmental, proprietary, and fiduciary fund categories at the combined State-wide level in the State's Annual Comprehensive Financial Report (ACFR). The investment pools are created from multiple internal and external balances that combine its capital to invest in diversified security portfolios. The ASTO and State use separate accounting systems to record cash and investment balances.

² On May 30, 2025, the ADOA sent a letter to the ASTO requesting information for inclusion in the State of Arizona's ACFR. As part of this request, the ADOA asked the ASTO to provide a cash reconciliation by September 19, 2025.

³ Except for the AFR for fiscal year ended June 30, 2025, the ASTO has historically issued an AFR each fiscal year by October 31.

balance—1 for an overstatement of \$35.4 million and another for an understatement of \$12.4 million. The ATSO did not detect these errors because they completed the prior year cash reconciliation late in January 2025, almost 7 months after fiscal year-end. As a result, this overstatement error flowed into the next fiscal year, and specifically, the ASTO included the \$23 million overstatement in its cash balance for fiscal year ended June 30, 2025, until we requested the ASTO to correct the balances. Further, because the ATSO made duplicated adjustments to cash balances and used an improper methodology to state cash and investments at fair value, the ASTO overstated the final cash balance by an additional \$377.7 million.

Cause

The ASTO's management reported that they relied on a cash and investment reconciling method and compilation of the financial statements used in previous years and there was a lack of documentation to explain the reconciliation or financial statement process. In addition, the original ASTO personnel responsible for performing the cash and investment reconciliations did not understand how the inaccurate and invalid data impacts the ASTO's and the State's financial reporting. Further, the ASTO staff assigned to prepare and review the reconciliation and compile the financial statements were not properly trained and did not have the specialized knowledge and experience to perform the functions and detect misstatements. Finally, the review and approval of adjusting journal entries and financial statements were not performed in sufficient detail to detect and correct these errors.

Criteria

State laws require the ASTO to safeguard public monies and the ADOA to maintain complete, accurate, and current financial records over State and public monies held by the ASTO (Arizona Revised Statutes [A.R.S.] §§35-131[B] and 35-317). State law also requires the ASTO to submit accurate statements of receipts and expenditures to the Governor and ADOA, and all necessary financial information to the ADOA to be used to prepare the State's ACFR consistent with generally accepted accounting principles (GAAP) and in accordance with the ADOA's policies and procedures (A.R.S. §§35-131[I] and 41-172). The ADOA directed the ASTO to submit their financial information to the ADOA by September 19, 2025, to meet the State's financial reporting and audit requirement deadlines. Specifically, the State was required to submit its single audit reporting package, which includes the State's ACFR, to the Federal Audit Clearinghouse by March 31, 2026 (2 CFR §200.512). The ADOA's policies and procedures also require each agency to reconcile all relevant activities, including cash and investment bank balances to book balances, accounting records in the State's system to those in a system other than the State's system, and all other internal accounting records to the State's system and requires agencies to retain supporting documentation.⁴

The State agencies have a responsibility to implement internal controls to provide reasonable assurance over the reliability of the State's reported financial information. Complete and accurate

⁴ State of Arizona's Department of Administration, General Accounting Office. (2019). *State of Arizona Accounting Manual: 0505, General Internal Controls*. Retrieved 8/18/2026 from <https://gao.az.gov/sites/default/files/2022-05/0505%2520General%2520Internal%2520Controls%2520190311.pdf>

information is an essential part of internal control standards, such as *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States, and integral to ensuring monies are not fraudulently or mistakenly misused.⁵

Recommendations to the ASTO

1. Maintain accurate records to support cash and investments with the ASTO recorded in the State's accounting system to ensure the ASTO's and State's financial statements are accurate and prepared in accordance with GAAP.
2. Complete the fiscal year-end June 30 reconciliations by the ADOA deadlines to ensure all differences are investigated and reconciled to accounting records, and if necessary, post adjusting journal entries to correct errors identified in accounting records and to the financial statements.
3. Review adjustments to the financial statement balances and verify entries are proper and not duplicated.
4. Perform a detailed supervisory review of the financial statements and adjusting entries to ensure the financial statements are accurate, complete, and properly supported to the ASTO's accounting records.
5. Hire and retain qualified individuals who have the skills, specialized knowledge, and experience to perform financial reporting functions as prescribed by GAAP, State law, and policy.

Develop and implement new policies and procedures and train responsible individuals on detailed procedures to:

6. Clearly describe the methodology used to reconcile the ASTO's cash and investment balances to the State's accounting records, including describing what ASTO and State financial activity and level of detail should be included.
7. Perform a reconciliation of the ASTO's and the ADOA's accounting records for cash and investment balances to ensure the validity and accuracy of information included is recorded in both the ASTO's and State's financial statements. Investigate and resolve unreconciled differences prior to issuing the ASTO's financial statements and by the established ADOA deadline.
8. Perform a detailed supervisory review of the reconciliation to ensure it is accurate, complete, properly supported, and valid to detect and correct errors in the ASTO's and State's accounting records. Require an independent individual not involved in the reconciliation process to review and approve the reconciliation and evaluate the effect of any unreconciled differences.

⁵ U.S. Government Accountability Office. (2014). *Standards for internal control in the federal government*. Washington, DC. Retrieved 8/18/2026 from <https://www.gao.gov/assets/670/665712.pdf>

Views of responsible officials

ASTO management partially concurs with this finding. The ASTO's corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy. ASTO's response necessitates clarifications. See Auditor General's comments on page 10.

The Office of the Arizona State Treasurer's (ASTO) control procedures over IT systems and data were not sufficient, which increases the risk that the ASTO may not adequately protect those systems and data

Condition

The ASTO's control procedures for restricting access were not sufficiently implemented to consistently help prevent or detect unauthorized or inappropriate access to its information technology (IT) systems and data.

Effect

There is an increased risk that the ASTO may not adequately protect its IT systems and data, which could result in unauthorized or inappropriate access and/or the loss of confidentiality or integrity of systems and data.

Cause

The ASTO's management reported that the Arizona Strategic Enterprise Technology (ASET) Office provided additional resources to the ASTO at no cost, and as a result, they began to implement new changes near the end of the fiscal year but were unable to fully implement the changes before fiscal year-end.

Criteria

The ASTO is required to follow the State's IT policies ASET established to implement effective internal controls that protect its IT systems and ensure the integrity and accuracy of the data it maintains as it seeks to achieve its financial reporting, compliance, and operational objectives. Effective internal controls include restricting access through logical controls to help ensure systems and data are accessed by users who have a need, systems and data access granted is appropriate, and key systems and data access are monitored and reviewed.

Recommendations to the ASTO

1. Make it a priority to finalize new changes to restrict access to its IT systems.
2. To restrict access to its IT systems and data, implement processes to enhance authentication requirements for IT systems.

Views of responsible officials

ASTO management concurs with this finding. The ASTO's corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

Government Auditing Standards require the ASTO to provide a written response indicating whether it concurs with our findings and how it plans to correct the issues we identified. The ASTO has included certain statements in its response that mislead the reader. To provide clarity and perspective, we are commenting on the ASTO's response to our audit finding.

Finding 2025-01 response clarifications

We appreciate the Office of the Arizona State Treasurer's (ASTO) response, including its agreement with the findings and recommendations provided in its planned corrective actions to address them. However, the ASTO's official opinion/view stating that the reconciliation issues are more appropriately characterized as process, documentation, and coordination deficiencies rather than unqualified personnel is misleading. The problems are a combination of all of these, and we have repeatedly communicated detailed examples of how qualified staff with appropriate specialized knowledge and experience should have detected and corrected errors prior to submitting erroneous information to their auditors. The ASTO hired additional staff in 2026 who helped identify further errors that its current management did not catch through its preparation, review, and approval processes.

The subsequent pages were written by the ASTO to provide a response to each of the findings and to indicate its intention regarding implementation of the recommendations resulting from the audit conducted by the Arizona Auditor General.



OFFICE OF THE
ARIZONA STATE TREASURER
KIMBERLY YEE
TREASURER



September 16, 2026

Lindsey A. Perry
Arizona Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018

Dear Ms. Perry:

We have prepared the response and corrective action plan to the findings identified during the fiscal year 2025 audit covering the period of July 1, 2024 to June 30, 2025.

Management has reviewed each finding and developed the enclosed Corrective Action Plan. Specifically for each finding, the plan identifies the individual responsible for implementation, the anticipated completion date, our opinion and view, corrective actions to be taken, and the procedures that will be used to monitor and verify continued compliance.

We take these findings seriously and are committed to addressing the underlying causes, strengthening our internal controls, providing continuous training, and reducing the likelihood of recurrence. Corrective actions that could be implemented immediately have already begun. Where additional time is required, interim controls have been established, as appropriate, to reduce risk until the corrective action is fully implemented. Management will continue to monitor progress, maintain supporting documentation, and evaluate the effectiveness of each corrective action after implementation.

Sincerely,

A handwritten signature in cursive script that reads "Jackie Harding".

Jackie Harding
Deputy Treasurer of Operations

2025-01 ASTO Cash and Investment Reconciliation Finding

Name of Contact Person and Title: Jackie Harding, Deputy Treasurer of Operations

Anticipated Completion Date: June 30, 2027

Agency Response: Concur

Official Opinion/View

The Arizona State Treasurer's Office (ASTO) agrees with the need to strengthen its cash and investment reconciliation process but respectfully disagrees with attributing the identified issues to the qualifications, knowledge, or experience of its personnel. ASTO experienced changes in key personnel and responsibilities during the fiscal year 2025 audit and has maintained qualified personnel to support its financial reporting functions throughout this transition. Management believes the identified issues are more appropriately characterized as process, documentation, and coordination deficiencies.

The reconciliation was historically developed to support statewide financial reporting and has been performed using a longstanding methodology established over many years. While ASTO submitted its original fiscal year 2025 reconciliation to the Arizona Department of Administration (ADOA) by the established deadline, ASTO subsequently performed its own due diligence and identified opportunities to further clarify the reconciliation's purpose, methodology, documentation, and responsibilities among the relevant parties. Adjustments affecting preliminary fiscal year 2025 financial statement balances were corrected prior to issuance and were not reflected in the final issued financial statements.

ASTO is committed to strengthening internal controls over financial reporting, formalizing reconciliation and review procedures, and improving coordination with ADOA to ensure timely, accurate, and fully supported reconciliations going forward.

Corrective Action Plan

ASTO will take the following actions to address the audit recommendations:

- Formalize reconciliation policies and procedures to clearly define methodology, data sources, levels of detail, reconciling items, and documentation requirements.
- Strengthen supervisory review controls, including secondary review and approval of reconciliations.
- Provide ongoing training and cross-training to promote consistency, preserve institutional knowledge, and maintain continuity in reconciliation and financial reporting activities.
- Strengthen coordination with ADOA by aligning reconciliation timelines, data exchange expectations, and processes for resolving unreconciled differences prior to reporting deadlines.

Management will monitor implementation of these corrective actions to ensure sustained improvement in the accuracy, validity, and timeliness of cash and investment reconciliations.

2025-02 Access Controls

Name of Contact Person and Title: Jackie Harding, Deputy Treasurer of Operations

Completion Date: November 13, 2025

Agency Response: Concur

Official Opinion/View

This finding is related to spare and shared workstations, most of which were not actively being used and were being held in a secure limited access room. An application change was implemented in May of the fiscal year in question and the office focused on updating workstations that were actively being used by employees. Due to the timing of the implementation and the commencement of the audit in June, configuration updates to the remaining spare workstations were not completed by fiscal year end. The Treasurer's Office recognizes the importance of ensuring that consistent access restrictions are applied across all IT assets, regardless of usage status.

The majority of applications containing sensitive information are protected by additional security controls, including multifactor authentication, role-based access, and logical access restrictions in accordance with Arizona Strategic Enterprise Technology (ASET) policies. While no unauthorized or inappropriate access to systems or data was identified, the Treasurer's Office understands that incomplete implementation of access controls may increase risk and therefore require prompt remediation.

Corrective Action Plan

Upon notification by the auditor, the Treasurer's Office completed configuration updates for all remaining spare and shared workstations to ensure compliance with ASET security requirements. The Office has implemented standardized processes to ensure that all newly deployed or stored devices receive required security configurations prior to use.

In addition, the Treasurer's Office will continue to monitor and review access controls as part of its ongoing security management practices to ensure consistent adherence to state IT security policies. These actions are intended to strengthen preventative controls and reduce the risk of unauthorized or inappropriate access to IT systems and data.