



REPORT HIGHLIGHTS
 SINGLE AUDIT

Subject

The State of Arizona spent \$8.3 billion of federal monies this past year for 1,224 federal awards administered, in whole or in part, by 47 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. During the compliance audit 18 federal programs were tested, this included 5 program clusters. The State maintained adequate internal controls over, and complied with, the federal compliance requirements for 7 of the 18 federal programs tested. However, for 11 federal programs tested, 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 2 for further information.



2004

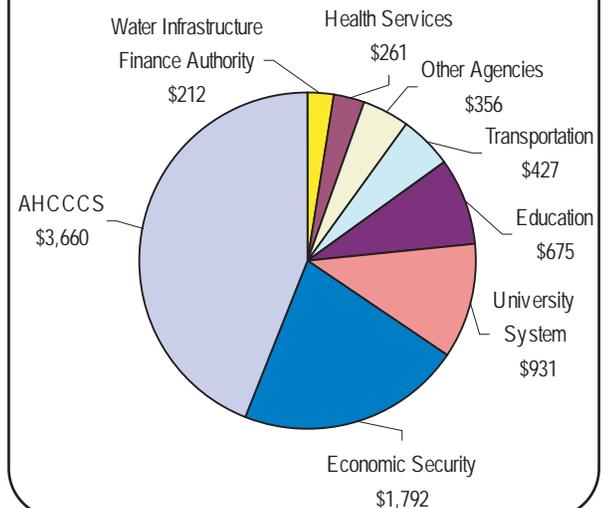
Year Ended June 30, 2004

Expenditures of Federal Monies Increase by \$800 Million

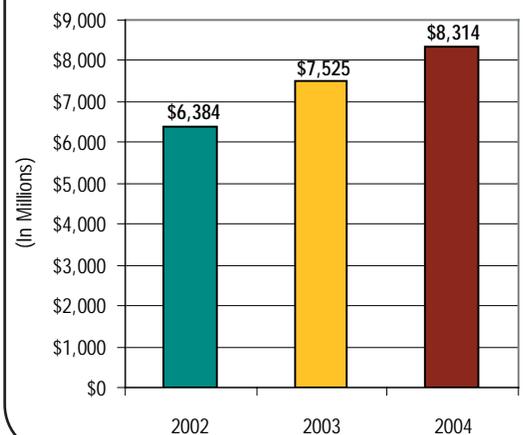
During fiscal year 2004, the State spent \$8.3 billion of federal monies. As shown in the chart to the right, seven state agencies administered 96 percent of these monies.

Overall, expenditures increased \$800 million, or 11 percent, from the \$7.5 billion expended in fiscal year 2003. The largest increase occurred in programs for indigent medical care, food stamps, loan and loan guarantee programs, and research and development. Combined expenditures for these programs increased by \$789 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, \$555 million, occurred in federal monies expended for indigent medical care. As shown in the graph to the right, expenditures of federal monies have increased \$2.0 billion between fiscal years 2002 and 2004. Expenditures for indigent medical care and food stamps accounted for \$1.36 billion of the increase.

State Agencies that Administer Federal Awards (In Millions)



Federal Programs Expenditures Fiscal Years 2002-2004



The State Did Not Always Comply with Federal Program Requirements

Auditors identified and tested 18 federal programs (includes 5 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 10 of the programs tested. In addition, weaknesses in internal control and instances of noncompliance were found by the auditors for 2 other federal programs.

Auditors found material internal control weaknesses and material instances of noncompliance for the Food Stamp Cluster, Special Education Cluster, Temporary Assistance for Needy Families, Rehabilitation Services—Vocational Rehabilitation Grants to States, and Child Support Enforcement programs.

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

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.auditorgen.state.az.us

Contact person for this report:
Jay Zsorey

Program	Responsible Department	Type of Compliance Requirement								
		Activities ¹	Cash ²	Costs ³	Eligibility ⁴	Match ⁵	Monitor ⁶	Report ⁷	Special ⁸	Procurement ⁹
Child Support Enforcement	Economic Security								X	
Food Stamp Cluster	Economic Security								X	
Foster Care—Title IV-E	Economic Security	X		X						
SSBG	Economic Security	X		X						
RS	Economic Security									X
TAAW	Economic Security	X		X				X		
TANF	Economic Security	X		X	X				X	
Unemployment Insurance	Economic Security	X		X	X					
WIA Cluster	Economic Security	X		X				X		
Special Education Cluster	Education			X		X				
Title I Grants	Education							X		
WIC	Health Services		X							
Election Reform Payments	Secretary of State						X			

SSBG – Social Services Block Grant
 RS – Rehabilitation Services—Vocational Rehabilitation Grants to States
 TAAW – Trade Adjustment Assistance—Workers
 TANF – Temporary Assistance for Needy Families
 WIA – Workforce Investment Act
 WIC – Special Supplemental Nutrition Program for Women, Infants, and Children

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.
⁷Report: Financial information reported to federal grantors was not accurate.
⁸Special: Unique program requirements were not complied with.
⁹Procurement: Procurement and suspension and debarment regulations were not complied with.

The Single Audit Fact Sheet

- No weaknesses in financial reporting internal controls.
- Sixteen findings identifying weaknesses in federal compliance internal controls, six of these noted material weaknesses.
- Sixteen findings identifying violations of federal program compliance requirements, six of these noted material violations.
- Program costs totaling \$3,662,624 were questioned as a result of our audit.

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Year Ended June 30, 2004