

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

**10-101**

**SNAP Cluster:**

CFDA No.: 10.551 **Supplemental Nutrition Assistance Program**

10.561 **State Administrative Matching Grants for the Supplemental Nutrition Assistance Program**

10.561 **ARRA—State Administrative Matching Grants for the Supplemental Nutrition Assistance Program**

Award Period: October 1, 2008 through September 30, 2009

October 1, 2009 through September 30, 2010

Award Number: 7AZ400AZ4

**Child Nutrition Cluster:**

CFDA No.: 10.553 **School Breakfast Program**

10.555 **National School Lunch Program**

10.556 **Special Milk Program for Children**

10.559 **Summer Food Service Program for Children**

Award Period: October 1, 2008 through September 30, 2009

October 1, 2009 through September 30, 2010

Award Numbers: 7AZ300AZ3

CFDA No.: 10.557 **Special Supplemental Nutrition Program for Women, Infants, and Children**

Award Period: October 1, 2008 through September 30, 2009

October 1, 2009 through September 30, 2010

Award Numbers: 2009IW100347 and 2010IW100347

CFDA No.: 10.558 **Child and Adult Care Food Program**

Award Period: October 1, 2008 through September 30, 2009

October 1, 2009 through September 30, 2010

Award Numbers: 7AZ300AZ3

**U.S. Department of Agriculture**

CFDA No.: 12.401 **National Guard Military Operations and Maintenance (O&M) Projects**

12.401 **ARRA—National Guard Military Operations and Maintenance (O&M) Projects**

Award Period: October 1, 2008 through September 30, 2009

October 1, 2009 through September 30, 2010

Award Numbers: Various

**U.S. Department of Defense**

**CDBG—State-Administered Small Cities Program Cluster:**

CFDA No.: 14.228 **Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii**

14.255 **Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii—(Recovery Act Funded)**

Award Period: July 1, 2004 through June 30, 2010

March 11, 2009 through March 11, 2011

June 24, 2009 through December 30, 2012

Award Numbers: B-04-DC-04-0001, B-05-DC-04-0001, B-06-DC-04-0001, B-07-DC-04-0001, B-08-DC-04-0001, B-08-DN-04-0001, B-09-DC-04-0001, and B-09-DY-04-0001

**U.S. Department of Housing and Urban Development**

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

**CFDA No.: 16.803 Recovery Act—Edward Byrne Memorial Justice Assistance Grant (JAG) Program/  
Grants to States and Territories**

Award Period: March 1, 2009 through February 28, 2013

Award Number: 2009-SU-B9-0029

**U.S. Department of Justice**

**WIA Cluster:**

**CFDA No.: 17.258 WIA Adult Program**

17.258 ARRA—WIA Adult Program

17.259 WIA Youth Activities

17.259 ARRA—WIA Youth Activities

17.260 WIA Dislocated Workers

17.260 ARRA—WIA Dislocated Workers

Award Period: April 1, 2007 through June 30, 2010

April 1, 2008 through June 30, 2011

April 1, 2009 through June 30, 2012

Award Numbers: AA-16015-07-55-A-4, AA-17107-08-55, and AA-18266-09-55

**CFDA No.: 17.225 Unemployment Insurance**

17.225 ARRA—Unemployment Insurance

Award Period: October 1, 2007 through September 30, 2010

October 1, 2008 through September 30, 2011

October 1, 2009 through September 30, 2012

Award Numbers: UI-16733-08-55, UI-18007-09-55, and UI-19569-10-55

**U.S. Department of Labor**

**Highway Planning and Construction Cluster:**

**CFDA No.: 20.205 Highway Planning and Construction**

20.205 ARRA—Highway Planning and Construction

20.219 Recreational Trails Program

Award Period: Various

Award Numbers: Various

**U.S. Department of Transportation**

**CFDA No.: 66.468 Capitalization Grants for Drinking Water State Revolving Funds**

66.468 ARRA—Capitalization Grants for Drinking Water State Revolving Funds

Award Period: July 1, 2007 through June 30, 2013

April 1, 2008 through June 30, 2013

October 1, 2008 through June 30, 2013

October 1, 2009 through June 30, 2014

Award Numbers: FS999902-07, FS999902-08, FS999902-09, 2F00T058-09

**Environmental Protection Agency**

**CFDA No.: 81.042 Weatherization Assistance for Low-Income Persons**

81.042 ARRA—Weatherization Assistance for Low-Income Persons

Award Period: July 1, 2006 through June 30, 2011

April 1, 2009 through March 31, 2012

Award Numbers: DE-FG26-06R021677 and DE-EE0000112

**U.S. Department of Energy**

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

**Title I, Part A Cluster:**

CFDA No.: 84.010 **Title I Grants to Local Educational Agencies**

84.389 **Title I Grants to Local Educational Agencies, Recovery Act**

Award Period: July 1, 2007 through September 30, 2008  
July 1, 2008 through September 30, 2009  
February 17, 2009 through September 30, 2010  
July 1, 2009 through September 30, 2010

Award Numbers: S010A0700003, S010A0800003, S010A0900003, and S389A090003

**Special Education Cluster (IDEA):**

CFDA No.: 84.027 **Special Education—Grants to States**

84.173 **Special Education—Preschool Grants**

84.391 **Special Education Grants to States, Recovery Act**

84.392 **Special Education—Preschool Grants, Recovery Act**

Award Period: July 1, 2007 through September 30, 2008  
July 1, 2008 through September 30, 2009  
February 17, 2009 through September 30, 2010  
July 1, 2009 through September 30, 2010

Award Numbers: H027A070007, H027A080007, H027A090007, H173A070003, H173A080003,  
H173A090003, H391A90007, and H392A90003

**Vocational Rehabilitation Cluster:**

CFDA No.: 84.126 **Rehabilitation Services—Vocational Rehabilitation Grants to States**

84.390 **Rehabilitation Services—Vocational Rehabilitation Grants to States, Recovery Act**

Award Period: October 1, 2007 through September 30, 2008  
October 1, 2008 through September 30, 2009  
October 1, 2009 through September 30, 2010

Award Numbers: H126A8000208, H126A9000209, H126A1000210, and H390A090002

**Educational Technology State Grants Cluster:**

CFDA No.: 84.318 **Educational Technology State Grants**

84.386 **Education Technology State Grants, Recovery Act**

Award Period: July 1, 2007 through September 30, 2008  
July 1, 2008 through September 30, 2009  
February 17, 2009 through September 30, 2010  
July 1, 2009 through September 30, 2010

Award Numbers: S318X070003, S318X080003, S318X090003, and S386A090003

**State Fiscal Stabilization Fund Cluster:**

CFDA No.: 84.394 **State Fiscal Stabilization Fund (SFSF)—Education State Grants, Recovery Act**

84.397 **State Fiscal Stabilization Fund (SFSF)—Government Services, Recovery Act**

Award Period: June 4, 2009 through September 30, 2011

Award Numbers: S394A09003, S394A09003A, S397A09003, and S397A09003A

CFDA No.: 84.367 **Improving Teacher Quality State Grants**

Award Period: July 1, 2007 through September 30, 2008  
July 1, 2008 through September 30, 2009  
July 1, 2009 through September 30, 2010

Award Numbers: S367A070049A, S367B070003A, S367A080049, S367B080003, S367A090049, and  
S367B090003

**U.S. Department of Education**

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

**Immunization Cluster:**

CFDA No.: 93.268 **Immunization Grants**

93.712 **ARRA—Immunization**

Award Period: January 1, 2009 through December 31, 2009  
January 1, 2010 through December 31, 2010  
September 1, 2009 through December 31, 2011

Award Numbers: 5H231P922545-07, 5H231P922545-08, 3H231P922545-07S1, 3H231P922545-07S2, and 3H231P922545-07S3

**TANF Cluster:**

CFDA No.: 93.558 **Temporary Assistance for Needy Families**

93.716 **ARRA— Temporary Assistance for Needy Families (TANF) Supplemental Grants**

Award Period: October 1, 2007 through September 30, 2008  
October 1, 2008 through September 30, 2009  
October 1, 2009 through September 30, 2010

Award Numbers: G0802AZTANF, G0902AZTANF, and G1001AZTANF

**Medicaid Cluster:**

CFDA No.: 93.775 **State Medicaid Fraud Control Units**

93.777 **State Survey and Certification of Health Care Providers and Suppliers (Title XVIII)  
Medicare**

93.778 **Medical Assistance Program**

93.778 **ARRA—Medical Assistance Program**

Award Period: October 27, 2006 through September 30, 2011

Award Number: 11-W-0032109

CFDA No.: 93.069 **Public Health Emergency Preparedness**

Award Period: August 10, 2008 through August 09, 2009  
July 31, 2009 through July 30, 2010  
August 10, 2009 through August 09, 2010

Award Numbers: 5U90TP916987-09, 5UP90TP916987-10, and 1H75TP000334-01

CFDA No.: 93.658 **Foster Care—Title IV-E**

93.658 **ARRA—Foster Care—Title IV-E**

Award Period: October 1, 2007 through September 30, 2008  
October 1, 2008 through September 30, 2009  
January 1, 2009 through September 30, 2009  
October 1, 2009 through September 30, 2010

Award Numbers: 0801AZ1401, 0901AZ1401, 0901AZ1402, 1001AZ1401, and 1001AZ1402

CFDA No.: 93.767 **Children's Health Insurance Program**

Award Period: October 27, 2006 through September 30, 2011

Award Number: 21-W-000919

**U.S. Department of Health and Human Services**

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

**Homeland Security Cluster:**

CFDA No.: 97.067 **Homeland Security Grant Program**

Award Period: July 1, 2006 through June 30, 2009  
July 1, 2007 through June 30, 2010  
September 1, 2008 through August 31, 2011  
July 1, 2009 through June 30, 2012  
August 1, 2009 through July 31, 2012

Award Numbers: 2006-GE-T6-4007, 2007-GE-T7-0006, 2008-GE-T8-0021, 2008-SG-T8-0007, 2009-SS-T9-0016, and 2009-SJ-T9-0006

**U.S. Department of Homeland Security**

Allowable Costs/Cost Principles

Questioned Cost: \$554,693

**Criteria:** In accordance with 2 CFR §225, Appendix A, C.1.b and 3.a., costs charged to federal programs should be based on the relative benefits received.

**Condition and context:** The State of Arizona did not comply with the allowable costs/cost principles requirements with respect to the general agency counsel service costs provided by the Office of the Attorney General that were charged to federal programs administered by various state agencies. A.R.S. §41-191.09 created the Attorney General Legal Services Cost Allocation Fund (Fund) for the purpose of reimbursing the Attorney General's Department of Law for general agency counsel services. Beginning on July 1, 2006, all state agency funds, except those specifically exempted by the statute, were required to reimburse the Fund for the costs of general agency counsel services. Reimbursements were obtained by charging 0.675 percent of each applicable agency's total payroll expenditures, including those paid with federal monies, each pay period.

**Effect:** During fiscal year 2010, these charges totaled \$554,693, including \$270,505 for the major federal programs listed above and \$284,188 for all other federal programs. This finding is noncompliance with the allowable costs/cost principles requirements and could potentially affect all federal programs administered by the affected state agencies that incurred payroll costs.

**Cause:** The noncompliance resulted from a statutory requirement that these programs be charged for general agency counsel service costs, and therefore, this was not caused by the federal programs' administration.

**Recommendation:** The State should ensure that general agency counsel services are not charged to federal programs unless treated as direct costs or allocated using an equitable allocation basis, such as each agency's direct usage of counsel services. In addition, the Department of Administration should monitor bills being considered in the Arizona State Legislature to help ensure that unallowable costs to federal programs will not be incurred in the future if the bill is enacted into law.

This finding is similar to a prior-year finding.

**Agency Response: Concur**

**Agency Corrective Action Plan:** We have an established process in place for monitoring legislation. In fact, a concern was raised for over two years prior to actually becoming law. On multiple occasions during that period we advised that this was, in our opinion, not consistent with established federal cost principles and almost certainly would be disallowed. This item is controlled by statute and cannot be resolved without a legislative change. Until the methodology is acceptably modified, there will likely continue to be disallowed costs which will

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

require repayment with applicable interest. We will continue efforts to develop a solution to this issue. This issue is a cross-cutting finding and is appropriately being addressed with the Department of Health and Human Services, Division of Cost Allocation (DHHS-DCA), for the payment and appropriate resolution of the questioned costs. We agree and commit to continue to work with DHHS-DCA, to the best of our ability, to find a resolution which ensures that the federal programs will be properly charged for these costs.

**10-102**

**SNAP Cluster:**

CFDA No.: 10.551 **Supplemental Nutrition Assistance Program**

10.561 **State Administrative Matching Grants for the Supplemental Nutrition Assistance Program**

10.561 **ARRA—State Administrative Matching Grants for the Supplemental Nutrition Assistance Program**

Award Period: October 1, 2008 through September 30, 2009  
October 1, 2009 through September 30, 2010

Award Number: 7AZ400AZ4

**Child Nutrition Cluster:**

CFDA No.: 10.553 **School Breakfast Program**

10.555 **National School Lunch Program**

10.556 **Special Milk Program for Children**

10.559 **Summer Food Service Program for Children**

Award Period: October 1, 2008 through September 30, 2009  
October 1, 2009 through September 30, 2010

Award Number: 7AZ300AZ3

CFDA No.: 10.557 **Special Supplemental Nutrition Program for Women, Infants, and Children**

Award Period: October 1, 2008 through September 30, 2009  
October 1, 2009 through September 30, 2010

Award Numbers: 2009IW100347 and 2010IW100347

CFDA No.: 10.558 **Child and Adult Care Food Program**

Award Period: October 1, 2008 through September 30, 2009  
October 1, 2009 through September 30, 2010

Award Number: 7AZ300AZ3

**U.S. Department of Agriculture**

CFDA No.: 12.401 **National Guard Military Operations and Maintenance (O&M) Projects**

12.401 **ARRA—National Guard Military Operations and Maintenance (O&M) Projects**

Award Period: October 1, 2008 through September 30, 2009  
October 1, 2009 through September 30, 2010

Award Numbers: Various

**U.S. Department of Defense**

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

**CDBG—State-Administered Small Cities Program Cluster:**

CFDA No.: 14.228 **Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii**

14.255 **Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii—(Recovery Act Funded)**

Award Period: July 1, 2004 through June 30, 2010  
March 11, 2009 through March 11, 2011  
June 24, 2009 through December 30, 2012

Award Numbers: B-04-DC-04-0001, B-05-DC-04-0001, B-06-DC-04-0001, B-07-DC-04-0001, B-08-DC-04-0001, B-08-DN-04-0001, B-09-DC-04-0001, and B-09-DY-04-0001

**U.S. Department of Housing and Urban Development**

CFDA No.: 16.803 **Recovery Act—Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories**

Award Period: March 1, 2009 through February 28, 2013

Award Number: 2009-SU-B9-0029

**U.S. Department of Justice**

**WIA Cluster:**

CFDA No.: 17.258 **WIA Adult Program**

17.258 **ARRA—WIA Adult Program**

17.259 **WIA Youth Activities**

17.259 **ARRA—WIA Youth Activities**

17.260 **WIA Dislocated Workers**

17.260 **ARRA—WIA Dislocated Workers**

Award Period: April 1, 2007 through June 30, 2010  
April 1, 2008 through June 30, 2011  
April 1, 2009 through June 30, 2012

Award Numbers: AA-16015-07-55-A-4, AA-17107-08-55, and AA-18266-09-55

CFDA No.: 17.225 **Unemployment Insurance**

17.225 **ARRA—Unemployment Insurance**

Award Period: October 1, 2007 through September 30, 2010  
October 1, 2008 through September 30, 2011  
October 1, 2009 through September 30, 2012

Award Numbers: UI-16733-08-55, UI-18007-09-55, and UI-19569-10-55

**U.S. Department of Labor**

**Highway Planning and Construction Cluster:**

CFDA No.: 20.205 **Highway Planning and Construction**

20.205 **ARRA—Highway Planning and Construction**

20.219 **Recreational Trails Program**

Award Period: Various

Award Numbers: Various

**U.S. Department of Transportation**

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

CFDA No.: 66.468 **Capitalization Grants for Drinking Water State Revolving Funds**  
66.468 **ARRA—Capitalization Grants for Drinking Water State Revolving Funds**

Award Period: July 1, 2007 through June 30, 2013  
April 1, 2008 through June 30, 2013  
October 1, 2008 through June 30, 2013  
October 1, 2009 through June 30, 2014

Award Numbers: FS999902-07, FS999902-08, FS999902-09, 2F00T058-09

**Environmental Protection Agency**

CFDA No.: 81.042 **Weatherization Assistance for Low-Income Persons**  
81.042 **ARRA—Weatherization Assistance for Low-Income Persons**

Award Period: July 1, 2006 through June 30, 2011  
April 1, 2009 through March 31, 2012

Award Numbers: DE-FG26-06R021677 and DE-EE0000112

**U.S. Department of Energy**

**Title I, Part A Cluster:**

CFDA No.: 84.010 **Title I Grants to Local Educational Agencies**  
84.389 **Title I Grants to Local Educational Agencies, Recovery Act**

Award Period: July 1, 2007 through September 30, 2008  
July 1, 2008 through September 30, 2009  
February 17, 2009 through September 30, 2010  
July 1, 2009 through September 30, 2010

Award Numbers: S010A0700003, S010A0800003, S010A0900003, and S389A090003

**Special Education Cluster (IDEA):**

CFDA No.: 84.027 **Special Education—Grants to States**  
84.173 **Special Education—Preschool Grants**  
84.391 **Special Education Grants to States, Recovery Act**  
84.392 **Special Education—Preschool Grants, Recovery Act**

Award Period: July 1, 2007 through September 30, 2008  
July 1, 2008 through September 30, 2009  
February 17, 2009 through September 30, 2010  
July 1, 2009 through September 30, 2010

Award Numbers: H027A070007, H027A080007, H027A090007, H173A070003, H173A080003,  
H173A090003, H391A90007, and H392A90003

**Vocational Rehabilitation Cluster:**

CFDA No.: 84.126 **Rehabilitation Services—Vocational Rehabilitation Grants to States**  
84.390 **Rehabilitation Services—Vocational Rehabilitation Grants to States, Recovery Act**

Award Period: October 1, 2007 through September 30, 2008  
October 1, 2008 through September 30, 2009  
October 1, 2009 through September 30, 2010

Award Numbers: H126A8000208, H126A9000209, H126A1000210, and H390A090002

**Educational Technology State Grants Cluster:**

CFDA No.: 84.318 **Educational Technology State Grants**  
84.386 **Education Technology State Grants, Recovery Act**

Award Period: July 1, 2007 through September 30, 2008  
July 1, 2008 through September 30, 2009  
February 17, 2009 through September 30, 2010  
July 1, 2009 through September 30, 2010



**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

Award Numbers: S318X070003, S318X080003, S318X090003, and S386A090003

**State Fiscal Stabilization Fund Cluster:**

CFDA No.: 84.394 **State Fiscal Stabilization Fund (SFSF)—Education State Grants, Recovery Act**

84.397 **State Fiscal Stabilization Fund (SFSF)—Government Services, Recovery Act**

Award Period: June 4, 2009 through September 30, 2011

Award Numbers: S394A09003, S394A09003A, S397A09003, and S397A09003A

CFDA No.: 84.367 **Improving Teacher Quality State Grants**

Award Period: July 1, 2007 through September 30, 2008

July 1, 2008 through September 30, 2009

July 1, 2009 through September 30, 2010

Award Numbers: S367A070049A, S367B070003A, S367A080049, S367B080003, S367A090049, and S367B090003

**U.S. Department of Education**

**Immunization Cluster:**

CFDA No.: 93.268 **Immunization Grants**

93.712 **ARRA—Immunization**

Award Period: January 1, 2009 through December 31, 2009

January 1, 2010 through December 31, 2010

September 1, 2009 through December 31, 2011

Award Numbers: 5H231P922545-07, 5H231P922545-08, 3H231P922545-07S1, 3H231P922545-07S2, and 3H231P922545-07S3

**TANF Cluster:**

CFDA No.: 93.558 **Temporary Assistance for Needy Families**

93.716 **ARRA— Temporary Assistance for Needy Families (TANF) Supplemental Grants**

Award Period: October 1, 2007 through September 30, 2008

October 1, 2008 through September 30, 2009

October 1, 2009 through September 30, 2010

Award Numbers: G0802AZTANF, G0902AZTANF, and G1001AZTANF

**Medicaid Cluster:**

CFDA No.: 93.775 **State Medicaid Fraud Control Units**

93.777 **State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare**

93.778 **Medical Assistance Program**

93.778 **ARRA—Medical Assistance Program**

Award Period: October 27, 2006 through September 30, 2011

Award Number: 11-W-0032109

CFDA No.: 93.069 **Public Health Emergency Preparedness**

Award Period: August 10, 2008 through August 09, 2009

July 31, 2009 through July 30, 2010

August 10, 2009 through August 09, 2010

Award Numbers: 5U90TP916987-09, 5UP90TP916987-10, and 1H75TP000334-01

CFDA No.: 93.658 **Foster Care—Title IV-E**

93.658 **ARRA—Foster Care—Title IV-E**

Award Period: October 1, 2007 through September 30, 2008

October 1, 2008 through September 30, 2009

January 1, 2009 through September 30, 2009

October 1, 2009 through September 30, 2010

Award Numbers: 0801AZ1401, 0901AZ1401, 0901AZ1402, 1001AZ1401, and 1001AZ1402

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

**CFDA No.: 93.767 Children's Health Insurance Program**

Award Period: October 27, 2006 through September 30, 2011

Award Number: 21-W-000919

**U.S. Department of Health and Human Services**

**Homeland Security Cluster:**

**CFDA No.: 97.067 Homeland Security Grant Program**

Award Period: July 1, 2006 through June 30, 2009

July 1, 2007 through June 30, 2010

September 1, 2008 through August 31, 2011

July 1, 2009 through June 30, 2012

August 1, 2009 through July 31, 2012

Award Numbers: 2006-GE-T6-4007, 2007-GE-T7-0006, 2008-GE-T8-0021, 2008-SG-T8-0007, 2009-SS-T9-0016, and 2009-SJ-T9-0006

**U.S. Department of Homeland Security**

Allowable Costs/Cost Principles

Questioned Cost: Unknown

**Criteria:** In accordance with 2 CFR §225, Appendix A, C.1.b and 3.a., costs charged to federal programs should be based on the relative benefits received.

**Condition and context:** The State of Arizona did not comply with the allowable costs/cost principles requirements with respect to information technology service costs provided by the Government Information Technology Agency (GITA) that were charged to federal programs administered by various state agencies. A.R.S. §41-3505 created the Information Technology Fund (Fund) for use by the GITA to provide information technology services. Beginning on July 1, 1997, all state agency funds were required to contribute to the Fund for the costs of information technology services. These contributions were obtained by charging 0.2 percent of each applicable agency's total payroll expenditures, including those paid with federal monies, each pay period. The information technology services GITA provided included information technology coordination, strategic planning, information security and privacy, and technology project oversight services for all information technology projects costing more than \$25,000. The technology project oversight services were performed through a Project Investment Justification process, which allowed GITA to implement its strategic vision by requiring agencies to comply with statewide policies and standards along with the strategic direction in the state-wide plan. The costs of these technology project oversight services were determined to be unallowable since the services involved were not chargeable in accordance with relative benefits received.

**Effect:** It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is noncompliance with the allowable costs/cost principles requirements and could potentially affect all federal programs administered by the affected state agencies that incurred payroll costs.

**Cause:** The noncompliance resulted from a statutory requirement that these programs be charged for information technology service costs, and therefore, this was not caused by the federal programs' administration.

**Recommendation:** The State should ensure that technology project oversight services are not charged to federal programs unless treated as direct costs or allocated using an equitable allocation basis, such as each agency's direct usage of technology project oversight services. In addition, the Department of Administration should

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

monitor bills being considered in the Arizona State Legislature to help ensure that unallowable costs to federal programs will not be incurred in the future if the bill is enacted into law.

**Agency Response: Concur**

Agency Corrective Action Plan: We have an established process in place for monitoring legislation. In fact, a concern was raised for over two years prior to actually becoming law. On multiple occasions during that period we advised that this was, in our opinion, not consistent with established federal cost principles and almost certainly would be disallowed. This item is controlled by statute and cannot be resolved without a legislative change. Until the methodology is acceptably modified, there will likely continue to be disallowed costs which will require repayment with applicable interest. We will continue efforts to develop a solution to this issue.

This issue is a cross-cutting finding and is appropriately being addressed with the Department of Health and Human Services, Division of Cost Allocation (DHHS-DCA), for the payment and appropriate resolution of the questioned costs. We agree and commit to continue to work with DHHS-DCA, to the best of our ability, to find a resolution which ensures that the federal programs will be properly charged for these costs.

**10-103**

**SNAP Cluster:**

CFDA No.: 10.551 **Supplemental Nutrition Assistance Program**

10.561 **State Administrative Matching Grants for the Supplemental Nutrition Assistance Program**

10.561 **ARRA—State Administrative Matching Grants for the Supplemental Nutrition Assistance Program**

Award Period: October 1, 2008 through September 30, 2009  
October 1, 2009 through September 30, 2010

Award Number: 7AZ400AZ4

**U.S. Department of Agriculture**

**WIA Cluster:**

CFDA No.: 17.258 **WIA Adult Program**

17.258 **ARRA—WIA Adult Program**

17.259 **WIA Youth Activities**

17.259 **ARRA—WIA Youth Activities**

17.260 **WIA Dislocated Workers**

17.260 **ARRA—WIA Dislocated Workers**

Award Period: April 1, 2007 through June 30, 2010  
April 1, 2008 through June 30, 2011  
April 1, 2009 through June 30, 2012

Award Numbers: AA-16015-07-55-A-4, AA-17107-08-55, and AA-18266-09-55

CFDA No.: 17.225 **Unemployment Insurance**

17.225 **ARRA—Unemployment Insurance**

Award Period: October 1, 2007 through September 30, 2010  
October 1, 2008 through September 30, 2011  
October 1, 2009 through September 30, 2012

Award Numbers: UI-16733-08-55, UI-18007-09-55, and UI-19569-10-55

**U.S. Department of Labor**

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

**Vocational Rehabilitation Cluster:**

CFDA No.: 84.126 **Rehabilitation Services—Vocational Rehabilitation Grants to States**

84.390 **Rehabilitation Services—Vocational Rehabilitation Grants to States, Recovery Act**

Award Period: October 1, 2007 through September 30, 2008

October 1, 2008 through September 30, 2009

October 1, 2009 through September 30, 2010

Award Numbers: H126A8000208, H126A9000209, H126A1000210, and H390A090002

**U.S. Department of Education**

**TANF Cluster:**

CFDA No.: 93.558 **Temporary Assistance for Needy Families**

93.716 **ARRA—Temporary Assistance for Needy Families (TANF) Supplemental Grants**

Award Period: October 1, 2007 through September 30, 2008

October 1, 2008 through September 30, 2009

October 1, 2009 through September 30, 2010

Award Numbers: G0802AZTANF, G0902AZTANF, and G1001AZTANF

**CSBG Cluster:**

CFDA No.: 93.569 **Community Services Block Grant**

93.710 **ARRA—Community Services Block Grant**

Award Period: October 1, 2007 through September 30, 2008

October 1, 2008 through September 30, 2009

October 1, 2009 through September 30, 2010

Award Numbers: G-08B1AZCOSR, G-09B1AZCOSR, G-0901AZCOS2, and G-10B1AZCOSR

CFDA No.: 93.563 **Child Support Enforcement**

93.563 **ARRA—Child Support Enforcement**

Award Period: October 1, 2007 through September 30, 2008

October 1, 2008 through September 30, 2009

October 1, 2009 through September 30, 2010

Award Numbers: G0804AZ4004, G0904AZ4004, G1004AZ4004, G0904AZ4002, and G1004AZ4002

CFDA No.: 93.658 **Foster Care—Title IV-E**

93.658 **ARRA—Foster Care—Title IV-E**

Award Period: October 1, 2007 through September 30, 2008

October 1, 2008 through September 30, 2009

January 1, 2009 through September 30, 2009

October 1, 2009 through September 30, 2010

Award Numbers: 0801AZ1401, 0901AZ1401, 0901AZ1402, 1001AZ1401, and 1001AZ1402

**U.S. Department of Health and Human Services**

**Disability Insurance/SSI Cluster:**

CFDA No.: 96.001 **Social Security—Disability Insurance**

Award Period: October 1, 2008 through September 30, 2009

October 1, 2009 through September 30, 2010

Award Numbers: 010904AZD100 and 011004AZD100

**Social Security Administration**

Allowable Costs/Cost Principles

Questioned Cost: \$19,967

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

Criteria: In accordance with 2 CFR §225, Appendix B,15.b.(5), equipment and other capital expenditures are unallowable as indirect costs; however, they are allowable only through depreciation or use allowances.

Condition and context: The Department of Economic Security allocated capital expenditures to federal programs. Specifically, auditors scanned the Department's financial records and noted that the Department charged two capital assets totaling \$19,967 to an indirect cost pool that was subsequently allocated to various federal programs.

Effect: Allocating capital expenditures to indirect cost pools can result in unallowable costs, duplication of costs if depreciation is also charged, and noncompliance with cost principles. During fiscal year 2010, auditors determined that known charges totaled \$19,967, divided among \$16,894 for the major programs listed above and \$3,073 for nonmajor federal programs. It was not practical to extend our auditing procedures sufficiently to determine whether any additional questioned costs resulted from this finding. This finding results in noncompliance with allowable costs/cost principles requirements for the programs listed above.

Cause: The Department inadvertently charged two capital equipment items to a cost allocation pool that was subsequently allocated to federal programs.

Recommendation: The Department should ensure that the purchase costs of capital equipment items are not allocated to federal programs when purchased, but rather allocated through depreciation expense or use allowances over their useful lives.

This finding is similar to a prior-year finding.

**Agency Response: Concur**

Agency Corrective Action Plan: In February 2011, to ensure that the purchase costs of capital equipment items are not allocated to federal programs when purchased, the Department of Economic Security (DES) implemented Financial Management and Control System (FMCS) edits that prevent capital assets from being charged to indirect pools. On February 18, 2011, the DES Financial Services Administration completed the final expenditure correction that removed the charge of the capital assets from the indirect cost pool.

**10-104**

**SNAP Cluster:**

CFDA No.: 10.551 **Supplemental Nutrition Assistance Program**

10.561 **State Administrative Matching Grants for Supplemental Nutrition Assistance Program**

10.561 **ARRA—State Administrative Matching Grants for Supplemental Nutrition Assistance Program**

Award Period: October 1, 2008 through September 30, 2009  
October 1, 2009 through September 30, 2010

Award Number: 7AZ400AZ4

**U.S. Department of Agriculture**

Special Tests and Provisions

Questioned Cost: \$20,936

Criteria: In accordance with 7 CFR §274.12(h)(3), the Department of Economic Security must adhere to control and security procedures with respect to electronic benefits transfer (EBT) cards. In accordance with 7 CFR

## **Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from FY 2010 Single Audit Report)**

§273.2(a)(2), (b)(2), and (f), the case files for recipients receiving nutrition assistance must support eligibility and benefit-level determinations.

Condition and context: The Department of Economic Security, Division of Benefits and Medical Eligibility (Division), Family Assistance Administrative (FAA) Offices, did not always follow internal control policies and procedures for safeguarding EBT cards for the Supplemental Nutrition Assistance Program. Auditors performed observations at 10 of 79 FAA offices in June 2010 and noted the following deficiencies at 3 offices:

- In 2 offices, the EBT card issuance log was not completed.
- In 2 offices, blank EBT cards were not properly secured.
- In 2 offices, the daily reconciliations of EBT cards issued and remaining were not always prepared.

Additionally, the Division did not ensure all required documentation was included in case files for supplemental nutrition assistance recipients and all recipient information was accurately transferred into the eligibility verification system. Auditors identified errors or lack of documentation in 22 of the 60 recipient case files tested:

- For 7 of 60 recipients tested, auditors noted the case files did not include income or expense verification documents used for determining benefit amounts, which resulted in benefit overpayments of \$17,051 for the benefit period.
- For 5 of 60 recipients tested, the income or expense amounts were entered incorrectly into the eligibility verification system, which resulted in benefit overpayments of \$2,160 for the benefit period.
- For 2 of 60 recipients tested, the income or expense amounts were entered incorrectly into the eligibility verification system, which resulted in benefit underpayments of \$138 for the benefit period.
- For 8 of 60 recipients tested, the case files did not include income or expense verification documents or the amounts were entered incorrectly into the eligibility verification system; however, the benefit payments were not affected for the benefit period.

Further, during the period of July 1, 2009 through June 30, 2010, the Division identified one instance of an employee manipulating the eligibility verification system to block the closure of a family member's case, which resulted in nutrition assistance/benefits fraud totaling \$1,725.

Effect: Not adhering to policies and procedures leaves the Division vulnerable to potential fraud, waste, and abuse. Further, assistance may be granted to ineligible recipients, or incorrect benefit determinations could be made that may result in over- or underpayments to recipients. It was not practical to extend our auditing procedures sufficiently to determine whether any additional questioned costs resulted from this finding. This finding is a material weakness in internal control over compliance and material noncompliance with the Cluster's special tests and provisions requirements. This finding affected only the Supplemental Nutrition Assistance Program since the finding did not affect administrative monies.

Cause: The Division did not adequately monitor the local offices to ensure that they were following established procedures. Further, the Division did not follow its policies and procedures to retain adequate verification documentation and to properly transfer recipient information into the eligibility verification system at the local offices.

## **Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from FY 2010 Single Audit Report)**

Recommendation: The Division should follow the procedures listed below to help ensure compliance with special tests and provision requirements:

- Monitor adherence to and enforce its internal control policies and procedures for safeguarding EBT cards at its FAA Offices.
- Retain its supplemental nutrition assistance recipients' verification documentation to support benefit authorizations.
- Document all required information in the eligibility verification system to help ensure that benefits are accurately calculated.

This finding is similar to a prior-year finding.

### **Agency Response: Concur**

Agency Corrective Action Plan: Agency Corrective Action Plan: To ensure the DES Division of Benefits and Medical Eligibility (DBME) follows internal controls for safeguarding EBT cards for the Supplemental Nutrition Assistance Program (SNAP); DBME will continue the following efforts.

- The Division will address all issues noted in the finding with the appropriate staff.
- The Division partnered with the DES Office of Special Investigations to establish a fraud unit to perform detailed analysis of eligibility system reports and assist in detection of fraud.
- The Division is exploring ways to streamline controls over the inactive EBT cards.
- The Division is exploring ways to improve the controls over active EBT cards.

To ensure all required documentation is included in case files for SNAP recipients and all recipient information is accurately transferred into the eligibility verification system, DBME will continue to perform extensive reviews throughout the eligibility determination process to detect and correct errors such as the ones noted in this finding. This includes case reads by supervisors, quality control reviews, management evaluation reviews and secondary case reads by quality control staff. In November 2010, DBME made significant changes in the case read process, by prioritizing reads recommended by our Federal partners. All offices read targeted elements for the following cases:

- SNAP only or SNAP combination cases with the following criteria:
  - earned income is \$800 or more
    - SNAP benefit issuance is \$500 and greater for any month
- SNAP only or SNAP combination cases with earned income
- Medical Assistance only cases with earned income
- Combination cases (any programs) with unearned or no income.

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

- SNAP only cases with unearned or no income

The Division is currently reviewing the quality review data to determine if changes are needed to the above case read criteria.

During the audit period, the Division implemented a new document management system and experienced many issues that led to some of the missing documents. These issues have been corrected and DBME does not anticipate these issues during the next fiscal year. The Division is also implementing a new process in the local offices that will improve the accuracy of the benefit determinations. The new process will also strengthen the controls over EBT issuance by centralizing the function.

**10-105**

CFDA No.: 17.225 **Unemployment Insurance**

17.225 **ARRA—Unemployment Insurance**

Award Period: October 1, 2007 through September 30, 2010

October 1, 2008 through September 30, 2011

October 1, 2009 through September 30, 2012

Award Numbers: UI-16733-08-55, UI-18007-09-55, and UI-19569-10-55

**U.S. Department of Labor**

Reporting

Questioned Cost: None

**Criteria:** In accordance with 29 CFR §97.20(b)(1),(2), and (6), the Department of Economic Security must report financial information through authorized reports, in accordance with instructions from the federal agency, and report information that agrees to its financial records.

**Condition and context:** The Department did not accurately prepare or provide support for various Unemployment Insurance reports submitted during fiscal year 2010. Auditors noted errors in 9 of the 16 reports tested. Specifically, auditors noted the following:

*Financial Services Administration (FSA)*

- For 2 of 6 quarterly ETA 9130—Financial Status Reports tested, the FSA omitted encumbrance or program income amounts. Specifically, the FSA omitted \$137,103 of encumbrances on its June 30, 2010, report for award number UI-19569-10-55, and omitted \$7,830 of program income on its June 30, 2010, report for one of its UI-18007-09-55 awards.

•

*Division of Employment and Rehabilitation Services (DERS)*

- For 2 of 4 quarterly ETA 227—Overpayment Detection and Recovery Activities reports tested, the DERS could not support the amounts reported. Specifically, on its December 31, 2009, report, the DERS could not support the amounts reported for Additions—UCFE/UCX Fraud of \$9,086 and Subtractions—UI Fraud of \$258,982. In addition, on its June 30, 2010, report, the DERS could not support the amounts reported for Additions—UCFE/UCX Fraud of \$15,690 and Additions—UI Fraud of \$731,474.
- For 1 of 2 quarterly ETA 2208A—Quarterly UI Contingency reports, the DERS could not support amounts reported. Specifically, the DERS was unable to provide supporting documentation for its June 30, 2010, quarterly report for the amounts reported for Quarterly Staff Years Worked Support/AS&T of 106.49,



## **Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from FY 2010 Single Audit Report)**

Quarterly Staff Years Paid Support/AS&T of 113.06, Year-to-Date Staff Years Paid Claims Activity of 575.56, Employer Activities of 119.58, and Support/AS&T of 134.56.

Further, auditors tested two of each of the following reports and noted the DERS was unable to provide supporting documentation for various financial data reported, as follows:

- On its December 31, 2009 and June 30, 2010, quarterly ETA 581—Contribution Operations reports, the DERS could not support amounts reported for Liquidated Contributory Employers Receivables of \$1,342,549 and \$8,011,600, respectively. In addition, on its December 31, 2009, report, the DERS could not support the amounts reported for Liquidated Reimbursing Employers Receivables of \$1,179,879 and Total Wages Audited—Post-Audit of \$444,401,656.
- On its December 31, 2009 and June 30, 2010, quarterly ETA 191—Financial Status of UCFE/UCX reports, the DERS could not support the amounts reported for Restoration of Overpayments—UCX of \$3,066 and \$4,634, respectively. In addition, on its December 31, 2009, report, the DERS could not support the amounts reported for Penalties and Interest—UCX of \$1,420.

**Effect:** Incorrect financial and nonfinancial data was submitted to the federal grantor that may result in potential errors in analysis or other determinations. This finding did not result in questioned costs since the reports were not used to request reimbursement of federal expenditures. This finding is a material weakness in internal control over compliance and material noncompliance with the programs' reporting requirements.

**Cause:** The FSA did not adequately implement procedures to ensure that all relevant financial data was included on the ETA 9130 reports. As a result of some programming deficiencies in system-generated reports, the DERS made unsupported manual adjustments to the ETA 581 and ETA 227 reports to accurately report ending balances. In addition, reviews did not identify errors on the ETA 2208A or ETA 191 reports.

**Recommendation:** The FSA and the DERS should establish the following procedures to help ensure compliance with reporting requirements:

- Require documentation to be retained to support the amounts reported.
- Establish a detailed review process to help ensure federal reports are complete and accurate before they are submitted to the U.S. Department of Labor.

In addition, the DERS should investigate the system deficiencies and correct programming errors to ensure that accurate internal reports are generated to support various financial and nonfinancial information.

This finding is similar to a prior-year finding.

### **Agency Response: Concur**

**Agency Corrective Action Plan:** To ensure Unemployment Insurance reports are accurately prepared and supporting documentation is retained, DERS instructed staff involved in the creation and submission of the identified federal reports to ensure that electronic copies of the supporting documentation is maintained and that any manual adjustments made to the reports are documented in both the electronic record and the hard copy file for each report submittal. The Division continues to work on the automated systems that contain the source data for the reports to correct programming discrepancies. Due to federal extension of benefits, age of the automated systems in place and limited staffing resources to make changes to the programming code, the Division was not able to correct the programming deficiencies in fiscal year 2010.

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

**10-106**

CFDA No.: 17.225 **Unemployment Insurance**

17.225 **ARRA—Unemployment Insurance**

Award Period: October 1, 2007 through September 30, 2010

October 1, 2008 through September 30, 2011

October 1, 2009 through September 30, 2012

Award Numbers: UI-16733-08-55, UI-18007-09-55, and UI-19569-10-55

**U.S. Department of Labor**

Special Tests and Provisions

Questioned Cost: \$6,713,291

**Criteria:** In accordance with the American Recovery and Reinvestment Act (ARRA), Public Law 111-5, and the Supplemental Appropriations Act of 2008, Public Law 110-252, the Department of Economic Security should require individuals to repay the amounts or offset overpayments from future benefit payments when they have received compensation to which they were not entitled.

**Condition and context:** The Department of Economic Security, Division of Employment and Rehabilitation Services (Division), failed to recover Federal Additional Compensation (FAC) benefit payments resulting from fraud and overpayments. Specifically, the Division did not record the FAC overpayments on its financial accounting system. As a result, the Division did not recover the overpayments from individuals through repayment or reducing future benefit payments. Auditors noted that receivables totaling \$6,713,291 for FAC overpayments should have been recorded as of June 30, 2010.

**Effect:** As discussed in financial statement finding 10-02, this resulted in a material weakness in internal control over financial reporting. Failure to record the FAC overpayments inhibits the Division's ability to notify the appropriate individuals of their overpayment and recover the overpayments. This finding is a material weakness in internal control over compliance and material noncompliance with the programs' special tests and provisions requirements.

**Cause:** The Division did not implement the necessary software changes in the financial accounting system to record FAC overpayments.

**Recommendation:** The Division should implement the necessary software changes to record the FAC overpayments.

**Agency Response: Concur**

**Agency Corrective Action Plan:** DERS and the DES Division of Technology Services continue work on programming the automated system to allow for accurate tracking and processing of overpayments associated with the Federal Additional Compensation (FAC) payments. DERS is completing final testing of the programming and implementation will occur during the month of April 2011. Once final implementation is completed, the overpayments will be generated and clients will be notified of their overpayment issues.

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

**10-107**

CFDA No.: 17.225 **Unemployment Insurance**

17.225 **ARRA—Unemployment Insurance**

Award Period: October 1, 2007 through September 30, 2010

October 1, 2008 through September 30, 2011

October 1, 2009 through September 30, 2012

Award Numbers: UI-16733-08-55, UI-18007-09-55, and UI-19569-10-55

**U.S. Department of Labor**

Eligibility

Questioned Cost: \$148

**Criteria:** In accordance with 20 CFR §§604.3(a), 615.8(g), and 602, Appendix A, §6013(A)(3) and (B), the Department of Economic Security is required to obtain sufficient information and document eligibility determinations to help ensure unemployment compensation is paid only to an individual who is able to work and available for work for the week for which unemployment compensation is claimed.

**Condition and context:** The Department of Economic Security, Division of Employment and Rehabilitation Services (Division), did not adequately document eligibility information for Unemployment Insurance benefits paid to 3 of 60 claimants tested. Specifically, for 2 claimants, auditors noted that the eligibility reviewer determined that the claimants were eligible but did not document the basis for approving eligibility. In addition, for 1 claimant, auditors noted that an extended benefit claimant received benefits without providing evidence of their work search. This resulted in \$148 in questioned costs; \$25 of the total was from the ARRA—Unemployment Insurance program.

**Effect:** Failure to adequately document eligibility information can result in ineligible claimants receiving Unemployment Insurance benefits. It was not practical to extend our auditing procedures sufficiently to determine whether any additional questioned costs resulted from this finding. This finding is a significant deficiency in internal control over compliance and noncompliance with the programs' eligibility requirements.

**Cause:** The Division did not always follow its policies and procedures to document the basis for eligibility determinations, and the Division erroneously paid a claimant without obtaining work search information.

**Recommendation:** The Division should enforce its policies and procedures to help ensure compliance with eligibility requirements:

- Document the basis for eligibility and benefit determinations and retain documentation in the claimant's file.
- Require documentation of a claimant's work search prior to approving extended benefits.
- **Agency Response: Concur**

**Agency Corrective Action Plan:** To ensure the DES Division of Employment and Rehabilitation Services (DERS) adequately documents eligibility information for Unemployment Insurance benefits, the Division reviewed the cases in question and determined that required documentation in the electronic records management system used for documentation of client eligibility was not adequately maintained. The Division counseled the staff responsible for the eligibility determinations and instructed them to ensure that required supporting documentation is entered into the automated system.

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

**10-108**

**Vocational Rehabilitation Cluster:**

CFDA No.: 84.126 **Rehabilitation Services—Vocational Rehabilitation Grants to States**

84.390 **Rehabilitation Services—Vocational Rehabilitation Grants to States, Recovery Act**

Award Period: October 1, 2007 through September 30, 2008

October 1, 2008 through September 30, 2009

October 1, 2009 through September 30, 2010

Award Numbers: H126A8000208, H126A9000209, H126A1000210, and H390A090002

**U.S. Department of Education**

Eligibility

Questioned Cost: None

**Criteria:** In accordance with 29 U.S. Code 722(a)(6), the Department of Economic Security must determine whether an individual is eligible for vocational rehabilitation services within a reasonable period of time, not to exceed 60 days, after the individual has submitted an application for the services, unless exceptional and unforeseen circumstances beyond the control of the Department exist or the Department is exploring the individual's abilities, capabilities, and capacity in order to be able to make the eligibility determination or close the case.

**Condition and context:** The Department of Economic Security, Division of Employment and Rehabilitation Services, Rehabilitation Services Administration (Administration), did not always follow its policies and procedures to ensure compliance with eligibility requirements. While performing test work, auditors noted the Administration did not always determine the applicant's eligibility for vocational rehabilitation services within 60 days of the application submission date. Specifically, for 11 of 40 applications tested, it took the Administration between 71 and 800 days to determine if the applicants were eligible for the program or close the case. In addition, the Administration did not retain documentation indicating why the 60-day period was exceeded with either an extension letter signed by both the Administration and applicant or the Administration's continued exploration of the applicant's abilities, capabilities, and capacity to perform in work situations.

**Effect:** This finding is a material weakness in internal control over compliance and material noncompliance with the Cluster's eligibility requirements.

**Cause:** The Administration did not react to system alerts that open applications were close to the 60-day eligibility determination requirement.

**Recommendation:** The Administration should ensure its employees adhere to the policies and procedures for determining an applicant's eligibility within 60 days of the application submission date. If an applicant's eligibility cannot be determined within 60 days, the Administration should maintain documentation indicating justification for exceeding the 60-day period.

This finding is similar to a prior-year finding.

**Agency Response: Concur**

**Agency Corrective Action Plan:** To ensure compliance with eligibility requirements, the DES Rehabilitation Services Administration (RSA) case management system contains a predefined alert list query that lists clients who are approaching the 60-day eligibility time limit. This query is available to the primary Vocational Rehabilitation Counselor and the Case Load Team, which includes the Supervisor and support staff. RSA will

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

stress the importance of complying with Federal regulations and continue to train and re-train the Vocational Rehabilitation Counselors, supervisors, and staff regarding the use of system pre-defined query.

**10-109**

**TANF Cluster:**

CFDA No.: 93.558 **Temporary Assistance for Needy Families**

93.716 **ARRA—Temporary Assistance for Needy Families (TANF) Supplemental Grants**

Award Period: October 1, 2007 through September 30, 2008

October 1, 2008 through September 30, 2009

October 1, 2009 through September 30, 2010

Award Numbers: G0802AZTANF, G0902AZTANF, and G1001AZTANF

**U.S. Department of Health and Human Services**

Eligibility

Questioned Cost: None

**Criteria:** In accordance with 45 CFR §206.10(a)(8), decisions regarding eligibility or ineligibility must be supported in the applicant's or recipient's case records.

**Condition and context:** The Department of Economic Security, Division of Benefits and Medical Eligibility (Division), records and stores eligibility information and supporting documents for participants on its eligibility verification system and a document management system. However, the Division did not always ensure that eligibility information and documentation was properly recorded on these systems. Specifically, for 6 of 60 case files tested, documentation supporting citizenship, guardianship, or notification of a child's absence was not retained, and for one of these cases, no documentation was retained.

**Effect:** Assistance may be granted to ineligible recipients, or incorrect benefit determinations may result in over- or underpayments. This finding did not result in questioned costs since the Division subsequently obtained and provided documentation to support its eligibility determinations. This finding is a significant deficiency in internal control over compliance with the Cluster's eligibility requirements.

**Cause:** The Division did not follow its policies and procedures to ensure that eligibility data was properly recorded in the eligibility verification system or the document management system, and the Division's procedure to review a random sample of cases each month did not identify these errors.

**Recommendation:** The Division should ensure that all case workers are aware of and follow policies and procedures to maintain eligibility documentation on the Division's automated systems.

**Agency Response: Concur**

**Agency Corrective Action Plan:** During the audit period, DBME implemented a new document management system and experienced many issues that led to some of the missing documents. To ensure eligibility information and documentation is properly recorded in the document management system, these issues were corrected. The Division does not anticipate these errors during the next fiscal year. The Division is also implementing a new process in the local offices that will improve the accuracy of the benefit determinations.

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

**10-110**

**TANF Cluster:**

CFDA No.: 93.558 **Temporary Assistance for Needy Families**

93.716 **ARRA—Temporary Assistance for Needy Families (TANF) Supplemental Grants**

Award Period: October 1, 2007 through September 30, 2008

October 1, 2008 through September 30, 2009

October 1, 2009 through September 30, 2010

Award Numbers: G0802AZTANF, G0902AZTANF, and G1001AZTANF

**U.S. Department of Health and Human Services**

Reporting

Questioned Cost: N/A

**Criteria:** In accordance with 45 CFR §265.9(c)(5), the total number of eligible families served for which maintenance of effort (MOE) expenditures are claimed at fiscal year-end must be reported on the Annual Report on State Maintenance-of-Effort Programs.

**Condition and context:** The Department of Economic Security did not retain documentation to support the total number of families for which MOE expenditures were claimed. Specifically, the Department recreated the support for the auditors but was unable to support 1,316 families who were reported on the Annual Report on State Maintenance-of-Effort Programs during fiscal year 2010. Further, auditors were unable to determine that the report was reviewed and approved.

**Effect:** Incorrect data was potentially submitted to the federal government. This finding is a significant deficiency in internal control over compliance and noncompliance with the Cluster's reporting requirements.

**Cause:** The Department did not retain supporting documentation or the original report evidencing its review and approval.

**Recommendation:** The Department should adopt the following policies and procedures to help ensure compliance with reporting requirements:

- Retain supporting documentation for all federal reports submitted.
- Require supervisors to review federal reports and underlying data.
- Retain an approved copy of the Annual Report on State Maintenance-of-Effort Programs.

This finding is similar to a prior-year finding.

**Agency Response: Concur**

**Agency Corrective Action Plan:** To ensure documentation is retained to support the total number of families for which Maintenance-of-Effort (MOE) expenditures were claimed on Annual Report on MOE Programs, the Department will establish a means to retain point-in-time client data to accurately validate the client counts used in the report. This process will be operational with the submission of the FY 2011 report in December 2011. In 2010, the Department implemented procedures to ensure the report is reviewed prior to submission to ensure accuracy of the numbers contained within the report. The Division of Business and Finance, Policy and Planning Administration retains a copy of the approved Annual Report on State Maintenance of Effort Programs and the report is available on line through the federal reporting web site.

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

**10-111**

CFDA No.: 93.563 **Child Support Enforcement**

93.563 **ARRA—Child Support Enforcement**

Award Period: October 1, 2007 through September 30, 2008

October 1, 2008 through September 30, 2009

October 1, 2009 through September 30, 2010

Award Numbers: G0804AZ4004, G0904AZ4004, G1004AZ4004, G0904AZ4002, and G1004AZ4002

**U.S. Department of Health and Human Services**

Reporting

Questioned Cost: None

**Criteria:** The reporting instructions for the OCSE-396A, Quarterly Report of Expenditures and Estimates, require that expenditures be actual and verifiable transactions that are supported by readily available accounting records and source documentation or an approved cost allocation plan.

**Condition and context:** The Department of Economic Security, Financial Services Administration (Administration), did not report incentive expenditures of \$179,399 on its OCSE-396A, Quarterly Report of Expenditures and Estimates for the quarter ended June 30, 2010. In addition, the federal share of IV-D administrative costs was understated, and non-IV-D administrative costs were overstated by \$99,515 for the quarter ended December 31, 2009. The same problem occurred for the federal share of IV-D administrative costs and non-IV-D administrative costs for the quarter ended June 30, 2010, except the amount was \$79,347.

**Effect:** This finding did not result in questioned costs since the OCSE-396A, Quarterly Report of Expenditures and Estimates, was not used to request federal reimbursements. This finding is a significant deficiency in internal control over compliance and noncompliance with the programs' reporting requirements.

**Cause:** The Administration did not adequately review or compare the reports against financial system records in order to identify the data entry errors.

**Recommendation:** The Administration should review reports to ensure that they are adequately supported by financial records prior to submission.

This finding is similar to a prior-year finding.

**Agency Response: Concur**

**Agency Corrective Action Plan:** The DES Financial Services Administration (FSA) did not report incentive expenditures of \$179,399 for the quarter ended June 30, 2010 in the OCSE-396A, Quarterly Report of Expenditures and Estimates. As this is a cumulative report, FSA corrected the omission in the OCSE-396A report for the quarter ended September 30, 2010.

The understatement/overstatement of federal IV-D versus non-IV-D costs occurred as a result of a formula error in the Microsoft Excel workbook used by FSA to aggregate amounts for the various report lines on the OCSE-396A report. FSA subsequently corrected the workbook error in order to compensate for the prior quarter submission and to allow for accurate reporting in future quarters.

As indicated in the audit report, these findings did not result in questioned costs since the OCSE-396A report was not used to request federal reimbursements. FSA reviewed the finding with the staff involved in preparing this

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

report and highlighted the importance of conducting a comprehensive match of the report fund source totals against provided support information. This matching process will detect any formula errors that could potentially distort future expenditure reporting prior to submission.

**10-112**

CFDA No.: 93.658 **Foster Care—Title IV-E**

93.658 **ARRA—Foster Care—Title IV-E**

Award Period: October 1, 2007 through September 30, 2008

October 1, 2008 through September 30, 2009

January 1, 2009 through September 30, 2009

October 1, 2009 through September 30, 2010

Award Numbers: 0801AZ1401, 0901AZ1401, 0901AZ1402, 1001AZ1401, and 1001AZ1402

**U.S. Department of Health and Human Services**

Eligibility

Questioned Cost: \$10,416

**Criteria:** In accordance with 42 U.S. Code 671(a)(15)(B) and (D) and 45 CFR §1356.21(b)(1)(i), a judicial determination that reasonable efforts were made to preserve and reunify families, or were not required to prevent the child's removal from the home, should be retained. Additionally, in accordance with 42 U.S. Code 672(a)(2)(A)(ii), a child's removal from the home must have been the result of a judicial determination that continuation in the home would be contrary to the child's welfare.

**Condition and context:** The Department of Economic Security, Division of Children, Youth and Families (Division), did not always follow its internal control policies and procedures to retain documentation required to substantiate eligibility. Specifically, for 1 of 40 children tested, the Division could not provide a judicial determination that continuation of residence in the home would be contrary to the child's welfare, or that placement would be in the best interest of the child. Furthermore, for this child, the Division could not provide a judicial determination that reasonable efforts were made or were not required to prevent removal. This resulted in \$10,416 in questioned costs; \$957 of the total was from the ARRA—Foster Care—Title IV-E program.

**Effect:** Using federal monies for payments to providers on behalf of an ineligible child resulted in questioned costs. It was not practical to extend our auditing procedures sufficiently to determine whether any additional questioned costs resulted from this finding. This finding is a significant deficiency in internal control over compliance and noncompliance with the programs' eligibility requirements.

**Cause:** The Division did not follow its policies and procedures to retain necessary court documentation to ensure that eligibility determinations were accurate.

**Recommendation:** The Division should ensure that case workers are aware of existing policies and procedures requiring that key court documentation be retained in the case files.

**Agency Response: Concur**

**Agency Corrective Action Plan:** To ensure the DES Division of Children, Youth and Families (DCYF) does not use federal monies for payments to providers on behalf of an ineligible child, DCYF will review internal policies with appropriate staff involved in eligibility determinations. DCYF will also monitor eligibility determinations to ensure case workers retain documentation of judicial determinations in all case files.



**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

**10-113**

**Medicaid Cluster:**

CFDA No.: 93.775 **State Medicaid Fraud Control Units**

93.777 **State Survey and Certification of Health Care Providers and Suppliers (Title XVIII)  
Medicare**

93.778 **Medical Assistance Program**

93.778 **ARRA—Medical Assistance Program**

Award Period: October 1, 2008 through September 30, 2009

October 1, 2009 through September 30, 2010

Award Numbers:

**U.S. Department of Health and Human Services**

**Disability Insurance/SSI Cluster:**

CFDA No.: 96.001 **Social Security—Disability Insurance**

Award Period: October 1, 2008 through September 30, 2009

October 1, 2009 through September 30, 2010

Award Numbers: 010904AZD100 and 011004AZD100

**Social Security Administration**

Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Questioned Cost: Unknown

Criteria: In accordance with 2 CFR §225, Appendix A(C)(1)(a), to be allowable under federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of federal awards.

Condition and context: The Department of Economic Security, Disability Determination Services Administration (Administration), identified overpayments made to its telecommunications contractor during a review of the number of phone lines it needs. The Administration upgraded its telecommunications lines from analog to digital in October 2000. Since the upgrade, the Administration was unaware it was paying charges for both the analog and digital lines. The Administration maintained that the analog lines should have been disconnected when the lines were upgraded. The Administration is in contact with the federal grantor as well as the telecommunications contractor regarding a resolution to the overpayments. Telecommunications expenditures were allocated to the Administration monthly based on the number of telecommunications lines used. From October 2000 through August 2010, the estimated monthly overpayment was \$1,611 for the Social Security-Disability Insurance Program and \$21 for the Medical Assistance Program.

Effect: The estimated overpayments totaled \$19,601 during fiscal year 2010, and \$194,379 for the period October 2000 through August 2010. It was not practical to extend our auditing procedures sufficiently to determine the questioned cost that resulted from this finding. This finding is a significant deficiency in internal control over compliance and noncompliance with the clusters' activities allowed or unallowed and allowable costs/cost principles requirements.

Cause: A detailed review of vendor invoices and actual services provided was not completed following the upgrade, and subsequent analysis of the Administration charges did not identify the overpayment since billing amounts have remained the same.

Recommendation: The Administration should develop a process which allows for a detailed review of telecommunications charges after upgrades, changes in the service plan, or facility relocation. Further, the

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

Administration should review vendor invoices to help ensure that costs incurred are necessary and reasonable for proper and efficient performance and administration of federal programs.

**Agency Response: Concur**

Agency Corrective Action Plan: To ensure that costs incurred are necessary and reasonable for proper and efficient performance and administration of federal programs; the Disability Determination Services Administration (DDSA) will review billings whenever a change occurs to ensure the appropriate changes are made on the billing document. DDSA will also conduct quarterly reviews of billings to ensure vendors are charging the appropriate amount to the Division. In addition, the Department is working with the DES Office of Procurement and the vendor to recoup the overpayments.

**10-114**

**Disability Insurance/SSI Cluster:**

CFDA No.: 96.001 **Social Security—Disability Insurance**

Award Period: October 1, 2008 through September 30, 2009

October 1, 2009 through September 30, 2010

Award Numbers: 010904AZD100 and 011004AZD100

**Social Security Administration**

Suspension and Debarment

Questioned Cost: None

Criteria: In accordance with 2 CFR §§180.220 and 180.300, the Department of Economic Security must verify that vendors are not suspended or debarred before making purchases exceeding \$25,000 that will be paid with federal monies.

Condition and context: The Department of Economic Security, Disability Determination Service Administration (Administration), indicated it had verified that each vendor had not been suspended or debarred from doing business with the federal government; however, it did not retain documentation of its verification. Auditors performed additional audit procedures and noted no instances of payments made to suspended or debarred vendors.

Effect: Payments could be made to suspended or debarred vendors. This finding is a significant deficiency in internal control over compliance with the Cluster's suspension and debarment compliance requirements.

Cause: The Administration did not realize they needed to retain documentation of the verification process and, therefore, it did not establish policies and procedures for doing so.

Recommendation: The Administration should document its determination that vendors being paid over \$25,000 in federal monies have not been suspended or debarred from doing business with governmental entities. This verification may be accomplished by checking the Excluded Parties List System, obtaining a certification from the vendor, or adding a clause or condition to the contract.

**Agency Response: Concur**

Agency Corrective Action Plan: To ensure vendors are not suspended or debarred, the DDSA will print the verification that the vendor has not been suspended or debarred from doing business with the federal government and retain it in the contract file.

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

**10-115**

**Child Nutrition Cluster:**

CFDA No.: 10.553 **School Breakfast Program**

10.555 **National School Lunch Program**

10.556 **Special Milk Program for Children**

10.559 **Summer Food Service Program for Children**

CFDA No.: 10.558 **Child and Adult Care Food Program**

Award Period: October 1, 2008 through September 30, 2009

October 1, 2009 through September 30, 2010

Award Number: 7AZ300AZ3

**U.S. Department of Agriculture**

**Title I, Part A Cluster:**

CFDA No.: 84.010 **Title I Grants to Local Educational Agencies**

84.389 **Title I Grants to Local Educational Agencies, Recovery Act**

Award Period: July 1, 2007 through September 30, 2008

July 1, 2008 through September 30, 2009

February 17, 2009 through September 30, 2010

July 1, 2009 through September 30, 2010

Award Numbers: S010A0700003, S010A0800003, S010A0900003, and S389A090003

**Special Education Cluster (IDEA):**

CFDA No.: 84.027 **Special Education—Grants to States**

84.173 **Special Education—Preschool Grants**

84.391 **Special Education—Grants to States, Recovery Act**

84.392 **Special Education—Preschool Grants, Recovery Act**

Award Period: July 1, 2007 through September 30, 2008

July 1, 2008 through September 30, 2009

February 17, 2009 through September 30, 2010

July 1, 2009 through September 30, 2010

Award Numbers: H027A070007, H027A080007, H027A090007, H173A070003, H173A080003,  
H173A090003, H391A090007, and H392A090003

**Educational Technology State Grants Cluster:**

CFDA No.: 84.318 **Educational Technology State Grants**

84.386 **Education Technology State Grants, Recovery Act**

Award Period: July 1, 2007 through September 30, 2008

July 1, 2008 through September 30, 2009

February 17, 2009 through September 30, 2010

July 1, 2009 through September 30, 2010

Award Numbers: S318X070003, S318X080003, S318X090003, and S386A090003

CFDA No.: 84.367 **Improving Teacher Quality State Grants**

Award Period: July 1, 2007 through September 30, 2008

July 1, 2008 through September 30, 2009

July 1, 2009 through September 30, 2010

Award Numbers: S367A070049A, S367B070003A, S367A080049, S367B080003, S367A090049, and  
S367B090003

**U.S. Department of Education**

## **Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from FY 2010 Single Audit Report)**

Allowable Costs/Cost Principles, Cash Management, Reporting, and Subrecipient Monitoring

Questioned Cost: Unknown

**Criteria:** States should have effective computer access controls to prevent and detect unauthorized use, input, damage, loss, or modifications of data, including sensitive and confidential information. In addition, states should have an updated and fully-tested disaster recovery plan to provide for the continuity of operations and ensure that electronic data files can be recovered in the event of a system or equipment failure.

**Condition and context:** The Department of Education's Child Nutrition Program Web application, Grants Management Enterprise System (Grants Management), Arizona Local Education Agency Tracker (ALEAT), and School Finance budget application were used by internal and external users to apply for, approve, and disburse federal grant awards; record federal award expenditures and budget information; and report and monitor compliance with federal requirements. Auditors tested access controls over the Department's systems and applications and found that the Department did not always maintain documentation for employees' and external users' access, and granted access for several users without proper approval and without ensuring that the access rights were compatible with employees' job responsibilities. Also, the Department did not ensure that accessible information was limited to only that information needed by employees to perform job responsibilities and did not always prevent unauthorized input. Logical access to these systems and applications is granted to users through a centralized gateway; however, the Department did not always immediately remove terminated employees' access rights, and did not require users to periodically change passwords for access to its systems and applications or use strong features related to passwords. Finally, the Department did not have an up-to-date and fully-tested disaster recovery plan for its significant systems and applications.

**Effect:** There is a risk of noncompliance with federal requirements and of theft, manipulation, or misuse of confidential or sensitive data by unauthorized users or by users who were not monitored. Additionally, there is a risk that the Department may not be able to recover data or materially comply with compliance requirements in the event of system or equipment failure. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a material weakness in internal control over compliance with the programs' and clusters' allowable costs/cost principles, cash management, reporting, and subrecipient monitoring requirements. In addition, this finding could potentially affect other federal programs, including ARRA programs, that the Department administered.

**Cause:** For access controls, the Department did not follow its policies and procedures or lacked policies and procedures for granting access to employees and external users, ensuring that employees' access was compatible with their assigned responsibilities, and maintaining access security for its significant applications and systems. Finally, the Department did not have an up-to-date disaster recovery plan because of changes in administration and had not performed a complete test of the plan.

**Recommendation:** To strengthen access controls over its systems and applications, and to help ensure compliance with federal requirements for the programs it administers, the Department should:

- Ensure that access granted to internal and external users is documented and authorized. Internal users should be granted only access rights that are compatible with their job responsibilities and access should be restricted to systems and information needed to perform their job responsibilities.
- Periodically evaluate and update access granted to all of its applications and systems.
- Validate user input.

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

- Require users to periodically change passwords for the centralized gateway, use strong security features in managing user passwords, and immediately revoke the access of terminated employees.
  
- Update and test its disaster recovery plan annually.

This finding is similar to a prior-year finding.

**Agency Response: Concur**

Agency Corrective Action Plan: The Arizona Department of Education (ADE) will evaluate and improve the account management processes for the Arizona Local Education Agency Tracker (ALEAT), School Finance, Child Nutrition Program (CNP), and Grants Management Enterprise (GME). A project plan has been identified and will be implemented to correct several deficiencies.

*CNPWeb Application:*

Health and Nutrition Services (HNS) continues to utilize the current policy and procedures to ensure that CNP Web access permissions are assigned, monitored, and updated appropriately. HNS deployed a database tool which is used for the purposes of monitoring the accuracy of the access permission provided to internal and external users. To track internal users, the Human Resources will create a new form that will mirror the current external user 'Common Logon Request Form', but be specific to employee users. This form will be managed and maintained by HR to ensure compliance.

*Grants Management Enterprise System (GME):*

The Grants Management Office implemented the GME user form (Electronic Signature User Form) to add/remove all internal user access in the Grants Enterprise System and is actively monitoring internal user access through a quarterly verification process.

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

**10-116**

**Child Nutrition Cluster:**

CFDA No.: 10.553 **School Breakfast Program**

10.555 **National School Lunch Program**

10.556 **Special Milk Program for Children**

10.559 **Summer Food Service Program for Children**

CFDA No.: 10.558 **Child and Adult Care Food Program**

Award Period: October 1, 2008 through September 30, 2009

October 1, 2009 through September 30, 2010

Award Number: 7AZ300AZ3

**U.S. Department of Agriculture**

**Title I, Part A Cluster:**

CFDA No.: 84.010 **Title I Grants to Local Educational Agencies**

84.389 **Title I Grants to Local Educational Agencies, Recovery Act**

Award Period: July 1, 2007 through September 30, 2008

July 1, 2008 through September 30, 2009

July 1, 2009 through September 30, 2010

Award Numbers: S010A0700003, S010A0800003, S010A0900003, and S389A090003

**Special Education Cluster (IDEA):**

CFDA No.: 84.027 **Special Education—Grants to States**

84.173 **Special Education—Preschool Grants**

84.391 **Special Education—Grants to States, Recovery Act**

84.392 **Special Education—Preschool Grants, Recovery Act**

Award Period: July 1, 2007 through September 30, 2008

July 1, 2008 through September 30, 2009

February 17, 2009 through September 30, 2010

July 1, 2009 through September 30, 2010

Award Numbers: H027A070007, H027A080007, H027A090007, H173A070003, H173A080003, H173A090003, H391A090007, and H392A090003

**Educational Technology State Grants Cluster:**

CFDA No.: 84.318 **Educational Technology State Grants**

84.386 **Education Technology State Grants, Recovery Act**

Award Period: July 1, 2007 through September 30, 2008

July 1, 2008 through September 30, 2009

February 17, 2009 through September 30, 2010

July 1, 2009 through September 30, 2010

Award Numbers: S318X070003, S318X080003, S318X090003, and S386A090003

CFDA No.: 84.367 **Improving Teacher Quality State Grants**

Award Period: July 1, 2007 through September 30, 2008

July 1, 2008 through September 30, 2009

July 1, 2009 through September 30, 2010

Award Numbers: S367A070049A, S367B070003A, S367A080049, S367B080003, S367A090049, and S367B090003

**U.S. Department of Education**

Subrecipient Monitoring

Questioned Cost: None

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

Criteria: In accordance with 34 CFR §80.26(b)(3), 7 CFR §3052.400(d)(5), and OMB Circular A-133, §400(d)(5), pass-through entities must send out a management decision letter within 6 months after receipt of the subrecipient's single audit report.

Condition and context: The Department of Education required each of its subrecipients to submit A-133 audit reports. However, the Department's internal control procedures were not adequate to ensure all findings were properly reviewed and resolved. Specifically, for 2 out of 27 Local Education Agencies (LEAs) selected for test work, the Department did not send an initial or final management decision letter within 6 months after receipt of the subrecipients' single audit report.

Effect: There was no specific questioned cost noted with the sampled items. This finding is a significant deficiency in internal control over compliance and noncompliance with each cluster's or program's subrecipient monitoring compliance requirement. Further, this finding could potentially affect other federal programs, including ARRA programs that the Department administered.

Cause: The Department's existing policies and procedures require a management decision letter to be sent to the LEA within 6 months after receipt of the subrecipient's audit report. However, during the initial review of the single audit reports, the Department did not follow these procedures.

Recommendation: To comply with subrecipient monitoring requirements, the Department should follow its internal control policies and procedures to ensure the reports are reviewed in a timely manner so that it can issue management decisions within 6 months after receipt of subrecipient single audit reports.

**Agency Response: Concur**

Agency Corrective Action Plan: The Arizona Department of Education Audit Unit will work with our IT Department to make enhancements to the Single Audit Database to ensure all Single Audit findings are entered into the database in a timely manner. Additionally the Audit Unit will continue to work closely with the Federal Program areas to ensure all Management Decision Letters are issued within the six-month requirement.

**10-117**

**Title I, Part A Cluster:**

CFDA No.: 84.010 **Title I Grants to Local Educational Agencies**

84.389 **Title I Grants to Local Educational Agencies, Recovery Act**

Award Period: July 1, 2007 through September 30, 2008

July 1, 2008 through September 30, 2009

February 17, 2009 through September 30, 2010

July 1, 2009 through September 30, 2010

Award Numbers: S010A0700003, S010A0800003, S010A0900003, and S389A090003

**Special Education Cluster (IDEA):**

CFDA No.: 84.027 **Special Education—Grants to States**

84.173 **Special Education—Preschool Grants**

84.391 **Special Education—Grants to States, Recovery Act**

84.392 **Special Education—Preschool Grants, Recovery Act**

Award Period: July 1, 2007 through September 30, 2008

July 1, 2008 through September 30, 2009

February 17, 2009 through September 30, 2010

July 1, 2009 through September 30, 2010

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

Award Numbers: H027A070007, H027A080007, H027A090007, H173A070003, H173A080003, H173A090003, H391A090007, and H392A090003

**Educational Technology State Grants Cluster:**

CFDA No.: 84.318 **Educational Technology State Grants**

84.386 **Education Technology State Grants, Recovery Act**

Award Period: July 1, 2007 through September 30, 2008

July 1, 2008 through September 30, 2009

July 1, 2009 through September 30, 2010

Award Numbers: S318X070003, S318X080003, S318X090003, and S386A090003

CFDA No.: 84.367 **Improving Teacher Quality State Grants**

Award Period: July 1, 2007 through September 30, 2008

July 1, 2008 through September 30, 2009

July 1, 2009 through September 30, 2010

Award Numbers: S367A070049A, S367B070003A, S367A080049, S367B080003, S367A090049, and S367B090003

**U.S. Department of Education**

Cash Management and Subrecipient Monitoring

Questioned Cost: Unknown

Criteria: As required by 34 CFR §80.21, state educational agencies should have procedures in place to minimize the time elapsing between the transfer of monies to and disbursement by the LEAs. The LEAs may be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the receipt of the monies and their disbursement. Based on the Department of Education's policy, an LEA should not maintain cash on hand for more than 60 days after its completion report has been approved. In addition, LEAs that earn interest over \$100 on excess cash balances should remit the interest to the Department.

Condition and context: The Department required that LEAs request monies for federal grants by submitting monthly cash management reports through the grants management system. At the end of each award period, the Department required its LEAs to submit completion reports within 90 days that were considered the projects' final cash management reports. Subrecipients that reported a positive cash balance on the completion reports were required to amend the subsequent year's project budgets within 60 days after the completion reports were approved. Further, the Department did not require subrecipients to submit amendments immediately or spend their cash balances in a timely manner, and still disbursed monies to several LEAs for subsequent projects even though they had cash on hand for more than 60 days after completion reports were submitted and approved. Finally, the Department did not have specific controls in place to address remaining cash balances on hand for its ARRA programs or for LEAs who did not apply for subsequent grant awards. Specifically, auditors noted the following deficiencies:

- For 19 of 60 LEAs tested for the Title I, Part A Cluster, LEAs maintained cash on hand for more than 60 days after the completion reports were approved, ranging from \$116 to \$44,044. This resulted in a potential questioned cost of \$190,327, of which \$138,825 consisted of ARRA monies. In addition, 2 LEAs submitted their completion reports after the allowable 90-day deadline.
- For 11 of 40 LEAs tested for the Special Education Cluster (IDEA), LEAs maintained cash on hand for more than 60 days after the completion reports were approved, ranging from \$250 to \$648,242. This resulted in a potential questioned cost of \$1,255,100, of which \$524,119 consisted of ARRA monies. Further, 6 of these



## **Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from FY 2010 Single Audit Report)**

LEAs received funding for fiscal year 2011 prior to amending the subsequent year's budgets for the excess cash balances.

- For 12 of 61 LEAs tested for the Educational Technology State Grants Cluster, LEAs maintained cash on hand for more than 60 days after the completion reports were approved, ranging from \$138 to \$112,646. This resulted in a potential questioned cost of \$135,728, of which \$6,993 consisted of ARRA monies. Additionally, 3 of these LEAs received funding for fiscal year 2011, prior to amending the subsequent year's budgets for the excess cash balances.
- For 16 of 61 LEAs tested for the Improving Teacher Quality State Grants program, LEAs maintained cash on hand for more than 60 days after the completion reports were approved, ranging from \$300 to \$25,355. This resulted in a potential questioned cost of \$93,928.

Effect: LEAs had cash on hand for more than 60 days after the completion reports were approved, and many LEAs were still able to draw cash for the subsequent year's project. Additionally interest may have been earned on the excess cash balances which were not remitted to the Department. It was not practical to extend our auditing procedures sufficiently to determine whether questioned costs resulted from this

Finding. This finding is a material weakness in internal control over compliance over cash management and subrecipient monitoring requirements, noncompliance with cash management requirements, and material noncompliance with subrecipient monitoring requirements for the programs and clusters. This finding could potentially affect other federal programs, including ARRA programs, that the Department administered.

Cause: The Department's policies require LEAs to amend their subsequent year's project budgets for excess cash on hand within 60 days after the Department approved their completion reports. The grants management system did not have an automatic check to prohibit disbursing cash to LEAs when they had unspent cash on hand from a prior year's project. As a result, the Department has to manually monitor LEAs' cash balances to enforce this policy. In addition, the Department did not have procedures to request excess cash balances from LEAs who did not receive program funding the following year or for programs that were funded by ARRA.

Recommendation: At a minimum, the Department should require LEAs to amend their subsequent year's budgets for completion report cash balances immediately after the completion reports have been approved and should place future projects on hold until their budgets have been amended, or require LEAs to remit unspent cash balances to the Department. In addition, the Department should establish additional procedures to collect excess cash balances for its LEAs who do not receive program funding in the subsequent year. This should include procedures to request LEAs to remit all cash balances on hand over 60 days to the Department. Further, the Department should ensure that all interest earned on unspent cash balances in excess of \$100 is remitted at least quarterly.

This finding is similar to a prior-year finding.

### **Agency Response: Concur**

Agency Corrective Action Plan: The Arizona Department of Education (ADE) Grants Management Office plans on implementing the following practices to ensure each program area is compliant with the Cash Management Finding.

## **Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from FY 2010 Single Audit Report)**

Monthly Cash Management Summary Report: The Grants Management Office continuously offers a Monthly Cash Management Summary Report to provide the program areas a quick glance of their subrecipient's cash management status on the 19<sup>th</sup> of each month.

1. Allocation Validation Database: The Grants Management Office has created an allocation database which gives a program area the ability to import the current allocation amount, automatically update the allocation list with the most current state and local carryover amount from the approved completion report, and upload the final allocation amount to the Grants Management System. If an LEA has an approved completion report with an approved carryover amount, the system flags a validation message showing the total allocation amount and approved carryover amount when LEAs try to submit an application or amendment.
2. GME System Update: We are modifying the cash management report to add an Interest field, and Note sections for both LEAs and ADE to record any correspondence or interest earned for each month. Any interest earned and reported during project period, LEA will be notified for its quarterly interest return if it exceeds \$100. GME system update also includes placing a project under cash management hold if LEA requests more than 20% of its budget total. Finally, the GME system will check to see if current project is available and see if carryover has been amended as soon as ADE approves a completion report. If the LEA has not included their carryover amount during application process using allocation validation, the GME system will put current project on hold until LEA submits an amendment.

ADE revised the Business Rules to address the cash management challenge; however, due to budget constraints, the system change has been delayed until additional resources become available to finish the phased projected. This system change will also include monthly cash management interest reporting to capture and report any interest earned on a monthly basis. This interest information will be used to collect the Quarterly interest return rather than on an annual interest return in the completion report at the end of the grant year.

### **10-118**

#### **Title I, Part A Cluster:**

CFDA No.: 84.010 **Title I Grants to Local Educational Agencies**

84.389 **Title I Grants to Local Educational Agencies, Recovery Act**

Award Period: July 1, 2007 through September 30, 2008

July 1, 2008 through September 30, 2009

February 17, 2009 through September 30, 2010

July 1, 2009 through September 30, 2010

Award Numbers: S010A0700003, S010A0800003, S010A0900003, and S389A090003

#### **Special Education Cluster (IDEA):**

CFDA No.: 84.027 **Special Education—Grants to States**

84.173 **Special Education—Preschool Grants**

84.391 **Special Education—Grants to States, Recovery Act**

84.392 **Special Education—Preschool Grants, Recovery Act**

Award Period: July 1, 2007 through September 30, 2008

July 1, 2008 through September 30, 2009

February 17, 2009 through September 30, 2010

July 1, 2009 through September 30, 2010

Award Numbers: H027A070007, H027A080007, H027A090007, H173A070003, H173A080003, H173A090003, H391A090007, and H392A090003

#### **Educational Technology State Grants Cluster:**

CFDA No.: 84.318 **Educational Technology State Grants**

84.386 **Education Technology State Grants, Recovery Act**

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

Award Period: July 1, 2007 through September 30, 2008  
July 1, 2008 through September 30, 2009  
February 17, 2009 through September 30, 2010  
July 1, 2009 through September 30, 2010

Award Numbers: S318X070003, S318X080003, S318X090003, and S386A090003

**U.S. Department of Education**

Subrecipient Monitoring

Questioned Cost: None

**Criteria:** As required by the *American Recovery and Reinvestment Act (ARRA) of 2009*, P.L. 111-5 Section, 1512(h) and 2 CFR §176.50(c), recipients and its first-tier subrecipients receiving ARRA monies must have a current Central Contractor Registration (CCR) at all times during which they have active federal awards funded with ARRA monies. In addition, recipients must perform periodic checks to ensure that the subrecipients are updating information, as necessary.

**Condition and context:** During fiscal year 2010, the Department of Education distributed approximately \$177 million in ARRA monies to LEAs. However, the Department did not have adequate internal control policies and procedures in place to verify that each LEA had a current CCR during the federal award period. Auditors selected 60 LEAs for test work; however, only 15 LEAs were tested because auditors determined that 9 of the LEAs did not have a current CCR. It was not efficient to perform procedures on the remaining LEAs because the results of further tests would not have affected the auditors' conclusion.

**Effect:** The Department distributed ARRA program monies without ensuring that the LEAs had current CCRs. It was not practical to extend our auditing procedures to determine how many other LEAs had also not registered. However, since registering was not a prerequisite to determine if a subrecipient was eligible, there is no questioned cost associated with this finding. This finding is a material weakness in internal control over compliance and material noncompliance with each Cluster's subrecipient monitoring requirements. Further, this finding could potentially affect other federal programs that were subject to ARRA requirements that the Department administered.

**Cause:** The Department's existing policies and procedures required LEAs to have a current CCR prior to the ARRA, Section 1512, reporting. However, the Department did not have a procedure in place to verify that subrecipients have a current registration throughout the award period for ARRA programs.

**Recommendation:** The Department should implement procedures for verifying that each subrecipient receiving ARRA monies has a current CCR.

This finding is similar to a prior-year finding.

**Agency Response: Concur**

Agency Corrective Action Plan: The Arizona Department of Education has included the following instructions to subrecipients of ARRA funds:

- i. Register for a **DUNS** number at [https://eupdate.dnb.com/requestoptions.asp?cm\\_re=HomepageB\\*TopNav\\*DUNSNumberTab](https://eupdate.dnb.com/requestoptions.asp?cm_re=HomepageB*TopNav*DUNSNumberTab)

([Training Manual: How to request DUNS number and contact information](#))

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

- ii. Register at the Central Contract Registry (CCR) at <https://www.bpn.gov/ccr/default.aspx>

We are currently in discussion with the Governor's Office of Economic Recovery, GOER, on sharing information they are receiving from the U.S. General Services Administration, GSA. GSA maintains a list of entities that have current Central Contractor Registrations (CCR) on file. Further, GOER, is able to crosswalk the list using National Center for Education Statistics (NCES) identifiers. Once we have received the list from GOER, we will compare it to our list of LEAs receiving ARRA funds and identify those who do not have a current CCR registration on file. We will contact those LEAs and work with them to ensure they complete the CCR registration prior to receiving additional funds. This process will be complete by June 30, 2011.

**10-119**

**Title I, Part A Cluster:**

CFDA No.: 84.010 **Title I Grants to Local Educational Agencies**

84.389 **Title I Grants to Local Educational Agencies, Recovery Act**

Award Period: July 1, 2007 through September 30, 2008

July 1, 2008 through September 30, 2009

February 17, 2009 through September 30, 2010

July 1, 2009 through September 30, 2010

Award Numbers: S010A0700003, S010A0800003, S010A0900003, and S389A090003

**Special Education Cluster (IDEA):**

CFDA No.: 84.027 **Special Education—Grants to States**

84.173 **Special Education—Preschool Grants**

84.391 **Special Education—Grants to States, Recovery Act**

84.392 **Special Education—Preschool Grants, Recovery Act**

Award Period: July 1, 2007 through September 30, 2008

July 1, 2008 through September 30, 2009

February 17, 2009 through September 30, 2010

July 1, 2009 through September 30, 2010

Award Numbers: H027A070007, H027A080007, H027A090007, H173A070003, H173A080003, H173A090003, H391A090007, and H392A090003

**Educational Technology State Grants Cluster:**

CFDA No.: 84.318 **Educational Technology State Grants**

84.386 **Education Technology State Grants, Recovery Act**

Award Period: July 1, 2007 through September 30, 2008

July 1, 2008 through September 30, 2009

February 17, 2009 through September 30, 2010

July 1, 2009 through September 30, 2010

Award Numbers: S318X070003, S318X080003, S318X090003, and S386A090003

**U.S. Department of Education**

Reporting

Questioned Cost: None

Criteria: In accordance with the *American Recovery and Reinvestment Act (ARRA) of 2009*, P.L. 111-5, Section 1512(c), total ARRA monies received and expended are required data elements that should be reported accurately. If the incorrect amounts are reported, the amounts should be corrected during the continuous corrections period as outlined within the reporting guidance issued by OMB M-10-14, *Updated Guidance on the American Recovery and Reinvestment Act*.

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

Condition and context: The Department of Education did not have adequate internal controls over reporting its ARRA expenditures on the State of Arizona's 1512 Report. Specifically, the total federal amount of ARRA expenditures presented on the 1512 report that did not agree to the Department's accounting records for each cluster. In addition, the Department did not maintain documentation supporting the amounts that it presented on the State of Arizona's 1512 Report.

Effect: The total of all expenditures reported on the 1512 Report was understated by \$108,046. This finding is a material weakness in internal control over compliance and noncompliance with the clusters' reporting requirements. In addition, this finding could potentially affect other ARRA programs that the Department administered.

Cause: The errors occurred because the Department did not maintain supporting documentation for amounts reported on the State of Arizona's 1512 Report and did not correct errors subsequently noted during the continuous corrections period.

Recommendation: To help ensure that its ARRA 1512 Report is compiled accurately, the Department should strengthen its procedures over ARRA reporting and maintain documentation for all amounts reported. In addition, if any errors are subsequently noted within the 1512 Report, the errors should be corrected during the continuous corrections period.

**Agency Response: Concur**

Agency Corrective Action Plan: In response to the finding regarding inadequate controls over ARRA expenditure reporting, ADE has implemented additional controls. Specifically, ADE is in the process of developing a list of additional sub-object codes that will be provided to the Governor's office to more effectively capture ARRA expenditure information. These codes will be added to the LEA codes, used by the Governor's office when extracting the expenditure information from the Arizona Financial Information System (AFIS), in order to reconcile to the ADE Grants Management System Project Summary Payment Schedule and the Governmental Accounting Payment System (GAPS) drawdown performed by ADE's Accounting Office.

**10-120**

**Title I, Part A Cluster:**

CFDA No.: 84.010 **Title I Grants to Local Educational Agencies**

84.389 **Title I Grants to Local Educational Agencies, Recovery Act**

Award Period: July 1, 2007 through September 30, 2008

July 1, 2008 through September 30, 2009

February 17, 2009 through September 30, 2010

July 1, 2009 through September 30, 2010

Award Numbers: S010A0700003, S010A0800003, S010A0900003, and S389A090003

**Educational Technology State Grants Cluster:**

CFDA No.: 84.318 **Educational Technology State Grants**

84.386 **Education Technology State Grants, Recovery Act**

Award Period: July 1, 2007 through September 30, 2008

July 1, 2008 through September 30, 2009

February 17, 2009 through September 30, 2010

July 1, 2009 through September 30, 2010

Award Numbers: S318X070003, S318X080003, S318X090003, and S386A090003

CFDA No.: 84.367 **Improving Teacher Quality State Grants**

Award Period: July 1, 2007 through September 30, 2008

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

July 1, 2008 through September 30, 2009

July 1, 2009 through September 30, 2010

Award Numbers: S367A070049A, S367B070003A, S367A080049, S367B080003, S367A090049, and  
S367B090003

**U.S. Department of Education**

Subrecipient Monitoring

Questioned Cost: Unknown

**Criteria:** According to 34 CFR §80.40(a) and OMB Circular A 133, §400(d)(3), grantees must monitor the activities of subrecipients to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements. Therefore, the Department of Education is responsible for identifying the federal award information, including applicable compliance requirements, and monitoring the subrecipient's use of federal awards through reporting, site visits, and regular contact. As such, the Department requires each subrecipient to affirm in writing, through Continuous Improvement Plan statements, that it is aware of the applicable compliance requirements and the Department's policies and procedures. The Department also performs monitoring reviews of subrecipients' activities on a 6-year cycle, each year reviewing a different aspect of the program.

**Condition and context:** The Department did not obtain Continuous Improvement Plan statements from subrecipients and did not always monitor or maintain regular contact with its subrecipients during the year. In addition, the Department did not always follow up in a timely manner with subrecipients who were found to be in noncompliance with requirements. Specifically, auditors noted the following deficiencies:

- None of the 60 local education agencies (LEAs) tested that were required to submit a Continuous Improvement Plan statement had provided a signed statement to the Department.
- For 1 of 60 LEAs tested, the Department did not properly monitor the recipient because the LEA was incorrectly coded as being reviewed within its ALEAT system. As a result, the Department did not follow up in a timely manner on noncompliance issues.

**Effect:** There is an increased risk of noncompliance with all applicable compliance requirements because the Department did not receive assurances from its LEAs that they complied with the clusters' and program's requirements. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a material weakness in internal control over compliance and material noncompliance with subrecipient monitoring requirements. This finding could potentially affect other federal programs, including ARRA programs, that the Department administered.

**Cause:** The Department implemented the ALEAT system to track its monitoring reviews. However, the Department was still in the process of implementing the system and did not request Continuous Improvement Plan statements that provide written affirmation that subrecipients were aware of compliance requirements. Additionally, the Department did not ensure that each LEA's monitoring status was properly recorded in the system.

**Recommendation:** To help ensure that it complies with subrecipient monitoring requirements, the Department should follow its policies and procedures and:

- Maintain regular contact with subrecipients and ensure that they are aware of the applicable compliance requirements.

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

- Document all subrecipients' status in the ALEAT system and follow up on noncompliance issues with subrecipients in a timely manner.

This finding is similar to a prior-year finding.

**Agency Response: Concur**

Agency Corrective Action Plan: The Arizona Department of Education has included the Consolidated Plan Assurances as an annual monitoring item within the ALEAT system, beginning with the opening of the system for FY11 in July 2010. All LEAs that submit plans during FY11 to support their programs funded with Title I Part A Educational Technology State Grants and Improving Teacher Quality State Grants will submit signed Assurances.

ALEAT has been upgraded to allow status reporting for all monitoring items within the system. The Monitoring Manager will review the status reports monthly for any overdue actions and staff will follow-up.

**10-121**

**Title I, Part A Cluster:**

CFDA No.: 84.010 **Title I Grants to Local Educational Agencies**

84.389 **Title I Grants to Local Educational Agencies, Recovery Act**

Award Period: July 1, 2007 through September 30, 2008

July 1, 2008 through September 30, 2009

February 17, 2009 through September 30, 2010

July 1, 2009 through September 30, 2010

Award Numbers: S010A0700003, S010A0800003, S010A0900003, and S389A090003

**Educational Technology State Grants Cluster:**

CFDA No.: 84.318 **Educational Technology State Grants**

84.386 **Education Technology State Grants, Recovery Act**

Award Period: July 1, 2007 through September 30, 2008

July 1, 2008 through September 30, 2009

February 17, 2009 through September 30, 2010

July 1, 2009 through September 30, 2010

Award Numbers: S318X070003, S318X080003, S318X090003, and S386A090003

CFDA No.: 84.367 **Improving Teacher Quality State Grants**

Award Period: July 1, 2007 through September 30, 2008

July 1, 2008 through September 30, 2009

July 1, 2009 through September 30, 2010

Award Numbers: S367A070049A, S367B070003A, S367A080049, S367B080003, S367A090049, and S367B090003

**U.S. Department of Education**

Level of Effort and Subrecipient Monitoring

Questioned Cost: None

Criteria: In accordance with 34 CFR §299.5(a), the Department of Education is required to determine that LEAs have maintained fiscal effort prior to allocating them federal monies. Additionally, the Department should maintain documentation supporting its level of effort calculation.

Condition and context: The Department did not always maintain documentation supporting the level of effort calculation performed for its LEAs. Specifically, for 14 of 40 LEAs tested, the Department was unable to provide

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

supporting documentation for the LEA's average daily membership (ADM) number used in the level of effort calculation because the LEA submitted a revised ADM. Auditors performed additional audit procedures using the LEAs' revised ADM numbers and determined that each LEA did maintain the required level of effort.

Effect: There is the potential risk that LEAs may not meet level of effort requirements after revised ADM data is submitted. This finding is a significant deficiency in internal control over compliance with the clusters' and program's level of effort and subrecipient monitoring compliance requirements.

Cause: The Department allows LEAs to submit revised ADM data and maintains the most current ADM data submitted by LEAs for each fiscal year. However, it did not have procedures in place to maintain the ADM documentation that was used to perform the maintenance of effort calculation.

Recommendation: The Department should maintain documentation to support its level of effort calculations for its LEAs. In addition, the Department should periodically monitor LEAs' level of effort when they submit significant changes to ADM data.

**Agency Response: Concur**

Agency Corrective Action Plan: The Arizona Department of Education will prepare written policies and procedures detailing how maintenance of effort is determined for LEAs. The policies and procedures will contain the methods used to document maintenance of effort and the policies for retention of documents used in the maintenance of effort determinations. All records will be maintained in accordance with federal regulations at 34 CFR 80.42.

**10-122**

**Title I, Part A Cluster:**

CFDA No.: 84.010 **Title I Grants to Local Educational Agencies,**  
84.389 **Title I Grants to Local Educational Agencies, Recovery Act**

Award Period: July 1, 2007 through September 30, 2008  
July 1, 2008 through September 30, 2009  
February 17, 2009 through September 30, 2010  
July 1, 2009 through September 30, 2010

Award Numbers: S010A0700003, S010A0800003, S010A0900003, and S389A090003

**U.S. Department of Education**

Reporting

Questioned Cost: N/A

Criteria: To comply with 34 CFR §80.20 (b), the Department of Education should prepare accurate reports and maintain supporting documentation for all reported amounts included. This includes the National Public Education Financial Survey (NPEFS) submitted annually to the federal awarding agency. In addition, all reports should be reviewed and approved for accuracy.

Condition and context: The Department prepares the NPEFS to report the Department's state per-pupil expenditure data from financial information that its LEAs submit on their Annual Financial Reports. However, the Department did not have adequate procedures to compile the survey accurately. Specifically, for 8 of 61 expenditure line items tested on the survey submitted September 30, 2009, the Department was unable to compile the expenditure amounts. As a result, the Department presented the expenditure amounts based on a 5 percent increase from the prior year's report at the recommendation from the federal awarding agency.



**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

Effect: Data included on the NPEFS may have been inaccurate which may have affected the amount of federal monies provided to the State for the subsequent year. The Department is in the process of computing more accurate figures at this time; therefore, auditors were unable to perform further procedures to determine if the reported expenditures were accurate. This finding is a material weakness in internal control over compliance and noncompliance with the Cluster's reporting requirements.

Cause: The Department lost key employees who previously prepared the NPEFS report and did not have policies and procedures in place to help other employees compile the report accurately.

Recommendation: The Department should develop policies and procedures to compile the NPEFS report accurately. In addition, the Department should maintain supporting documentation for all expenditure amounts reported.

**Agency Response: Concur**

Agency Corrective Action Plan: ADE School Finance Division is in the process of putting processes and procedures in place to address this finding in its September 30, 2011 National Public Education Financial Survey (NPEFS) submission. We have also contacted the U.S. Department of Education to inquire about the possibility of them providing training to our staff on the NPEFS process. However, we have not received confirmation on whether they will be able to provide the training.

**10-123**

**Special Education Cluster (IDEA):**

CFDA No.: 84.027 **Special Education—Grants to States**

84.173 **Special Education—Preschool Grants**

84.391 **Special Education—Grants to States, Recovery Act**

84.392 **Special Education—Preschool Grants, Recovery Act**

Award Period: July 1, 2007 through September 30, 2008

July 1, 2008 through September 30, 2009

February 17, 2009 through September 30, 2010

July 1, 2009 through September 30, 2010

Award Numbers: H027A070007, H027A080007, H027A090007, H173A070003, H173A080003,  
H173A090003, H391A090007, and H392A090003

**U.S. Department of Education**

Level of Effort

Questioned Cost: Unknown

Criteria: In accordance with 34 CFR §300.163(a), the State must not reduce the amount of state financial support made available for special education and related services for children with disabilities below the amount of that support for the preceding year. State educational agencies are responsible for demonstrating that states comply with this requirement.

Condition and context: The Department of Education did not have policies and procedures in place to identify the amount of the State's financial support made available by all state agencies for special education and related services for children with disabilities. During February 2011, the Department prepared a schedule to demonstrate that maintenance of effort was met for the Cluster; however, auditors were unable to determine whether the schedule included all special education amounts the State made available.

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

**Effect:** The Department was not able to demonstrate that the State met the maintenance of effort requirements for the Cluster. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a material weakness in internal control over compliance and material noncompliance with the Cluster’s level of effort requirements.

**Cause:** The Department had been monitoring its own amounts made available for special education from year-to-year based on actual expenditures to ensure that it met maintenance of effort requirements. In December 2009, the federal awarding agency issued a memorandum to the state educational agencies to clarify the maintenance of effort requirements. Until that time, the Department did not realize that all amounts that the State made available from other state agencies for special education should have been included in the calculation. Also, the Department did not have procedures in place to help identify financial support made available by other state agencies for these types of services.

**Recommendation:** The Department should develop policies and procedures to identify all state monies made available to provide special education and related services for children with disabilities to demonstrate that the State did not reduce the amount of financial support provided from the preceding year.

**Agency Response: Concur**

**Agency Corrective Action Plan:** The Exceptional Student Services (ESS) Division will work with the ADE Chief Financial Officer to develop procedures in order to identify appropriations to other state agencies for services to students with disabilities. In this process, the ESS Division will also establish a list of contacts at those other state agencies in order to confirm and include those amounts in the State Education Agency (SEA) Maintenance of Effort (MOE) calculations. In addition, the ESS Division has requested a report from the ADE School Finance Division that will identify the amounts made available through Basic State Aid payments to LEAs in order to determine how much of the state aid appropriation is related to special education students. The goal is to have this report for each fiscal year for SEA MOE testing and compliance purposes.

**10-124**

**Educational Technology State Grants Cluster:**

CFDA No.: 84.318 **Educational Technology State Grants**

84.386 **Education Technology State Grants, Recovery Act**

Award Period: July 1, 2007 through September 30, 2008

July 1, 2008 through September 30, 2009

February 17, 2009 through September 30, 2010

July 1, 2009 through September 30, 2010

Award Numbers: S318X070003, S318X080003, S318X090003, and S386A090003

**U.S. Department of Education**

Earmarking and Subrecipient Monitoring

Questioned Cost: Unknown

**Criteria:** As required by 20 USC 6766(a), a recipient must use a minimum of 25 percent of its Educational Technology State Grants Cluster’s monies for professional development.

**Condition and context:** The Department of Education awarded program monies to only those LEAs whose applications included a minimum of 25 percent of total budgeted expenditures dedicated for professional development. However, the Department did not have adequate procedures to ensure that recipients had spent the monies in accordance with program requirements and the approved budget. Specifically, auditors noted that 11 of

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

60 LEAs tested had not met the earmarking requirements and that 9 of these had also not applied to receive program funding in the subsequent grant period. For the LEAs who did not receive funding in the subsequent year, the Department did not have established procedures for following up on this requirement and recovering misused monies. For the other 2 LEAs who did not meet the earmarking requirements, the Department approved the subsequent year's award without requiring the LEAs to adjust their budgets to include additional professional development expenditures.

**Effect:** The Department may not have met the program's earmarking requirements. It was not practical to extend our auditing procedures to determine questioned costs, if any, that may have resulted from this finding. This finding is a material weakness in internal control over compliance and noncompliance with the Cluster's earmarking and subrecipient monitoring compliance requirements.

**Cause:** When a LEA did not meet the 25 percent professional development requirement for the program year, the Department's policy is to request that the LEA amend the subsequent year's budget to correct for the shortfall. However, the Department did not have additional policies and procedures in place to follow up with its LEAs who did not receive funding in the subsequent year to ensure the recipients met the 25 percent professional development earmarking requirement or require the LEA to remit monies that were not spent in accordance with the Cluster's requirements. Additionally, the Department approved subsequent year applications prior to current year awards' being closed out.

**Recommendation:** The Department should strengthen its policies and procedures to ensure the LEAs meet the 25 percent professional development earmarking requirement each grant year. In addition, the Department should require LEAs to return monies to the Department when necessary to comply with the earmarking requirements.

**Agency Response: Concur**

**Agency Corrective Action Plan:** Upon filing of the completion report, if it is determined that an LEA spent less than 25% of the total funds expended on professional development, ADE will require the LEA to return the amount of funds required to ensure their expended budget meets the 25% of total budgeted funds dedicated for professional development and the LEA will need to revise and resubmit the completion report accordingly. The agency will alert all project representatives prior to the end of the project that the 25% professional development requirement must be met for the amount of funds spent during that fiscal year. If this requirement is not met, ADE will require funding to be returned.

**10-125**

CFDA No.: 84.367 **Improving Teacher Quality State Grants**

Award Period: July 1, 2007 through September 30, 2008

July 1, 2008 through September 30, 2009

July 1, 2009 through September 30, 2010

Award Numbers: S367A070049A, S367B070003A, S367A080049, S367B080003, S367A090049, and S367B090003

**U.S. Department of Education**

Eligibility

Questioned Cost: Unknown

**Criteria:** Federal award recipients should maintain internal controls over federal programs to provide reasonable assurance that they are managing federal awards in compliance with laws and regulations, as required by OMB Circular A-133, §.300(b). Specifically, there should be an adequate separation of responsibilities between

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

performing, reviewing, and recordkeeping. Internal control procedures should require a second employee to verify the accuracy of information used to determine eligibility and allocate federal award monies.

**Condition and context:** The Department of Education's eligibility determination and funding allocation schedule that is used to disburse program monies to LEAs for the Improving Teacher Quality State Grants program was prepared, reviewed, and approved by one employee without an independent review. The funding allocation schedule contained numerous mathematical errors that affected the amounts that LEAs were awarded for the program.

**Effect:** The Department incorrectly calculated the program funds to be allocated to all eligible LEAs. However, auditors did not note any significant differences in the allocated award amounts. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a significant deficiency in internal control over compliance and noncompliance with the program's eligibility requirements.

**Cause:** The Department assigned one employee to prepare the LEA eligibility determinations and funding allocations and had no policies and procedures requiring another employee to review the work.

**Recommendation:** To help ensure that federal award monies are allocated to LEAs correctly and in accordance with the program's eligibility requirements, the Department should assign a second employee to review the LEA eligibility determinations and funding allocations before awarding and disbursing program monies to LEAs. In addition, the Department should retain documentation supporting eligibility determinations and funding allocations.

This finding is similar to a prior-year finding.

**Agency Response: Concur**

**Agency Corrective Action Plan:** The Arizona Department of Education has implemented procedures to ensure that the work of each employee making allocation determinations is reviewed by a program director responsible for the program. Additionally, all work files are kept in our archived folders for easy reference in the future.

In each of the cases cited, the errors either have been adjusted or will be adjusted in a subsequent allocation process.

**10-126**

**Child Nutrition Cluster:**

CFDA No.: 10.553 **School Breakfast Program**

10.555 **National School Lunch Program**

10.556 **Special Milk Program for Children**

10.559 **Summer Food Service Program for Children**

Award Period: October 1, 2008 through September 30, 2009

October 1, 2009 through September 30, 2010

Award Number: 7AZ300AZ3

**U.S. Department of Agriculture**

Subrecipient Monitoring

Questioned Cost: \$2,268

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

**Criteria:** In accordance with 7 CFR §§210.18 and 19(d), the Department of Education must perform on-site administrative reviews and take fiscal action to collect reimbursements from any subrecipient that has received an overpayment exceeding \$600. Further, the Department should follow its own policies and procedures to ensure that a review by a second employee is completed for each administrative review.

**Condition and context:** The Department did not have adequate procedures to request reimbursements from its LEAs that received overpayments of federal monies exceeding \$600. Specifically, for 2 of 15 administrative reviews tested, the Department did not collect the federal overpayments of \$2,268 identified during the reviews. Further, 3 of the 15 reviews tested were not reviewed and approved by a second employee.

**Effect:** The Department did not collect \$2,268 in overpayments made to LEAs and did not always follow its policies to obtain and document a second review. It was not practical to extend our auditing procedures sufficiently to determine whether any additional questioned costs resulted from this finding. This finding is a significant deficiency in internal control over compliance and noncompliance with the Cluster's subrecipient monitoring requirements.

**Cause:** The Department did not follow its policies and procedures to ensure a second review was completed and properly documented for each administrative review performed. In addition, the results of the administrative reviews were not communicated to the Health and Nutrition Unit's finance group to prepare requests for payment.

**Recommendation:** The Department should ensure that all administrative reviews are reviewed and approved by another employee. In addition, the Department should request payments from its LEAs who received overpayments of federal awards monies in excess of \$600. This information should be communicated to the Department's Health and Nutrition Unit's finance group for collection.

**Agency Response: Concur**

**Agency Corrective Action Plan:** Health and Nutrition Services (HNS) continues to utilize current policies and procedures specific to peer reviews and approvals of administrative review documentation. HNS will strengthen the policy and procedure by updating the peer review process in the following ways: the program will send an electronic record (e-mail) to HNS Operations when an administrative review requires overpayments made to LEAs be collected; the electronic record will be saved in the same location as the rest of the administrative review documentation; and Operations will provide a verification electronic record (e-mail) back to program personnel when the collection has been completed. To ensure that these policies and procedures are implemented consistently and completely, HNS will be completing an internal staff training, which will consist of staff participating in activities to ensure the importance of the peer review process is understood.

**10-127**

**State Fiscal Stabilization Fund Cluster:**

CFDA No.: 84.394 **State Fiscal Stabilization Fund (SFSF)—Education State Grants, Recovery Act**

84.397 **State Fiscal Stabilization Fund (SFSF)—Government Services, Recovery Act**

Award Period: June 4, 2009 through September 30, 2011

Award Numbers: S394A09003, S394A09003A, S397A09003, and S397A09003A

**U.S. Department of Education**

Subrecipient Monitoring

Questioned Cost: N/A

## **Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from FY 2010 Single Audit Report)**

Criteria: As required by the *American Recovery and Reinvestment Act (ARRA) of 2009*, Section 1512(h) and 2 CFR §176.50(c), recipients and first-tier subrecipients must maintain a current registration in the Central Contractor Registration (CCR) at all times during which they have active federal awards funded with ARRA monies. A Dun and Bradstreet Data Universal Numbering System (DUNS) numbering is one of the requirements for registration.

Condition and context: During fiscal year 2010, the Governor's Office of Economic Recovery (GOER) distributed approximately \$531,189,300 in ARRA monies to first-tier subrecipients. However, the GOER did not have adequate internal control policies and procedures in place to verify that the subrecipients had a current registration in the CCR during the federal award period. Auditors selected 63 subrecipients for test work and noted that 34 of the subrecipients were not properly registered in the CCR. Of these 34 subrecipients, 29 were not registered at all in the CCR and 5 had expired, incomplete, or invalid registrations.

Effect: It was not practical to extend our auditing procedures to determine how many other subrecipients were not registered in the CCR. However, auditors verified each of the 34 subrecipients did have valid DUNS numbers which was used to prepare the 1512 Report. Since registering with the CCR is not a prerequisite to determine if a subrecipient is eligible, there is no questioned cost associated with this finding. This finding is a material weakness in internal control over compliance and noncompliance with the Cluster's subrecipient monitoring requirements.

Cause: The GOER's existing policies and procedures required subrecipients to have a current DUNS number but did not require subrecipients to also register in the CCR.

Recommendation: The GOER should establish policies and procedures to require subrecipients receiving ARRA monies to register in the CCR. In addition, the GOER should verify that each subrecipient has a current registration in the CCR throughout the federal award period.

### **Agency Response: Concur**

Agency Corrective Action Plan: Since day one of the implementation of ARRA, OER has received conflicting information concerning the requirements for DUNS numbers and CCR registrations. In developing our centralized reporting solution we have demonstrated to the US GAO, RATb, US DOE, and other federal oversight agencies how Arizona's solution does not require a CCR registration as we pass all of the information electronically that FederalReporting.gov would normally extract from CCR. This solution has been deemed acceptable by everyone that has viewed it but OER realizes that this does not meet the strict interpretation of the ARRA guidance.

Therefore, in order to respond to the Auditor General's finding, OER will undertake two activities to ensure that this additional safeguard and compliance requirement is met. First of all, OER will check every new subrecipient for CCR registration before the agreements are finalized. This new requirement will be added to OER's Grants Management Policies and Procedures document and training for all staff will be provided. Additionally, OER will go back and check all previous subawards to ensure that past recipients are also in compliance with this requirement.

Secondly, OER will create a new field in Stimulus 360 attached to the sub-recipient/vendor screen titled "CCR Expiration Date". This field will allow OER to track sub-recipient CCR registrations which do not exist or have expired. Custom reports can be run as often as necessary from Stimulus 360 to determine the status of the sub-recipient's CCR Registration.

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

As part of ongoing operating procedures, reports will be run monthly to determine sub-recipients with CCR registration's which have expired or are due to expire within the next 30 days. OER will take this monthly report from Stimulus 360 and search federalreporting.gov to determine whether or not the CCR registration has been renewed. If there is an updated CCR expiration date found in federalreporting.gov system, we will update the "CCR Expiration Date" field in Stimulus 360 accordingly. If the CCR registration has not been renewed, we will follow up with the sub-recipient point of contact(s) to ensure compliance with this requirement.

OER expects to complete both of these activities by March 31, 2011.

**10-128**

**CDBG—State-Administered Small Cities Program Cluster**

**CFDA No.: 14.228 Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii**

**14.255 Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii—(Recovery Act Funded)**

Award Period: July 1, 2004 through June 30, 2010

March 11, 2009 through March 11, 2011

June 24, 2009 through December 30, 2012

Award Numbers: B-04-DC-04-0001, B-05-DC-04-0001, B-06-DC-04-0001, B-07-DC-04-0001, B-08-DC-04-0001, B-08-DN-04-0001, B-09-DC-04-0001, and B-09-DY-04-0001

**U.S. Department of Housing and Urban Development**

Reporting

Questioned Cost: N/A

**Criteria:** In accordance with 24 CFR §91.520(a) and (c), the Arizona Department of Housing should review and report, in a form prescribed by the U.S. Department of Housing and Urban Development, on its progress in carrying out its strategic plan and its action plan. The Department must describe how the program monies were used on its Consolidated Annual Performance and Evaluation Report (CAPER). Further, a supervisor should review all reports to help ensure the data reported is accurate and complete before the Department submits the reports.

**Condition and context:** The Department did not have adequate policies and procedures that required a supervisor to review its financial report submitted to the federal awarding agency to help ensure the report contained complete and accurate data. As a result, auditors noted the CAPER contained inaccurate financial information. Specifically, auditors noted that the amount reported for the total amount allocated to the program was incorrect and, as a result, amounts obligated to recipients, amounts for state administration and technical assistance, amounts used to benefit low and moderate-income persons, and amounts used to prevent and eliminate slums blight were also incorrectly reported since these amounts were calculated using the total amount allocated. Also, the Department reported incorrect amounts for the colonias projects committed and administrative fees allowed.

**Effect:** The failure to report complete and accurate information may result in errors in analysis or other determinations by the federal government. This finding did not result in questioned costs since the report was not used to request reimbursement of federal expenditures. This finding is a significant deficiency in internal control over compliance and noncompliance with the Cluster's reporting requirements.

**Cause:** The Department's policies and procedures did not require a supervisory review prior to submitting the report to the federal agency.

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

**Recommendation:** To help ensure that its federal reports are complete and accurate, the Department should establish policies and procedures over reporting, including requiring supervisors to review and approve of reports prior to submission.

**Agency Response: Concur**

**Agency Corrective Action Plan:** The Department has implemented effective February 1, 2011 a procedure for secondary review of the reports submitted to the federal agency. The procedure will include an initial review by the CD&R Program Administrator and a secondary review will be performed by the Data Manager prior to submission.

The information that was identified as inaccurate by the auditors has been corrected and submitted to the U.S. Department of Housing and Urban Development.

**10-129**

CFDA No.: 93.069 **Public Health Emergency Preparedness**

Award Period: August 10, 2008 through August 9, 2009  
July 31, 2009 through July 30, 2010  
August 10, 2009 through August 9, 2010

Award Numbers: 5U90TP916987-09, 5UP90TP916987-10, and 1H75TP000334-01

**U.S. Department of Health Services**

Level of Effort

Questioned Cost: Unknown

**Criteria:** In accordance with 42 U.S. Code 247d-3a(i)(2)(A), the Department of Health Services is responsible for maintaining nonfederal expenditures for public health security at a level that is not less than the average of such expenditures maintained for the preceding 2-year period. In addition, based on the Notice of Award for the Public Health Preparedness and Response for Bioterrorism and the funding application guidance, the maintenance of funding can include appropriations specifically designed to support public health emergency preparedness as expended by the agency or funds expended for activities that support public health emergency preparedness, but may not include expenditures used to meet the program's matching requirements. Further, the Department must be able to account for its maintenance of effort separately from its accounting for federal funds and matching requirements.

**Condition and context:** The Department did not have adequate policies and procedures to demonstrate and document compliance with maintenance of effort requirements for public health security. Specifically, the Department incorrectly reported its maintenance of effort in the program's cooperative agreement application using budgeted expenditures instead of actual expenditures. Further, the Department could not provide support that it had met the maintenance of effort with nonfederal expenditures for the fiscal year.

**Effect:** The Department may not have contributed the required maintenance of effort to support public health security. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a material weakness in internal control over compliance and material noncompliance with the program's level of effort requirements.

**Cause:** The Department did not adequately review program award notifications and guidance to determine the applicable requirements.



**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

Recommendation: The Department should establish policies and procedures to demonstrate and document compliance with maintenance of effort requirements based on actual nonfederal expenditures. Further, the Department should implement policies and procedures to thoroughly review award notifications and program guidance to ensure it complies with all program requirements.

**Agency Response: Concur**

Agency Corrective Action Plan: The Agency's Division for Operations, Financial Section will partner with the Division of Public Health Services, Bureau of Emergency Preparedness to develop and maintain listings of nonfederal expenditures on public health security for the prior two state fiscal years. The dollar amounts will be taken directly from the Arizona Financial Information System (AFIS) and be listed by account code (e.g. index and program cost account (PCA)). These amounts will be used for reporting purposes to the Centers for Disease Control and Prevention (CDC).

The partners will also prepare a listing of the planned or budgeted expenditures on public health security for each of these account codes and any newly added account codes for the next state fiscal year, ensuring that the planned expenditures meet or exceed the average expenditures of the prior two state fiscal years. The partners will also monitor the actual expenditures during the course of the current state fiscal year to ensure compliance with the grant's requirements.

Lastly, the Division for Operations, Financial Section will work to ensure that all Agency programs that administer federal grants are fully aware and understand grant level of effort requirements.

**10-130**

CFDA No.: 93.069 **Public Health Emergency Preparedness**

Award Period: August 10, 2008 through August 9, 2009  
July 31, 2009 through July 30, 2010  
August 10, 2009 through August 9, 2010

Award Numbers: 5U90TP916987-09, 5UP90TP916987-10, and 1H75TP000334-01

**U.S. Department of Health Services**

Subrecipient Monitoring

Questioned Cost: Unknown

Criteria: In accordance with 45 CFR §92.40(a) and OMB Circular A-133, §.400(d)(3), grantees must monitor the activities of subrecipients to ensure that federal awards are used for authorized purposes and in accordance with laws, regulations, and the provisions of contracts or grant agreements. This can be accomplished by conducting site visits, reviewing financial and performance reports submitted by the subrecipient, regular contacts with subrecipients and appropriate inquiries concerning program activities, or conducting limited-scope audits.

Condition and context: The Department of Health Services did not perform sufficient monitoring procedures to ensure that subrecipient expenditures and amounts contributed by subrecipients to meet matching requirements were allowable and supported. Specifically, auditors noted that when the Department conducted site visits, it did not review financial records or evaluate the subrecipients' related internal controls.

Effect: There is an increased risk of noncompliance with applicable compliance requirements because the Department did not perform adequate monitoring procedures to determine whether the subrecipients complied with the grant agreements. It was not practical to extend our auditing procedures sufficiently to determine

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

questioned costs, if any, that may have resulted from this finding. This finding is a material weakness in internal control over compliance and material noncompliance with the program's subrecipient monitoring requirements.

Cause: The Department relied on the subrecipients to report accurate financial information without performing adequate monitoring procedures to determine their accuracy.

Recommendation: The Department should revise its procedures for performing site visits to include reviewing and evaluating financial records and internal controls, or perform other forms of financial monitoring, to help ensure that subrecipients were using federal monies only for authorized purposes and complying with the applicable program requirements.

**Agency Response: Concur**

Agency Corrective Action Plan: The Agency's Division for Operations, Auditing and Special Investigations will partner with the Division of Public Health Services, Bureau of Emergency Preparedness to develop an appropriate risk-based subrecipient monitoring plan. This partnership will also develop monitoring tools that will ensure the review of financial records and internal controls during site visits. Efforts to track and document subrecipient's matching requirements will also be enhanced.

**10-131**

CFDA No.: 16.803 **Recovery Act—Edward Byrne Memorial Justice Assistance Grant (JAG)  
Program/Grants to States and Territories**

Award Period: March 1, 2009 through February 28, 2013

Award Number: 2009-SU-B9-0029

**U.S. Department of Justice**

Allowable Costs/Cost Principles

Questioned Cost: Unknown

Criteria: In accordance with 2 CFR, Appendix B to Part 225, §(8)(h) and the U.S. Department of Justice, *Office of Justice Programs Financial Guide*, the salaries and wages of employees who work solely on a single federal program should be supported by documentation that is prepared at least semiannually and that is signed by the employee and a supervisor. Further, the distribution of salaries and wages of employees who work on multiple activities, such as a combination of federal and nonfederal programs, should be supported by documentation that reflects an after-the-fact distribution of the hours and activities worked that the employees sign on at least a monthly basis. Furthermore, internal control policies require that these certifications be approved by a supervisor having firsthand knowledge of the work the employee performs.

Condition and context: During the fiscal year, the Arizona Criminal Justice Commission and Office of the Attorney General charged salaries and wages to the program approximating \$481,000 and \$1.9 million, respectively, and used time sheets to account for the distribution of the hours and activities employees worked. However, the time sheets used by both agencies were not sufficiently detailed to provide an accurate after-the-fact distribution of the employees' actual hours and activities worked. All of the Commission's employees who worked on the program also worked on other federal programs and nonfederal activities; however, the Commission allocated the employees' salaries and wages based on the percentages of expenditures that were budgeted for these programs and activities. In addition, all of the employees of the Attorney General's Office whose salaries and wages were charged to the program worked solely for the program; however, the time sheets did not identify that employees worked on the program, and no other documentation was prepared to certify that the employees worked solely on the program.

## **Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from FY 2010 Single Audit Report)**

**Effect:** The agencies did not have adequate procedures to ensure that employee salaries and wages charged to the program reflected an accurate after-the-fact distribution of hours and activities worked. In addition, the agencies did not have adequate procedures to ensure that employees who worked solely on a federal program prepared time sheets or other documentation that certified that fact. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is considered a significant deficiency in internal control over compliance and noncompliance with the program's allowable costs/cost principles requirement. This finding could potentially affect other federal programs that the agencies administered.

**Cause:** The agencies did not have policies and procedures in place to help ensure that time sheets or other time activity reports were prepared by employees who worked on both federal and nonfederal activities. Further, the agencies did not have policies and procedures in place to help ensure that documentation was sufficient to certify that employees worked solely on a federal program.

**Recommendation:** The agencies should develop policies and procedures to help ensure that time sheets, or other payroll activity reports, are prepared and maintained for all employees who work on multiple activities composed of federal programs and nonfederal activities. These reports should be prepared at least monthly, be sufficiently detailed to provide an after-the-fact distribution of the employees' hours and activities, and be signed and approved by the employee and employee's supervisor. In addition, the agencies' policies and procedures should help ensure that time sheets are sufficiently detailed to identify and certify that employees worked solely on a federal program. Alternatively, other documentation may be prepared at least every 6 months to certify that the employee's hours and activities were dedicated solely to the federal program.

### **Agency Response: Concur**

Agency Corrective Action Plan:

#### Arizona Criminal Justice Commission

The Arizona Criminal Justice Commission now requires all employees that work on federally funded grants to report after-the-fact distribution of the time worked on federal grant programs and non-federal activities through bi-weekly timesheets signed by the employee and supervisor having firsthand knowledge of the work completed. In addition, the Commission will ensure that budgeted amounts for employee salaries and wages are supported by after-the-fact distribution for each employee as documented on the timesheets.

#### Office of the Attorney General

The Office of the Attorney General is currently in the process of implementing an electronic Employee Time Entry system which will enable both employees and supervisors with firsthand knowledge of the work being done by the employee to certify the hours worked on the state and/or federal programs. The current phase of the new system includes two certifications, one for the employees, which states that the time they have indicated on their time sheet is correct and accurate and that they understand that falsifying the time sheet may be subject to disciplinary action and/or legal prosecution. The second certification is for the supervisor who approves an employee's time, certifies that the attendance reported is correct and that the employee has performed the reported services, and that as the supervisor they understand that knowingly approving a falsified time sheet may be subject to disciplinary action and/or legal prosecution. This phase of the electronic employee time entry system will be implemented at the Attorney General's Office on or before April 1, 2011.

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

**10-132**

CFDA No.: 12.401 **National Guard Military Operations and Maintenance (O & M) Projects**  
12.401 **ARRA—National Guard Military Operations and Maintenance (O & M) Projects**

Award Period: October 1, 2008 through September 30, 2009

October 1, 2009 through September 30, 2010

Award Numbers: Various

**U.S. Department of Defense**

Cash Management

Questioned Cost: Unknown

**Criteria:** In accordance with National Guard Regulation 5-1, effective May 28, 2010, grantees should limit the time elapsing between the transfer of monies from the U.S. Treasury and their disbursement to 45 days or less. Prior to this date, program regulations allowed grantees to request monies 90 days in advance.

**Condition and context:** The Department of Emergency and Military Affairs did not have effective internal control procedures in place to minimize the time elapsing between the transfer of monies from the U.S. Treasury and their disbursement. Specifically, between July 1, 2009 and May 27, 2010, the Department exceeded its allowable cash balance for 43 of the 331 days. Further, between May 28, 2010 and June 30, 2010, the Department exceeded its allowable cash balance for each day during the period.

**Effect:** The Department could incur an interest liability on cash balances that exceed the required timeframes. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a material weakness in internal control over compliance and noncompliance with the program's cash management requirements.

**Cause:** The Department did not minimize the time elapsing between the transfer of monies and their disbursement due to a lack of adequate procedures.

**Recommendation:** The Department should develop adequate internal control procedures to minimize the time elapsing between the transfer of monies from the U.S. Treasury and their disbursement in accordance with program regulations.

**Agency Response: Concur**

**Agency Corrective Action Plan:** The Department of Emergency and Military Affairs is reviewing and improving cash management internal controls to ensure the time elapsing between transfer of monies from the U.S. Treasury and their disbursement is in accordance with program regulations (NGR 5-1). However, NGR 5-1, 11-15 Advance Payment Method states "The advance method will be used only when Grantees are required to have sufficient funds in deposit in the State Treasury before funding obligations may be incurred." Therefore, in computing the 45 day cash requirement obligation (encumbrances) as well as disbursements (expenditures), these should be considered and used regarding the 45 day cash available requirement.

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

**10-133**

CFDA No.: 12.401 **National Guard Military Operations and Maintenance (O & M) Projects**  
12.401 **ARRA—National Guard Military Operations and Maintenance (O & M) Projects**

Award Period: October 1, 2008 through September 30, 2009

October 1, 2009 through September 30, 2010

Award Numbers: Various

**U.S. Department of Defense**

Equipment and Real Property Management

Questioned Cost: Unknown

**Criteria:** In accordance with 32 CFR §33.32(b), the State will use, manage, and dispose of equipment acquired with federal monies in accordance with state laws and procedures. The *State of Arizona Accounting Manual*, section II-G-1(I) states that a physical inventory should be taken annually, not sooner than April 30 and not later than June 30, unless written approval is granted by the State's General Accounting Office (GAO). Additionally, section II-G-1(R) states that before a capital asset is disposed of by trade-in, both the Surplus Property Management Office (SPMO) and State Procurement Office (SPO) must approve this disposal method. After approval, the capital asset traded in should be removed from any internal listing and from the Fixed Asset System (FAS), and the new asset should be recorded.

**Condition and context:** The Department of Emergency and Military Affairs did not manage its equipment in accordance with state procedures. Specifically, auditors noted the following:

- For fiscal year 2009, the Department completed a physical inventory for only 100 of the program's 179 equipment items by the State's deadline. The Department later completed an inventory for an additional 46 items after the deadline, but did not inventory the remaining 33 items.
- For fiscal year 2010, the Department completed a physical inventory for only 3 of the program's 179 equipment items, and this inventory was completed after the State's deadline.
- For 2 of 7 equipment items that auditors physically verified, the Department traded in the items prior to receiving written approval from SPMO and SPO. Further, the Department did not remove the assets from the internal listing or the FAS, and did not add one of the newly acquired items to the FAS.

**Effect:** Inadequate controls over the program's equipment results in increased risks of loss, theft, or mismanagement of the items. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a material weakness in internal control over compliance and noncompliance with the program's equipment and real property management requirements.

**Cause:** The Department did not perform a complete physical inventory for fiscal years 2009 and 2010 due to inadequate staff resources. Further, the Department did not know it was necessary to obtain written approval for the trade-in. Finally, the Department's policies and procedures did not require the removal of these items from the FAS and its internal listing after the trade-in occurred, and the addition of the new item to FAS.

**Recommendation:** To comply with the 32 CFR §33.32(b), the Department should perform a complete physical inventory annually by June 30 unless approved by the GAO. Further, the Department should receive written approval from the SPMO and SPO prior to trading in an asset. Finally, the Department should revise its policies and procedures to require the removal of disposed items from the FAS and its internal listing, and the addition of the new items to the FAS after the trade-in has occurred.

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

**Agency Response: Concur**

Agency Corrective Action Plan: The Department of Emergency and Military Affairs agrees with the recommendations on Equipment and Real Property Management. The Department has requested and been granted approval from the General Accounting Office (GAO) to conduct inventory during a 12-month period with each Account Holder. The inventory will be conducted within a 12-month window. A new section was added to the DEMA Directive 50.1, 7.3 Trade-In of Expendable Items that clearly explains to the Account Holders/Program Managers that written approval must be obtained from State Surplus Management Office (SPMO) and State Procurement Office (SPO) prior to authorizing purchase and trade-in of equipment.

**10-134**

**Research and Development Cluster**

**All Arizona State University Research and Development grants and contracts**

Award Period: Various

Award Numbers: Various

Reporting

Questioned Cost: N/A

**Criteria:** In accordance with the *American Recovery and Reinvestment Act (ARRA) of 2009*, P.L. 111-5, Section 1512(c), total ARRA monies received and expended are required data elements that should be reported accurately. If the incorrect amounts are reported, the amounts should be corrected during the continuous corrections period as outlined within the reporting guidance issued by OMB M-10-14, *Updated Guidance on the American Recovery and Reinvestment Act*.

**Condition and context:** Arizona State University did not have adequate internal controls to report its Research and Development Cluster's ARRA monies received and expended accurately on the State of Arizona's 1512 Report. Specifically, for 4 of 8 grant awards tested for the first quarter report for 2010, the amounts reported did not agree to the University's accounting records. These errors occurred because the University reported monies that were received or spent in other quarters, excluded some monies received or spent in the third quarter, or incorrectly classified monies received and spent. In addition, the University did not identify these errors until the continuous corrections period had ended.

**Effect:** For the awards tested, auditors determined that revenues were understated by approximately 1 percent and expenditures were overstated by approximately 2 percent. This finding is a material weakness in internal control over compliance and noncompliance with the Cluster's reporting requirements. In addition, this finding could potentially affect other ARRA programs the University administered.

**Cause:** The University assigned an employee who did not have a financial background and was not familiar with the reporting requirements to prepare the 1512 reports. Additionally, it did not assign a supervisor to review the 1512 reports prior to submitting them.

**Recommendation:** To help ensure that its ARRA 1512 Reports are compiled accurately, the University should strengthen its internal control policies and procedures over ARRA reporting by assigning a knowledgeable employee the responsibility for compiling the reports. In addition, a second employee should review the reported amounts for accuracy prior to submitting the reports. Finally, if any errors are subsequently noted on the 1512 Reports, university employees should submit corrected amounts during the continuous corrections period.

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

**Agency Response: Concur**

Agency Corrective Action Plan: The University recognizes the importance of accurately reporting the total federal ARRA monies received and expended and of correcting reported amounts during the continuous corrections period. In order to streamline the reporting process and ensure compliance with initial §1512 reporting requirements, the University developed a web-based tool to extract data from existing University enterprise systems. The assembled project team focused on tool development and reporting timeliness.

Beginning with the reporting period ended June 30, 2010, the University initiated a review of the total expenditures and revenues data by a knowledgeable individual with a financial background. This review was conducted prior to final submission of the §1512 Reports to the Arizona Governor's Office of Economic Recovery (GOER). The GOER, in turn, submits the State of Arizona's §1512 Report on behalf of all Arizona state agencies.

To further enhance reporting accuracy, a knowledgeable individual with a financial background has been assigned responsibility for compiling the §1512 quarterly reports beginning with the quarter ending March 31, 2011. The review of reported amounts for accuracy by a second knowledgeable employee prior to submitting the reports (first initiated for the reporting period ended June 30, 2010) continues. Finally, during the continuous corrections period, the University will be completing a quality assurance review of the §1512 reports submitted for each quarter. A quality assurance review for the quarter ended December 31, 2010 is currently underway. This practice will allow for submission of corrected amounts during the continuous corrections period if any errors are subsequently noted on the §1512 Reports.

These changes should help ensure that the University's ARRA §1512 Reports are compiled accurately in accordance with the *American Recovery and Reinvestment Act (ARRA) of 2009* and ensure correction of any subsequently noted errors during the continuous corrections period as outlined within the reporting guidance issued by OMB Memorandum M-10-14, *Updated Guidance on the American Recovery and Reinvestment Act*.

**10-135**

**Research and Development Cluster**

**All Arizona State University Research and Development grants and contracts**

Award Period: Various

Award Numbers: Various

Subrecipient Monitoring

Questioned Cost: Unknown

Criteria: In accordance with 31 U.S. Code 7502(f)(2)(C), pass-through entities should review subrecipient audit reports to determine whether the subrecipients have taken prompt and appropriate corrective action with respect to audit findings pertaining to federal awards provided by the pass-through entity. Further, in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* §.400(d)(5), pass-through entities should issue management decisions on audit findings within 6 months after receipt of the subrecipient's audit report and ensure that the subrecipient has taken appropriate and timely corrective action.

Condition and context: Arizona State University did not have adequate policies and procedures that required employees to review all audit findings included in subrecipient audit reports pertaining to federal awards provided to subrecipients by the University. As a result, auditors noted that 4 of 17 subrecipient audit reports examined included audit findings that the University did not review, and consequently, did not issue management decisions for or ensure that the subrecipients took appropriate and timely corrective action.

## **Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from FY 2010 Single Audit Report)**

**Effect:** The University did not always effectively monitor its subrecipients to ensure that deficiencies identified by audits were appropriately corrected. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a material weakness in internal control over compliance and noncompliance with the Cluster's subrecipient monitoring requirements. In addition, this finding could potentially affect other federal programs for which the University passed through awards to subrecipients.

**Cause:** The University's policy was to review only those audit findings that were material weaknesses and specifically cited a university pass-through award. The policy did not require employees to review audit findings classified as significant deficiencies or those that related to general internal control deficiencies that could potentially affect university pass-through awards.

**Recommendation:** The University should revise its policies and procedures to require employees to review all audit findings included in its subrecipients' audit reports to ensure that it identifies all findings that pertain to its federal awards.

### **Agency Response: Concur**

**Agency Corrective Action Plan:** The University acknowledges the importance of complying with 31 U.S. Code 7502(f)(2)(C), which requires pass-through entities to review subrecipient auditor reports to determine whether the subrecipients have taken prompt and appropriate corrective action with respect to audit findings pertaining to federal awards provided by the pass-through entity. Further, we recognize the importance of complying with OMB Circular A-133, §.400(d)(5), which requires pass-through entities to issue management decisions on audit findings within 6 months after receipt of the subrecipient's audit report and to ensure the subrecipient has taken appropriate and timely corrective action. The University's procedure was to review only audit findings included in subrecipient audit reports that were material weaknesses and that specifically cited a Catalog of Federal Domestic Assistance (CFDA) number pertaining to a university pass-through award. University actions to correct this condition were initiated in February, 2011.

All audit findings included in subrecipient audit reports will be reviewed to ensure that the University identifies all findings that pertain to its federal awards. Effective February 1, 2011, this practice was implemented as part of the risk assessment and review conducted prior to issuance of a pass-through award to a subrecipient. If it is determined that an audit finding pertains to a pass-through award, a management decision is issued to ensure that the subrecipient has taken appropriate and timely corrective action.

Effective May 1, 2011, a procedure will be implemented to enhance the annual review of audit reports for existing pass-through awards. As with audit report reviews conducted prior to issuance of a pass-through award, if it is determined that an audit finding in the annual audit report of an existing subrecipient entity pertains to the existing pass-through award, a management decision will be issued within 6 months after receipt of the subrecipient's audit report to ensure that the subrecipient has taken appropriate and timely corrective action.

These procedural changes in the review of subrecipient audit reports and issuance of management decisions on audit findings should improve subrecipient monitoring effectiveness to ensure that deficiencies identified by audits are appropriately corrected.



**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

**10-136**

**Research and Development Cluster**

**All Arizona State University Research and Development grants and contracts**

Award Period: Various

Award Numbers: Various

Allowable Costs/Cost Principles

Questioned Cost: Unknown

**Criteria:** In accordance with OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, Subpart C, §.21(b)(7), and OMB Circular A-21, *Cost Principles for Educational Institutions*, §§A.2(e) and J.10(d), the University should ensure its financial management systems and records adequately support charges made to federal awards.

**Condition and context:** As discussed in financial statement finding 10-07, Arizona State University did not have adequate internal controls over payroll processing.

**Effect:** It was not practical to extend our auditing procedures sufficiently to determine the amount of questioned costs, if any, that may have resulted from this finding. This finding is a significant deficiency in internal control over compliance with the Cluster's allowable costs/cost principles requirements. This finding could also potentially affect the Cluster's matching requirement for matching expenditures that are composed of employees' salaries and wages because they may not be adequately supported. In addition, this finding could potentially affect other federal programs the University administered.

**Cause:** Since the payroll processing function is decentralized, individual departments did not always follow payroll policies, and the University did not effectively monitor the decentralized payroll functions.

**Recommendation:** The University should implement the recommendations described in financial statement finding 10-07.

This finding is similar to a prior-year finding.

**Agency Response: Concur**

**Agency Corrective Action Plan:** To ensure strong financial controls are in place, responsibility for the ASU payroll function was transferred to Financial Services at the beginning of FY 2011. All recommendations made by the auditors have been implemented, and no exceptions were found during the federal funds audit. The auditors noted significant progress was made in FY 2010 in resolving payroll-related issues, and this financial statement finding is now considered a significant deficiency, rather than a material weakness (FY 2008 and FY 2009). Through education and monitoring efforts the University continues to improve individual department's compliance with payroll policies.

**Federal Award Findings, Questioned Costs and Corrective Action Plan  
(Reformatted from FY 2010 Single Audit Report)**

**10-137**

**Research and Development Cluster**

**All Arizona State University Research and Development grants and contracts**

Award Period: Various

Award Numbers: Various

Cash Management

Questioned Cost: Unknown

**Criteria:** In accordance with 2 CFR §215.21(b)(3), and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* §.300(b), the Arizona State University is required to maintain effective internal control over federal programs to provide reasonable assurance that it is managing federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements.

**Condition and context:** The University did not establish adequate procedures to ensure that requests for reimbursement made by letter of credit drawdowns were accurate. While gaining an understanding over the Cluster's internal controls over cash management, auditors determined that one employee was responsible for compiling and submitting the requests without supervisory review and approval.

**Effect:** The University could request reimbursement for incorrect or unsupported amounts and receive federal monies that it is not entitled to. It was not practical to extend our auditing procedures sufficiently to determine the amount of questioned costs, if any, that may have resulted from this finding. This finding is a significant deficiency in internal control over compliance with the Cluster's cash management requirement and could affect other federal programs the University administers.

**Cause:** The University did not have procedures in place for reviewing letter of credit reimbursement requests.

**Recommendation:** The University should assign a second employee to review and approve letter of credit reimbursement requests before they are submitted to the grantor agencies.

**Agency Response: Concur**

**Agency Corrective Action Plan:** To ensure that effective internal controls over cash management are in place to provide reasonable assurance that federal awards are managed in compliance with laws, regulations, and the provisions of grant and contract agreements, the University has assigned a second employee to review and approve letter of credit reimbursement requests before they are submitted to the grantor agencies.

This procedure for reviewing letter of credit reimbursement requests was implemented effective July 9, 2010 and has been incorporated into written work instructions which govern the cash management function. While we concur that a second employee review will enhance internal controls, we note that no letter of credit reimbursement request inaccuracies were discovered either internally or during the audit process. In accordance with its practice of submitting letter of credit draw requests on the reimbursement basis, the University consistently reviewed and maintained a cash negative position as prescribed by the Cash Management Improvement Act.

The second employee review and approval of letter of credit reimbursement requests before they are submitted to the grantor agencies should result in an increase in internal controls in accordance with the requirements of OMB Circular A-110, Subpart C, §.21(b)(3), and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* §.300(b).