

Federal Findings and Agency Corrective Action Plans  
for the State of Arizona Single Audit 2008

**08-101**

Allowable Costs/Cost Principles

Questioned Cost: \$500,995

Food Stamp Cluster:

10.551 Food Stamps

10.561 State Administrative Matching Grants for Food Stamp Program, #7AZ400AZ4

Child Nutrition Cluster:

10.553 School Breakfast Program, # 7AZ300AZ3

10.555 National School Lunch Program, # 7AZ300AZ3

10.556 Special Milk Program for Children, # 7AZ300AZ3

10.559 Summer Food Service Program for Children, # 7AZ300AZ3

10.558 Child and Adult Food Care Program, # 7AZ300AZ3

10.664 Cooperative Forestry Assistance, #s 04DG11031600-034, 05DG11031600-036, 04DG11031600-063, 05DG11031600-077, 05DG11111169-076, 06DG11031600-119, 06DG11031600-112, 07DG11031600-138, 08DG11031600-143

Highway Planning and Construction Cluster:

CFDA No.: 20.205 Highway Planning and Construction, Various

66.458 Capitalization Grants for Clean Water State Revolving Funds, #s CS04000106 and CS04000107

66.468 Capitalization Grants for Drinking Water State Revolving Funds, #s FS99990203, FS99990206, and FS99990207

84.002 Adult Education—Basic Grants to States, #s V002A050003, V002A060003, and V002A070003

84.010 Title I Grants to Local Educational Agencies, #s S010A050003, S010A060003, and S010A070003

84.011 Migrant Education—State Grant Program, #s S011A050003, S011A060003, and S011A070003

Special Education Cluster (IDEA):

84.027 Special Education—Grants to States, #s H027A050007, H027A060007, and H027A070007

84.173 Special Education—Preschool Grants, #s H173A050003, H173A060003, and H173A070003

84.126 Rehabilitation Services—Vocational Rehabilitation Grants to States, Rehabilitation Services—Vocational Rehabilitation Grants to States, #s H126A060002, H126A070002, and H126A080002

84.367 Improving Teacher Quality State Grants, #s S367A050049, S367A060049, and S367A070049

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93.268 Immunization Grants, #s 5H23/IP922545-05 and H23/CCH922545-04

CCDF Cluster:

93.575 Child Care and Development Block Grant, #s G0601AZCCDF, G0701AZCCDF, and G0801AZCCDF

93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund, #s G0601AZCCDF, G0701AZCCDF, and G0801AZCCDF

93.667 Social Services Block Grant, #s G0701AZSOSR and G0801AZSOSR

93.767 State Children's Insurance Program

The State of Arizona did not comply with the allowable costs/cost principles requirements with respect to 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. These charges were not allowable according to OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment A, paragraphs C.1.b and 3.a., because the costs were not charged to the agencies based on the relative benefits received. During fiscal year 2008, these charges totaled \$500,995, including \$121,554 for the major programs listed above and \$379,441 for all other federal programs.

This finding is noncompliance with the allowable costs/cost principles requirements, and could potentially impact all federal programs administered by the affected state agencies that incurred payroll costs. However, this finding was not considered to be caused by the federal programs' administration since the noncompliance resulted from a statutory requirement that these programs be charged for general agency counsel service costs. This finding is similar to a prior year finding.

To comply with OMB Circular A-87, 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.

Agency: Department of Administration  
Contact person: Clark Partridge, State Comptroller, (602) 542-5405  
Anticipated completion date: Unknown  
Agency Response: Concur

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**Agency Corrective Action Plan:** We have an established process in place for monitoring legislation. In fact, this concept 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.

**08-102**

Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility

Questioned Cost: \$10,275

Food Stamp Cluster:

10.551 Food Stamps

10.561 State Administrative Matching Grants for Food Stamp Program, # 7AZ400AZ4

93.558 Temporary Assistance for Needy Families, #s G0702AZTANF and G0802AZTANF

The Department of Economic Security, Division of Benefits and Medical Eligibility, Family Assistance Administrative (FAA) Offices, did not always follow the Division's internal control policies and procedures for activating and issuing electronic benefits transfer (EBT) cards for food stamps and Temporary Assistance for Needy Families (TANF) cash assistance benefits to ensure that benefits were only issued to eligible recipients. Auditors performed observations at 10 of the 102 FAA offices in February and March 2008 and noted that these offices did not always document the issuance of EBT cards in the computer system or on the issuance log. In addition, in 6 offices, the EBT processors, eligibility interviewers, or front desk intake workers did not log off the eligibility verification system when the computers were left unattended. Further, in 1 office, the customer service representative discussed the issuance of an EBT card with the recipient's spouse who was not the primary beneficiary or an authorized representative. In another office, the EBT card issuance log was not signed by 2 recipients who received EBT cards, and in 2 offices, EBT cards were not safeguarded. Further, during the period July 1, 2007 through June 30, 2008, three employees manipulated the eligibility computer system for personal use and defrauded the Division out of \$10,010 in TANF support service payments and \$265 in food stamps benefits. The Department referred matters to the Office of the Attorney General for further investigation and prosecution.

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 Food Stamp Cluster's special tests and provisions requirements. It is also a material weakness in internal control over compliance and material noncompliance for the Temporary Assistance for Needy Families (TANF) program's activities allowed or unallowed, allowable costs/cost principles, and eligibility requirements. This finding is similar to a prior year finding.

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To comply with the Food Stamp Cluster's special tests and provisions requirements stipulated in 7 CFR §§274.7(b), 274.11(c), and 274.12(h)(3) and the TANF program's activities allowed or unallowed, allowable costs/cost principles, and eligibility requirements specified in 45 CFR §206.10, and to help prevent unauthorized transactions, the Division should monitor adherence to and enforce its internal control policies and procedures over the process of authorizing and issuing EBT cards at its FAA offices.

Agency: Department of Economic Security

Contact person: Leona Hodges, Deputy Assistant Director, (602) 542-7596

Anticipated completion date: May 2009

Agency Response: Concur

**Agency Corrective Action Plan:** On November 2, 2007, the Department of Economic Security (DES), Division of Benefits and Medical Eligibility (DBME), began issuing cards in local offices only for cases that meet the Food Stamp expedite criteria. This was necessary to ensure that these recipients have access to their benefits within seven days from the date of application as required by Federal regulation. DBME programmed the AZTECS eligibility system to prevent issuance of EBT cards in the local offices except for expedite or emergency cases. The vendor mails out all other EBT cards. Local Office Managers will continue to monitor EBT cards issued from their local office. In addition, local offices placed posters in their lobbies informing clients of the following:

- DO NOT give your unwanted, damaged, or unusable EBT card to any DES employee.
- DES employees are not allowed to accept, handle, or receive EBT cards from participants for any reason.
- You must destroy the unwanted EBT card yourself. Shred or cut the card in pieces before discarding.
- Remember! Never give your personal identification number (PIN) to anyone for any reason.

In addition, DBME made numerous changes to the AZTECS eligibility system to restrict the issuance of supplemental payments and prevent the occurrence of EBT fraud.

DBME addressed all issues noted in the finding with the appropriate staff and will issue a reminder to all staff to log off the system when unattended.

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**08-103**

Special Tests and Provisions

Questioned Cost: \$18,731

Food Stamp Cluster:

10.551 Food Stamps

10.561 State Administrative Matching Grants for Food Stamp Program, # 7AZ400AZ4

The Department of Economic Security, Division of Benefits and Medical Eligibility, did not adhere to its internal control policies and procedures to ensure that all documentation required to be included in the case files for food stamps recipients was received, prepared, or retained and to accurately record correct recipient information into its eligibility verification system. Specifically, for 1 of 64 food stamps recipients' case files tested, auditors noted that the Division did not record accurate income and expenditure information into the eligibility verification system, which resulted in a \$99 benefit overpayment. In addition, for another 5 recipients, the Division did not retain documents to support their benefit authorizations totaling \$18,632.

It was not practical to extend our auditing procedures sufficiently to determine whether any additional questioned costs resulted from this finding. Based on auditors' evaluation of the cumulative effect of the internal control deficiencies documented in this finding combined with those noted in finding 08-102, this finding is a material weakness in internal control over compliance and material noncompliance with the cluster's special tests and provisions requirement. This finding is similar to a prior year finding.

To comply with 7 CFR §273.2(a)(2), (b), and (f), the Division should properly maintain its food stamps recipients' case files to support benefit authorizations. For each recipient, all required information should be documented in the eligibility verification system to ensure proper calculation of food stamps benefits.

Agency: Department of Economic Security

Contact person: Leona Hodges, Deputy Assistant Director, (602) 542-7596

Anticipated completion date: June 30, 2008

Agency Response: Concur

**Agency Corrective Action Plan:** The Department of Economic Security, Division of Benefits and Medical Eligibility, 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. DBME also developed an Accuracy Improvement Plan to improve the quality of services and eligibility determinations. This plan was closely monitored internally and by the Food and Nutrition Services (FNS) to ensure compliance. The completion date for the Accuracy Improvement Plan was June 30, 2008. The error rate based on case reads through June 2008 was 4.66% compared to 6.07% in June 2007 and 8.26% in federal fiscal year 2006. The Division received bonus funding in 2008 due to the accuracy rate improvement.

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**08-104**

Reporting

Questioned Cost: N/A

WIA Cluster:

17.258 WIA Adult Program, #s AA-14662-05-55, AA-15466-06-55, and AA-16015-07-55-A-4

17.259 WIA Youth Activities, #s AA-14662-05-55, AA-15466-06-55 and AA-16015-07-55-A-4

17.260 WIA Dislocated Workers, #s AA-14662-05-55, AA-15466-06-55, and AA-16015-07-55-A-4

The Department of Economic Security, Division of Employment and Rehabilitation Services, did not have adequate internal control policies and procedures to ensure the quarterly ETA-9130 financial reports for the Workforce Investment Act (WIA) Cluster were accurately prepared and submitted by the deadline.

Specifically, for 9 of 20 quarterly ETA-9130 financial reports tested, the Division could not provide supporting documentation for amounts presented on the local ETA-9130 quarterly financial reports. Therefore, auditors were unable to determine if the reports were accurate. Further, auditors noted that 7 of the 20 quarterly ETA-9130 financial reports tested were submitted 5 to 14 days after the 45-day deadline.

This finding did not result in questioned costs since the ETA-9130 financial 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 cluster's reporting requirements.

To comply with the 20 CFR §667.300 and the ETA-9130 reporting instructions, the Division should:

- Develop detailed written procedures for preparing ETA-9130 reports that include retaining documentation that supports the amounts reported.
- Develop a written timeline for report preparation that allows enough time to ensure that reports are submitted to the U.S. Department of Labor by the required deadline.

Agency: Department of Economic Security

Contact person: Mark Darmer, DERS Chief Financial Officer, (602) 542-6333

Anticipated completion date: June 30, 2009

Agency Response: Concur

**Agency Corrective Action Plan:** The Department of Economic Security, Division of Employment and Rehabilitation Services (DERS), now maintains detailed spreadsheets and a database to record all cash draw and expenditure data for the Workforce Investment Act program. DERS utilizes the database and spreadsheets to prepare the quarterly ETA-9130 reports. DERS has detailed reporting requirements in the Intergovernmental Agreements with the Local Workforce Investment Areas (LWIA) that require they report their expenditure data 30 days after the end of the month. This allows approximately two weeks after receipt of the LWIA expenditure data to prepare

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the ETA-9130 reports. Late submission of reports occurred because the U.S. Department of Labor (DOL) electronic reporting system data was inaccurate. DERS had to wait for DOL to correct the data before they could enter report information.

**08-105**

Subrecipient Monitoring

Questioned Cost: Unknown

WIA Cluster:

17.258 WIA Adult Program, #s AA-14662-05-55, AA-15466-06-55, and AA-16015-07-55-A-4

17.259 WIA Youth Activities, #s AA-14662-05-55, AA-15466-06-55 and AA-16015-07-55-A-4

17.260 WIA Dislocated Workers, #s AA-14662-05-55, AA-15466-06-55, and AA-16015-07-55-A-4

The Department of Economic Security, Division of Employment and Rehabilitation Services, did not always follow its internal control policies and procedures to ensure compliance with subrecipient monitoring requirements for the WIA Cluster. Specifically, for 2 of 19 subrecipients tested, the Division did not retain evidence of its communication with subrecipients regarding corrective action plans for WIA single audit findings. Additionally, the Division is obligated to require prompt corrective action from its subrecipients when it identifies instances of noncompliance during its on-site monitoring reviews. However, for 4 of 19 subrecipients tested, the Division did not retain evidence to support it followed up with unresponsive subrecipients or that its subrecipients had taken corrective action.

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 subrecipient monitoring requirements. This finding is similar to a prior year finding.

To comply with 20 CFR §§667.200(b) and 667.410(b), the Division should enforce its policies and procedures to ensure it retains evidence of communication with its subrecipients regarding single audit findings and noncompliance identified during on-site monitoring reviews.

Agency: Department of Economic Security

Contact person: Mark Darmer, DERS Chief Financial Officer, (602) 542-6333

Anticipated completion date: June 30, 2009

Agency Response: Concur

**Agency Corrective Action Plan:** The Department of Economic Security, Division of Employment and Rehabilitation Services, has modified its processes and procedures related to Single Audit follow-up. DERS modified the pre-onsite monitoring tool to include a requirement for the fiscal monitor to review the most recent completed single audit report and submitted corrective action plan. This should ensure that the LWIA is up to date on completion of their plan or that DERS has an updated copy of the corrective

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action plan (CAP) indicating the status of the CAP. In addition, DERS assigned a staff member the responsibility for performing regular follow-up with the LWIAs on single audit findings and tracking of the CAP.

**08-106**

Reporting

Questioned Cost: N/A

17.225 Unemployment Insurance, #s UI-14421-05-55, UI-15108-06-55, UI-15785-07-55, and UI-16733-08-55

The Department of Economic Security, Division of Employment and Rehabilitation Services, did not always follow its policies and procedures to ensure that reports were submitted in a timely manner or that information reported was supported by the Division's records. Specifically, seven ETA 2112–UI Financial Transaction Summary reports were submitted between 14 to 56 days late, one ETA 581–Contribution Operations report was submitted 9 days late, and one ETA 227–Overpayment Detection and Recovery Activities report was submitted 4 days late. Additionally, the Division was unable to provide supporting documentation for various financial and nonfinancial data reported in two ETA 581–Contribution Operations reports, two ETA 227–Overpayment Detection and Recovery Activities reports, and two ETA 2208A–Quarterly UI Contingency Reports.

This finding did not result in questioned costs since these reports were not used to request reimbursement of federal expenditures. This finding is a significant deficiency in internal control over compliance and noncompliance with the program's reporting requirements.

To comply with 29 CFR §97.20(b)(6) and the U.S. Department of Labor's ET Handbook No. 336, *Unemployment Insurance State Quality Service Plans Handbook*, and ET Handbook No. 401, *Unemployment Insurance Reports Handbook*, the Division should ensure that the reports are submitted by the required deadline and that documentation is maintained for all financial and nonfinancial data included on the reports.

Agency: Department of Economic Security

Contact persons: Andrew Baldwin, UI Director, (520) 770-3769

Mark Darmer, DERS Chief Financial Officer, (602) 542-6333

Anticipated completion date: June 30, 2009

Agency Response: Concur

**Agency Corrective Action Plan:** The Department of Economic Security, Division of Employment and Rehabilitation Services, was not able to meet all required report deadlines due to substantial workload increases associated with the downturn in the economy and the number of weekly unemployment claims filed during the audit period. DERS will improve reporting timeliness by June 30, 2009. In addition, DERS will examine and improve the process for maintaining supporting documentation so that documentation can be readily located in the future.



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**08-107**

Eligibility

Questioned Cost: N/A

CFDA No.: 84.126 Rehabilitation Services—Vocational Rehabilitation Grants to States, #s H126A060002, H126A070002, and H126A080002

The Department of Economic Security, Division of Employment and Rehabilitation Services, did not always follow its internal control policies and procedures to ensure compliance with eligibility requirements. As a result, for 6 of 55 applicants tested, auditors noted that the Division did not determine the applicants' eligibility for vocational rehabilitation services within 60 days of the application submission dates. Specifically, it took the Division between 63 and 83 days to determine if the applicants were eligible for the program. Further, the Division did not retain documentation indicating why the 60-day period was exceeded with either an extension letter signed by both the Division and applicant or evidence of the Division's continued exploration of the applicant's abilities, capabilities, and capacity to perform in work situations.

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

To comply with 29 U.S. Code 722(a)(6), the Division should determine an applicant's eligibility within 60 days of the application submission date. If an applicant's eligibility cannot be determined within 60 days, the Division should maintain documentation indicating why it exceeded the 60-day period.

Agency: Department of Economic Security

Contact person: Katharine Levandowsky, RSA Program Administrator, (602) 542-6295

Anticipated completion date: June 2009

Agency Response: Concur

**Agency Corrective Action Plan:** To ensure compliance with eligibility requirements, the Department of Economic Security, Rehabilitation Services Administration (RSA), staff send letters to clients 45 days from the date of the signed application. The letters inform the client that an eligibility determination extension is needed.

In June 2009, RSA will implement an automated system. This automated system will alert counselors, supervisors and management staff 15 days prior to the end of the 60-day eligibility determination period to complete the eligibility or obtain an extension.

**08-108**

Reporting

Questioned Cost: N/A

84.126 Rehabilitation Services—Vocational Rehabilitation Grants to States, #s H126A060002, H126A070002, and H126A080002

The Department of Economic Security, Division of Employment and Rehabilitation Services and the Financial Services Administration, did not always follow its internal

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control policies and procedures to accurately complete the RSA-2 Program Cost Report and the SF-269 Financial Status Report submitted during the year ended June 30, 2008. Specifically, the Division overstated the total Section 110 monies expended on services by \$4,793,528 on the December 2007 RSA-2 Program Cost Report. In addition, the Administration understated the cumulative innovation and expansion activities by \$1,724,839 on the March 31, 2008, SF-269 Financial Status Report.

This finding did not result in a questioned cost because the RSA-2 Program Cost Report and the SF-269 Financial Status Report were not used to request reimbursement of federal expenditures. This finding is a significant deficiency in internal control over compliance and noncompliance with the program's reporting requirements.

To help comply with 29 U.S. Code 721(a)(10) and 34 CFR §361.40, the Division should review all reports for accuracy before they are submitted to the U.S. Department of Education.

Agency: Department of Economic Security  
Contact persons: Katharine Levandowsky, RSA Program Administrator, (602) 542-6295  
Monika Luksikova-Hickcox, FSA Principal Financial Analyst, (602) 542-6060  
Anticipated completion date: January 2009  
Agency Response: Concur

**Agency Corrective Action Plan:** To ensure reports submitted to the U.S. Department of Education are accurate, the Department of Economic Security, Rehabilitation Services Administration, developed a RSA-2 Procedures Manual, which will be updated on a regular basis to meet Federal regulations. The identified calculation errors were corrected and forwarded to the U.S. Department of Education. To ensure verification of data results, the RSA and the Financial Services Administration (FSA) collaborated in preparing the federal fiscal year 2008 RSA-2 Program Cost Report.

The FSA established three levels of review and approval before the Section 110 grant; SF-269 Financial Report can be submitted to the U.S. Department of Education. All reviewers have been trained on the correct completion of the SF-269 report to a degree that they themselves could complete the report. In order to confirm the accuracy of the information provided to the U.S. Department of Education, review personnel trace data entry to supporting documentation, check for general reasonableness, and are able to properly retrieve and isolate supporting data utilized in the report.

**08-109**

**Special Tests and Provisions**

Questioned Cost: N/A

93.558 Temporary Assistance for Needy Families, #s G0702AZTANF and G0802AZTANF

The Department of Economic Security, Division of Benefits and Medical Eligibility, is required to request income and benefit information through automated data exchanges with other federally assisted programs and federal agencies and to use this information for identifying ineligible recipients, thereby preventing incorrect payments. However, the

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Division did not always follow its internal control policies and procedures to ensure that the required data was received, used, and maintained in accordance with federal regulations. Although the Division retained documents in the recipients' case files supporting its eligibility and benefit determinations in 7 of 65 case files tested, the Division did not retain documents supporting its verification of wage and unemployment compensation through the data exchange. In addition, the Division did not document the effects of its verification and comparison of applicants' and recipients' unearned income records with federal tax return information on eligibility and benefit determinations.

This finding is a material weakness in internal control over compliance and material noncompliance with the program's special tests and provisions requirements.

To comply with 45 CFR §§205.55(a) and 205.60(a), and 42 U.S. Code 1320b-7, the Division should inform its employees of its policies and procedures for using and documenting the data exchange process and monitor adherence with those procedures.

Agency: Department of Economic Security  
Contact person: Leona Hodges, Deputy Assistant Director, (602) 542-7596  
Anticipated completion date: September 2009  
Agency Response: Concur

**Agency Corrective Action Plan:** The Department of Economic Security, Division of Benefits and Medical Eligibility, is in the process of reviewing the FAA Policy Manual to improve the process. The revised policy or procedures will address this issue. In the meantime, 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.

**08-110**

Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Questioned Cost: \$14,732

93.558 Temporary Assistance for Needy Families, #s G0702AZTANF and G0802AZTANF

93.645 Child Welfare Services—State Grants, # G0801AZ1400

93.658 Foster Care—Title IV-E, #s 0701AZ1401 and 0801AZ1401

93.667 Social Services Block Grant, #s G0701AZSOSR and G0801AZSOSR

The Department of Economic Security, Division of Children, Youth, and Families, did not always follow its internal control procedures to ensure that only allowable costs for employees on educational leave were allocated to its federal programs or that the expenditures for leave were charged accurately to federal programs. Although expenditures for employees on educational leave are allowed by the Foster Care—Title IV-E program, the Division has a more restrictive educational policy specifying that employees on educational leave receive 80 percent of their salary and should not receive other additional compensation, such as overtime or per diem. However, the policy is unclear as to whether supplementary pay, such as stipends and performance pay, is allowable. Auditors determined that employees on educational leave received payments for stipends and overtime as well as receiving more than the 80 percent

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limitation of regular salary. As a result of the Division's lack of controls, \$14,732 in unallowable personal services and employer-related expenditures were incorrectly allocated to other federal and nonfederal programs. Auditors were unable to determine the federal portion of the questioned costs incorrectly allocated to various programs during the year. Further, employees did not always record educational leave on their time sheets to the appropriate expenditure account codes, and the employees' supervisors did not detect these errors when reviewing employee time sheets. Therefore, payroll expenditures for Foster Care—Title IV-E employees on educational leave were incorrectly allocated to the TANF, Child Welfare Services—State Grants (CWS), and Social Services Block Grant (SSBG) programs. Subsequent to the 2008 fiscal year-end, the Division made corrections for both allowable and unallowable charges; however, the corrections were inaccurate.

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 for the Division and the Foster Care—IV-E program and not a control deficiency in internal control over compliance for the TANF, CWS, and SSBG federal programs; however, this finding does result in noncompliance with the programs' activities allowed or unallowed and allowable costs/cost principles requirements. This finding is similar to a prior year finding.

To comply with 2 CFR 225, Appendix B, §8.a.(1), 8.d.(2), Appendix A, §C.3.a., and the Department's own policies and procedures, the Division should require supervisors to carefully review and approve employee time sheets to help ensure that payroll expenditures for Foster Care employees on educational leave are charged accurately to the Foster Care—Title IV-E program.

Agency: Department of Economic Security  
Contact person: David Longo, DCYF Finance and Business Operations Administrator,  
(602) 542-5099  
Anticipated completion date: June 30, 2009  
Agency Response: Concur

**Agency Corrective Action Plan:** The Department of Economic Security, Division of Children, Youth and Families (DCYF), agrees with the audit finding based upon the Division's contracts with the Title IV—E educational leave employees. To correct this deficiency, DCYF will revise these contracts to permit compensation above 80% of base salaries on an exception basis. Exceptions will take into consideration eligibility for Pay for Performance and/or other non-base salary compensation.

DCYF agrees employees did not always record educational leave on their timesheets in the appropriate expenditure codes and the supervisors did not detect these errors when reviewing employee timesheets. In 2008 to correct this deficiency, DCYF implemented a centralized process at the DCYF Central Office to review copies of these employee timesheets. If inaccuracies are found, expenditure corrections are processed. DCYF will provide additional instruction to staff responsible for this process and emphasize the reviews and corrections must be accurate.

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**08-111**

Special Tests and Provisions

Questioned Cost: N/A

CFDA No.: 93.563 Child Support Enforcement, #s G0704AZ4004 and G0804AZ4004

The Department of Economic Security, Division of Child Support Enforcement, did not always follow its internal control policies and procedures to ensure compliance with special tests and provisions requirements for establishing support obligations, enforcing medical support obligations and interstate services, and establishing new cases. Auditors selected 75 child support cases and tested 1 to 14 specific special tests and provisions requirements that were applicable to each case. Auditors noted inconsistent application of the Division's internal control procedures and noncompliance with special tests and provisions requirements for 7 of those 75 child support cases. Specifically, for 2 cases, the Division did not refer the noncustodial parent to the Office of the Attorney General or pursue other actions to establish a child support order within 90 calendar days after it located the noncustodial parent. In addition, for 2 cases, the Division did not issue a National Medical Support Notice to the noncustodial parent's employer to enforce medical support obligations required by the child support order. Further, for 1 case, the Division did not refer an interstate IV-D case to the applicable state's interstate central registry for action within 20 days after it determined the noncustodial parent was in a different state. Finally, for 2 cases, the Division failed to establish new cases within 20 days after receiving a case referral or an application. Specifically, the Division took 32 and 49 days to complete this process.

This finding is a material weakness in internal control over compliance and material noncompliance with the program's special tests and provisions requirements.

To help ensure compliance with 45 CFR §§303.2(b), 303.4(d), 303.7(b)(2), 303.31(b)(7), and 303.32(a), the Division should enforce its policies and procedures. Specifically, the Division should regularly monitor all child support cases to ensure proper action is taken to meet the deadlines for establishing support obligations, enforcing medical support obligations and interstate services, and establishing new cases.

Agency: Department of Economic Security

Contact person: Sherry Seaman, Legal Services Administrator, (602) 771-8147

Anticipated completion date: April 6, 2009

Agency Response: Concur

**Agency Corrective Action Plan:** The Department of Economic Security, Division of Child Support Enforcement (DCSE), is dedicated to timely establishment of child support orders, enforcement of medical support obligations, coordinating with other states to take case actions and the timely establishment of new child support cases. Following receipt of the audit information, the Division reviewed each identified case to determine the actions to be taken by staff.

The Division has implemented processes to ensure that cases are established and worked within required periods. In February 2006, the Division implemented processes to identify, prioritize and monitor worklist items on establishment cases that indicate verified noncustodial parent locate data is available from New Hire reporting. In May 2007, the Division implemented similar processes to identify worklist items indicating

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establishment actions can begin. Additional worklist items were incorporated into the monthly tracking mechanism, in addition to caseload data housed on the DCSE Geographic Environment and Analytical Report Utility Portal (GEARUP). This allows office managers and supervisors the ability to review all cases within a specific function for case status and action. The Division continues to monitor cases for timely action to improve compliance.

The Division has automated most of the medical support enforcement process, but there are a few circumstances where manual intervention is required. In an effort to achieve improved compliance, DCSE monitors the E7018 codes to ensure that they are completed timely for issuance of the Medical Support Notice as well as the Income Withholding Order. This monitoring became effective on December 19, 2008.

To address the Interstate case that was not referred within the required timeline, discussions were held at quarterly meetings to emphasize the importance of meeting required timelines and determining when cases should be processed as local or as two-state actions.

Intake should be completed within 20 days of receipt of IV-D applications. All applications for IV-D services are now logged and monitored to help ensure compliance with this requirement. The Division has centralized a portion of the IV-D applications received (i.e., DCSE only) in order to streamline and enhance the timeline monitoring of these requests. The Division centralized the IV-D applications on April 6, 2009.

**08-112**

Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Questioned Cost: \$4,610

CFDA No.: 93.563 Child Support Enforcement, #s G0704AZ4004 and G0804AZ4004

The Department of Economic Security, Division of Child Support Enforcement, did not have adequate internal control policies and procedures to ensure compliance with the program's activities allowed or unallowed and allowable costs/cost principles requirements. Specifically, education and training programs reimbursed with federal monies should directly improve an individual's ability to perform his or her current job or another Title IV-D related job, and not provide a general education or be for the sole purpose of earning credit hours toward a degree or certificate. However, the auditors determined tuition reimbursements of \$4,610 for college courses did not meet these criteria.

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 program's activities allowed or unallowed and allowable costs/cost principles requirements. This finding is similar to a prior year finding.

To comply with 45 CFR §304.23(d), the Division should include in its policies and procedures a requirement to document the direct benefit to Title IV-D programs for educational and training courses taken by its employees and reimbursed by Title IV-D program monies.

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Agency: Department of Economic Security  
Contact person: Roger C. Welch, Finance Administrator, (602) 771-8326  
Anticipated completion date: June 16, 2008  
Agency Response: Concur

**Agency Corrective Action Plan:** The Department of Economic Security, Division of Child Support Enforcement, will continue to follow the DES Tuition Reimbursement Policy and will require all tuition reimbursement requests to include justification of how courses will directly improve job performance and knowledge.

**08-113**

Reporting

Questioned Cost: N/A

Disability Insurance/SSI Cluster:

CFDA No.: 96.001 Social Security—Disability Insurance, #s 040704AZDI00 and 040804AZDI00

The Department of Economic Security, Disability Determination Services Administration, did not have adequate internal control policies and procedures to ensure its SSA-4514 Time Report of Personnel Services for Disability Determination Services was accurately prepared. Specifically, auditors noted the activity hours reported on the SSA-4514 report for the quarter ended September 30, 2007, did not agree to the timesheets for 7 of 20 employees tested. These errors resulted in an overstatement of 46.5 supporting hours worked and an understatement of 32 leave hours taken. Further, the Administration had an error in the formula used to calculate its full-time personnel administrative hours resulting in an overstatement of 319 hours for the fiscal year.

This finding did not result in a questioned cost since the SSA-4514 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. This finding is similar to a prior year finding.

To comply with the Social Security Administration's Program Operations Manual System policy instructions §DI 39506.231, the Administration should:

- Establish a review process to ensure supporting data is accurately accumulated.
- Correct the formula error used to report personnel administrative hours.
- Assign a supervisor to review all reports for accuracy before the reports are submitted to the Social Security Administration.

Agency: Department of Economic Security  
Contact person: Nancy West, Program Administrator, (602) 771-7110  
Anticipated completion date: September 2008  
Agency Response: Concur

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**Agency Corrective Action Plan:** The Department of Economic Security, Disability Determination Services Administration (DDSA), implemented a new process to complete the Time Report of Personnel Services for Disability Determination Services (SSA-4514). DDSA completes the SSA-4514 report by downloading the required data (employee hours) from the Division of Business and Finance data warehouse directly into the report. In the past, DDSA manually entered the timesheet information into the report. The downloading process ensures that the SSA-4514 report accurately reflects the employee hours entered on the timesheets and the process is less time-consuming. DDSA implemented the new process in September 2008.

**08-114**

Allowable Costs/Cost Principles and Reporting

Questioned Cost: \$407

Disability Insurance/SSI Cluster:

CFDA No.: 96.001 Social Security—Disability Insurance, #s 040704AZDI00 and 040804AZDI00

The Department of Economic Security, Disability Determination Services Administration, did not always follow its internal control policies and procedures to ensure that all program costs were charged to the correct fiscal year and reported accurately on the SSA-4513 State Agency Report of Obligations for SSA Disability Programs Report. Although the SSA-4513 report was not used to request reimbursement of federal expenditures, auditors noted that for 2 of 60 expenditures tested, \$3,880 was charged to and reported as expenditures for the incorrect award period. Specifically, \$92 of grant year 2007 expenditures, \$1,577 of grant year 2006 expenditures, \$1,830 of grant year 2005 expenditures, and \$381 of grant year 2004 expenditures were charged to and reported as fiscal year 2008 expenditures. Since the 2004 grant award had been previously closed and there were no remaining grant monies, this resulted in a questioned cost. Further, for 5 of 60 expenditures tested, the Administration paid the wrong amount. Auditors noted that the Administration paid \$34 less than it should have for 3 expenditures and paid \$26 more than it should have for 2 expenditures.

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 noncompliance with the program's allowable costs/cost principles and reporting requirements.

To comply with the Social Security Administration's Program Operations Manual System policy instructions, §§DI 39506.200 and 39506.202, the Administration should monitor compliance with its policies and procedures to help ensure all expenditures are charged to the appropriate grant year and are accurately reported. In addition, the Administration should establish a review process to detect errors between the supporting documentation and the amount paid, and ensure that the proper fee schedule rate is used.

Agency: Department of Economic Security

Contact person: Nancy West, Program Administrator, (602) 771-7110

Anticipated completion date: February 2009

Agency Response: Concur



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**Agency Corrective Action Plan:** The Department of Economic Security, Disability Determination Services Administration, completed expenditure corrections for all expenditures incorrectly charged to and reported as fiscal year 2008 grant expenditures. In addition, DDSA advised all Fiscal staff of correct procedures for paying bills from different fiscal years. Further, vendors will be reminded to submit bills within contractual time frames so that all bills can be paid prior to the grants being closed.

For the transactions that were underpaid or overpaid (amounts ranged from \$3 to \$20 due to manual input errors or unreadable fax transmissions), all corrections have been made or paid. The system's database had not been updated with current fee schedule information and this resulted in the transactions not being paid in accordance with the State's fee schedule. DDSA returned to the practice of updating the system annually when the changes are received.

**08-115**

Questioned Cost: Unknown

Child Nutrition Cluster:

10.553 School Breakfast Program, # 7AZ300AZ3

10.555 National School Lunch Program, # 7AZ300AZ3

10.556 Special Milk Program for Children, # 7AZ300AZ3

10.559 Summer Food Service Program for Children, # 7AZ300AZ3

10.558 Child and Adult Care Food Program, # 7AZ300AZ3

84.002 Adult Education—State Grant Program, #s V002A050003, V002A060003, and V002A070003

84.010 Title I Grants to Local Educational Agencies, #s S010A050003, S010A060003, and S010A070003

84.011 Migrant Education—State Grant Program, #s S011A050003, S011A060003, and S011A070003

Special Education Cluster (IDEA):

84.027 Special Education—Grants to States, #s H027A050007, H027A060007, and H027A070007

84.173 Special Education—Preschool Grants, #s H173A050003, H173A060003, and H173A070003

84.367 Improving Teacher Quality State Grants, #s S367A050049, S367A060049, and S367A070049

The Department of Education's Child Nutrition Program (CNP) Web application, Grants Management Enterprise System application, and the School Finance budget application are 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. The Department grants logical access for these systems and applications to its users through a centralized gateway. Therefore, it

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is important that the Department has adequate internal control policies and procedures for granting access through this gateway to help protect these systems and applications and the data they contain from unauthorized access and modification, and to help ensure compliance with federal requirements. However, the Department did not have adequate policies and procedures for granting user access to its systems and applications through this centralized gateway. Specifically, the Department did not require users to periodically change passwords and did not always maintain a history of user access. Further, some internal users had access rights that were incompatible with their job responsibilities or that enabled them to change data without supervisory approval.

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' activities allowed or unallowed, allowable costs/cost principles, cash management, reporting, and subrecipient monitoring requirements. In addition, this finding could potentially impact other federal programs the Department administers.

To strengthen access controls over its systems and applications, and to help ensure compliance with federal requirements, the Department should ensure that access granted to internal users is documented and authorized. The approval of access granted to internal users should ensure that responsibilities are adequately separated and that access is appropriate for the users' job responsibilities. In addition, the Department should ensure that access granted to external users for submitting, creating, and changing information on the Department's systems and applications is properly documented and authorized and is periodically evaluated and updated.

Agency: Department of Education  
Contact person: Gary R. Holland, Audit Manager, (602) 364-3518  
Anticipated completion date: June 30, 2010

Agency Response: Concur

**Agency Corrective Action Plan:** The Arizona Department of Education (ADE) is currently implementing an enterprise-wide Identity Management System (IDMS). The IDMS will enable ADE to centrally manage access to all ADE applications and resources. The IDMS will be used to manage individual account holder attributes, including access privileges. Access control related benefits of the IDMS will include:

- Improved ability for administrators to promptly and accurately maintain user accounts, both when adding/removing access and when modifying privileges.
- Improved central audit trail for all account management activities. This information will include at least:
  - When an access privilege is changed/added
  - Who authorized the change/addition
  - Why the change/addition was requested
- Addition of automated workflows for account management activities. Workflows will be used to allow individual business units the ability to manage access privileges to

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their applications. Workflows will also ensure that all required information is provided and proper approvals are documented before any changes/additions are applied.

- Improved password self-service capabilities to allow users to easily change their passwords periodically.
- Enhanced access reports for authorized account administrators. This will better enable ADE to ensure that access is periodically evaluated. For example, the system could provide an authorized representative at a school district with a list of active accounts. The representative would be required to certify the accuracy of the list and request any necessary changes.

In addition to the IDMS, ADE is also enhancing two additional systems:

*CNPWeb Application:*

Health and Nutrition Services (HNS) is establishing a new permission group that will only be accessed by HNS Financial personnel to ensure proper separation of duties and that Child Nutrition Program Web (CNPWeb) access is appropriate for specific job assignments. This new permission group will ensure that financial functions within CNPWeb (e.g., creating exception claims, modifying reimbursement rates, administering advance payments) will be limited to HNS Financial personnel. This permission group will be created and implemented by June 30, 2009.

HNS continues to utilize the current policy and procedures to ensure that CNPWeb access permissions are assigned, monitored, and updated appropriately. In order to ensure compliance and address the 4 of 20 subrecipients whose access privileges were incorrect, HNS is developing additional application tools to simplify the process. Specifically, an Access database is being created to monitor the accuracy of the access permissions provided to subrecipients.

*Grants Management Enterprise System:*

The Grants Management Enterprise System (GME) was updated on February 23, 2009. With the update, the system is able to recognize users and their job positions. After the system update, all internal users except Accounting and IT groups needed to be listed on Electronic Signature User Forms in order to have Grants Management User Access. The Grants Management office provided Electronic Signature User Forms to each program area and internal user access was updated accordingly. The Grants Management Office is also actively monitoring internal user access through a quarterly verification process. Units will receive a quarterly Internal User Access Report from the Grants Management Office in order to verify GME access for each user. Accounting and IT Group's user permissions will be verified through a quarterly verification process.

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**08-116**

Subrecipient Monitoring

Questioned Cost: N/A

Child Nutrition Cluster:

10.553 School Breakfast Program, # 7AZ300AZ3

10.555 National School Lunch Program, # 7AZ300AZ3

10.556 Special Milk Program for Children, # 7AZ300AZ3

10.559 Summer Food Service Program for Children, # 7AZ300AZ3

10.558 Child and Adult Care Food Program, # 7AZ300AZ3

84.002 Adult Education—State Grant Program, #s V002A050003, V002A060003, and V002A070003

84.010 Title I Grants to Local Educational Agencies, #s S010A050003, S010A060003, and S010A070003

84.011 Migrant Education—State Grant Program, #s S011A050003, S011A060003, and S011A070003

Special Education Cluster (IDEA):

84.027 Special Education—Grants to States, #s H027A050007, H027A060007, and H027A070007

84.173 Special Education—Preschool Grants, #s H173A050003, H173A060003, and H173A070003

84.367 Improving Teacher Quality State Grants, #s S367A050049, S367A060049, and S367A070049

The Department of Education did not comply with the subrecipient monitoring requirements contained in 7 CFR §3052.400(d), 34 CFR §80.26, and OMB Circular A-133, §400(d)(4) and (5). During the year, the Department revised its policies and procedures to comply with these requirements; however, auditors noted the following deficiencies:

- The Department obtained single audit reports from subrecipients that expended at least \$500,000 in federal awards. However, for 1 of 37 subrecipients tested, the report was not issued within 9 months of the subrecipient's fiscal year-end and documentation was not retained to support that the Department tried to ensure audit requirements were met.
- For 2 out of 37 subrecipients tested, the Department did not follow its procedures to ensure that management decisions were issued within 6 months after receipt of subrecipient single audit reports.

This finding is a significant deficiency in internal control over compliance and noncompliance with the programs' and clusters' subrecipient monitoring requirements and could potentially impact other federal programs the Department administers. This finding is similar to a prior year finding.

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To help ensure compliance with the subrecipient monitoring requirements outlined in 7 CFR §3052.400(d), 34 CFR §80.26, and OMB Circular A-133, §400(d)(4) and (5), the Department should follow its internal control policies and procedures to ensure that subrecipients that expended at least \$500,000 in federal awards have a single audit within 9 months of their fiscal year-end. In addition, the Department should ensure that it issues management decisions within 6 months after receipt of subrecipients' single audit reports.

Agency: Department of Education

Contact person: Gary R. Holland, Audit Manager, (602) 364-3518

Anticipated completion date: June 30, 2009

Agency Response: Concur

**Agency Corrective Action Plan:** ADE has developed a policy and business rule providing a process for the ADE Audit Unit and Program Areas to address subrecipient non-compliance with OMB Circular A-133 reporting requirements. This policy and business rule requires notification of non-compliance letters to be sent to local education agencies (LEAs) that have not met their single audit reporting requirements. The policy and business rule also includes potential sanctions against non-complying LEAs. The sanctions will include the potential for ADE to withhold current and/or future federal funding until compliance with reporting requirements is achieved. This policy #GE-24 was implemented on December 31, 2007.

To date ADE has developed a means of managing all single audits going forward. The Single Audit Tracking System (SATS) is designed to document and monitor all ADE subrecipients who are required to have a single audit conducted. This system is used by all program areas, Grants Management and the Audit Unit. The SATS tracks all subrecipients audit findings, due dates, and status. The system has the ability to produce status reports on demand. A bi-weekly Single Audit Report is developed from data retrieved from the tracking system. This report lists each of the program areas which have outstanding audit findings. This report is a great tool to continuously remind program areas that findings still exist and they need to continue working with the subrecipients until the challenge has been resolved. The system provides legal and technical guidance, with links to the federal A-133 documents, as well as ADE policies and guidelines. Additionally, ADE has developed a Single Audit Technical Manual which details specific instructions on how to use the tracking system. The SATS was originally implemented in February 2007; however, ADE continues to make enhancements as necessary.

**08-117**

Subrecipient Monitoring

Questioned Cost: N/A

Child Nutrition Cluster:

10.553 School Breakfast Program, # 7AZ300AZ3

10.555 National School Lunch Program, # 7AZ300AZ3

10.556 Special Milk Program for Children, # 7AZ300AZ3

10.559 Summer Food Service Program for Children, # 7AZ300AZ3

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The Department of Education is required to perform administrative reviews of subrecipients at least once during each 5-year cycle, provided each subrecipient is reviewed at least once every 6 years, in accordance with 7 CFR §§210.18(c)(1), 210.19(a)(4), and 215.11. Although the Department performed reviews every 6 years, it did not perform the required administrative reviews for 109 subrecipients during the current 5-year review cycle. The Department has changed its procedures to help ensure compliance with this requirement in fiscal year 2009.

This finding is a material weakness in internal control over compliance and material noncompliance with the cluster's subrecipient monitoring requirements.

To help ensure compliance with the cluster's subrecipient monitoring requirements set forth in 7 CFR §§210.18(c)(1), 210.19(a)(4), and 215.11, the Department should implement procedures to include all subrecipients in its 5-year review plan to ensure that it performs the required administrative reviews of subrecipients within each 5-year review cycle.

Agency: Department of Education

Contact person: Gary R. Holland, Audit Manager, (602) 364-3518

Anticipated completion date: June 30, 2009

Agency Response: Concur

**Agency Corrective Action Plan:** The Health and Nutrition Services (HNS) National School Lunch Program (NSLP) Director identified this issue in November 2008. According to 7 CFR §210.18(c)(1), at a minimum, State agencies shall conduct administrative reviews of all school food authorities (SFA) at least once during each 5-year review cycle; provided that each SFA is reviewed at least once every 6 years. While the NSLP program was in compliance with 7 CFR §210.18(c)(1), by reviewing each SFA at least once every 6 years, HNS did not perform the required reviews for all SFAs during the 2003-2008, 5-year review cycle. Immediately upon identifying this issue, HNS implemented a formal 5-year review schedule that ensures full compliance. Additionally, HNS revised Policy and Procedure HN-NSLP-12 to dictate that the NSLP Administrative Review Coordinator and NSLP Nutrition Director will ensure SFAs who were approved and operating during the 2009-2013, 5-year review cycle (and all subsequent review cycles) will be reviewed within that 5-year cycle and at least once every 6 years.

HNS continues to adhere to HN-NSLP-12 to ensure that all SFAs who were approved and operating during the 2009-2013, 5-year review cycle will be reviewed within that 5-year cycle and reviewed at least once every 6 years. Specific procedures to ensure compliance include:

- Scheduling all SFA's administrative reviews using the 5-year review schedule to ensure compliance.
- Ensuring all SFAs who are new within the 5-year review schedule are placed on the current 5-year schedule to be reviewed.
- Monitoring, evaluating and updating the 5-year review schedule to ensure that SFAs who were scheduled and had completed reviews during the annual review cycle are included.

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**08-118**

Cash Management and Subrecipient Monitoring

Questioned Cost: Unknown

84.002 Adult Education—State Grant Program, #s V002A050003, V002A060003, and V002A070003

84.010 Title I Grants to Local Educational Agencies, #s S010A050003, S010A060003, and S010A070003

84.011 Migrant Education—State Grant Program, #s S011A050003, S011A060003, and S011A070003

Special Education Cluster (IDEA):

84.027 Special Education—Grants to States, #s H027A050007, H027A060007, and H027A070007

84.173 Special Education—Preschool Grants, #s H173A050003, H173A060003, and H173A070003

84.367 Improving Teacher Quality State Grants, #s S367A050049, S367A060049, and S367A070049

The Department of Education requires that subrecipients request monies for federal grants by submitting monthly cash management reports through its Grants Management Enterprise System. At the end of each award period, the Department requires subrecipients to submit completion reports, which are considered the projects' final cash management reports. Subrecipients that report any cash balances on the completion reports are required to amend the subsequent year's project budgets for any cash balances. However, the Department did not require subrecipients to submit amendments immediately or spend their cash balances in a timely manner. In addition, the Department did not have an automated check in its Grants Management Enterprise System to prohibit disbursing cash to subrecipients when they had cash on hand from a prior year's project. Further, the Department did not have procedures for ensuring that interest earned in excess of \$100 was remitted at least quarterly. As a result, auditors noted several instances in which subrecipients had cash on hand when they submitted their year-end completion reports and were able to draw cash for the fiscal year 2009 project before submitting amendments as follows:

- For 8 of 43 subrecipients tested for the Improving Teacher Quality State Grants program, the subrecipients had cash on hand ranging from \$36 to \$155,790.
- For 6 of 41 subrecipients tested for the Title I Grants to Local Educational Agencies program, the subrecipients had cash on hand ranging from \$156 to \$612,645.
- For 2 of 48 subrecipients tested for the Migrant Education—State Grant Program, the subrecipients had cash on hand of \$5,059 and \$61,060.
- For 2 of 61 subrecipients tested for the Special Education Cluster (IDEA), the subrecipients had cash on hand of \$997 and \$11,325.

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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 programs' and cluster's cash management and subrecipient monitoring requirements and could potentially impact other programs the Department administers through the Grants Management Enterprise System. This finding is similar to a prior year finding.

To help ensure compliance with the U.S. Department of Education's *Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments*, 34 CFR §80.21, the Department should require subrecipients to amend their subsequent year's budget for completion report cash balances immediately after the completion report has been approved and should place current year projects on hold until their budgets have been amended, or require subrecipients to remit unspent cash balances to the Department. In addition, the Department should ensure that any interest earned on unspent cash balances in excess of \$100 is returned at least quarterly.

Agency: Department of Education  
Contact person: Gary R. Holland, Audit Manager, (602) 364-3518  
Anticipated completion date: June 30, 2011

Agency Response: Concur

**Agency Corrective Action Plan:** The existing Grants Management Enterprise System offers all program areas the ability to view a LEA's individual cash management report through the Intranet under Grants Management Reports. The program areas can select the fiscal year, their specific grant or specific entity when viewing their project's cash management status online. All projects are linked to the LEA's individual cash management report receipt status. These online reports were created to assist the program areas in the monitoring of their subrecipients. On the 19<sup>th</sup> of each month the program area can place a programmatic hold on funds if necessary.

The Grants Management Office continuously offers a Monthly Cash Management Summary Report to provide the program areas a quick glance of their subrecipients' cash management status on the 19<sup>th</sup> of each month. This report outlines such information as whether a subrecipient is compliant, the extent of any existing holds or the amount of cash on hand or the amount of requested disbursement. The program area utilizes this report to assess their subrecipients' compliance status on the 19<sup>th</sup> of each month and take appropriate corrective action if needed. Any abnormal cash on hand is dealt with by the program areas via placing a programmatic hold or contacting the LEAs at that time.

The existing Grants Management Enterprise System will be modified to ensure that subrecipients amend their subsequent year's budget for completion report cash balances immediately after the completion report has been approved. Once a completion report is approved and LEAs are directed to amend prioryear monies, the carryover must be amended into the current-year project within 60 days. If LEAs fail to amend the carryover within 60 days after the completion report approval date, the Grants Management Enterprise System will place an amendment hold and no payment will be made for the current year project. The submission of an amendment will release this system hold.



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ADE is currently in the process of revising its Business Rules, which has been reviewed by the Auditor General's Office and is currently in the final review stages. Due to budget constraints, the system change has been delayed until additional resources become available to finish the phased project. Any interest collected is reported in the completion report at the end of the grant year; however, ADE Grants Management Office is currently researching other agencies' processes and procedures and programming requirements necessary to capture and report any interest earned on a quarterly basis rather than on an annual basis.

**08-119**

Subrecipient Monitoring and Special Tests and Provisions

Questioned Cost: N/A

84.010 Title I Grants to Local Educational Agencies, #s S010A050003, S010A060003, and S010A070003

84.011 Migrant Education—State Grant Program, #s S011A050003, S011A060003, and S011A070003

84.367 Improving Teacher Quality State Grants, #s S367A050049, S367A060049, and S367A070049

The Department of Education is responsible for ensuring that local education agencies (LEAs) consult with private schools within their boundaries to provide services to eligible private school children, their teachers, and their families in accordance with Section 1120(b)(4) of the Elementary and Secondary Education Act (ESEA) as amended by Public Law 107-110, the No Child Left Behind Act of 2001, and Section 9501 of the Uniform Provisions of the ESEA. The Department requires the LEA submit a written affirmation signed by the officials of each participating private school consulted. If there are no eligible private schools within the LEA's boundaries, the LEA should also inform the Department of that fact. The Department considered this information to determine whether the LEA met the respective programs' special tests and provisions requirements when approving the LEA's project applications. However, for 2 of 38 LEAs tested, the Department approved the LEA's 2008 project applications without obtaining the affirmations.

This finding is a significant deficiency in internal control over compliance and noncompliance with the programs' subrecipient monitoring and special tests and provisions requirements. This finding is similar to a prior year finding.

To help ensure compliance with the programs' subrecipient monitoring and special tests and provisions requirements, the Department should verify that each LEA has submitted written affirmations for each participating private school consulted or affirmed that no eligible private schools were within the LEA's boundaries, in accordance with its policies, before the Department approves subsequent year project applications.

Agency: Department of Education

Contact person: Gary R. Holland, Audit Manager, (602) 364-3518

Anticipated completion date: June 30, 2009

Agency Response: Concur

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**Agency Corrective Action Plan:** The Arizona Department of Education has reviewed its procedures that were put in place to ensure that the education specialists who review applications verify the submission of the Affirmation forms prior to approval of the Title I, Migrant Education, and Improving Teacher Quality State Grants. The checklist that contains the verification by the specialist that the forms have been received will be filed in the common access file, available for periodic review by the related federal program areas.

The ADE will make the following changes to further ensure compliance with Section 1120(b)(4) and Section 9501 of the Uniform Provisions of the ESEA: 1) in reviewing the education specialists' requests for approval of applications for funds, the Program Area Approver, currently the Director of Central Processing Unit of the Academic Achievement Division, will verify that the required forms are submitted by an entry into the Comment Section of the on-line version of the Title I, Migrant Education, and Improving Teacher Quality State Grants; 2) the approval to the Deputy Associate Superintendent will be contingent upon review of the comment log to ensure that the check for the forms has been made by the specialist and the Program Area Approver, and 3) all applications for FY2010 funds will receive substantial approval only after the submission of the Affirmations of Consultation. Evidence of compliance with this requirement for fiscal year 2010 will be shifted to an electronic submission within the monitoring section of the Arizona LEA Tracker (ALEAT).

**08-120**

**Reporting and Special Tests and Provisions**

Questioned Cost: Unknown

84.011 Migrant Education—State Grant Program, #s S011A050003, S011A060003, and S011A070003

The Department of Education is required to provide an unduplicated count of children of migrant workers who reside in the State to the U.S. Department of Education to assist them in allocating program monies. Additionally, the Department is responsible for having a quality control process in place that ensures the count's accuracy. Annually, in accordance with Section 9303 of the ESEA as amended by the No Child Left Behind Act of 2001, the Department prepares the Consolidated State Performance Report. This report is compiled using migrant child count data from the COEstar system maintained by a contracted service organization. The service organization and the Department have developed a quality control process to help ensure the accuracy of the data recorded on the COEstar system. Accordingly, the Department began monitoring the operating effectiveness of these controls at the service organization during fiscal year 2008, conducting reviews in October 2007 and April 2008. However, the migrant child count data reported during fiscal year 2008 was based on fiscal year 2007 data, which was not subject to these monitoring reviews. Further, the Department's quality control process did not include the review, verification, and tracking of noneligibility-related data until fiscal year 2009.

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 reporting and special tests and provisions requirements. This finding is similar to a prior year finding.

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To help ensure compliance with the program's reporting and special tests and provisions requirements, the Department should continue to monitor the service organization to ensure it is providing an accurate and unduplicated count of children of migrant workers.

Agency: Department of Education

Contact person: Gary R. Holland, Audit Manager, (602) 364-3518

Anticipated completion date: June 30, 2009

Agency Response: Concur

**Agency Corrective Action Plan:** The Arizona Department of Education, Migrant Education Program (MEP), has implemented the following procedures to help ensure compliance with the program's reporting and special tests and provisions requirements:

- Developed written policies and procedures for annually documenting and reviewing eligible student count information, and the process for resolving any significant differences.
- Developed written policies and procedures to annually test the validity of the COEstar internal controls, including the options of performing a SAS 70 audit.
- Developed written policies and procedures to review subrecipient files to determine if the service provider completed site visits in accordance with its quality control procedures.

The delay in the implementation of these items prior to July 1, 2008, was a result of working with the Office of Migrant Education (OME) to approve all programmatic procedures. As of January 2009, all procedures listed below were approved by OME and are currently in place.

- ADE's MEP has developed procedures for reviewing and assessing the reasonableness of the data that regional offices, school districts or other operating agencies submit to ADE. Recently, the ADE MEP has developed procedures to validate migrant student counts furnished by COEstar, which include comparing counts by district and/or student names prior to finalizing the counts to ensure that there are student names associated with the final student count. Differences between the COEstar data and the district lists were resolved between Statewide Services and the ADE Migrant Program Office.
- The guideline has been adopted into final form and used to validate the counts submitted beginning with the period between December 2007 and January 2008, through the Consolidated State Performance Report (CSPR), Parts I and II. This guideline is utilized to interpret the data that is used to complete various reports, such as the CSPR.
- The ADE MEP contracts with Statewide Services for the data collection of the MEP. In the fall of 2007, an on-site monitoring protocol was developed and utilized by the MEP Office to monitor Statewide Services' collection of school site data, beginning in late October and early November of 2007. This protocol has provided a clearer avenue for auditing the written procedures for Statewide Services' onsite activities. It

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was during the first monitoring that the MEP Office found Statewide Services to be in partial compliance. They were instructed to submit a corrective action plan in April 2008, and subsequently, submitted draft procedures for approval prior to the deadline. These procedures were reviewed and returned to Statewide Services with the suggestion of putting the procedures into one single format for all documents. The formatted procedures were submitted in final form to our office the week of May 16, 2008. As a follow up to the initial monitoring, the MEP Offices conducted a follow up monitoring of Statewide Services during the week of April 28, 2008. The MEP Office will continue to utilize this protocol to monitor Statewide Services on an annual basis.

- As part of our No Child Left Behind Monitoring, MEPs are visited onsite by the MEP Office a minimum of once every six years. During the monitoring, the Program Specialist will utilize the Title I-C Migrant Monitoring Protocol. Included in the Migrant Monitoring Protocol is an item for discussion about how the LEA ensures accuracy of the certificate of eligibility (COE). A random review of one percent (or a minimum of ten) COEs is completed by the MEP Project Specialist.
- Statewide Services has also implemented file management training, primarily focused on new MEP clerks, but available to any MEP staff member. The file management allows Statewide Services to work directly with the MEP staff on what information must be contained in each child's on-site folder. Combined, these efforts ensure the information in the student file matches the information in the ADE data base used to compile the CSPR, Parts I and II.
- The MEP Office has also taken several steps to review, verify, and validate the data that is received from COEstar. This process allows for MEP Program Specialists to test the reasonableness of the data going into the COEstar system and the data coming out of the COEstar system, as well as the continual review of data until all numbers are in synch. During the testing of the reasonableness of the data for the CSPR for the fiscal year 2006, the MEP Office and Statewide Services worked directly with TROMIK, the developer of the COEstar software, on revising filters that were in place, to increase the accuracy of the information disaggregated from the COEstar system. TROMIK maintains all ADE MEP Office records, including a 'snapshot in time' of the database as it exists at the point when numbers are generated for both CSPR, Parts I and II. This is done through maintaining a static copy of the database at the point in time the programmatic numbers are generated for the CSPR and other various reports.

Additionally, Heinfeld, Meech and Co, P.C., an independent audit firm hired to conduct an Accountability Audit of TROMIK and COEstar, completed their review on June 5, 2008. The ADE MEP requested their services to determine if Statewide Services' policies and procedures were being followed, and to determine if Migrant student counts were valid, accurate and unduplicated. The firm performed a limited review of certain aspects of the internal controls for the Migrant Statewide Services from September 1, 2006 through August 31, 2007, which is the reporting period for the CSPR due in fiscal year 2008. The results of their tests disclosed no instances of noncompliance.

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**08-121**

Questioned Cost: N/A

Special Education Cluster (IDEA):

84.027 Special Education—Grants to States, #s H027A050007, H027A060007, and H027A070007

84.173 Special Education—Preschool Grants, #s H173A050003, H173A060003, and H173A070003

The Department of Education is required to report to the Secretary of the U.S. Department of Education an unduplicated count of children with disabilities who received special education and related services. Annually, the Department prepares census reports of children with disabilities aged 3 to 21 who received special education and related services within the State using data from its Student Accountability Information System (SAIS). State statute requires the LEAs to submit their student level data to SAIS at least once every 20 school days. To validate the SAIS data's accuracy, the Department required the LEAs to sign verification letters indicating unduplicated student counts as of December 1. However, the Department did not have documentation to support that it reconciled the verification letters to the SAIS data to validate the accuracy of the Report of Children with Disabilities Receiving Special Education, Part B.

This finding is a material weakness in internal control over compliance with the cluster's eligibility and reporting requirements. This finding is similar to a prior year finding.

To help ensure compliance with 34 CFR §300.640, the Department should implement procedures for validating the accuracy of census data reported by the LEAs on the SAIS and used to prepare the Report of Children with Disabilities Receiving Special Education, Part B. In addition, the Department should retain documentation to support that this reconciliation is performed.

Agency: Department of Education

Contact person: Gary R. Holland, Audit Manager, (602) 364-3518

Anticipated completion date: June 30, 2010

Agency Response: Concur

**Agency Corrective Action Plan:** The Arizona Department of Education, Exceptional Student Services (ESS), has revised its policies and procedures to address the federal child count verification process in the following manner:

ESS now requires LEAs to verify their federal child count on October 1st, effective fiscal year 2009. This was a change from the previous federal child count date of December 1st. A memo regarding this change was sent to the Special Education Directors, via the list-serv, on June 9, 2008 and again on August 21, 2008. It is anticipated that by moving the child count date earlier in the year, LEAs will have more time to submit and clean up their child count data in Student Accountability Information System (SAIS) well in advance of the federal child count due date, thus giving ADE-ESS accurate data to submit to Office of Special Education Programs (OSEP).

ADE has not yet initiated statutory changes to reduce the SAIS adjustment window. ESS will continue to pursue discussions within ADE, relative to initiating and completing this statutory change. Currently, ARS §15-915 allows school districts and charter schools to

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submit changes to their financial information and their student count to SAIS for a maximum of three years from the initial submission date.

ESS will continue to include accuracy of LEA SAIS data in the Individuals with Disabilities Act (IDEA) determinations in accordance with 34 CFR § 300.600.

ESS will continue to send an alert on an annual basis via the list-serv to LEAs. The purpose of this alert is to advise LEAs of the use of the System Training and Response (STaR) team to resolve SAIS discrepancies prior to the October 1, 2008 federal child count verification/reconciliation deadline of January 29, 2009. For the fiscal year 2009, October 1, 2008 child count, if a LEA's count did not reconcile, ESS Data Management will follow up to secure supporting documentation specifying the reason for nonreconciliation.

The ADE-ESS Census Verification application for fiscal year 2010 (October 1, 2009 child count) is expected to be made available to all LEAs on October 2, 2009. LEAs will have until November 13, 2009, to submit their signed verification letters. ESS will require LEA October 1 federal child count verification numbers to match SAIS student count numbers by December 2009. On December 2009, SAIS student count numbers will be retained to provide documentation showing how the LEA counts matched SAIS counts at that time. If the LEA's count does not reconcile, it will be the LEA's responsibility (overseen by ADE-ESS Data Management) to provide supporting documentation as to why the counts were not reconciled. In addition, if the SAIS student count is higher than the LEA verification count, then the LEA may be subject to an ADM audit.

**08-122**

Maintenance of Effort.

Questioned Cost: Unknown

Special Education Cluster (IDEA):

84.027 Special Education—Grants to States, #s H027A050007, H027A060007, and H027A070007

84.173 Special Education—Preschool Grants, #s H173A050003, H173A060003, and H173A070003

The Department of Education is responsible for determining that LEAs comply with the cluster's maintenance of effort requirements before awarding them monies as set forth in 34 CFR §300.203(b)(1). To monitor LEAs' compliance with maintenance of effort requirements, the Department requires each LEA to submit to the Department an Annual Financial Report (AFR). However, the AFRs submitted by 16 of 61 LEAs tested were not sufficiently detailed for the Department to determine whether maintenance of effort requirements were met since the AFRs were incomplete or contained accounting errors and inconsistent information. In addition, the Department did not perform follow-up procedures for the 1 LEA that did not meet the required level of fiscal effort.

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 cluster's maintenance of effort requirements. This finding is similar to a prior year finding.

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To help ensure compliance with 34 CFR §300.203(b)(1), the Department should establish policies and procedures to ensure that LEAs' AFRs are complete, accurate, and contain financial information in sufficient detail to monitor compliance with maintenance of effort requirements before awarding program monies.

Agency: Department of Education

Contact person: Gary R. Holland, Audit Manager, (602) 364-3518

Anticipated completion date: June 30, 2010

Agency Response: Concur

**Agency Corrective Action Plan:** To ensure compliance with 34 CFR §300.203(b), the Arizona Department of Education, Exceptional Student Services Finance Division, will ensure that a maintenance of effort test is performed during the months of August and September for each subrecipient, prior to awarding IDEA funding under CFDA Nos. 84.027 and 84.173. The ESS Division will prepare a three year comparison report, utilizing the new fiscal year data. The report will provide AFR data for the most recently submitted fiscal year, the prior fiscal year LEA budget and the new fiscal year budget submitted July 15. A comparison of the two budgets and most recent AFR will be made. If the new fiscal year budget is less than the prior year budget, ESS will contact the LEA to provide technical assistance and advise them to review all State and Local Special Education (SPED) expenditures prior to submitting their AFR, which is due October 15.

The Division will notify the subrecipient of the potential Maintenance of Effort (MOE) finding. The information provided by the subrecipient will be verified utilizing the ADE School Finance portals for budgets and AFRs. If corrections to the School Finance portals are required, the ESS Division will wait until the corrections can be verified prior to approving grant applications submitted for the fiscal year 2009-10 school year. The Division will ensure that the information submitted and tested contains financial information with sufficient enough detail to monitor compliance with maintenance of effort requirements.

In addition, a request has been made to the School Finance Division, asking them to modify their budget and AFR instructions used by the LEA, thus clarifying for each entity that they must budget for their special education program utilizing their state and local funding generated for their special education population. A request has also been made so that the two areas of the budget related to special education match, using a validation of the information. If the LEA does not budget for the special education programs, they will be considered ineligible for IDEA funding. Copies of all correspondence that ESS processes for verification will be kept on file for audit purposes.

During the months of October and November, the Division will prepare a new three year comparison report to reflect data submitted on the October AFRs. A review of all LEAs will occur to ensure that expenditures were incurred. If no expenditures are noted and the LEA received an approval of their funding application, based on the budget figure, the LEA will be notified by letter or e-mail that they will need to make corrections to the AFR, for the year in question. During this time, a programmatic hold will be placed on the IDEA grant, utilizing the ADE Grants Management Enterprise System hold process.

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**08-123**

Eligibility

Questioned Cost: N/A

84.367 Improving Teacher Quality State Grants, #s S367A050049, S367A060049, and S367A070049

The Department of Education is responsible for determining eligibility and allocating program monies to LEAs, in accordance with Section 2121(a) of the ESEA. The allocation to each LEA consists of an amount equal to the LEA's fiscal year 2001 allocation plus a calculated share of remaining program monies based on the LEA's population and relative number of certain-aged children below the poverty line. However, the Department used incorrect population data for the LEAs located in Maricopa County when determining the 2008 project year allocations, resulting in misallocations of program monies to the majority of LEAs statewide for the 2008 project year. As such, Maricopa County schools received more program monies than they should have been allocated and all other schools received too little.

This finding is a significant deficiency in internal control over compliance and noncompliance with the program's eligibility requirements.

To help ensure compliance with the program's eligibility requirements and that program monies are allocated to the LEAs correctly, the Department should require an independent review of the LEA eligibility determination and funding allocation before awarding and disbursing program monies to the LEAs.

Agency: Department of Education

Contact person: Gary R. Holland, Audit Manager, (602) 364-3518

Anticipated completion date: December 31, 2008

Agency Response: Concur

**Agency Corrective Action Plan:** In completing our allocations for the fiscal year ending June 30, 2008, a clerical error occurred and the poverty data copied to the worksheet used to determine the allocations was from the prior fiscal year. The resulting error was less than 1/2 of one-percent and was not noticed during our normal review process. Only when the allocations were recalculated by the auditor, did the error come to light. In order to prevent similar occurrences in the future we have implemented a review process to ensure that the numbers used to determine the allocations are accurate.

**08-124**

Subrecipient Monitoring

Questioned Cost: Unknown

Homeland Security Cluster:

97.004 State Domestic Preparedness Equipment Support Program, #s 2003-MU-T3-0034, 2004-GE-T4-0051, and 2005-GE-T5-0030

97.067 Homeland Security Grant Program, # 2005-GE-T5-0030, 2006-T6-4007, 2007-SG-N6-004, and 2007-GE-T7-0006



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The Department of Emergency and Military Affairs, Division of Emergency Management (ADEM), did not have adequate internal control policies and procedures to ensure compliance with subrecipient monitoring requirements. Specifically, the ADEM did not ensure that subrecipients spending \$500,000 or more in federal awards met the audit requirements as required by OMB Circular A-133, §.400(d)(4), and did not adequately monitor the activities of subrecipients as required by OMB Circular A-133, §.400(d)(3). The ADEM awarded \$10,938,303, or 38 percent, of the cluster's total expenditures to subrecipients.

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 subrecipient monitoring requirements. This finding is similar to a prior year finding.

To help ensure compliance with the subrecipient monitoring requirements of OMB Circular A-133, §.400(d), the ADEM should require subrecipients spending \$500,000 or more of federal awards to obtain annual single audits and submit their audit reports to the ADEM within 9 months after the subrecipient's year-end. In addition, the ADEM should review these reports and issue management decisions on findings that affect its programs within 6 months after receipt, and ensure that subrecipients take timely and appropriate corrective action on all audit findings.

Agency: Department of Emergency and Military Affairs  
Contact Persons: Mark Howard, Grants Administrator, (602) 231-6345  
Walter Owens, Chief Auditor, (602) 267-2322  
Anticipated Completion Date: December 2009  
Agency Response: Concur

**Agency Corrective Action Plan:** The Division will determine the status of audits and review the most recent audits for all sub-recipients. Audits will be requested from those jurisdictions not having a recent audit on file. After the review of audits, the Division will issue management decisions on any findings that affect its programs. The Division will complete its review by December 2009.

**08-125**

Subrecipient Monitoring

Questioned Cost: Unknown

10.664 Cooperative Forestry Assistance, #s 04DG11031600-034, 05DG11031600-036, 04DG11031600-063, 05DG11031600-077, 05DG11111169-076, 06DG11031600-119, 06DG11031600-112, 07DG11031600-138, and 08DG11031600-143

The State Forestry Division did not have policies and procedures to ensure it complied with subrecipient monitoring requirements. Specifically, the Division did not comply with the following requirements:

- Auditors determined that 5 of 14 subrecipients tested did not submit quarterly performance reports to the Division on a regular basis or at all during the grant period as required by their grant agreement.

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- The Division did not require subrecipients to obtain and submit single audits, as required by 7 CFR §3052.400(d)(4).

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 subrecipient monitoring requirement.

The Division should develop policies and procedures for subrecipient monitoring, including procedures to follow up with subrecipients when quarterly reports are not submitted timely. Additionally, to comply with 7 CFR §3052.400(d)(4), the Division should ensure that its subrecipients have the required audits performed, issue a management decision on audit findings within 6 months after receipt of the subrecipient audit reports, and ensure that its subrecipients take timely and appropriate corrective action on all audit findings.

Agency: State Forestry Division  
Contact Person: Cam Hunter, Deputy Forester, (602) 771-1416  
Anticipated Completion Date: January 2009  
Agency Response: Concur

**Agency Corrective Action Plan:** The Arizona State Forestry Division developed a monitoring methodology in which a percentage of programs will be checked, and programs in which there may be questions or concerns will also come under review.

Effective in January 2009, the grant coordinator has developed a log to monitor quarterly reports received. If follow-up reports are not received, subrecipients are being contacted by phone or letter to follow-up. Subrecipients are being instructed to send written notification even if there's no activity in the current quarter. The program manager for the Arizona Urban and Community Forestry Program already had a monitoring system in place for those programs.

The program manager for the Arizona Urban and Community Forestry Program monitors the quarterly reports by keeping a log. An email is sent out at the end of each quarter to remind grantees that the reporting period is completed and they have 30 days to submit their report. If the report isn't received, then a call to the grant coordinator is placed.

Effective in January 2009, the program manager for the Arizona Urban and Community Forestry Program sent out reminder letters to the subrecipients about providing the agency with a copy of their single audit reports. In response to the letter, 6 audit reports were received. Therefore, all who were required to receive audits had them and submitted results to State Forestry Division. The other subrecipients were not required to have an audit conducted.

Again in July, the grant coordinator will prepare a letter reminding subrecipients about providing the agency with a copy of their single audit report.

Subrecipients are required to have their audits submitted by March 31 to the Federal Audit Clearinghouse.

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**08-126**

Suspension and Debarment

Questioned Cost: Unknown

10.664 Cooperative Forestry Assistance, #s 04DG11031600-034, 05DG11031600-036, 04DG11031600-063, 05DG11031600-077, 05DG11111169-076, 06DG11031600-119, 06DG11031600-112, 07DG11031600-138, and 08DG11031600-143

The State Forestry Division is required by 7 CFR §3016.35 to ensure that it does not make an award or contract with any party that is suspended or debarred or otherwise excluded from participation in federal assistance programs. However, because the Division was unaware of this requirement, it failed to ensure that vendors it contracted with were not suspended or debarred. Specifically, the Division did not verify that these vendors were not suspended or debarred or include a clause in their contracts or otherwise require certification from vendors regarding suspension or debarment.

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 suspension and debarment requirement.

To help ensure compliance with 7 CFR §3016.35, the Division should document its determination that vendors or subrecipients have not been suspended or debarred from doing business with governmental entities. The Division may verify this by checking the Excluded Parties List that the U.S. General Services Administration maintains, obtaining a certification from the vendor or subrecipient, or adding a clause or condition to the contract with that entity.

Agency: State Forestry Division  
Contact Person(s): Cam Hunter, Deputy Forester, (602) 771-1416  
Anticipated Completion Date: July 15, 2009  
Agency Response: Concur

**Agency Corrective Action Plan:** The agency internal fiscal business practice is being modified. The purchase order form used in the agency has been modified instructing employees to check for suspended or debarred contractors. A Web site has also been provided to assist staff in checking for suspended or debarred vendors. The agency Procurement Officer can also assist staff with this requirement.

Additionally, contracts with vendors will now include a clause certification that they are not suspended or debarred.

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**08-127**

Reporting

Questioned Cost: N/A

10.664 Cooperative Forestry Assistance, #s 04DG11031600-034, 05DG11031600-036, 04DG11031600-063, 05DG11031600-077, 05DG11111169-076, 06DG11031600-119, 06DG11031600-112, 07DG11031600-138, and 08DG11031600-143

The State Forestry Division is required by 7 CFR §3016.41(b)(4) to submit their quarterly Financial Status Report (FSR) to the U.S. Department of Agriculture, Forest Service, within 30 days after the end of the reporting period. However, the Division did not always submit their reports when due. Auditors noted that 12 of 13 FSRs tested were submitted between 7 and 72 days late.

This finding is a significant deficiency in internal control over compliance and noncompliance with the program's reporting requirement.

To help ensure compliance with 7 CFR §3016.41(b)(4), the Division should have procedures in place to help ensure that its quarterly FSRs are prepared, reviewed, and approved in a timely manner and filed with the U.S. Department of Agriculture, Forest Service, within 30 days after the end of the reporting period.

Agency: State Forestry Division

Contact Person: Cam Hunter, Deputy Forester, (602) 771-1416

Anticipated Completion Date: Complete

Agency Response: Concur

**Agency Corrective Action Plan:** The Grants Unit Supervisor has developed a new business practice requiring grant recipients and program managers to submit reports and information in advance of the deadline. All parties are notified by e-mail six weeks in advance that Quarterly Financial Status Reports will be due to the Office of the State Forester in one month.

Part of the new process states that if we are unable to submit the report in a timely manner; a written notification will be issued.

**08-128**

Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Questioned Cost: \$55,723

Research and Development Cluster:

All Arizona State University Research and Development awards and contracts  
47.076 Education and Human Resources, #s CCF-0631334; DGE-0086465, 0238742, 0504248, 0802261; DRL-0135526, 0335699, 0438482; DUE-0123146, 0231440, 0324212, 0422447, 0603478, 0630458, 0631189; HRD-0114712, 0450137, 0602425, 0631754

Salaries and wages comprise a significant portion of Arizona State University's Research and Development Cluster's and Education and Human Resources program's expenditures. During fiscal year 2008, these expenditures totaled \$58 million and \$586 thousand, respectively, and constituted 14 percent and 6 percent of the cluster's and

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program's total federal expenditures, respectively, as reported on the State's Schedule of Expenditures of Federal Awards. As discussed in financial statement finding 08-29, the University did not have adequate internal controls over payroll processing because of various problems encountered when implementing its new human resources and payroll computer system, which resulted in employees not always being paid the correct salaries and wages. Specifically, some employees received incorrect paychecks resulting in at least \$2.4 million in overpayments during the fiscal year charged to both federal and nonfederal programs. Consequently, the University had to make numerous adjustments to federal program expenditures during the year to correct salaries and wages and recover overpayments to employees. However, the University has not yet collected all overpayments, nor has the University been able to track all of the overpayments because some of the University's departments may not have been able to identify all overpayments.

In addition to the deficiencies described above, auditors noted the following errors when testing payroll expenditures charged to the Research and Development Cluster during the fiscal year:

- For 3 of 77 employees tested for the Research and Development Cluster, the employees were overcompensated. The University detected two of the three overpayments; however, one of the overpayments was not reported to the University's Office of Human Resources and, therefore, had not yet been recovered by the University. As a result, auditors noted questioned costs in the amount of \$9,678 for the cluster. Of this amount, the University recovered and adjusted federal expenditures of \$3,011 in the subsequent year. In addition, the University is currently in the process of recovering the remainder of these overpayments.

Further, the University did not always have documentation to ensure that employees' compensation charged to federal programs was allowable and properly supported. The following errors were noted by the auditors when testing payroll expenditures charged to the Research and Development Cluster and Education and Human Resources program:

- For 8 of 77 employees tested for the Research and Development Cluster and for 2 of 7 employees tested for the Education and Human Resources program, the University did not have documentation supporting that the employee's compensation was an allowable charge to the cluster or program. Specifically, the University did not always maintain employment contracts or adequate evidence of approvals of pay rate increases and authorizations by the principal investigator or the Office for Research and Sponsored Projects Administration to charge or redistribute charges to federal programs. As a result, auditors noted questioned costs in the amounts of \$38,997 and \$7,048 for the cluster and program, respectively.

It was not practical to extend our auditing procedures sufficiently to determine additional questioned costs 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 and program's activities allowed or unallowed and allowable costs/cost principles requirements. This finding could also potentially impact the cluster's and program's matching requirements 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.

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To help ensure compliance 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*, §J.10(d), the University should ensure its financial management systems and records adequately support charges made to federal awards and implement the recommendations described in financial statement finding 08-29. In addition, the University should ensure that all overpayments charged to federally sponsored programs are credited back to the applicable federal programs.

Agency: Arizona State University

Contact person: Mathew McElrath, Chief Human Resources Officer, (480) 965-7932

Anticipated completion date: Various, for anticipated completion dates see corrective action plan below

Agency Response: Concur

**Agency Corrective Action Plan:** The following actions are being taken by the university to address the findings of the auditors.

- Investigate and recover payroll overpayments. This recommendation is substantially completed. Out of the total \$2.4 million in overpayments identified, the vast majority has been collected. The identified \$2.4 million in overpayments represents only .003% (3/10 of 1%) of ASU's total annual payroll. The Office of Human Resources is currently and continuously working on the remaining recovery of overpayments from current and former employees. Even though some departments wanted to forgive certain overpayments, all overpayments known by Human Resources have now either been collected or are in active collection status. The process for recovery of overpayments is as follows:
  - o Current Employees – Overpayments, once identified, are recovered through payroll deductions, or the employee may submit a personal check for the repayment of the overpayment if the check is expediently received.
  - o Former Employees - The Payroll Department sends a sequence of three requests for repayment letters. If there is no response from the former employee, the case is then referred to ASU's internal collections department. The internal collection department then attempts to make contact with the former employee once again. If there is no response within 30 days, the case is then referred to an outside collection agency and reported to credit bureaus.
  - o When overpayments are identified, University policy and procedures specify that the federal grant or contract is to be expediently reimbursed for the overpayments, irrespective as to when recovery from the employee occurs.
  - o The responsibility for departments to identify all overpayments and the process for collecting on overpayments were clarified to departments through the issuance of a policy on this subject in July 2008. The overpayments identified by the auditors (totaling \$6,667) are currently under active collection efforts.

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- Improve controls over processing pay, additional pay, payroll corrections, and salary and other adjustments to employees' pay to ensure they are properly paid and allocated to the appropriate grant with appropriate approval. The following actions are being taken:
  1. ASU implemented an online pay correction form during the third quarter of fiscal year 2009. This form enables departments to submit pay corrections, additions, adjustments or indications of overpayment situations directly on the form. This form eliminates the erroneous entry of earnings codes and controls the entry a department has the ability to complete. This form is then routed through the appropriate approvals in order to be processed within the payroll system.
  2. ASU will be requesting that departments provide the documentation of employee personnel files to the Office of Human Resources, and also will communicate the importance of centrally housing the personnel files, in compliance with current policy SPP 1101 – Personnel Records. Even though this action has a target completion date of the first half of fiscal year 2010, the long-term objective is to be able to electronically store employee personnel data, which will better address the noted deficiency and sufficiently reduce the decentralization of personnel records.
  3. We will be establishing a comprehensive set of policies and procedures for monitoring and verifying payroll expenses. The following four tools have been put in place in fiscal year 2009 to assist departments in monitoring and reviewing their payroll expenses.
    - o Policy FIN 203 – Org Manager Responsibilities: Describes the accountability for departments to ensure their payroll expenses are accurate in accordance with their respective budgets.
    - o MyReports – HR Expenditures: Reporting of departmental payroll expenses in relation to their budget.
    - o Business Process Guide: Assists in reconciling Payroll Expenses.
    - o Policy SPP 405-02 – Overpayment: Addresses the process to follow in the event an overpayment has been determined.

Additional business processes will be put in place in FY2010 to insure appropriate management approval is documented for all payroll expenses.

**08-129**

Allowable Costs/Cost Principles

Questioned Cost: N/A

Research and Development Cluster:

All Arizona State University Research and Development awards and contracts  
CFDA No.: 47.076 Education and Human Resources, #s CCF-0631334; DGE-0086465,  
0238742, 0504248, 0802261; DRL-0135526, 0335699, 0438482; DUE-0123146,  
0231440, 0324212, 0422447, 0603478, 0630458, 0631189; HRD-0114712, 0450137,  
0602425, 0631754

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Arizona State University uses an after-the-fact reporting system for certifying the distribution of employee compensation charged to sponsored research programs. For fiscal year 2008, the University implemented a new effort reporting system; however, because of problems with the implementation of its new payroll and human resources system during the year, the implementation of a new effort reporting system was delayed until the end of the fiscal year. As a result, certifications for employee charges to the Research and Development Cluster and Education and Human Resources program were only performed once for the entire fiscal year. The certifications were performed and completed after year-end during the period of July 1, 2008 through October 15, 2008, with some certifications completed as late as December 2008.

This finding is a material weakness in internal control over compliance and material noncompliance with the cluster's and program's allowable costs/cost principles requirements. This finding could also potentially affect other federal programs the University administered.

To help ensure that employee compensation charged to federal programs is allowable and properly supported, the University should implement internal control policies and procedures for certifying an after-the-fact distribution of employee compensation in accordance with OMB Circular A-21, §J.10. OMB Circular A-21, §J.10, requires the University to prepare and certify after-the-fact distribution reports for professors and professional staff at least every 6 months and at least monthly for all other employees. Further, the activity distribution reports should reflect the work performed by each employee and should be certified by the employee, principal investigator, or responsible individual having first-hand knowledge or suitable means to verify the work performed and to certify the report's accuracy.

Agency: Arizona State University

Contact person: Beth Israel, Associate Vice President for Research Administration, (480) 965-8751

Anticipated completion date: September 2008

Agency Response: Concur

**Agency Corrective Action Plan:** The University understands the importance of compliance with the Research and Development Cluster's and the Education and Human Resources program's allowable costs/cost principles requirements, to include timely completion of employee effort certifications. The implementation delay responsible for the technical noncompliance during FY2008 was a unique and nonrecurring phenomenon, and ASU has returned to compliance with A-21 effort reporting timing requirements.

Initialization of the effort reporting system developed for certification of employee effort was dependent on the operational status of the PeopleSoft payroll system. Hence, the initial effort certification for FY2008 was delayed due to implementation issues associated with the PeopleSoft payroll system. For this reason, ASU was not prepared to release the effort reports until the end of FY08. ASU analyzed the situation at that time, and based on the requirements of A-21, ASU would have had, at that time, to submit 13 reports for every wage employee (one for every four week period) and 3 reports for every salaried employee. The number of effort reports the university



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community had to review would have numbered approximately 34,880. By combining the reports into one comprehensive report which encompassed the year, the effort reports numbered only 5,580.

To expedite certification and minimize the anomalies inherent in implementation of any new system, it was determined that accuracy and timeliness of certifications would be enhanced by issuing one effort report for certification of the entire fiscal year reporting period. This decision enabled us to focus on, and adhere to, the underlying principles and accuracy of the certification, rather than an undue emphasis on mechanics and iterations of process to separate concurrent physical certifications of discrete effort periods. ASU firmly maintains that this reduction of reporting heightened the ability of research administrators and employees to carefully analyze the effort reports, thus ensuring a thorough review and correct recording of effort, resulting in allowable charges to sponsored projects.

Corrective action is already in place for this finding, and ASU has already returned to timing compliance with A-21 reporting requirements. Since FY08, all salaried employees, including professors, professional staff and graduate assistants/associates, have certified their effort at least two times a year, per A-21. This meets the requirement for reporting at least every 6 months. In September 2008, ASU implemented a change to its timecard reporting so that accounting information is presented and verified for wage employees each pay period (every two weeks), thus falling within the monthly requirement.

**08-130**

Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Questioned Cost: \$28,650

Research and Development Cluster:

47.RD A Longitudinal Study of the Development of Rational Number Knowledge in the Middle Grades, # DRL-0337795

84.336 Teacher Quality Enhancement Grants, # P336B990064

Arizona State University discovered inappropriate purchases in the College of Education that were made with purchase cards and charged to federal programs during fiscal years 2002 through 2008. While the University has established policies and procedures for ensuring that these types of purchases are appropriate and allowable charges, the College of Education did not always follow these policies and procedures. The University identified and alerted auditors to questioned costs of \$16,135 and \$12,515 for the Research and Development Cluster and Teacher Quality Enhancement Grants, respectively. These purchases are currently under investigation by state and local authorities and the applicable federal awarding agencies.

It was not practical to extend our auditing procedures sufficiently to determine additional questioned costs that may have resulted from this finding. This finding is a significant deficiency in internal control over compliance and noncompliance with the cluster's and program's activities allowed or unallowed and allowable costs/cost principles requirements.

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To help ensure that charges to federal programs made with purchase cards are proper and allowable, the University should ensure that its existing internal control policies and procedures are enforced. In particular, the College of Education should monitor its purchase cards to ensure federal program charges are allowable, properly supported, and approved.

Agency: Arizona State University

Contact person: Gerald Snyder, Senior Associate Vice President for Finance and Deputy Treasurer, (480) 965-7228

Anticipated completion date: Various, for anticipated completion dates see corrective action plan below

Agency Response: Concur

**Agency Corrective Action Plan:** This situation of inappropriate purchases on Purchasing cards resulted from the failure of the department and college employing the P-card holder to follow established university Policies and Procedures, which are adequate to prevent inappropriate P-card purchases from occurring. This situation is under investigation and the University is pursuing reimbursement of the questioned cost from this former employee.

A key element in this situation was the lack of an independent review of monthly P-card statements within the former employee's department. Independent departmental personnel should be knowledgeable about what an employee is purchasing with the P-card. ASU procedures and training for the P-card emphasize the importance of these independent reviews. However, based on the police charges, this situation was complicated by the apparent intentional falsification of receipts, making detection significantly more difficult.

A new dean assumed responsibility for the College in summer 2008. Additionally, the College has a new chief business administrator. During the last several months, the College has made significant organizational and procedural changes, including:

- All documentation for P-cards now is housed in the Dean's office
- The business operations of the College now are centralized in the Dean's office, increasing internal control over expenditures
- Management of external funds, including grants and contracts, also has been centralized in the Dean's office
- A verification process has been instituted to ensure that both the cardholder and, most importantly, an independent knowledgeable person, are reviewing all P-card purchases.

Finally, the two employees that had supervisory responsibility in the College for this former employee have received coaching and guidance on the situation, along with certain directives in regard to training assignments, to ensure appropriate supervision for staff under their responsibility.

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**08-131**

Questioned Cost: None

47.076 Education and Human Resources, #s CCF-0631334; DGE-0086465, 0238742, 0504248, 0802261; DRL-0135526, 0335699, 0438482; DUE-0123146, 0231440, 0324212, 0422447, 0603478, 0630458, 0631189; HRD-0114712, 0450137, 0602425, 0631754

Arizona State University may incur pre-award costs 90 days prior to award and, if approved by the federal awarding agency, more than 90 days prior to award as provided by OMB Circular A-110, Subpart C, §.25(e)(1), and award provisions. The federal awarding agency is under no obligation to reimburse the University for pre-award costs if the award is not granted or if the award is not sufficient to cover the costs. The University has established policies to help ensure that pre-award costs are either approved by the federal awarding agency or are assumed by the University. However, for one of seven program awards tested, the University incurred and reported costs of \$30,000 that were more than 90 days prior to the award without obtaining approval from the federal awarding agency. Auditors determined that the costs incurred were otherwise allowable expenses for the program. Subsequent to the auditors notifying the University about this deficiency, the University obtained approval to incur the pre-award costs from the awarding federal agency.

This finding is a significant deficiency in internal control over compliance and noncompliance with OMB Circular A-110, Subpart C, §25(e)(1), and could potentially impact compliance with the program's requirements for allowable costs/cost principles and reporting.

To help ensure compliance with OMB Circular A-110, Subpart C, §.25(e)(1), and that pre-award costs are allowable charges to the federal awarding agency, the University should obtain the federal awarding agency's approval to incur costs that are more than 90 days prior to the award.

Agency: Arizona State University

Contact person: Beth Israel, Associate Vice President for Research Administration, (480) 965-8751

Anticipated completion date: Fiscal year 2009

Agency Response: Concur

**Agency Corrective Action Plan:** The University understands the importance of compliance with OMB Circular A-110, Subpart C, §25(e)(1) governing incurrence of pre-award costs 90 calendar days prior to award or more than 90 calendar days with the prior approval of the Federal awarding agency. Information published in the Federal program solicitation and actions taken by the Federal agency with respect to obtaining student commitments for summer/fall work indicated that this award would be forthcoming in time for the summer semester. In order to comply with program requirements for support of fellows under the Federally funded Graduate Research Fellowship Program, the University initiated payment of student stipends for July 2007 support effective May 15, 2007 which turned out to be prior to the 90 day pre-award period due to administrative inattention. This action was predicated on sponsor intent to issue the notice of award and initiate support of fellows to coincide with the University

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fiscal year. Consequent Federal delays resulted in the original pre-award period falling outside the allowable 90 day pre-award cost limit.

During FY2009 a new process for initial set-up and subsequent modification of sponsored award accounts was implemented. This process reorganization included a segregation of duties and assignment of tasks exclusive to award set-up and modification to a specialty team with responsibility for ensuring that sponsored account parameters accurately reflect sponsor requirements and notice of award data elements. This account set-up and modification process includes confirmation of award start and end dates.

To prevent future occurrences of the noted deficiency, all account start and end dates will continue to be confirmed, particularly when accounts are changed from pre-award status to active status upon receipt of notice of award. If the start date recorded in the Advantage financial system exceeds the approved 90 day pre-award period, the University will initiate a request for sponsor approval of the extended pre-award period. If approved, documentation of sponsor approval will be kept on file to support the start date reflected in the Advantage financial system. If denied, costs recorded outside the sponsor approved award period will be immediately removed from the sponsored account and transferred to an alternate source of funding.

This focused responsibility for accurate account set-up and modification should serve to enhance internal controls and resultant compliance with OMB Circular A-110, Subpart C, §25(e)(1).

**08-132**

Allowable Costs/Cost Principles

Questioned Cost: N/A

Research and Development Cluster:

All University of Arizona Research and Development awards and contracts 47.076 Education and Human Resources, #s DGE-0338247, DGE-0638744, DRL-0424983, EHR-0634532, 0525009, 0532059, 0633379, 0715517, and 0736844 National Science Foundation, passed through Boston College, # ESI-0628143 National Science Foundation, passed through the University of California-San Diego, # PO10251211-001 National Science Foundation, passed through the University of Montana, # PG086598002 National Science Foundation, passed through the University of Nebraska, # 2505360004002 National Science Foundation, passed through the University of Puerto Rico, # 995256

The National Science Foundation's (NSF) Office of Inspector General audited the University of Arizona's fiscal year 2007 policies and procedures to ensure that salaries and wages charged to NSF federal programs were supported by appropriate documentation as required by OMB Circular A-21, *Cost Principles for Educational Institutions*. The NSF issued audit report no. 09-1006 on March 25, 2009, which disclosed that the University's policies and procedures were not in compliance. The University's policies and procedures required responsible departmental administrative officials to sign employee time roster reports to verify the accuracy of employees' time charged to federal programs. However, the NSF's auditors determined that the departmental administrative officials were not always in a position to know and did not have suitable means to verify that the employees actually worked the time charged to

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the federal programs. The NSF's auditors also reported that the University's policies did not define the supporting documentation responsible officials should maintain to verify the employees' time spent working on federal programs. The University implemented new policies and procedures as of January 1, 2008, that adequately addressed the deficiencies that the NSF's auditors noted and complied with OMB Circular A-21 §J.10. However, for the first 6 months of fiscal year 2008, the University operated under its old policies and procedures.

The NSF's auditors interviewed several university employees to determine whether salaries and wages charged to NSF programs were incurred and benefited the programs and did not question any costs as a result of those interviews. This finding is a material weakness in internal control over compliance and material noncompliance with the cluster's and program's allowable costs/cost principles requirements. This finding could also potentially affect other programs the University administered.

To help ensure that employees' salaries and wages charged to federal programs are allowable and properly supported in accordance with OMB Circular A-21 §J.10, the University should continue to follow its newly developed internal control policies and procedures for preparing and certifying reports that support the after-the-fact distributions of employees' time charged to federal programs. The activity distribution reports should reflect the work each employee performed during the period, and the certified effort report should be signed by the employee, principal investigator, or responsible individual having first-hand knowledge or suitable means to verify the work performed and to certify the report's accuracy.

Agency: University of Arizona

Contact Person: Sherry Esham, Director, (520) 626-6000

Anticipated Completion Date: January 1, 2008

Agency Response: Concur

**Agency Corrective Action Plan:** The University of Arizona (the University) has implemented a paper-based Interim Effort Reporting System. The first mandatory reporting period was from December 31, 2007 to June 30, 2008. The University's Sponsored Projects Services (SPS) is responsible for monitoring the effort report certification process. To fulfill this responsibility, SPS has established the Interim Effort Reporting Policy and Procedure and hired a financial compliance coordinator to oversee the effort reporting process.

The Interim Effort Reporting Policy and Procedure requires that effort reports be certified by individuals who have the first hand knowledge of the work performed. Business officials who certify the effort reports are required to obtain suitable means of verification. The Interim Effort Reporting Policy and Procedure requires the business officials to consult with SPS when using suitable means of verification, and provides specific examples of suitable means of verification.

The financial compliance coordinator works with the departments to ensure that the reports are certified properly and returned within the time period prescribed. In addition, the financial compliance coordinator provides on-going training in effort reporting. To ensure that all personnel involved in effort reporting are trained, the University is

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developing an on-line training tool and a new policy that requires mandatory training in effort reporting. The training tool and the policy are expected to be implemented before September 30, 2009.

The University will implement an electronic Effort Reporting System in calendar year 2010. The electronic system will allow effort reports to be routed automatically and certified electronically. The efficiency and effectiveness of the monitoring process will be significantly improved.

The other auditors who audited the Water Infrastructure Finance Authority (WIFA) reported the following noncompliance:

**08-133**

Reporting

Questioned Cost: N/A

66.458 Capitalization Grants for Clean Water State Revolving Funds, #s CS04000106 and CS04000107

66.468 Capitalization Grants for Drinking Water State Revolving Funds, #s FS99990203, FS99990206, and FS99990207

Condition: WIFA was not compliant with the reporting requirements of the EPA contracts.

Criteria: The Financial Status Reports (SF-269) are required to be filed for annual periods ending June 30 for each contract. The reports are to be filed no later than September 30 following the reporting period.

Effect: Lack of compliance could result in the disallowance of draw downs of contract funds.

Cause: A misunderstanding of the written requirements based on prior submissions.

Recommendation: A process should be implemented to ensure all reporting requirements are met.

Agency: Water Infrastructure Finance Authority (WIFA)

Contact Person: Donald States, Controller, (602) 364 -1324

Agency Response: Concur

Management's Response: The process has been implemented, and all reporting is current.