

**Federal Award Findings, Questioned Costs and Corrective Action Plan
(Reformatted from the FY 2012 Single Audit Report)**

12-101

Child Nutrition Cluster:

CFDA No.: 10.553 School Breakfast Program

10.555 National School Lunch Program

10.556 Special Milk Program for Children

10.559 Summer Food Service Program for Children

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

October 1, 2010 through September 30, 2011

October 1, 2011 through September 30, 2012

October 1, 2011 through September 30, 2013

Award Numbers: 7AZ300AZ3 and 7AZ300AZ4

CFDA No.: 10.558 Child and Adult Care Food Program

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

October 1, 2010 through September 30, 2011

October 1, 2011 through September 30, 2012

October 1, 2011 through September 30, 2013

Award Numbers: 7AZ300AZ3 and 7AZ300AZ4

U.S. Department of Agriculture

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

Award Period: Various

Award Numbers: Various

U.S. Department of Defense

CFDA No.: 14.239 Home Investment Partnerships Program

Award Period: October 1, 2010 through September 30, 2011

October 1, 2011 through September 30, 2012

Award Numbers: M10-SG040100 and M11-SG040100

U.S. Department of Housing and Urban Development

CFDA No.: 16.575 Crime Victim Assistance

Award Period: October 1, 2007 through September 30, 2011

October 1, 2008 through September 30, 2012

March 1, 2009 through September 30, 2012

October 1, 2009 through September 30, 2013

October 1, 2010 through September 30, 2014

Award Numbers: 2008-

VA-GX-0014, 2009-VA-GX-0060, 2009-SG-B9-0090, 2010-VA-GX-0064, and

2011-VA-GX-0019

U.S. Department of Justice

**Federal Award Findings, Questioned Costs and Corrective Action Plan
(Reformatted from the FY 2012 Single Audit Report)**

CFDA No.: 17.225 Unemployment Insurance

17.225 ARRA—Unemployment Insurance

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

October 1, 2009 through September 30, 2010

October 1, 2010 through September 30, 2011

October 1, 2011 through September 30, 2012

Award Numbers: UI-18007-09-55, UI-19569-10-55, UI 21086-11-55, and UI-22261-12-55

U.S. Department of Labor

Highway Planning and Construction Cluster:

CFDA No.: 20.205 Highway Planning and Construction

20.205 ARRA—Highway Planning and Construction

20.219 Recreational Trails Program

Award Period: Various

Award Numbers: Various

U.S. Department of Transportation

CFDA No.: 81.041 State Energy Program

81.041 ARRA—State Energy Program

Award Period: April 21, 2009 through April 30, 2012

July 1, 2010 through June 30, 2015

Award Numbers: DE-EE0000106 and DE-EE003872

U.S. Department of Energy

Title I, Part A Cluster:

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

84.389 ARRA—Title I Grants to Local Educational Agencies, Recovery Act

Award Period: February 17, 2009 through September 30, 2011

July 1, 2009 through September 30, 2010

July 1, 2010 through September 30, 2011

July 1, 2011 through September 30, 2012

Award Numbers: S010A090003, S010A100003, S010A110003, and S389A090003A

Special Education Cluster (IDEA):

CFDA No.: 84.027 Special Education—Grants to States

84.173 Special Education—Preschool Grants

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

84.392 ARRA—Special Education—Preschool Grants, Recovery Act

Award Period: February 17, 2009 through September 30, 2011

July 1, 2009 through September 30, 2010

**Federal Award Findings, Questioned Costs and Corrective Action Plan
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July 1, 2010 through September 30, 2011

July 1, 2011 through September 30, 2012

Award Numbers: H027A090007A, H027A100007, H027A110007, H173A090003, H173A100003,
H173A110003, H391A090007A, and H392A090003

Vocational Rehabilitation Cluster:

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

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

Award Period: February 17, 2009 through September 30, 2010

October 1, 2009 through September 30, 2010

October 1, 2010 through September 30, 2011

October 1, 2011 through September 30, 2012

Award Numbers: H126A100002, H126A110002, H126A120002, and H390A090002

State Fiscal Stabilization Fund Cluster:

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

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

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

Award Numbers: S394A09003, S394A09003A, S397A09003, and S397A09003A

CFDA No: 84.048 Career and Technical Education—Basic Grants to States

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

July 1, 2010 through September 30, 2011

July 1, 2011 through September 30, 2012

Award Numbers: V048A090003, V048A100003, and V048A110003

CFDA No.: 84.287 Twenty-First Century Community Learning Centers

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

July 1, 2010 through September 30, 2011

July 1, 2011 through September 30, 2012

Award Numbers: S287C090003, S287C090003A, S287C100003, S287C100003–10A, S287C110003,
and

S287C110003–11A

CFDA No.: 84.367 Improving Teacher Quality State Grants

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

July 1, 2010 through September 30, 2011

July 1, 2011 through September 30, 2012

Award Numbers: S367A090049, S367B090003, S367A100049, S367B100003A, S367A110049, and
S367B110003

U.S. Department of Education

**Federal Award Findings, Questioned Costs and Corrective Action Plan
(Reformatted from the FY 2012 Single Audit Report)**

CCDF Cluster:

CFDA No.: 93.575 Child Care and Development Block Grant

93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund

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

October 1, 2010 through September 30, 2011

October 1, 2011 through September 30, 2012

Award Numbers: G1001AZCCDFD, G1101AZCCDFD, G1201AZCCDFD, G1001AZCCDF, G1101AZCCDF, G1201AZCCDF, G11AZCCDFADM, G10AZCCDFADM, and G12AZCCDFADM

Medicaid Cluster:

CFDA No.: 93.720 ARRA—Survey and Certification Ambulatory Surgical Center Healthcare-Associated Infection (ASC-HAI) Prevention Initiative

93.775 State Medicaid Fraud Control Units

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

93.778 Medical Assistance Program

93.778 ARRA—Medical Assistance Program

Award Period: Various

Award Numbers: Various

CFDA No.: 93.767 Children's Health Insurance Program

Award Period: Various

Award Numbers: Various

CFDA No.: 93.959 Block Grants for Prevention and Treatment of Substance Abuse

Award Period: October 1, 2009 through September 30, 2011

October 1, 2010 through September 30, 2012

October 1, 2011 through September 30, 2013

Award Numbers: 2B08TI010004-10, 3B08TI010004-10S1, 2B08TI010004-11, 3B08TI010004-11S1, and

2B08TI010004-12

U.S. Department of Health and Human Services

Allowable Costs/Cost Principles

Questioned Cost: \$559,162

Finding

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

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY 2012 Single Audit Report)

Condition and context: The State of Arizona did not comply with the allowable costs/cost principles requirements with respect to the general agency counsel service costs provided by the Office of the Attorney General that were charged to federal programs administered by various state agencies. A.R.S. §41-191.09 created the Attorney General Legal Services Cost Allocation Fund (Fund) to reimburse 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. Legislation during fiscal year 2012 changed the statute to reflect that the funding sources may not include federal monies. This change will be effective the first quarter of fiscal year 2013.

Effect: During fiscal year 2012, these charges totaled \$559,162, including \$217,187 for the major federal programs listed above and \$341,975 for all other federal programs. This amount is still subject to review and approval by the U.S. Department of Health and Human Services. This finding could potentially affect all federal programs administered by the affected state agencies that incurred payroll costs.

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

Recommendation: The Department of Administration should continue to 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 a bill is enacted into law.

This finding is similar to a prior-year finding.

Agency Response: Concur

Agency Corrective Action Plan: We have an established process in place for monitoring legislation. In fact, a concern was raised for over two years prior to actually becoming law. On multiple occasions during that period we advised that this was, in our opinion, not consistent with established federal cost principles and almost certainly would be disallowed. This item is controlled by statute and was addressed in the 2012 legislative session. The legislative change was not effective for fiscal year 2012 so there will be disallowed costs which will require repayment with applicable interest.

**Federal Award Findings, Questioned Costs and Corrective Action Plan
(Reformatted from the FY 2012 Single Audit Report)**

This issue is a cross-cutting finding and is appropriately being addressed with the Department of Health and Human Services, Division of Cost Allocation (DHHS-DCA), for the payment and appropriate resolution of the questioned costs.

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Child Nutrition Cluster:

CFDA No.: 10.553 School Breakfast Program

10.555 National School Lunch Program

10.556 Special Milk Program for Children

10.559 Summer Food Service Program for Children

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

October 1, 2010 through September 30, 2011

October 1, 2011 through September 30, 2012

October 1, 2011 through September 30, 2013

Award Numbers: 7AZ300AZ3 and 7AZ300AZ4

CFDA No.: 10.558 Child and Adult Care Food Program

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

October 1, 2010 through September 30, 2011

October 1, 2011 through September 30, 2012

October 1, 2011 through September 30, 2013

Award Numbers: 7AZ300AZ3 and 7AZ300AZ4

Emergency Food Assistance Cluster:

CFDA No.: 10.568 Emergency Food Assistance Program (Administrative Costs)

10.569 Emergency Food Assistance Program (Food Commodities)

Award Period: October 1, 2010 through September 30, 2011

October 1, 2011 through September 30, 2012

Award Number: 7AZ810AZ8

U.S. Department of Agriculture

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

Award Period: Various

Award Numbers: Various

U.S. Department of Defense

CFDA No.: 14.239 Home Investment Partnerships Program

Award Period: October 1, 2010 through September 30, 2011

October 1, 2011 through September 30, 2012

**Federal Award Findings, Questioned Costs and Corrective Action Plan
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Award Numbers: M10-SG040100 and M11-SG040100
U.S. Department of Housing and Urban Development

CFDA No.: 16.575 Crime Victim Assistance

Award Period: October 1, 2007 through September 30, 2011
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March 1, 2009 through September 30, 2012
October 1, 2009 through September 30, 2013
October 1, 2010 through September 30, 2014

Award Numbers: 2008-VA-GX-0014, 2009-VA-GX-0060, 2009-SG-B9-0090, 2010-VA-GX-0064,
and
2011-VA-GX-0019

U.S. Department of Justice

CFDA No.: 17.225 Unemployment Insurance

17.225 ARRA—Unemployment Insurance

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

Award Numbers: UI-18007-09-55, UI-19569-10-55, UI 21086-11-55, and UI-22261-12-55
U.S. Department of Labor

Highway Planning and Construction Cluster:

CFDA No.: 20.205 Highway Planning and Construction
20.205 ARRA—Highway Planning and Construction
20.219 Recreational Trails Program

Award Period: Various

Award Numbers: Various

U.S. Department of Transportation

CFDA No.: 81.041 State Energy Program

81.041 ARRA—State Energy Program

Award Period: April 21, 2009 through April 30, 2012
July 1, 2010 through June 30, 2015

Award Numbers: DE-EE0000106 and DE-EE003872
U.S. Department of Energy

Title I, Part A Cluster:

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

**Federal Award Findings, Questioned Costs and Corrective Action Plan
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84.389 ARRA—Title I Grants to Local Educational Agencies, Recovery Act

Award Period: February 17, 2009 through September 30, 2011

July 1, 2009 through September 30, 2010

July 1, 2010 through September 30, 2011

July 1, 2011 through September 30, 2012

Award Numbers: S010A090003, S010A100003, S010A110003, and S389A090003A

Special Education Cluster (IDEA):

CFDA No.: 84.027 Special Education—Grants to States

84.173 Special Education—Preschool Grants

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

84.392 ARRA—Special Education—Preschool Grants, Recovery Act

Award Period: February 17, 2009 through September 30, 2011

July 1, 2009 through September 30, 2010

July 1, 2010 through September 30, 2011

July 1, 2011 through September 30, 2012

Award Numbers: H027A090007A, H027A100007, H027A110007, H173A090003, H173A100003,
H173A110003, H391A090007A, and H392A090003

Vocational Rehabilitation Cluster:

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

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

Award Period: February 17, 2009 through September 30, 2010

October 1, 2009 through September 30, 2010

October 1, 2010 through September 30, 2011

October 1, 2011 through September 30, 2012

Award Numbers: H126A100002, H126A110002, H126A120002, and H390A090002

State Fiscal Stabilization Fund Cluster:

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

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

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

Award Numbers: S394A090003, S394A090003A, S397A090003, and S397A090003A

CFDA No.: 84.048 Career and Technical Education—Basic Grants to States

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

July 1, 2010 through September 30, 2011

July 1, 2011 through September 30, 2012

Award Numbers: V048A090003, V048A100003, and V048A110003

CFDA No.: 84.287 Twenty-First Century Community Learning Centers

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

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July 1, 2010 through September 30, 2011

July 1, 2011 through September 30, 2012

Award Numbers: S287C090003, S287C090003A, S287C100003, S287C100003-10A, S287C110003,
and
S287C110003-11A

CFDA No.: 84.367 Improving Teacher Quality State Grants

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

July 1, 2010 through September 30, 2011

July 1, 2011 through September 30, 2012

Award Numbers: S367A090049, S367B090003, S367A100049, S367B100003A, S367A110049, and
S367B110003

CFDA No.: 84.410 Education Jobs Fund

Award Period: August 10, 2010 through September 30, 2012

Award Number: S410A100003

U.S. Department of Education

TANF Cluster:

CFDA No.: 93.558 Temporary Assistance for Needy Families

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

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

October 1, 2009 through September 30, 2010

October 1, 2010 through September 30, 2011

October 1, 2011 through September 30, 2012

Award Numbers: G0902AZTANF, G1002AZTANF, G1102AZTANF, and G1202AZTANF

CCDF Cluster:

CFDA No.: 93.575 Child Care and Development Block Grant

93.596 Child Care Mandatory and Matching Funds of the Child Care and Development
Fund

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

October 1, 2010 through September 30, 2011

October 1, 2011 through September 30, 2012

Award Numbers: G1001AZCCDFD, G1101AZCCDFD, G1201AZCCDFD, G1001AZCCDF,
G1101AZCCDF, G1201AZCCDF, G10AZCCDFADM, G11AZCCDFADM, and
G12AZCCDFADM

Medicaid Cluster:

CFDA No.: 93.720 ARRA—Survey and Certification Ambulatory Surgical Center Healthcare-Associated
Infection (ASC-HAI) Prevention Initiative

93.775 State Medicaid Fraud Control Units

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

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93.778 Medical Assistance Program

93.778 ARRA—Medical Assistance Program

Award Period: Various

Award Numbers: Various

CFDA No.: 93.563 Child Support Enforcement

Award Period: October 1, 2010 through September 30, 2011

October 1, 2011 through September 30, 2012

Award Numbers: G1104AZ4004 and G1204AZ4004

CFDA No.: 93.568 Low-Income Home Energy Assistance

Award Period: October 1, 2009 through September 30, 2011

October 1, 2010 through September 30, 2012

October 1, 2011 through September 30, 2013

Award Numbers: 10B1AZLIEA, G11B1AZLIEA, and G12B1AZLIEA

CFDA No.: 93.659 Adoption Assistance

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

October 1, 2010 through September 30, 2011

October 1, 2011 through September 30, 2012

Award Numbers: 1001AZ1407AD, 1101AZ1405, 1101AZ1407AD, 1101AZ1407AP, 1201AZ1407AD,
and

1201AZ1407AP

CFDA No.: 93.667 Social Services Block Grant

Award Period: October 1, 2009 through September 30, 2011

October 1, 2010 through September 30, 2012

October 1, 2011 through September 30, 2013

Award Numbers: G1001AZSOSR, G1101AZSOSR, and G1201AZSOSR

CFDA No.: 93.767 Children's Health Insurance Program

Award Period: Various

Award Numbers: Various

CFDA No.: 93.959 Block Grants for Prevention and Treatment of Substance Abuse

Award Period: October 1, 2009 through September 30, 2011

October 1, 2010 through September 30, 2012

October 1, 2011 through September 30, 2013

Award Numbers: 2B08TI010004-10, 3B08TI010004-10S1, 2B08TI010004-11, 3B08TI010004-11S1,
and

2B08TI010004-12

U.S. Department of Health and Human Services

Allowable Costs/Cost Principles

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY 2012 Single Audit Report)

Questioned Cost: \$308,724

Finding

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

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

Effect: During fiscal year 2012, these charges totaled \$308,724, including \$170,477 for the major federal programs listed above and \$138,247 for all other federal programs. This amount is still subject to review and approval by the U.S. Department of Health and Human Services. This finding could potentially affect all federal programs administered by the affected state agencies that incurred payroll costs.

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

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY 2012 Single Audit Report)

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

This finding is similar to a prior-year finding.

Agency Response: Concur

Agency Corrective Action Plan: We have an established process in place for monitoring legislation. Although the majority of the fund is used for allowable purposes, we have advised that this specific portion was, in our opinion, not consistent with established federal cost principles and may be disallowed. However, this item is controlled by statute and cannot be resolved without a legislative change. Until the methodology is acceptably modified, there will likely continue to be disallowed costs which will require repayment with applicable interest. We will continue efforts to develop a solution to this issue.

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

12-103

CFDA No.: Various

Award Period: Various

Award Numbers: Various

Allowable Costs/Cost Principles

Questioned Cost: \$6,844,114

Finding

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

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY 2012 Single Audit Report)

Condition and context: Senate Bill 1612 of the 50th Legislature, First Regular Session 2011, Chapter 24, §§108, 129, and 138, mandated transfers of fund balances from various state agencies to the State of Arizona's (State) General Fund to help provide adequate support and maintenance for the agencies of the State. A portion of the balances transferred included federal monies and was therefore unallowable since the transfers were not based on the relative benefits received. The Department of Administration has determined the federal portion of the transfers to be \$6,844,114 during fiscal year 2012. However, the Department has not compiled the information by federal agency and program. In addition, this amount is still subject to review and approval by the U.S. Department of Health and Human Services.

Effect: The State is responsible for reimbursing the federal agencies the amount of unallowable costs. It was not practical to extend our auditing procedures sufficiently to determine whether any additional questioned costs resulted from this finding or to identify all the federal programs that were affected by this finding. This finding could potentially affect all federal programs administered by state agencies that had legislatively mandated transfers of fund balances.

Cause: The noncompliance resulted from legislatively mandated transfers of fund balances, and therefore, was not caused by the federal programs' administration.

Recommendation: The State should ensure that legislatively mandated transfers of fund balances to its General Fund do not include federal program monies. 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.

This finding is similar to a prior-year finding.

Agency Response: Concur

Agency Corrective Action Plan: We have requested authority to pay the federal government its corresponding pro-rata share related to the transferred monies. This resolution is pending legislative authorization.

We have an established process in place for monitoring legislation. On multiple occasions we have advised that these transfers were, in our opinion, not consistent with established federal cost principles and would probably result in an obligation to the federal government. Until the State changes its approach to the transfer of monies, there will likely continue to be disallowed costs which will require repayment with applicable interest.

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY 2012 Single Audit Report)

This issue is a cross-cutting finding and is appropriately being addressed with the DHHS-DCA, for the payment and appropriate resolution of the questioned costs. We agree and commit to continue to work with DHHS-DCA and appropriate bodies within the State, to the best of our ability, to find an equitable resolution to this issue.

12-104

Vocational Rehabilitation Cluster:

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

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

Award Period: February 17, 2009 through September 30, 2010

October 1, 2009 through September 30, 2010

October 1, 2010 through September 30, 2011

October 1, 2011 through September 30, 2012

Award Numbers: H126A100002, H126A110002, H126A120002, and H390A090002

U.S. Department of Education

Eligibility

Questioned Cost: None

Finding

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

Condition and context: The Department of Economic Security, Division of Employment and Rehabilitation Services, Rehabilitation Services Administration (Administration), did not always follow its policies and procedures to document a specific extension of time signed by both the Administration and applicant or to document the Administration's continued exploration of the applicant's abilities, capabilities, and capacity to perform in work situations. Specifically, for 23 of 40 applications tested, it took the Administration between 61 and 377 days, or an average of 168 days, to determine eligibility. For 6 of the 23 applications, the Administration prepared a properly signed extension letter within the 60-day period, but it did not determine eligibility within the requested extension period. For 13 of the 23 applications, the Administration included

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY 2012 Single Audit Report)

an extension letter in the applicant' s case file; however, it lacked the applicant' s signature evidencing that the individual agreed to a specific time extension. Finally, for the 4 remaining applications, the extension letter was prepared and signed after the 60-day period ended.

Effect: Failure to make eligibility determinations in a timely manner may result in a delay of services provided.

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

Recommendation: The Administration should provide adequate supervision of its caseworkers and enforce the following policies and procedures to help ensure compliance with eligibility requirements:

- Determine an applicant' s eligibility within 60 days of the application submission date.
- Prepare a letter before the end of the 60-day eligibility period to establish a specific extension of time and to justify exceeding the 60-day period. This letter should be signed by both the Administration and the applicant.
- Determine an applicant' s eligibility within the requested extension period.
- Document the Administration' s continued exploration of the applicant' s abilities, capabilities, and capacity to perform in work situations.

Further, the Administration should establish a control system, such as a checklist, to ensure that all documentation to determine eligibility is retained in the applicant' s case file.

This finding is similar to a prior-year finding.

Agency Response: Concur

Agency Corrective Action Plan: To ensure the Department of Economic Security Rehabilitation Services Administration (RSA) follows its own policies and procedures to determine eligibility for vocational rehabilitation services within 60 days unless the RSA and the applicant agree to a specific extension of time, the RSA will complete the following corrective actions.

- Provide Eligibility Determination Training to all Rehabilitation Supervisors, Rehabilitation Counselors, and Rehabilitation Technicians. The anticipated completion date is May 30, 2013.

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- Implement electronic signature policy and procedures to allow clients to sign and approve eligibility extensions via email. The anticipated completion date is June 30, 2013.
- Install digital signature pads as an attachment to RSA computers, to assist staff with obtaining client signatures in a timely manner. The anticipated completion date is June 30, 2013.

12-105

TANF Cluster:

CFDA No.: 93.558 Temporary Assistance for Needy Families

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

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

October 1, 2009 through September 30, 2010

October 1, 2010 through September 30, 2011

October 1, 2011 through September 30, 2012

Award Numbers: G0902AZTANF, G1002AZTANF, G1102AZTANF, and G1202AZTANF

U.S. Department of Health and Human Services

Reporting

Questioned Cost: None

Finding

Criteria: In accordance with 45 CFR §265.7(a), reporting for the *ACF-196 TANF Financial Report* and *ACF-199 TANF Data Report* must be complete and accurate. Also, in accordance with 45 CFR §265.9(c)(5) and (6), reporting for the *ACF-204 Annual Report*, each state must provide the average monthly total number or the total number of eligible families served for which the state claims Maintenance of Effort (MOE) expenditures as of the fiscal year-end and the eligibility criteria for the families served under each program.

Condition and context: The Department of Economic Security (Department) did not accurately prepare various reports submitted during fiscal year 2012 for the TANF program. Auditors noted errors in three of the four reports tested. Specifically, auditors noted the following:

Financial Services Administration (FSA)

- For the December 31, 2011, quarterly *ACF-196 TANF Financial Report* for award fiscal year 2011, the FSA misreported \$20,786,593 of administrative expenditures within the 2-Parent Family Information and Maintenance reporting line. These expenditures should have been reported in the Administration reporting line. This error was corrected in the following quarter.

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Family Assistance Administration (FAA)

- For the March 31, 2012, quarterly *ACF-199 TANF Data Report*, for two of the eight case files examined, the FAA understated the reported number of months countable towards the federal time limit by 1 month each.

Division of Aging and Adult Services (DAAS)

- For the fiscal year *2011 ACF-204 Annual Report* including the *Annual Report on State Maintenance-of-Effort Programs*, the DAAS understated the number of families served by 210 families for the Coordinated Homeless Program.

Division of Business and Finance (DBF)

- For the fiscal year *2011 ACF-204 Annual Report* including the *Annual Report on State Maintenance-of-Effort Programs*, the DBF reported that for the Domestic Violence Program there were no financial eligibility criteria for receiving MOE-funded program benefits when the program did in fact require participants to meet the TANF financial eligibility requirements.

Division of Employment and Rehabilitation Services (DERS)

- For the March 31, 2012, quarterly *ACF-199 TANF Data Report*, the FAA automatically reported a zero for the Number of Deemed Core Hours for Overall Rate and the Number of Deemed Core Hours for the Two-Parent Rate questions for all cases involving work participation activities.

Effect: Incorrect financial and nonfinancial data was submitted to the federal grantor that may result in potential errors in analysis or other determinations. This finding did not result in questioned costs since the reports were not used to request reimbursement of federal expenditures.

Cause: The Department did not have adequate controls in place over the preparation and submission of program reports in order to prevent or detect errors within their reports. In addition, the computer information system used to generate the quarterly *ACF-199 TANF Data Report* was programmed to report zero for each participant's deemed core hours.

Recommendation: The Department should establish policies and procedures to help ensure compliance with reporting requirements. Specifically, the Department should establish sufficient procedures to identify how to accumulate data for federal reports, and supervisors should perform a follow-up review over federal reports to ensure accurate amounts are reported. In

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addition, the Department should program the computer information system used to generate the quarterly *ACF-199 TANF Data Report* to report each participant's deemed core hours.

This finding is similar to a prior-year finding.

Agency Response: Concur

Agency Corrective Action Plan: To ensure the Department of Economic Security (DES) accurately prepares Temporary Assistance for Needy Families (TANF) program reports the following corrective actions have been or will be completed.

Division of Benefits and Medical Eligibility (DBME)

A unique circumstance in which a reduction in payment caused an erroneous reduction to the months countable caused this issue. To ensure the DBME provides accurate information for the ACF-100 TANF Data Report in the future, the Systems Interface Program section researched and identified the programming issue. DBME systems will update the programming logic to properly account for this circumstance and verify the correction through case testing to ensure that the error does not reoccur. DBME anticipates completing these corrective actions by April 30, 2013. This issue did not affect client benefits.

Financial Services Administration (FSA)

As of February 2013, the FSA formalized a quality assurance step within its three-level review process for TANF federal reporting to prevent similar entry errors from occurring in the future. After the established review process, but prior to submission of the TANF ACF-196 to the Department of Health and Human Services federal reporting system, the responsible grant analyst will print a copy of the report as entered into the system. Reviewers will crosscheck the copy of the report draft submission with the original report spreadsheet prior to certification by the manager. Reviewers will return any errors to the responsible analyst for correction; otherwise, reviewers will initial the report route slip, indicating readiness for certification.

Division of Aging and Adult Services (DAAS)

The Coordinated Homeless Program reporting error was the result of deficiencies in filing and maintaining the contracts and quarterly reports in the Contracts Library. To ensure DAAS accurately reports information for the ACF-204 Annual Report, the DAAS Coordinated Homeless program instituted a new process. Effective January 2013, the quarterly reports are monitored and reviewed by the Program Specialist each quarter and entered into a spreadsheet to count the number of reported TANF families for state and federal fiscal years. The Program Specialist will

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remind Contract Specialists to contact contractors who have not submitted a report by the due date. A copy of the report will be forwarded to the Program Specialist when it is received. By April 2013, the Coordinated Homeless Office and the Contract Manager will develop a procedure containing the above actions as well as a process for notifying the Program Specialist if a contractor submits an amended report that may require a change in the number of TANF families served.

Division of Business and Finance (DBF)

The DBF will submit a revised ACF-204 report no later than July 1, 2013. DBF will review all future reports to ensure that programs related to TANF goals one and two include an income eligibility standard.

Division of Employment and Rehabilitation (DERS)

To ensure the DERS reports accurate information for the ACF-199 TANF Data Report, DERS anticipates completing the following corrective actions by September 30, 2013:

- Adding a field in the Jobs Automated System (JAS) database files to capture deemed hours;
- Creating a batch job to identify cases with deemed hours (this includes testing on-line screens and batch jobs and validating the jobs program);
- Modifying the program that captures JAS data to include deemed hours; and
- Modifying the program to include deemed hours for each month for the ACF-199 TANF Data Report.

12-106

TANF Cluster:

CFDA No.: 93.558 Temporary Assistance for Needy Families

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

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

October 1, 2009 through September 30, 2010

October 1, 2010 through September 30, 2011

October 1, 2011 through September 30, 2012

Award Numbers: G0902AZTANF, G1002AZTANF, G1102AZTANF, and G1202AZTANF

U.S. Department of Health and Human Services

Eligibility

Questioned Cost: \$2,460

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Finding

Criteria: In accordance with 45 CFR §206.10(a)(8), each decision regarding eligibility or ineligibility must be supported by facts in the applicant' s or recipient' s case record.

Condition and context: The Department of Economic Security, Division of Benefits and Medical Eligibility, Family Assistance Administration (FAA), provided cash assistance to applicants who did not meet all of the Temporary Assistance for Needy Families (TANF) eligibility requirements. Specifically, auditors noted the following:

- For 1 of the 40 cases tested, the FAA issued benefits to an adult student who was not expected to graduate before their 19th birthday. Because the FAA did not obtain written verification of the expected graduation date from the student' s educational institution, benefits were inappropriately issued for 10 months after the student' s 18th birthday. This resulted in a questioned cost of \$1,640.
- For 1 of the 40 cases tested, the FAA issued benefits to a participant who had received cash assistance for more than 5 years. After 5 years, the participant applied for an extension of benefits because of a hardship that was not properly supported and verified. Therefore, the FAA provided unallowable benefits for 11 months, 5 of which were during the audit period. This resulted in a questioned cost of \$820.

Effect: Benefits were issued to recipients who were not eligible. It was not practical to extend our auditing procedures sufficiently to determine whether any additional questioned costs resulted from this finding.

Cause: FAA employees did not follow policies and procedures to ensure recipients of cash assistance qualified for additional assistance when their benefits originally expired. Furthermore, the FAA did not follow its policies and procedures to ensure that each decision regarding eligibility or ineligibility was supported by facts in the applicant' s or recipient' s case record.

Recommendation: The FAA should provide adequate supervision of its employees and enforce the following policies and procedures to help ensure compliance with eligibility requirements:

- Monitor families who continue to receive cash assistance after the child turns 18.
- Obtain and verify the documentation supporting a hardship extension.
- Ensure that each decision regarding eligibility or ineligibility is supported by facts in the applicant' s or recipient' s case record.

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY 2012 Single Audit Report)

Agency Response: Concur

Agency Corrective Action Plan: To ensure recipients of cash assistance qualify for additional assistance when their original benefits expire and that the facts in the applicant or recipient case record support the eligibility decisions, the DES Division of Benefits and Medical Eligibility (DBME) completed or will complete the following corrective actions.

DBME issued a Flash Bulletin on July 31, 2012 to remind all employees to obtain school attendance verification for students 18 years or older prior to TANF approval. In September 2012, DBME management reviewed this finding with the local office manager, supervisor, and responsible employee. In addition, during the quality control process reviewers check this data field in a sample of randomly selected cases.

DBME developed a new intermediate training course that includes the subject of hardship extensions. DBME started training staff in August 2012 and expect to complete the training in June 2013

12-107

TANF Cluster:

CFDA No.: 93.558 Temporary Assistance for Needy Families

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

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

October 1, 2009 through September 30, 2010

October 1, 2010 through September 30, 2011

October 1, 2011 through September 30, 2012

Award Numbers: G0902AZTANF, G1002AZTANF, G1102AZTANF, and G1202AZTANF

U.S. Department of Health and Human Services

Subrecipient Monitoring

Questioned Cost: None

Finding

Criteria: In accordance with the OMB Circular A-133 §.210(e), the Department of Economic Security (Department) is responsible for establishing requirements to ensure compliance by for-profit subrecipients. Additionally, in accordance with the Department's Subrecipient Contract Monitoring policy number 1-16-03, §VI, part D.2.g., divisions are required to notify the Office of Procurement in writing immediately upon determination of potential compliance issues with a contract. Furthermore, in accordance with the Department's policy, §VI, part D.2.a., the contract

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initiator is required to complete all required contract monitoring forms at contract initiation, the start of each new fiscal year, and at any other time as is determined necessary.

Condition and context: The Department of Economic Security, Division of Employment and Rehabilitation Services (DERS), contracts with two for-profit subrecipients to carry out the TANF program. Even though the subrecipients are not subject to the audit requirements of OMB Circular A-133, they receive audits and the DERS obtains copies of their reports annually. In December 2011, the DERS received the audit report for one of the subrecipients for the year ended December 31, 2010, which included a finding related to unallowable costs within the TANF program. The DERS did not contact the subrecipient to inquire about the finding or request a corrective action plan. Additionally, the Office of Procurement was not notified that there was a potential compliance issue with the TANF contract.

Furthermore, the DERS is responsible for using subrecipient forms to sufficiently monitor TANF subrecipients throughout the life of the contract. These forms were not prepared at the start of fiscal year 2012 as policy required.

Effect: Potentially unallowable expenditures could be paid for with TANF program monies. No questioned costs were associated with this finding since the DERS contacted the subrecipient in January 2013 and determined that the finding was not related to the Arizona TANF contract.

Cause: The DERS did not have adequate policies and procedures in place to ensure TANF findings from subrecipient audit reports were addressed and that the subrecipient took appropriate corrective action in a timely manner. Also, the DERS did not assign monitoring responsibilities to ensure the subrecipient monitoring forms were completed in a timely manner.

Recommendation: The DERS should establish policies and procedures to ensure subrecipient audit findings are addressed and that subrecipients take appropriate corrective action in a timely manner. In addition, the DERS should follow current policies to notify the Office of Procurement of any potential compliance issues with the TANF contract and complete subrecipient monitoring forms when a subrecipient contract is created and at the start of each new fiscal year.

Agency Response: Concur

Agency Corrective Action Plan: The DES Division of Employment and Rehabilitation (DERS) will follow existing policies and procedures to ensure subrecipients address audit findings and take appropriate corrective action in a timely manner. In addition, the DERS will follow existing policies

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to notify the DES Office of Procurement of any potential compliance issues with the TANF contract and complete subrecipient monitoring forms when a subrecipient contract is created, at the start of each new fiscal year and at any other time as deemed necessary.

12-108

TANF Cluster:

CFDA No.: 93.558 Temporary Assistance for Needy Families

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

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

October 1, 2009 through September 30, 2010

October 1, 2010 through September 30, 2011

October 1, 2011 through September 30, 2012

Award Numbers: G0902AZTANF, G1002AZTANF, G1102AZTANF, and G1202AZTANF

U.S. Department of Health and Human Services

Special Tests and Provisions

Questioned Cost: None

Finding

Criteria: In accordance with 45 CFR §§205.55(a) and 205.60(a), income and benefit information must be requested from other federally assisted programs and federal agencies through automated data exchanges and used for identifying ineligible recipients. In addition, the information used in supporting wage and unemployment compensation verification through the data exchange must be retained.

Condition and context: The Department of Economic Security, Division of Benefits and Medical Eligibility (Division), recorded and stored eligibility information and supporting documents for participants on a documentation management system, including the support obtained from using the Income Eligibility and Verification System (IEVS). Auditors selected 40 case files to test; however, after noting that no documentation was retained to evidence that the IEVS was used when determining eligibility for 9 of the first 30 case files tested, auditors did not test the remaining 10 case files for this special test and provision requirement.

Effect: Assistance may be granted to ineligible recipients, or incorrect benefit determinations may result in over- or underpayments. This finding did not result in questioned costs since the Division was able to provide documentation to support its eligibility determinations.

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Cause: The Division did not follow its policies and procedures to use the IEVS to determine eligibility; or, if it was used, documentation was not retained to support its use.

Recommendation: The Division should ensure that employees request and use income and benefit information from the IEVS when determining eligibility for all applicants applying for cash assistance. Additionally, employees should retain support in the documentation management system to evidence the review.

This finding is similar to a prior-year finding.

Agency Response: Concur

Agency Corrective Action Plan: To ensure employees use the DHHS Income Eligibility and Verification System (IEVS) to determine eligibility and the IEVS supporting documentation is retained, the Division of Benefits and Medical Eligibility (DBME) and the document-imaging vendor are upgrading and stabilizing the document management system. DBME expects these improvements to increase the availability of the system and simplify the maintenance of supporting documentation. DBME and the Arizona Health Care Cost Containment System are implementing a new system that will automatically retain this documentation.

12-109

Emergency Food Assistance Cluster:

CFDA No.: 10.568 Emergency Food Assistance Program (Administrative Costs)

10.569 Emergency Food Assistance Program (Food Commodities)

Award Period: October 1, 2010 through September 30, 2011

October 1, 2011 through September 30, 2012

Award Number: 7AZ810AZ8

U.S. Department of Agriculture

Subrecipient Monitoring

Questioned Cost: None

Finding

Criteria: In accordance with 7 CFR §3052.400(d)(5) and OMB Circular A-133, §400(d)(5), the Department of Economic Security is responsible for issuing management decisions on audit findings within 6 months after receiving the subrecipient's A-133 single audit report and ensuring that the subrecipient takes appropriate corrective action.

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Condition and context: The Department of Economic Security, Division of Benefits and Medical Eligibility (Division), required each of its subrecipients to submit A-133 audit reports. However, internal control procedures were not adequate to ensure all findings were reviewed and resolved in a timely manner. Specifically, for one out of four subrecipients selected for test work, the Division did not send an initial or final management decision letter within 6 months after receiving the subrecipient's single audit report.

Effect: There is an increased risk of noncompliance with program requirements because the Division did not perform adequate monitoring procedures to review the subrecipient's single audit reports and issue management decision letters in a timely manner.

Cause: Audit Management Services (AMS) did not follow its policies to notify the Division of the audit report findings in order for the Division to ensure management decision letters were issued within 6 months of receiving the reports.

Recommendation: The AMS should follow its policies to review single audit reports when received and promptly notify the Division of any federal audit findings so that the Division may issue management decision letters within 6 months of receiving the reports.

Agency Response: Concur

Agency Corrective Action Plan: DES Audit and Management Services will follow DES policy regarding the review of single audit reports. DES divisions will be notified of federal audit findings in time to issue management decision letters within six months of receiving the single audit reports.

12-110

Emergency Food Assistance Cluster:

CFDA No.: 10.568 Emergency Food Assistance Program (Administrative Costs)

10.569 Emergency Food Assistance Program (Food Commodities)

Award Period: October 1, 2010 through September 30, 2011

October 1, 2011 through September 30, 2012

Award Number: 7AZ810AZ8

U.S. Department of Agriculture

TANF Cluster:

CFDA No.: 93.558 Temporary Assistance for Needy Families

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

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

Award Numbers: G0902AZTANF, G1002AZTANF, G1102AZTANF, and G1202AZTANF

CFDA No.: 93.563 Child Support Enforcement

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

Award Numbers: G1104AZ4004 and G1204AZ4005

CFDA No.: 93.568 Low-Income Home Energy Assistance

Award Period: October 1, 2009 through September 30, 2011
October 1, 2010 through September 30, 2012
October 1, 2011 through September 30, 2013

Award Numbers: G10B1AZLIEA, G11B1AZLIEA, and G12B1AZLIEA

CFDA No.: 93.667 Social Services Block Grant

Award Period: October 1, 2009 through September 30, 2011
October 1, 2010 through September 30, 2012
October 1, 2011 through September 30, 2013

Award Numbers: G1001AZSOSR, G1101AZSOSR, and G1201AZSOSR
U.S. Department of Health and Human Services

Reporting

Questioned Cost: N/A

Finding

Criteria: In accordance with 2 CFR §170 Appendix A and the Federal Funding Accountability and Transparency Act of 2006 (FFATA), for grant awards beginning on October 1, 2010, or later, the Department of Economic Security must report each subaward to a subrecipient that amounts to \$25,000 or more not including subawards of American Recovery and Reinvestment Act monies. Each subaward action must be reported no later than the end of the month following the month in which the obligation was made.

Condition and context: The Department of Economic Security, Financial Services Administration (Administration), did not submit any reports of subawards related to current year programs. Auditors could not determine the number of monthly reports that should have been submitted for each program. The Administration did not provide evidence it communicated with the awarding agencies or the General Services Office to sufficiently demonstrate it made a "good faith" effort to comply with the FFATA requirements. Additionally, the Administration did not

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request or obtain permission from the Office of Management and Budget to deviate from this requirement.

Effect: Obligations to subrecipients were not posted to the federal FSRS.gov Web site, resulting in a lack of information on USASpending.gov.

Cause: The Administration did not develop and follow policies and procedures to ensure compliance with the FFATA reporting requirements. In addition, the Administration could not identify all subawards made to subrecipients from individual awards.

Recommendation: The Administration should establish the following procedures to help ensure compliance with the FFATA reporting requirements:

- Develop internal control policies and procedures to identify all subawards made to subrecipients from individual awards.
- Develop internal control policies and procedures to ensure the required reports are accurately compiled, reviewed, and submitted in a timely manner.

This finding is similar to a prior-year finding.

Agency Response: Concur

Agency Corrective Action Plan: The DES Financial Services Administration (FSA) continues to seek additional clarification on reporting requirements from federal representatives for the FFATA Subaward Reporting System (FSRS). As of February 2013, the FSA has not found a successful channel for adequate communication. Recently, the FSRS added additional resources for help. The FSA will investigate these other avenues of communication in order to address the complexities of reporting on a diverse pool of grants.

The FSA also contacted individual federal award agencies to learn about reporting parameters from their perspective. In every case, the FSA was given no clarification and referred back to FSRS staff. The FSA continues to work with DES client programs and the DES Office of Procurement to develop a robust set of internal controls and procedures for the identification of subawards and subrecipients applicable to FFATA as well, for accurate and timely reporting.

Proposed DES actions include:

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- Developing enhanced guidelines to assist DES in identifying subrecipient relationships
- Providing applicable subrecipients with universal FFATA reporting forms and instructions when associated contracts or agreements are executed
- Developing and monitoring a subrecipient database in order to assist with the FFATA reporting requirements
- Developing universal material backup requirements for all grants
- Working with other state agencies to explore FFATA reporting best practices.

12-111

CFDA No.: 93.563 Child Support Enforcement

Award Period: October 1, 2010 through September 30, 2011

October 1, 2011 through September 30, 2012

Award Numbers: G1104AZ4004 and G1204AZ4005

U.S. Department of Health and Human Services

Activities Allowed or Unallowed

Questioned Cost: Unknown

Finding

Criteria: In accordance with 45 CFR §74.21(b)(3), the Department of Economic Security' s (Department) financial management system should provide effective accountability for all funds and ensure they are used solely for authorized purposes.

Condition and context: The Department' s Division of Child Support Enforcement (Division) distributed \$816,593 in Child Support Enforcement program monies to contracted collection vendors in fiscal year 2012. The Division compensated vendors for the receipt of child support payments that were a result of their collection activities; however, a portion of the payments to vendors under the Division' s Debt Collection and Locate services contracts were improper due to vague contract language, system weaknesses, and lack of controls within the Division' s invoice payment process. Specifically, the contracts in place during fiscal year 2012 for the six vendors did not include specific performance requirements and criteria for compensation, the computer information system used to track collection activity by vendor had limitations that allowed for the inclusion of cases that were excluded from the contracts, and the invoice payment process often included very little or no review prior to payment to ensure the vendors were being paid based on their actual collection activity.

Effect: Failure to ensure contract vendors are accurately paid based on their collection efforts may result in federal monies being spent for unauthorized purposes. It was not practical to extend our

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auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding.

Cause: The Division did not have adequate policies and procedures in place to ensure that the contract language was specific with respect to vendor payments and to ensure that contracted vendor invoices were thoroughly reviewed and approved prior to payment. In addition, the computer information system was not set up to accurately identify case collection activities.

Recommendation: To help ensure compliance with activities allowed and unallowed requirements, the Division should clarify contract language to add specific performance requirements and criteria for compensation in the vendor contracts. In addition, the Division should establish adequate policies and procedures to thoroughly review and approve vendor invoices prior to payment. Finally, to ensure the vendors are paid based on their actual collection activity, specific case collection activities should be identified in the computer information system.

Agency Response: Concur

Agency Corrective Action Plan: To help ensure effective accountability for all funds and that funds are used solely for authorized purposes the DES Division of Child Support Enforcement (DCSE) has completed or will complete the following corrective actions.

- DCSE minimized overpayments for invoices received for September 1, 2011 through July 28, 2012 by completing a manual review process and adjusting the vendor payments based on the internal audit findings.
- Effective July 28, 2012, the DCSE terminated all six vendor contracts for assistance with the collection of child support. If DCSE contracts for debt collection in the future, DCSE will strengthen contract language to include specific performance requirements and criteria for compensation and vendor collection activities will be accurately identified in the computer information system (ATLAS).

12-112

CFDA No.: 93.563 Child Support Enforcement

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

Award Numbers: G1104AZ4004 and G1204AZ4005

U.S. Department of Health and Human Services

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Subrecipient Monitoring

Questioned Cost: Unknown

Finding

Criteria: In accordance with OMB Circular A-133, §.400(d)(3), the Department of Economic Security (Department) must monitor the activities of its subrecipients to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements. Additionally, in accordance with OMB Circular A-133, §.400(d)(5), the Department is responsible for issuing management decisions on audit findings within 6 months after receiving the subrecipient's A-133 single audit report and ensuring that the subrecipient takes appropriate corrective action.

Condition and context: During fiscal year 2012, the Department's Division of Child Support Enforcement (Division) distributed approximately \$6.8 million in Child Support Enforcement program monies to subrecipients. However, division employees did not thoroughly review the subrecipients' monthly Certified Public Expenditure Statements (CPES) to ensure that federal awards were used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements. For one of five subrecipients tested, the Division reimbursed the subrecipient for \$188,654 in expenditures with no supporting documentation to determine that they were for actual activities performed to carry out the federal program objectives. Additionally, for the same subrecipient, the Division did not issue a management decision letter on its audit findings within 6 months after receiving the subrecipient's A-133 single audit report or ensure that the subrecipient took appropriate corrective action.

Effect: Potentially unallowable expenditures were paid to the subrecipient with Child Support Enforcement program monies. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. In addition, there is an increased risk of noncompliance with program requirements because the Division did not perform adequate monitoring procedures to review the subrecipient's single audit reports and issue management decision letters in a timely manner.

Cause: The Division did not have adequate policies and procedures in place to ensure that reimbursement documentation was thoroughly reviewed and approved. Further, Audit Management Services (AMS) did not follow its policies to notify the Division of the audit report findings in order for the Division to ensure management decision letters were issued within 6 months of receiving the reports.

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY 2012 Single Audit Report)

Recommendation: To help ensure compliance with subrecipient monitoring requirements, the Division should establish the following policies and procedures:

- Require that the monthly CPES reports are accompanied by documentation supporting the reported expenditures.
- Perform a detailed review of the monthly CPES reports and supporting documentation to ensure that the expenditures were for actual activities performed to carry out the federal program objectives prior to approving the reimbursement.

In addition, AMS should follow its policies to review single audit reports when received and promptly notify the Division of any federal audit findings so that the Division may issue management decision letters within 6 months of receiving the reports.

Agency Response: Concur

Agency Corrective Action Plan: To help ensure compliance with sub-recipient monitoring requirements, the Department of Economic Security has established the following policies and procedures.

As of February 1, 2013, the DES Division of Child Support Enforcement (DCSE) began requiring monthly Certified Public Expenditure Statements (CPES) to be accompanied by additional documentation supporting the reported expenditures. In addition, DCSE now performs detailed reviews of monthly CPES reports and the supporting documentation to ensure that the expenditures were for actual activities performed to carry out the federal program objectives prior to approving the reimbursement.

DES Audit and Management Services (AMS) will follow DES policy regarding the review of single audit reports. Divisions will be notified of federal audit findings in time to issue management decision letters within six months of receiving the single audit reports. AMS anticipates completing this corrective action in April 2013.

12-113

CFDA No.: 93.568 Low-Income Home Energy Assistance

Award Period: October 1, 2009 through September 30, 2011

October 1, 2010 through September 30, 2012

October 1, 2011 through September 30, 2013

Award Numbers: G10B1AZLIEA, G11B1AZLIEA, and G12B1AZLIEA

U.S. Department of Health and Human Services

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY 2012 Single Audit Report)

Reporting

Questioned Cost: None

Finding

Criteria: In accordance with 45 CFR §96.82(b) and action transmittal number LIHEAP-AT-2011-6 and the attached instructions, the Department of Economic Security must submit an accurate annual *LIHEAP Household Report*, which includes data on the number of households that were assisted with program monies and the number of households that applied for program assistance.

Condition and context: The Department of Economic Security, Division of Aging and Adult Services (Division), reported inaccurate amounts for the number of assisted and applicant households on its annual *LIHEAP Household Report* for the year ended September 30, 2011. Specifically, out of the 31 discretely presented figures on Part 1 of the report, 15 amounts were erroneous. Discrepancies ranged from 1 unit to 3,818 units. In addition, out of the 18 discretely presented figures on Part II, 8 amounts were erroneous. Discrepancies ranged from 1 unit to 24 units. Additionally, the Division did not retain documentation to support reported amounts. Further, there was no evidence indicating that the report was independently reviewed for accuracy and approved prior to submitting it to the U.S. Department of Health and Human Services.

Effect: Incorrect nonfinancial data was submitted to the federal grantor that may result in potential errors in analysis or other determinations and in the LIHEAP Report to Congress. This finding did not result in questioned costs since the reports were not used to request reimbursement of federal expenditures.

Cause: The Division had not implemented procedures to ensure that accurate amounts were reported and supported.

Recommendation: The Division should establish the following procedures to help ensure compliance with reporting requirements:

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

This finding is similar to a prior-year finding.

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY 2012 Single Audit Report)

Agency Response: Concur

Agency Corrective Action Plan: To ensure the Division of Adult and Aging Services (DAAS) reports accurate numbers of assisted households on the annual LIHEAP Household Report, DAAS implemented the following process for the Case Management Tracking (CMT) Report. The CMT Report is the supporting documentation for the Annual LIHEAP Household Report. DAAS developed a CMT Checklist that reviewers use to document review of the monthly CMT submissions from the various agencies. The checklist is also documentation that oversight of the monthly data entry was completed correctly. Following their review, the LIHEAP Program Specialist and Community Services Administrator initial the checklist. To ensure the LIHEAP Household Report is complete, accurate, and reviewed by management prior to submission, the following steps are completed:

- The Emergency and Energy Services Specialist enters data from the CMT report into the CMT spreadsheet.
- The LIHEAP Program Specialist reviews and validates the CMT spreadsheet.
- The Community Services Administrator reviews and submits the CMT spreadsheet to the Department of Health and Human Services.

To ensure DAAS retains and can easily locate documentation, DAAS saves the CMT spreadsheet in PDF format every month in a specified folder.

In July 2013, DAAS will implement a statewide database to improve reporting accuracy. The database will automatically aggregate collected data and eliminate the need for manual entry into an EXCEL spreadsheet.

12-114

Title I, Part A Cluster:

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

84.389 ARRA—Title I Grants to Local Educational Agencies, Recovery Act

Award Period: February 17, 2009 through September 30, 2010

July 1, 2009 through September 30, 2010

July 1, 2010 through September 30, 2011

July 1, 2011 through September 30, 2012

Award Numbers: S010A090003, S010A100003, S010A110003, and S389A090003A

Special Education Cluster (IDEA):

CFDA No.: 84.027 Special Education—Grants to States

**Federal Award Findings, Questioned Costs and Corrective Action Plan
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84.173 Special Education—Preschool Grants

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

84.392 ARRA—Special Education—Preschool Grants, Recovery Act

Award Period: February 17, 2009 through September 30, 2010

July 1, 2009 through September 30, 2010

July 1, 2010 through September 30, 2011

July 1, 2011 through September 30, 2012

Award Numbers: H027A090007A, H027A100007, H027A110007, H173A090003, H173A100003, H173A110003, H391A090007A, and H392A090003

CFDA No.: 84.367 Improving Teacher Quality State Grants

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

July 1, 2010 through September 30, 2011

July 1, 2011 through September 30, 2012

Award Numbers: S367A090049, S367B090003, S367A100049, S367B100003A, S367A110049, and S367B110003

U.S. Department of Education

Cash Management and Subrecipient Monitoring

Questioned Cost: None

Finding

Criteria: As required by 34 CFR §80.21, state educational agencies should have procedures in place to minimize the time elapsing between the transfer of monies to and disbursement by the local educational agencies (LEAs). LEAs may be paid in advance if they are able to minimize the time elapsing between the receipt of the monies and their disbursement so that they do not accumulate excess cash balances of federal monies.

Condition and context: The Department of Education (Department) requires that LEAs request monies for federal grants by submitting monthly cash management reports through its Grants Management System. At the end of the award period, the Department requires LEAs to submit completion reports, which are considered the projects' final cash management reports. Auditors tested a sample of LEAs' monthly cash management reports and completion reports for each of the major federal programs administered through the Grants Management System and noted the following deficiencies related to the Department's monitoring of LEAs:

- The Department did not always ensure that prior-year completion reports were submitted and approved before disbursing current year monies, which resulted in some LEAs' having cash balances. Specifically, this was noted for 2 of 40 LEAs tested for the Special Education

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY 2012 Single Audit Report)

Cluster and for 10 of 40 LEAs tested for the Title I, Part A Cluster and the Improving Teacher Quality State Grants program.

- The Department did not always review and approve completion reports in a timely manner. This was noted for 9 of 40 LEAs tested for the Special Education Cluster.

Effect: The Department disbursed monies for the subsequent period's grant award when LEAs had excess cash balances from the previous grant award. Auditors were able to extend auditing procedures to determine that interest earned on excess cash balances was properly calculated and remitted to the U.S. Department of Education; therefore, no questioned costs resulted from this finding. This finding could also potentially affect other federal programs that the Department administered.

Cause: The Department has adequate policies and procedures to address LEAs that fail to submit monthly cash management reports or continue to maintain excess amounts of program cash from month to month. In addition, the Grants Management System automatically places a hold on a subsequent year's funding if the LEA does not submit a completion report within 90 days after the end of the current program year, or if the LEA does not resubmit a completion report within 30 days of rejection as a result of the Department's review. However, these controls do not preclude the disbursement of a subsequent period's grant award when completion reports have not yet been reviewed and approved by the Department. Further, the Department has no specific policy addressing when completion reports should be reviewed; therefore, the Department was not always timely in its review of LEAs' completion reports.

Recommendation: To help ensure compliance with its major federal programs' requirements related to cash management and subrecipient monitoring, the Department should improve its policies and procedures for monitoring LEAs' submission of their completion reports. For example, each program area could maintain a log of communications with the LEA based on monthly reports generated from the Grants Management System indicating which LEAs have not submitted their completion reports. Further, improved monitoring and more timely reviews of submitted completion reports would help the Department to better enforce its existing policies to ensure that future grant awards are placed on hold until the LEA submits a complete and accurate completion report.

This finding is similar to a prior-year finding.

Agency Response: Concur

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY 2012 Single Audit Report)

Agency Corrective Action Plan: The Grants Management Division will renew its previous practice of making a report available to all Program Areas within ADE of all outstanding completion reports and the timeframe from which each was submitted. Additionally, the Grants Management Division will institute a protocol of sending e-mail reminders to grantees no later than 30 days prior to the 90 day Completion Report deadline reminding those grantees who have not submitted a completion report that they are not in compliance with provisions of the USFR and must submit a completion report immediately. These reminder e-mails will continue weekly (as well as a standing report available to ADE Program Areas) until all Completion Reports have been submitted. Additionally, the Grants Management Division will produce a standing report available to all program areas of those Projects where Completion Reports have been submitted but are not yet approved. This report will be produced no less frequently than bi-weekly and can begin being produced as soon as the first Completion Report is submitted after the close of most ADE subrecipient projects – which end on June 30th.

Further, the ADE Grants Management Division will produce a standing report made available to all Program Areas that shows those grant projects which show a balance of cash on hand. This will aid both Grants Management Division and Program Areas in their follow-up to ensure that grantees fully expend cash on hand, or risk having subsequent year' s projects placed on hold – which would prevent subsequent disbursements. These measures should reduce the risk of further disbursements being issued prior to a previous year' s completion report being approved. In order to further assure that no disbursements are made, the Grants Management Division will manually place a hold on all current year projects where a prior year completion report has not yet been submitted. In the case where a completion report has been submitted properly but not yet approved, the measure mentioned above to notify program areas of outstanding completion reports should reduce the risk of subsequent disbursements being made when a completion report has yet to be approved. ADE Grants Management Division will summarize these measures in a formal policy/procedure that will outline expectations of program areas and preferred timelines for processing completion reports (based on the Performance Metric of 28 days to approval). This Policy/Procedure will be drafted and submitted for internal review and adoption no later than March 29, 2013. A copy will also be routed to the Auditor General' s office for their information.

12-115

Child Nutrition Cluster:

CFDA No.: 10.553 School Breakfast Program

10.555 National School Lunch Program

10.556 Special Milk Program for Children

10.559 Summer Food Service Program for Children

**Federal Award Findings, Questioned Costs and Corrective Action Plan
(Reformatted from the FY 2012 Single Audit Report)**

Award Period: October 1, 2009 through September 30, 2010
October 1, 2010 through September 30, 2011
October 1, 2011 through September 30, 2012
October 1, 2011 through September 30, 2013

Award Numbers: 7AZ300AZ3 and 7AZ300AZ4

CFDA No.: 10.558 Child and Adult Care Food Program

Award Period: October 1, 2009 through September 30, 2010
October 1, 2010 through September 30, 2011
October 1, 2011 through September 30, 2012
October 1, 2011 through September 30, 2013

Award Numbers: 7AZ300AZ3 and 7AZ300AZ4

U.S. Department of Agriculture

Title I, Part A Cluster:

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

84.389 ARRA—Title I Grants to Local Educational Agencies, Recovery Act

Award Period: February 17, 2009 through September 30, 2010
July 1, 2009 through September 30, 2010
July 1, 2010 through September 30, 2011
July 1, 2011 through September 30, 2012

Award Numbers: S010A090003, S010A100003, S010A110003, and S389A090003A

Special Education Cluster (IDEA):

CFDA No.: 84.027 Special Education—Grants to States

84.173 Special Education—Preschool Grants

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

84.392 ARRA—Special Education—Preschool Grants, Recovery Act

Award Period: February 17, 2009 through September 30, 2010
July 1, 2009 through September 30, 2010
July 1, 2010 through September 30, 2011
July 1, 2011 through September 30, 2012

Award Numbers: H027A090007A, H027A100007, H027A110007, H173A090003, H173A100003,
H173A110003, H391A090007A, and H392A090003

CFDA No.: 84.048 Career and Technical Education—Basic Grants to States

Award Period: July 1, 2009 through September 30, 2010
July 1, 2010 through September 30, 2011
July 1, 2011 through September 30, 2012

Award Numbers: V048A090003, V048A100003, and V048A110003

CFDA No.: 84.287 Twenty-First Century Community Learning Centers

**Federal Award Findings, Questioned Costs and Corrective Action Plan
(Reformatted from the FY 2012 Single Audit Report)**

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

July 1, 2010 through September 30, 2011

July 1, 2011 through September 30, 2012

Award Numbers: S287C090003, S287C090003A, S287C100003, S287C100003–10A,
S287C110003, and S287C110003–11A

CFDA No.: 84.367 Improving Teacher Quality State Grants

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

July 1, 2010 through September 30, 2011

July 1, 2011 through September 30, 2012

Award Numbers: S367A090049, S367B090003, S367A100049, S367B100003A, S367A110049, and
S367B110003

U.S. Department of Education

Cash Management, Eligibility, Reporting, Subrecipient Monitoring, and Special Tests and Provisions

Questioned Cost: Unknown

Finding

Criteria: The Arizona Department of Education's (Department) Grants Management System (GMS) and Child Nutrition Program (CNP) Web application are vital for approving and disbursing federal awards, and for subrecipient reporting and monitoring. Consequently, the Department should have effective policies and procedures in place to prevent and detect unauthorized access to its major information systems. In addition, the Department should have an updated and fully tested disaster recovery plan to provide for the continuity of operations and ensure that data can be recovered in the event of a system or equipment failure or other interruption.

Condition and context: Auditors tested the Department's controls over this system and application and noted the following deficiencies related to access and recovery controls:

- *Access controls*—The Department did not always maintain documentation for access granted to employees and external users, and granted access for several users without proper approval. Specifically, for 2 of 82 users tested for the GMS and for 2 of 73 users for the CNP Web application, access granted to users was not authorized and supported by an authorization form. In addition, for 1 of 2 users tested for GMS and for 9 of 20 users tested for the CNP Web application, the Department did not remove the user's access rights in a timely manner. Approximately half of the users whose access was not removed in a timely manner were former department employees.

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY 2012 Single Audit Report)

- *Recovery controls*—The Department did not have an up-to-date and tested disaster recovery plan for the GMS, CNP Web application, and other major systems and applications.

Effect: There is a risk of noncompliance with federal requirements and of theft, manipulation, or misuse of confidential or sensitive data due to unauthorized access or changes. Additionally, the Department may not be able to recover data or materially comply with compliance requirements in the event of system or equipment failure or other interruption. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. In addition, this finding could potentially affect other federal programs, including American Recovery and Reinvestment Act programs, that the Department administered.

Cause: The Department did not consistently follow its policies and procedures for granting access to users and making changes to its information systems and applications. Additionally, the Department had not updated and tested the disaster recovery plan for its major systems and applications due to a lack of resources.

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

- Ensure that system access granted to all users is documented and authorized, and immediately revoke access for terminated employees.
- Periodically perform a comprehensive review of user access granted to all of its applications and systems, and remove inappropriate access.
- Update and test its disaster recovery plan annually.

This finding is similar to a prior-year finding.

Agency Response: Concur

Agency Corrective Action Plan: The Arizona Department of Education (ADE) will perform the following in order to improve access, and recovery controls over the Grants Management Enterprise System (GMS) and the Child Nutrition Program (CNP Web) system:

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY 2012 Single Audit Report)

- *Access Controls*
 - ADE will continue utilizing policies and procedures that were updated as corrective action specific to Finding 11-113 and will actively improve on the consistency of their implementation. Specifically:
 - Units responsible for their own software, such as Grants Management (GM) and Health and Nutrition Services (HNS), now manage the permissions and documentation specific to their software.
 - Agency-level End User Network Agreement (EUNA) and the permissions granted by ADE IT are restricted to Agency-level permissions.
 - Units responsible for their own software, such as GM and HNS, now include Human Resources in their quarterly review process to verify that terminated employees do not have any active permissions. Additionally, the Grants Management Division will continue its practice of requiring appropriate documentation to grant or revoke access to any external or internal user. For those users who leave ADE or who change duties and must be removed, the Grants Management Division will coordinate with Human Resources no less frequently than once per month to determine any terminations or transfers within the Department and use this report as documentation to remove GME access.
 - The HR Unit has added Grants Management and Health and Nutrition Services to the employee exit form, which will provide an additional control to ensure that access and permissions are removed on a timely basis for employees who leave the agency.

- *Recovery Controls*
 - ADE has identified applications that are critical for ADE to perform essential functions.
 - ADE has developed a draft Business Continuity and Disaster Recovery Plan that is in the process of being reviewed. After it is reviewed and approved by ADE management, it will be tested and implemented.

12-116

CFDA No.: 81.041 State Energy Program

81.041 ARRA—State Energy Program

Award Period: April 21, 2009 through April 30, 2012

July 1, 2010 through June 30, 2015

Award Numbers: DE-EE0000106 and DE-EE0003872

U.S. Department of Energy

Suspension and Debarment

Questioned Cost: N/A

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY 2012 Single Audit Report)

Finding

Criteria: In accordance with 2 CFR §180 and 10 CFR §600.113, the School Facilities Board (Board) and the State Land Department (Department) must not make any subaward to or contract with any party that has been suspended or debarred or is otherwise excluded from or ineligible for participation in federal assistance programs. This may be accomplished by checking the Excluded Parties List System maintained by the General Services Administration, obtaining vendor certifications, or adding clauses or conditions to the contracts.

Condition and context: The Board did not follow and the Department did not establish internal control policies and procedures over suspension and debarment compliance requirements. Specifically, the Board established procedures over suspension and debarment but did not verify that 7 of its 93 subrecipients had not been suspended or debarred. Further, the Department did not have policies and procedures and, as a result, did not ensure its vendors who received \$25,000 or more in federal monies had not been suspended or debarred, or otherwise excluded from entering into federal contracts. Auditors performed additional audit procedures and determined no payments were made to suspended or debarred parties.

Effect: Payments could be made to suspended or debarred parties. This finding could affect other federal programs that the Board and Department administered.

Cause: The Board did not ensure that its policies and procedures over suspension and debarment of subrecipients were followed by its employees, whereas the Department was unaware of the suspension and debarment requirements until the prior year audit.

Recommendation: The Board should ensure that employees follow its policies and procedures to verify that all subrecipients awarded contracts are not suspended or debarred. In addition, the Department should establish procedures to verify that all vendors awarded in excess of \$25,000 are not suspended or debarred. Documentation of this verification must be retained.

This finding is similar to a prior-year finding.

State Land Department

Agency Response: Concur

Agency Corrective Action Plan: The Land Department has added a "Suspension and Debarment" clause to all contracts that involve Federal funding. The language added is:
"Suspension or Debarment: The State may, by written notice to the Contractor, immediately

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY 2012 Single Audit Report)

terminate this Contract if the State determines that the Contractor has been debarred, suspended or otherwise lawfully prohibited from participating in any public procurement activity, including but not limited to, being disapproved as a subcontractor of any public procurement unit or other governmental body. Submittal of an offer or execution of a contract shall attest that the Contractor is not currently suspended or debarred. If the Contractor becomes suspended or debarred, the Contractor shall immediately notify the State.” Further, the Land Department has implemented procedures to verify that all vendors funded with Federal dollars greater than \$25,000 are not suspended or debarred.

School Facilities Board

Agency Response: Concur

Agency Corrective Action Plan: Last year, a procedure was put in place to ensure that all school districts awarded funding under federal projects would be verified against the suspension and debarment list. Even though periodic inspections were performed on new awards processed by the Agency, the audit procedure was too sporadic, and, consequently, allowed 7 out of 93 school districts to slip through the process without detection. Though limited by resource constraints, the Agency will increase the number of test cases on new federal awards in an effort to eliminate undetected errors in the future.

12-117

State Fiscal Stabilization Fund Cluster:

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

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

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

Award Numbers: S394A09003, S394A09003A, S397A09003, and S397A09003A

U.S. Department of Education

Eligibility and Subrecipient Monitoring

Questioned Cost: \$250,000

Finding

Criteria: Federal award recipients should maintain internal controls over federal programs to provide reasonable assurance that they are managing federal awards in compliance with laws and regulations as required by OMB Circular A-133, §.300(b). Specifically, when awarding federal monies to subrecipients, there should be adequate due diligence performed on the application

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY 2012 Single Audit Report)

and supporting documentation to determine eligibility, reasonableness, and validity of the expenditure documentation received prior to disbursing federal award monies.

Condition and context: The Governor's Office of Economic Recovery (GOER) did not exercise an appropriate level of oversight and due diligence to verify that a for-profit subrecipient receiving federal monies from its internal program called the Job Creation Fund was located outside the State of Arizona and was a valid company. In addition, the GOER received allegations that the same subrecipient falsified documentation to receive reimbursement for the award but did not note anything unusual when it performed an on-site visit to address the allegation. Auditors investigated the allegation further and noted that the subrecipient falsified documentation to indicate that the company originally was located in a different state. Further, auditors determined that the subrecipient also falsified payroll records to support reimbursement of \$250,000 in program monies.

Effect: The GOER paid \$250,000 to a for-profit subrecipient that falsified documentation and used the federal monies for unauthorized purposes.

Cause: The GOER relied on another entity to perform due diligence on the subrecipient instead of reviewing the subrecipient's validity itself.

Recommendation: The GOER no longer exists because the majority of the State's American Recovery and Reinvestment Act monies has been spent. The State should establish written policies and procedures to outline its award process to subrecipients for federal monies. These procedures should include which documentation in the application should be verified to outside sources. For example, the State should validate a subrecipient's mailing address, business license, financial documentation, and background. In addition, applications should be reviewed for inconsistent or missing documentation, and when necessary, follow-up documentation should be requested from the subrecipient.

Agency Response: Concur

The GOER did have a process in place to verify that sub-recipients were valid companies or organizations. Some of the steps taken include the following: the existence of the sub-recipient was confirmed with the Dun and Bradstreet data base; the firm's appropriateness for receiving federal funds was confirmed with CCR, EPLS, and SAM; and the financial viability and value to the state of this specific project was confirmed by the Arizona Commerce Authority and Greater Phoenix Economic Council. However, processes will be reviewed and corrected as appropriate.

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12-118

CFDA No.: 93.959 Block Grants for Prevention and Treatment of Substance Abuse

Award Period: October 1, 2009 through September 30, 2011

October 1, 2010 through September 30, 2012

October 1, 2011 through September 30, 2013

Award Numbers: 2B08TI010004-10, 3B08TI010004-10S1, 2B08TI010004-11, 3B08TI010004-11S1,
and

2B08TI010004-12

Department of Health and Human Services

Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Questioned Cost: Unknown

Finding

Criteria: In accordance with 2 CFR §225, Appendix B, Section 8(h), the Department of Health Services (Department) should maintain records that certify or confirm on an after-the-fact basis that employee compensation charged to the federal program represents a reasonable distribution of employees' actual time and effort worked on the program. The records supporting salaries and wages should be signed by the employee and approved by a supervisor having firsthand knowledge of the work the employee performed.

Condition and context: During the fiscal year, the Department spent over \$36 million of program monies, and \$1.5 million was spent on salaries and wages. Salaries and wages were charged to the program using distribution percentages that were determined before the services were performed. However, the distribution percentages were not compared to actual costs or revised to reflect actual time spent working on the program. In addition, the Department did not require certifications for employees who worked solely on the program or documentation for employees working on multiple federal and nonfederal programs reflecting an after-the-fact distribution of the actual activities performed.

Effect: The employee salaries and wages charged to the program did not reflect an accurate after-the-fact distribution of hours and activities worked, which could result in unallowed costs being charged to the program. It was not practical to extend our auditing procedures to determine questioned costs, if any, that may have resulted from this finding. This finding could potentially affect other federal programs that the Department administered.

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Cause: The Department did not have policies and procedures in place to ensure that salaries and wages reflect the actual time spent working on the program. Specifically, the Department's procedures were to assign payroll distribution percentages before services were performed without comparing those percentages to reflect actual time worked. In addition, the actual time worked on an activity by employees was not always documented. Further, the Department did not have procedures in place to require certifications for those employees who worked solely on this program.

Recommendation: The Department should develop policies and procedures to help ensure that salaries and wages reflect actual time spent working on the federal program. The procedures should require that certifications for employees working solely on the program be prepared at least semiannually. For employees that work on multiple activities, documentation should be prepared at least monthly reflecting an after-the-fact distribution of the hours and activities worked. The records supporting salaries and wages should be signed by the employee and reviewed and approved by a supervisor having firsthand knowledge of the work the employee performed. Further, if the Department continues to use distribution percentages that were determined before the services were performed, it should compare the distribution percentages to the actual time worked, and make any necessary correcting adjustments to the amounts charged to the program.

Agency Response: Concur

Agency Corrective Action Plan: The Agency's Division for Planning and Operations, Business and Financial Services, and the Division of Behavioral Health Services, Bureau of Financial Operations has developed a substitute system as per OMB Circular A-87, Attachment B item 6, for allocating salaries and wages in place of individual labor activity reports. The allocation is based on Title 19, Title 21 and non-Title 19 enrollments. Non-Title 19 is further split using RBHA direct service expenditures. The allocation plan will be submitted for approval to our cognizant agency, US Department of Health and Human Services (HHS), Division of Cost Allocation and to HHS Office of Substance Abuse and Mental Health Services Administration. This allocation methodology increases the counties (Maricopa and Pima) required administrative funding. In order to meet this increase, County IGAs or additional appropriations will be needed. Either way, ADHS will not be able to complete this CAP until either is accomplished (County IGA's June 2013 and/or additional appropriations June 2015). Until this can be accomplished, for those individuals currently preparing Labor Activity Reports (LARs), ADHS will make quarterly comparisons to actual costs. Any necessary adjustments that are greater than 10% will be made on a quarterly

**Federal Award Findings, Questioned Costs and Corrective Action Plan
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basis. Adjustments less than 10% will be made on an annual basis. This will be implemented by April 2013.

The Agency will implement procedures requiring all employees working solely on the program to complete certifications by February 2013.

12-119

CFDA No.: 93.959 Block Grants for Prevention and Treatment of Substance Abuse

Award Period: October 1, 2009 through September 30, 2011

October 1, 2010 through September 30, 2012

October 1, 2011 through September 30, 2013

Award Numbers: 2B08TI010004-10, 3B08TI010004-10S1, 2B08TI010004-11, 3B08TI010004-11S1,
and

2B08TI010004-12

Department of Health and Human Services

Suspension and Debarment

Questioned Cost: None

Finding

Criteria: In accordance with 45 CFR §92.35, the Department of Health Services (Department) must not make any subaward to or contract with any party that has been suspended or debarred or is otherwise excluded from or ineligible for participation in federal assistance programs.

Condition and context: The Department did not establish adequate internal control policies and procedures over suspension and debarment compliance requirements. Specifically, for 3 of the 15 subrecipients of federal monies, the Department did not include a suspension and debarment certification in contracts with subrecipients or verify its subrecipients had not been suspended or debarred, or otherwise excluded from entering into federal contracts. Auditors performed additional audit procedures and determined no payments were made to suspended or debarred parties.

Effect: Payments could be made to suspended or debarred parties. This finding could affect other federal programs that the Department administered.

Cause: The Department did not have policies and procedures in place to ensure that contracts with subrecipients contained the appropriate clause or perform additional procedures to determine the subrecipients were not suspended or debarred.

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY 2012 Single Audit Report)

Recommendation: The Department should establish procedures to ensure all contracts contain suspension and debarment certifications or perform procedures to verify that all subrecipients are not suspended or debarred. Documentation of this verification should be retained.

Agency Response: Concur

Agency Corrective Action Plan: The Agency's Division for Planning and Operations, Office of Procurement will review all Agency tribal IGAs and contract extensions for suspension and debarment status and ensure that they include the appropriate clause. Procedures will be developed and implemented.

12-120

CFDA No.: 12.400 Military Construction, National Guard

Award Period: October 1, 2006 through September 30, 2011

February 1, 2008 through March 31, 2013

June 1, 2009 through December 31, 2014

August 1, 2010 through March 31, 2013

October 26, 2010 through October 31, 2013

October 1, 2010 through October 31, 2013

Award Numbers: W912L2-06-2-2007, W912L2-08-2-2012, W912L2-09-2-2103, W912L2-09-2-2104,

W912L2-09-2-2105, W912L2-10-2-2001, W912L2-10-2-2002, and W912L2-10-2-2003

U.S. Department of Defense

Cash Management

Questioned Cost: Unknown

Finding

Criteria: In accordance with National Guard Regulation 5-1, effective May 28, 2010, grantees should limit the time elapsing between the transfer of monies from the U.S. Treasury and their disbursement to 45 days or less.

Condition and context: The Department of Emergency and Military Affairs (Department) did not have effective internal control procedures in place to minimize the time elapsing between the transfer of monies from the U.S. Treasury and their disbursement. Specifically, auditors analyzed the program's cash balance for the entire fiscal year and determined that the Department

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY 2012 Single Audit Report)

exceeded its allowable cash balance by an amount ranging between \$583,168 and \$3,095,547 from October 2011 to April 2012.

Effect: The Department could incur an interest liability on cash balances that exceed the required time frames. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding.

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

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

Agency Response: Concur

Agency Corrective Action Plan: To ensure proper fiscal management, to include cash management, the Department instituted a process in February 2012 by which cash flow is projected and managed for each grant throughout the fiscal year. The process ensures sufficient funds are available to meet disbursement requirements, yet not exceed the 45 days between the transfer of monies from the U.S. Treasury and their disbursement. This year's finding was from the period prior to full implementation program wide.

Monthly cash flow projections are developed at the beginning of the federal fiscal year for each grant. The projections are based upon staffing, reoccurring and known operational costs and any estimated costs such as repair, maintenance and operational supplies. These cash flow projections are updated monthly reflecting actual expenditures and revenues from the prior month. During the monthly reconciliations with program managers, any necessary adjustments to the remaining monthly projections are made. After adjustments are made, the Department requests advance funds for the next 60 days. The request is based upon cumulative expenditures up to the next 60 days, minus advance funds already requested. Because it takes approximately 15 days from the close of a month to receive the request for advance funds, the agency will always maintain no more than 45 days cash on hand.

12-121

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

Award Period: Various

**Federal Award Findings, Questioned Costs and Corrective Action Plan
(Reformatted from the FY 2012 Single Audit Report)**

Award Numbers: Various
U.S. Department of Defense

Suspension and Debarment

Questioned Cost: None

Finding

Criteria: In accordance with 2 CFR §§180.220 and 180.300, the Department of Emergency and Military Affairs (Department) must not contract with any party that has been suspended or debarred or is otherwise excluded from or ineligible for participation in federal assistance programs. This may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration, obtaining vendor certifications, or adding clauses or conditions to the contracts.

Condition and context: For contracts greater than \$5,000 but less than \$50,000, the Department stated that it reviewed the EPLS website to verify that vendors providing goods and services paid with federal monies had not been suspended or debarred or otherwise excluded from federal contracts. However, the Department did not document or otherwise evidence that this procedure was performed. Specifically, for one of seven vendors tested who were paid over \$25,000 in federal monies, auditors were unable to determine whether the Department performed procedures to ensure that the contracted vendors were not suspended or debarred. Auditors performed additional audit procedures and noted no instances of payments made to suspended or debarred individuals or organizations.

Effect: Payments could be made to suspended or debarred parties. This finding could affect other federal programs that the Department administered.

Cause: The Department did not have policies that required employees to document or otherwise evidence the review of the EPLS website.

Recommendation: The Department should document its determination that vendors being paid over \$25,000 in federal monies have not been suspended or debarred from doing business with governmental entities.

This finding is similar to a prior-year finding.

Agency Response: Concur

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY 2012 Single Audit Report)

Agency Corrective Action Plan: In March 2012, the Department successfully implemented a process to ensure proper documentation exists which verifies that vendors are not suspended or debarred before entering into contracts greater than \$5,000 but less than \$50,000. When the Department verifies through the Excluded Parties List System (EPLS) that a vendor has not been suspended or debarred, a printed copy of the verification is placed either into the contract folder or attached to a purchase order within ProcureAZ for non-contracted purchases. This year's finding was from a contracting action that occurred prior to the implementation.

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CFDA No.: 16.575 Crime Victim Assistance

Award Period: October 1, 2007 through September 30, 2011

October 1, 2008 through September 30, 2012

March 1, 2009 through September 30, 2012

October 1, 2009 through September 30, 2013

October 1, 2010 through September 30, 2014

Award Numbers: 2008-VA-GX-0014, 2009-VA-GX-0060, 2009-SG-B9-0090, 2010-VA-GX-0064,
and

2011-VA-GX-0019

U.S. Department of Justice

Subrecipient Monitoring

Questioned Cost: N/A

Finding

Criteria: In accordance with 31 U.S. Code §7502(f)(2)(C) and OMB Circular A-133 §400(d), the Department of Public Safety (Department) must ensure that subrecipients expending \$500,000 or more in federal awards have obtained the required audits within 9 months of the end of the subrecipients' audit periods. In addition, the Department must review the audits, issue management decisions on audit findings within 6 months after the receipt of the audit report, and ensure prompt and appropriate corrective action has been taken with respect to audit findings.

Condition and context: During the fiscal year, the Department disbursed approximately \$7.7 million in program monies to 71 subrecipients; however, the Department did not ensure that all subrecipients expending \$500,000 or more in federal awards obtained the required audits within 9 months of the end of the subrecipients' audit periods. Specifically, for the 8 subrecipients selected for test work, 6 were subject to the audit requirements. However, for 4 of the 6, the Department did not obtain the required audits, review the audits, issue management decisions

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY 2012 Single Audit Report)

on audit findings within 6 months, or ensure prompt and appropriate corrective action was taken with respect to the findings.

Effect: The Department's subrecipients may not have had single audits completed, or a subrecipient's single audit may not have been reviewed so that the Department could issue management decisions on findings. This could potentially affect other federal programs that the Department administers.

Cause: The Department's application for funds required subrecipients to submit the most recent single audit, and if the audit disclosed findings or recommendations, the corrective action plan must also be submitted. In addition, the Department had procedures in place to review any audits received during the year, whether obtained from a site visit or voluntarily submitted. However, the Department did not have a process in place to determine which subrecipients were subject to the single audit requirements or ensure every subrecipient subject to the audit requirements submitted the most recent single audit and a corrective action plan when applicable.

Recommendation: The Department should establish adequate procedures to ensure all subrecipients expending \$500,000 or more in federal awards have obtained the required audits within 9 months of the end of the subrecipients' audit periods.

Agency Response: Concur

Agency Corrective Action Plan: Beginning with the competitive application process that began on February 8, 2013, and that will culminate in contracts beginning on July 1, 2013, all applicants will be required to certify to their audit responsibilities under 31 U.S. Code §7502(f)(2)(C) and OMB Circular A-133 §400(d). The Department will monitor the Federal Audit Clearinghouse to ensure subrecipient reporting compliance and will review any audit findings, issue management decisions within 6 months of the receipt of the report and ensure prompt and appropriate corrective action has been taken with respect to relevant findings.

12-123

Research & Development Cluster

University of Arizona Research and Development grants and contracts

CFDA No.: Various

Award Period: Various

Award Number: Various

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY 2012 Single Audit Report)

Cash Management

Questioned Cost: N/A

Finding

Criteria: As required by 2 CFR part 215, nonfederal entities receiving federal awards must establish and maintain internal controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. An independent review and approval of significant transactions such as cash reimbursement requests are an important part of this system of internal control.

Condition and context: The University of Arizona's (University) internal control policies and procedures over its research and development programs did not require an independent review and approval of cash reimbursement requests and related accounting transactions. This control is important because the University received approximately \$328 million during the fiscal year for its research and development programs.

Effect: Without an independent review and approval of reimbursement requests, the University could request reimbursement for improper amounts causing the University to receive excess cash in violation of their grant agreements. In addition, the cash received could be incorrectly recorded, causing further errors and noncompliance during the preparation of future reimbursement requests.

Cause: The University implemented a new financial reporting system during the fiscal year. During this process an accountant responsible for most of the cash reimbursement requests was allowed to process cash reimbursement requests and related transactions without requiring an independent review and approval.

Recommendation: In order to ensure compliance with federal regulations for its research and development programs, the University should implement procedures that require an independent review and approval of significant cash reimbursement requests and related accounting transactions.

Agency Response: Concur

Agency Corrective Action Plan: The University has implemented an independent review and approval of accounting transactions. We also implemented an independent review of material Letter of Credit cash reimbursement requests as of August 15, 2012.

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY 2012 Single Audit Report)

Other auditors' findings:

The other auditors who audited the Arizona Department of Transportation (ADOT) reported the following significant deficiencies in internal control over compliance and noncompliance:

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Highway Planning and Construction Cluster:

CFDA No.: 20.205 Highway Planning and Construction

20.205 ARRA—Highway Planning and Construction

20.219 Recreational Trails Program

Award Period: Various

Award Numbers: Various

U.S. Department of Transportation

Allowable Costs/Cost Principles

Questioned Cost: N/A

Finding

Criteria: A State DOT may submit an Indirect Cost Rate Proposal (ICRP) indicating a proposed indirect rate calculated by the DOT under the provisions of 2 CFR 225 Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87) for approval by the Federal Highway Administration. This circular establishes principles and standards over the calculation of the proposed indirect cost rate indicated in the ICRP.

Condition and context: During the audit it was noted the rate was not correctly calculated in accordance with principles of 2 CFR 225 *Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87)*. ADOT submitted a rate of 5.16% which was approved by the Federal Highway Administration and utilized by ADOT during fiscal year 2012. ADOT subsequently determined the rate should have been 6.62%.

Effect: The application of an incorrect indirect cost rate did not result in any effects to the total amount of Federal Funds received and available to ADOT during the fiscal year. However, the incorrect rate resulted in ADOT recovering fewer funds for indirect costs with those potential recoverable costs going towards direct construction expenditures.

Cause: ADOT has not formally documented policies and procedures over the calculation of the indirect cost rate for the ICRP.

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY 2012 Single Audit Report)

Recommendation: ADOT should implement policies and procedures to consistent with the requirements of 2 CFR 225 *Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87)* to facilitate the correct and consistent calculation of the indirect cost rate for the ICRP submitted to the Federal Highway Administration for approval.

Agency Response: Concur

Agency Corrective Action Plan: The Controller of ADOT has done a thorough review of the methodology previously used for the calculation of the department' s Indirect Cost Allocation Plan (ICAP) rate, with the goal of validating principles upon which the prior rates were calculated. He has also put together different scenarios based on the existing rate type (fixed rate with carry-forward) to see if there are ways that ADOT can further capitalize on the use of an ICAP (EG: applying the rate to more types of projects than are currently being used), as well as proposed calculations using other types of rates for possible adoption. It' s been established that the rate calculation and methodology will be reviewed by the Deputy Controller and Cost Accounting Administrator, as well as the Assistant Director of Finance and Accounting for soundness and accuracy. A desk procedure for the preparation of the ICAP rate is a work in progress that is expected to be completed by the end of State fiscal year 2013. Following that, a formalized ADOT Policy and Procedure should be completed by the end of calendar year 2013.

12-125

Highway Planning and Construction Cluster:

CFDA No.: 20.205 Highway Planning and Construction

20.205 ARRA—Highway Planning and Construction

20.219 Recreational Trails Program

Award Period: Various

Award Numbers: Various

U.S. Department of Transportation

Subrecipient Monitoring

Questioned Cost: N/A

Finding

Criteria: As a pass-through entity, the Arizona Department of Transportation (ADOT) must have adequate controls in place to ensure all aspects of subrecipient monitoring are in compliance with federal requirements. Prior to the award of a grant ADOT must determine whether the subrecipient has an adequate project delivery system and accounting controls (23 USC 106(g)(4)(A)). At the time of the award the ADOT must identify the CFDA title and number, award

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY 2012 Single Audit Report)

name and number, and the name of the awarding agency. Additionally, ADOT must identify ARRA allocations in the award and that the subrecipient is required to identify ARRA funds in their Schedule of Expenditures of Federal Awards (SEFA). Once the grant is awarded ADOT must design and perform monitoring procedures to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that those performance goals are achieved.

These requirements are outlined in OMB Circular A-133 Compliance Supplement under the Subrecipient Monitoring section for the Department of Transportation, Highway Planning and Construction Grant.

Condition and context: The following conditions were noted during the audit:

- ADOT does not have a set of policies in place that require recertification of certified accepted entities at regular intervals as required by the agreement between ADOT and the Federal Highway Administration (FHWA).
- ADOT does not explicitly identify the CFDA number, grant name, and ARRA allocation (if any) in the award letter to subrecipients.
- ADOT does not have a formal set of policies and procedures in place or perform any procedures for monitoring subrecipients after the award has been made, including the determination of subrecipients expending \$500,000 or more in Federal awards received a timely single audit.

Effect: There is increased risk of noncompliance with applicable compliance requirements by the subrecipients of Federal Highway Administration administered by ADOT. There was no specific questioned cost noted related to this control deficiency.

Cause: ADOT has not formally documented subrecipient monitoring policies and procedures.

Recommendation: ADOT should draft and adopt a set of written policies and procedures that ensure that subrecipient monitoring procedures are performed as required by Federal requirements.

This finding is similar to a prior-year finding.

Agency Response: Concur

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY 2012 Single Audit Report)

Agency Corrective Action Plan:

Condition #1 – Policies for recertification of Certification Acceptance (CA) entities

The Local Government Section was reconfigured within ITD; it is now the Local Public Agency Section (LPA). One of the responsibilities will be the oversight and monitoring of the LPA's. The section is divided into two units; Process (including oversight and monitoring) and Program.

Two positions to staff the oversight and monitoring functions have been approved and the hiring process is in the works. These staff will work on the details to fill in the framework such as continuing to refine the LPA manuals, training, forms, checklists, etc. for the recertification program. The LPA Inspector Training program is planned to be in place by December, 2013. A goal was set to have the eight CA agencies recertified by September 30, 2015. While the staffing is not yet in place, steps are being taken to begin this process now, so that the timeline can be met.

Condition #2 – Identification of CFDA numbers, grant names, ARRA allocation (if any) in award letters

The ADOT has taken measures to communicate the project CFDA numbers and grant names to sub-recipients through (1) including the CFDA number and grant name in all contracts written by the Multi-modal Planning Division (MPD) and their sub-recipients receiving funds through ADOT from FTA, FHWA, FRA, and FAA, and (2) including the CFDA number and grant name as a required field for the processing of all third party agreements in the department's new Comprehensive Agreement Resource (CAR) that is to be used as a department-wide agreement database. MPD began including the CFDA numbers in their contracts in January of 2012. The CAR is scheduled for implementation for the Joint Project Agreement (JPA) group in January of 2013, with all other groups following by March of the same year. Those two measures should cover nearly all agreements with third parties, ensuring that they have correct CFDA numbers and grant names to report on their SEFA's. There are no more ARRA funds being distributed. In fact, the federal government has mandated that all projects funded with ARRA money be completed and closed by the end of the federal fiscal year 2013. ADOT will make every effort to assist sub-recipients who cannot identify ARRA funds for their SEFA's for the remainder of the time that the ARRA funded projects are still active.

Condition #3 – Procedure in place to monitor subrecipients

In November 2012, the first quarterly meeting was held between the divisions of ADOT that are jointly responsible for this area. The FMS Controllers Office and Audit and Analysis areas will meet quarterly to discuss any findings and the follow up actions necessary. At this first meeting, the following were identified:

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY 2012 Single Audit Report)

- A new process was implemented with the preparation of the fiscal year 2012 SEFA to identify the total sub-award amounts by entity. This detailed schedule will be shared each year with Audit and Analysis. Anticipated Completion Date: October 2012.
- Audit and Analysis will add to this new schedule information that will assist FMS in following up to ensure a Single Audit was received. Anticipated Completion Date: March 2013.
- Audit and Analysis will review the Single Audit reports for findings and note them in the review letter sent to the FMS Controller's Office. The findings will be discussed at the quarterly meetings. Anticipated Completion Date: Ongoing.
- The FMS Controller's Office will work with the various business areas to resolve single audit issues with the sub-recipient's handling of Federal monies passed through ADOT. Anticipated Completion Date: Ongoing

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Highway Planning and Construction Cluster:

CFDA No.: 20.205 Highway Planning and Construction

20.205 ARRA—Highway Planning and Construction

20.219 Recreational Trails Program

Award Period: Various

Award Numbers: Various

U.S. Department of Transportation

Special Tests and Provisions

Questioned Cost: N/A

Finding

Criteria: A State DOT or LPA must have a quality assurance (QA) program, approved by FHWA, for construction projects on the National Highway System to ensure that materials and workmanship conform to approved plans and specifications. Verification sampling must be performed by qualified testing personnel employed by the State DOT, or by its designated agent, excluding the contractor. (23 CFR sections 637.201, 637.205, and 637.207) Samples must fall within prescribed ranges determined by the Arizona Department of Transportation Standard Specifications for Road and Bridge Construction 2008 and the ADOT Materials Quality Assurance Program to be acceptable.

Condition and context: For two of the 25 quality assurance samples reviewed, the individual taking the sample was an employee of the subcontractor and did not note the presence of an ADOT technician to observe the sample.

Federal Award Findings, Questioned Costs and Corrective Action Plan (Reformatted from the FY 2012 Single Audit Report)

Effect: Substandard materials may have been used in the construction of roads and/or highways.

Cause: The approved Quality Assurance Program was not followed due to insufficient manpower and training.

Recommendation: The materials lab should hire additional engineers and technicians to ensure that workload demands are met. The materials lab should also ensure that all construction administration personnel are adequately trained.

Agency Response: Concur

Agency Corrective Action Plan: A new position has been established to manage the Quality Assurance program at all levels of ADOT. The hiring process is expected to be completed by February 28, 2013. This Quality Assurance program will ensure that:

1. Materials group personnel will attend the ADOT Construction Statewide Resident Engineer' s meeting February 20 – 21, 2013 to remind the construction administration personnel that ITD' s policy PER-00-2 on Certification Requirements must be followed. Instances of non-conformity to personnel qualification requirements observed during construction will be escalated to the appropriate District Engineer by the Materials Group on a per incident basis.

2. Materials Group personnel will meet with construction administration personnel in their respective regions to train construction administration personnel in sampling chain of custody documentation requirements. The Regional Labs have committed to completion of Materials Coordinators and Lab Supervisors by February 28, 2013. Independent Assurance reports will be thoroughly reviewed by the Regional Materials Engineers with instances of non-conformity escalated.