

Financial Statement Findings and State Responses (Reformatted from the FY 2021 Report on Internal Control and Compliance)

2021-01

Department of Economic Security did not put all critical identity verification or other anti-fraud measures in place before paying federal CARES Act unemployment insurance benefits and reported it paid over \$4.3 billion, or 37 percent, in fraudulent identity theft claims, as of June 30, 2021

Condition—The Department of Economic Security (DES) has identity verification and anti-fraud measures in place for its regular unemployment insurance (UI) benefits program, and the U.S. Department of Labor (U.S. DOL) issued guidance to states regarding 3 mandatory and 8 strongly recommended antitheft and fraud measures for the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act unemployment insurance (UI) benefits programs.¹ However, DES did not have in place all critical identity verification and other anti-fraud measures before paying CARES Act UI benefits beginning in May 2020. As of the fiscal year ended June 30, 2021, DES still had not implemented 2 of the 3 mandated and 1 of the 8 strongly recommended identity theft and anti-fraud measures through its new UI benefits system. Specifically, DES:

- Did not implement 2 mandated requirements to cross-match claimants with (1) quarterly wage records and (2) the National Directory of New Hires until May 2022.
- Did not implement 1 strongly recommended measure to cross-match with the State Directory of New Hires until May 2022.

We reported a similar finding in the prior year, as described in financial statement finding 2020-01 of the State of Arizona, June 30, 2020, Report on Internal Control and on Compliance, dated August 4, 2021, and provided the following background:²

“In response to the COVID-19 pandemic, on March 27, 2020, the President of the United States signed into law the CARES Act, which expanded UI through new federally funded programs to provide economic relief to individuals who were unable to work because of the COVID-19 pandemic, including individuals who historically were not eligible for regular UI benefits such as self-employed and gig workers.³ In April 2020, DES contracted to use a new UI benefits system because its more than 30-year old-system was unable to handle the computer programming needed to quickly implement the new federal CARES Act UI benefits programs. As it was implementing the new benefits system, DES did not initially include any identity verification or other anti-fraud measures in the system or as part of its UI benefits process for the new federal CARES Act UI benefits programs like it has in place for its regular UI benefits program and despite warnings from the U.S. DOL that it had not relaxed its expectations related to fraud prevention in light of the pandemic.”

“Specifically, in its April 5, 2020, instructions for implementing and operating the new federal CARES Act Pandemic Unemployment Assistance (PUA) program, the U.S. DOL reminded states that they were required to take reasonable and customary precautions to deter and detect fraud.⁴ Then, on May 11, 2020, the U.S. DOL issued guidance specifying 3 mandated and 8 strongly recommended identity theft and anti-fraud measures for CARES Act UI benefits programs.¹ The 3 mandated measures are consistent with those required for the regular UI benefits program. However, DES did not implement the 3 mandated and 4 of the 8 strongly recommended identity theft and anti-fraud measures before paying federal CARES Act UI benefits on May 18, 2020, through its new UI benefits system. The CARES act UI programs ended on September 4, 2021, and the deadline for filing weekly PUA claims was September 18, 2021.”

Effect—DES reported to us that it paid over \$4.3 billion⁵, or 37 percent, of federal CARES Act UI benefits during fiscal years 2020 and 2021 to alleged fraudsters who had stolen identities of 1.1 million unique claimants. DES disbursed these monies beginning on May 18, 2020, and retroactively covering the benefit weeks beginning January 27, 2020, through September 4, 2021, the date when the CARES Act UI programs ended. Fraudulent identity theft payments for an individual claimant, who’s stolen identity was used, ranged from a total per claimant of \$117 to \$35,400, and payments for these totals were made for 1 to 65 benefit weeks. The following illustrates the monies, number of claimants, and number of claims DES paid because of fraudulent identify theft in relation to total CARES Act UI benefits paid using the new UI benefits system:

	CARES Act			Fraudulent identity theft		
	Total amount of CARES Act UI benefits paid	Total number of unique CARES Act UI claimants	Total number of CARES Act UI claims	Total amount of CARES Act UI benefits paid to alleged fraudsters/stolen identities	Total number of unique claimants/stolen identities	Total number of paid claims with stolen identities
Fiscal year 2020	\$2.1 billion		\$ 5.9 million	\$1.6 billion		\$ 3.8 million
Fiscal year 2021	5.0 billion		16.5 million	2.7 billion		8.6 million
Total	<u>\$7.1 billion</u>	1.5 million	<u>\$22.4 million</u>	<u>\$4.3 billion</u>	1.1 million	<u>\$12.4 million</u>

Source: DES-provided schedules and reports. The table above excludes information for the CARES Act programs from DES' regular UI information system (Legacy UI information system). DES reported due to the limitations of its Legacy UI information system, it was unable to provide this information. The fiscal years 2020 and 2021 schedule of expenditures of federal awards (SEFA) reported \$5.9 billion and \$7.6 billion, respectively, in total CARES Act UI expenditures, which is composed of benefits paid to claimants, program administrative costs, and U.S. generally accepted accounting principles (GAAP) adjustments.

DES is unable to determine how many alleged fraudsters repeatedly used stolen identities. In addition, an undeterminable portion of these fraudulent payments may have been prevented if DES had implemented all the critical identity-verification and other anti-fraud measures before making any CARES Act UI benefits payments.

As of this report's issuance, DES continues to evaluate claims paid to identify improper payments and expects to recover some of the total improper payments it made through the help of law enforcement agencies. DES reported it continues to validate the population identified as truly fraudulent identity theft claims compared to those who are deemed ineligible because of incorrect eligibility determinations or claimant eligibility fraud, such as withholding information or providing false or inaccurate information with the intent to obtain benefits. DES also reported that as of October 2022, it referred over 730 cases to the Arizona Attorney General's Office for prosecution, and more than 580 cases have resulted in criminal charges, such as theft, fraudulent schemes, aggregated identity theft, forgery, money laundering, and wire and bank fraud.

Additionally, DES reported that it did not expect to be required to return any unrecovered monies to the federal government. These fraudulent identify-theft payments had no effect on the State's regular UI program, which the State has jointly administered with the federal government for over 30 years, because these same issues were not identified in that program.

Cause—Federal laws required states to ease claimant eligibility requirements for and access to CARES Act UI benefits.⁶ DES reported that it initially interpreted the ease-of-access requirements to mean that it also needed to ease up identity verification and other anti-fraud measures for the CARES Act UI benefits programs by not putting into place measures that are required to be in place for regular UI claims payments. In addition, to receive CARES Act UI benefits, claimant eligibility self-certification was required, which was not allowed in the regular UI program.⁷ This difference further contributed to DES' initial interpretation that identity verification and anti-fraud measures for the CARES Act UI benefits program were not a priority.

Further, as mentioned earlier, DES was unable to use its regular UI benefits system for the new federal CARES Act UI benefits programs and therefore contracted to use a new system to quickly process claims, which took time to get online and ready to process its first CARES Act UI benefits claims. DES reported that it encountered computer programming issues interfacing with other State systems and federal databases to be able to conduct all the federally mandated and strongly recommended identity verification and other anti-fraud measures.

Finally, DES also reported the speed with which it needed to process an increased volume of CARES Act UI benefits claims and confusion regarding federal laws, requirements, and guidance contributed to it not putting into place all critical identity verification and antifraud measures before it started paying benefits. Specifically, the U.S. DOL issued updated guidance for the CARES Act UI programs several times while states were paying UI benefits claims. For example, according to a U.S. DOL-Office of the Inspector General report, the U.S. DOL clarified statements on states' responsibilities for program integrity in 10 guidance documents it issued between April 2, 2020 and June 6, 2020.⁸

Criteria—Developing and implementing control activities to achieve objectives and respond to risks, including the risks of fraudulent identity theft claims for UI benefits, is an essential part of internal control standards, such as the *Standards for Internal Control in Federal Government* issued by the Comptroller General of the United States, and integral to ensuring that federal assistance monies

are not improperly paid to fraudulent claimants.¹⁰ In addition, on the noted dates, the federal government issued guidance related to anti-fraud measures applicable to the CARES Act UI benefits. Specifically:

- On April 5, 2020, the DOL's PUA implementation instructions reminded states that they were required to take reasonable and customary precautions to deter and detect fraud.³
- On May 11, 2020, the DOL issued guidance specifying 3 mandated and 8 strongly recommended identity theft and anti-fraud measures for CARES Act UI benefits.¹

Recommendations—DES should:

1. Continue to evaluate the CARES Act UI benefits it has paid to identify any additional fraudulent claims payments, using all necessary critical identity verification and other anti-fraud measures.
2. Continue its efforts working with law enforcement agencies to recover improper payments for fraudulent claims it paid due to identity theft, to the extent practicable.
3. Repay any recovered improper payments to the federal government.
4. Develop and implement a plan to ensure that for any future new UI benefits programs or regular UI benefits program changes, it puts critical identity verification and other anti-fraud measures in place prior to paying any UI benefits claims.

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

This finding is similar to prior-year finding 2020-01.

¹ U.S. Department of Labor, Office of the Inspector General (May 11, 2020). *Unemployment Insurance Program Letter No. 23-20*. https://wdr.doleta.gov/directives/attach/UIPL/UIPL_23-20.pdf.

² Arizona Auditor General. (2021). State of Arizona June 30, 2020, Report on Internal Control and on Compliance. Phoenix, AZ. https://www.azauditor.gov/sites/default/files/StateOfArizonaJune30_2020ReportOnInternalControlAndOnCompliance.pdf.

³ In response to the Novel Coronavirus Disease of 2019 (COVID-19) pandemic, the United States Congress passed several laws that essentially expanded unemployment insurance through new federally funded programs for a period of time to provide economic relief to individuals who were unable to work because of the COVID-19 pandemic and established the Pandemic Unemployment Assistance (PUA), Pandemic Emergency Unemployment Compensation (PEUC), and Federal Pandemic Unemployment Compensation programs (FPUC). The PUA program, which provided unemployment compensation through September 6, 2021—or September 4, 2021, for the State of Arizona—to individuals who were not traditionally eligible for benefits under regular UI programs, such as those who were self-employed workers, independent contractors, and gig-economy workers, those with limited work history, and certain other workers whose employment was affected by the COVID-19 pandemic. These programs provided claimants with a minimum weekly benefit, pursuant to each state's unemployment compensation law, and anything above Arizona's minimum weekly benefit of \$117—up to \$240 total per week in Arizona—would require wage verification. In addition, the FPUC program supplemented \$600 to the weekly benefits an individual may receive under regular UI or PUA through July 31, 2020, provided they were eligible to participate in the UI programs. Again on December 26, 2020, the FPUC program supplemented \$300 to the weekly benefits an individual may receive under regular UI or PUA through September 6, 2021, or September 4, 2021, in Arizona (Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020 [Public Law 116-136], Title II, Subtitle A (2020); as amended by the Consolidated Appropriations Act of 2021 [Pub. L. 116- 260], Title II, Subtitle A; as amended by the American Rescue Plan Act of 2021 [Pub. L.117–2], Division N, Title IX, Subtitle A, Sec. 9011 (2021).

⁴ U.S. Department of Labor, Office of the Inspector General (April 5, 2020). *Unemployment Insurance Program Letter No. 16-20*. https://wdr.doleta.gov/directives/attach/UIPL/UIPL_16-20.pdf.

⁵ In the State of Arizona June 30, 2020, Report on Internal Control and on Compliance, DES estimated it paid over \$4.4 billion of federal CARES Act UI benefits during fiscal years 2020 and 2021 to alleged fraudsters who had stolen identities of claimants. As of October 2022, DES reported the actual amount to be \$4.3 billion.

⁶ On March 18, 2020, the Families First Coronavirus Response Act (Public Law 116-127) authorized the Emergency Unemployment Insurance Stabilization and Access Act, which provided emergency administration and response by allowing states to ease eligibility requirements and access to unemployment compensation for claimants, including waiving the waiting week and work-search activity requirements.

⁷ The CARES Act (Public Law 116-136), Section 2102(a)(3)(A), provided the criteria for which an individual self-certifies eligibility for PUA under the Presidentially declared public health emergency resulting from the COVID-19 pandemic. The self-certification required claimants to self-declare that they were eligible for the PUA program and were able to work and available for work but unable to do so because of at least 1 specific, qualifying COVID-19-related reason. In addition, the CARES Act, §2102(h), applied the Disaster Unemployment Assistance program's administrative requirements to PUA since PUA was similar to unemployment compensation provided under Presidentially declared disasters.

⁸ U.S. Department of Labor, Office of the Inspector General (August 7, 2020). *COVID-19: More Can Be Done to Mitigate Risk to Unemployment Compensation Under the CARES ACT*, Report Number 19-20-008-03-315. <https://www.oig.dol.gov/public/reports/oa/2020/19-20-008-03-315.pdf>.

⁹ U. S. Government Accountability Office. (2014). *Standards for internal control in the federal government*. Washington, DC. Retrieved 8/4/2021 from <https://www.gao.gov/assets/670/665712.pdf>.

Agency Response: Concur

Agency: Department of Economic Security (DES)

Name of contact person and title: Bryce A. Barraza, DERS Deputy Assistant Director

Anticipated completion date: June 30, 2022

The Department of Economic Security (DES) will address the audit recommendations, as follows:

1. Continue to evaluate the CARES Act UI benefits it has paid to identify any additional fraudulent claims payments, using all necessary critical identity verification and other anti-fraud measures.

The Department will continue efforts to identify any additional Pandemic Unemployment Assistance (PUA) fraudulent claim payments. On May 16, 2022, the Department migrated the PUA to the Benefit Audit Reporting and Tracking System (BARTS) interface to production. The Department has also started establishing the pending overpayments from the new hire (State Directory and National Directory) wage crossmatch produced on October 20, 2021.

The Department continues to participate in a number of integrity crossmatches, which include, but are not limited to, the Arizona Department of Corrections and Maricopa County Jail, to detect individuals filing for Unemployment Insurance (UI) benefits while incarcerated. In addition, the DES Office of Inspector General (OIG) provides additional information regarding local, state, and federal incarceration records to the DES Division of Employment & Rehabilitation Services for processing.

The Department conducts identity verification through ID.me, a Social Security Crossmatch, Motor Vehicle Division (MVD) Verification, Social Security Number (SSN) check via the UI Interstate Connection Network (ICON), and a U.S. Department of Health and Human Services (DHHS) and Social Security Administration (SSA) Mortality record check. The Department utilizes the Integrity Data Hub (IDH) through the OnPoint Fraud Detection Solution which consists of IDH Suspicious Actor Repository (SAR) crossmatch, ID Theft, and Fictitious Employer.

The Department put in place a number of upfront measures that check for repetitive information, trends, and cross-claimant repetition used to identify potentially fraudulent activity. The Department will continue to utilize these successful anti-fraud measures to identify any additional fraudulent claim payments.

2. Continue its efforts working with law enforcement agencies to recover improper payments for fraudulent claims it paid due to identity theft, to the extent practicable.

The Department continues to partner with federal, state, and local law enforcement agencies and financial institutions across the country to recover losses and aggressively pursue legal action against perpetrators of fraud. Throughout the pandemic, the Department has partnered with more than 220 financial institutions and over 100 law enforcement agencies that include the Federal Bureau of Investigation, the U.S. Department of Labor (DOL), the U.S. Secret Service, and the U.S. Department of Homeland Security. The Department has also developed internal fraud indicators, investigated over 140,000 identity theft fraud complaints received from the DES OIG fraud hotline/website, developed a fraud scoring model in partnership with Google Analytics and Spring ML data analytics, and implemented the OPTimum Aware fraud detection software solution.

3. Repay any recovered improper payments to the federal government.

The Department initiated the formal establishment and issuance of PUA overpayments, inclusive of Federal Pandemic Unemployment Compensation (FPUC), in January, 2022. The interface between the PUA program system and existing accounts receivable system was in place effective February, 2022. Recovery and reimbursement efforts are occurring per normal procedures.

4. Develop and implement a plan to ensure that for any future new UI benefits programs or regular UI benefits program changes, it puts critical identity verification and other anti-fraud measures in place prior to paying any UI benefits claims.

In addition to other integrity measures already in use, the Department continues to utilize a third-party identity verification application and will leverage the identity verification tool across any future new UI Benefit programs. In addition, any new UI benefit programs will be implemented in alignment with federal law and guidance, and where applicable, anti-fraud measures identified as successful during the Coronavirus Aid, Relief, and Economic Security (CARES) Act program will be adopted in the Department's standard work and put in place prior to paying any UI benefit claims.

Condition—Contrary to U.S. generally accepted accounting principles (GAAP), the Department of Economic Security (DES) initially excluded and reported inaccurate Unemployment Compensation Fund financial statement amounts to the Arizona Department of Administration (ADOA) to include in the State’s fiscal year 2021 financial statements, which are included in the State’s Annual Comprehensive Financial Report.¹ Specifically, DES excluded financial information that related to a new federal relief program for lost wages assistance developed in response to the COVID-19 pandemic’s unemployment increase and funded by the Federal Emergency Management Agency (FEMA). In addition, DES excluded financial information related to its regular and CARES Act unemployment insurance (UI) benefit programs. In total, DES made errors of \$1.1 billion that, based on our discovery and subsequent recommendations, it corrected for the State’s financial statements. Specifically, we found that DES excluded:

- \$899 million of revenues for federal lost wages assistance (LWA) DES received and expended, or 10 percent and 11 percent of total revenues and total expenses, respectively, for LWA benefit claims paid to eligible individuals during fiscal year 2021.
- \$172.5 million in monies it paid to valid claimants for regular UI and CARES Act UI benefits but later determined them to be ineligible, which is owed to the federal government when collected.
- \$9 million of cash and unearned revenue, or 1 percent of total assets and liabilities, for federal LWA revenue that DES received but had not yet claimed as benefits as of June 30, 2021.
- \$1 million of expenditures for federal LWA benefit claims payable and due to claimants that DES had not yet paid as of June 30, 2021.
- \$1 million of receivables for federal LWA paid to claimants who DES later determined were ineligible; therefore, these overpayments are ultimately owed to the federal government when collected by DES.
- A disclosure for a contingent liability due to the federal government for possible overpayments DES made to claimants who were eligible for the State’s \$117 minimum weekly UI benefit but did not qualify for more than the minimum—up to \$240 a week—and were overpaid Pandemic Unemployment Assistance (PUA). Specifically, as described in finding 2021-03, DES reported that it cannot estimate the amount it may have overpaid 108,337 claimants who were not qualified to receive them. DES paid these 108,337 claimants \$218.4 million more than the State’s \$117-minimum weekly UI benefit.

Additionally, we found that DES misclassified a portion of the State’s cash totaling \$83 million as cash the State held jointly with the U.S. Treasury for its Unemployment Compensation Fund.

Effect— If we had not discovered and DES had not corrected the errors, DES’ omitting federal financial information totaling \$1.1 billion and misclassifying cash totaling \$83 million means that the State’s initial fiscal year 2021 Unemployment Compensation Fund’s financial statements could have been materially misstated and could have misinformed financial statement users about the actual federal LWA DES received and paid as benefits to claimants, including amounts DES owed to claimants and the federal government when collected by DES.

Cause— The federal LWA program was administered by states through their unemployment insurance systems but funded by FEMA instead of the U.S. Department of Labor U.S. (DOL), which funds the UI programs. DES had established procedures it used for over 30 years to compile its Unemployment Compensation Fund’s financial statements but failed to adjust these procedures to ensure it pulled financial information for any programs that were not funded by U.S. DOL. Consequently, DES had overlooked the federal LWA program. In addition, DES followed established procedures for compiling its Unemployment Compensation Fund’s financial statements but failed to adjust these procedures to ensure the reporting of amounts owed to the federal government and cash held by U.S. Treasury for the State’s regular UI program and cash for the CARES Act UI programs funded by U.S. DOL.

Criteria—U.S. GAAP requires the financial information that is to be reported and disclosed within the State’s financial statements. Therefore, DES must correctly report these amounts to ADOA, which is the entity that prepares the State’s financial statements. To do so, DES has a responsibility to implement internal controls to provide reasonable assurance over the reliability of the State’s reported financial information. Accurate financial statements provide valuable information to those charged with the State’s governance, management, and others who are relying on the reported financial information to make important decisions about the State’s financial operations. Complete and accurate information is an essential part of internal control standards, such as the Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States, and integral to ensuring financial information is accurately reported.²

Recommendations—DES should improve its established policies and procedures and implement a process to ensure its Unemployment Compensation Fund financial information is accurate and complete and is prepared in accordance with U.S. GAAP before providing it to ADOA for inclusion in the State’s financial statements. Specifically, DES should:

1. Implement a process that ensures it captures and reports to ADOA all Unemployment Compensation Fund financial information, such as balances and activity funded by all sources, not just U.S. DOL.
2. Implement the recommendations reported in financial statement findings 2021-01 and 2021-03 to identify and recover overpayments and ensure they are accurately reported and disclosed, as appropriate.

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

This finding is similar to prior-year finding 2020-03.

¹ Arizona Department of Administration. (2021). State of Arizona Annual Comprehensive Financial Report, June 30, 2021. Phoenix, AZ.

² U.S. Government Accountability Office (GAO). (2014). Standards for internal control in the federal government. Washington, DC. Retrieved 8/4/21 from <https://www.gao.gov/assets/670/665712.pdf>.

Agency Response: Concur

Agency: Department of Economic Security (DES)

Name of contact persons and titles: Angelica Garcia, DES DERS Business Administrator

Anticipated completion date: November 30, 2022

The Department of Economic Security (DES) will address the audit recommendations, as follows:

1. Implement a process that ensures it captures and reports to ADOA all Unemployment Compensation Fund financial information, such as balances and activity funded by all sources, not just U.S. DOL.

To address the reporting inconsistencies identified in finding 2021-02, the Department has enhanced existing standard work to include procedures incorporating Unemployment Compensation Fund financial information from the new federal Unemployment Insurance (UI) Pandemic Unemployment Assistance (PUA) and Federal Pandemic Unemployment Compensation (FPUC) programs, in addition to other federal relief programs not administered by the U.S. Department of Labor (DOL) but managed by the state’s UI program to ensure that the Department submits the related applicable financial information to the Arizona Department of Administration (ADOA) for inclusion in the state financial statements in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Procedures for developing internal UI financial statements have been updated to ensure applicable financial activity is accounted for. Procedures for internal review of final financial statements have been updated to ensure review of all applicable financial activity.

2. Implement the recommendations reported in financial statement findings 2021-01 and 2021-03 to identify and recover overpayments and ensure they are accurately reported and disclosed, as appropriate.

The Department will implement the necessary changes as outlined in the response to the financial statement findings 2021-01 and 2021-03 as it relates to this finding.

2021-03

Department of Economic Security paid 108,377 claimants \$218.4 million of federal Pandemic Unemployment Assistance benefits that exceeded the minimum weekly benefit but has not yet determined whether the claimants were qualified as required; therefore, it does not know how much in potential overpayments it may have paid and would potentially need to recover

Condition—The Department of Economic Security (DES) reported that it paid 108,377 valid unemployment insurance (UI) claimants \$218.4 million of federally funded Pandemic Unemployment Assistance (PUA) benefits above the State’s \$117-minimum weekly UI benefit, up to \$240 weekly, as allowed by federal regulations.¹ However, DES did not determine whether claimants, while eligible to receive the weekly UI benefit, were qualified to receive the additional weekly UI benefits provided under the CARES Act UI benefits programs. Specifically, DES did not determine whether those claimants had submitted the wage documentation within 21 days of

applying, as required, and immediately reduce the claimants' future weekly benefit payments to the \$117-minimum weekly UI benefit and determine how much it had overpaid those claimants. In addition, for those claimants who submitted wage documents, DES did not evaluate the wage documents to determine if and how much in benefits it overpaid those claimants above the weekly minimum. As of October 2022, DES had not yet completed evaluating the information of all 108,377 claimants who submitted wage documentation to determine if and how much of the \$218.4 million in PUA benefits above the weekly minimum it overpaid those claimants between May 18, 2020 and September 4, 2021, the end of the CARES Act UI benefits programs. After doing that, if DES chooses to apply waivers to the CARES Act programs, it would then be able to determine which overpayments it may be allowed to waive.

Effect—DES' backlog of 108,377 claimants, for whom it has not completed wage verifications to determine whether it overpaid them and by how much, affects DES' ability to report complete and accurate financial information to ADOA for the State's financial statements. Specifically, we discovered DES initially excluded a related financial statement disclosure from the State's financial statements regarding this contingent liability to the federal government, as described in finding 2021-02. DES made the appropriate correcting disclosure in the State's Annual Comprehensive Financial Report, as required by U.S. generally accepted accounting principles, but because it had not determined whether the 108,377 claimants were qualified to receive these benefits, it had to disclose the total \$218.4 million paid to these claimants.²

In addition, this backlog affects DES' ability to pursue timely collection of the specific overpayments that are required to be returned by claimants, and delays DES' returning recovered overpayments to the federal government.

Cause—DES reported it did not originally have a system alert to notify it of claimants who were receiving more than the minimum weekly UI benefit amount but who had not submitted wage documentation within 21 days of applying. DES also reported it did not initially have the staff needed to process the volume of CARES Act UI benefits claims.

Criteria—Federal regulations prescribe the PUA program requirements that apply to claimants and that DES must follow.³ Specifically, federal regulation states that claimants who are eligible to participate in the PUA program are entitled to receive the State's minimum weekly UI benefit—\$117 in Arizona—and claimants may receive an increased PUA weekly benefit amount up to a maximum—\$240 in Arizona—if the claimant submits wage documentation within 21 days of applying.^{4,5} Federal regulations require states to determine and immediately pay a weekly benefit amount based on the claimants' self-certification of eligibility and wages contained in the claimants' application. Claimants who self-certify for more than the minimum weekly benefit amount are required to submit wage documentation within 21 days of applying for the additional weekly PUA benefit, and states are then required to immediately determine the accuracy of each claimant's weekly benefit amount based on the claimant's submitted wage documentation.^{4,5}

For claimants who did not submit the required wage documentation within 21 days of applying, federal regulation requires states to immediately reduce the claimants' future benefit payments to the minimum weekly benefit amount and consider PUA payments exceeding the minimum weekly benefit as overpayments.⁵ In addition, federal regulation requires states to take all reasonable measures under state and federal laws to recover overpayments to claimants, regardless of whether the overpayment resulted from error or fraud on the claimant's part.⁶ However, in February 2022, federal regulation was issued that lists 7 scenarios under which states may waive recovery of CARES Act programs overpayments from claimants if the state determines specific criteria have been met, including that the claimant was not at fault.⁷ Finally, designing control activities, including those for its information system, to achieve program objectives and respond to risks is an essential part of internal control standards, such as the Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States, and integral to ensuring benefit payments are provided to only those who are eligible to receive them.⁸

Recommendation—DES should:

1. Continue using system-generated alerts and information and allocate sufficient resources, such as staffing, to perform wage verifications to process the backlog of claimants who received increased PUA weekly benefit payments to determine the weekly benefit amount they qualified for and identify overpayments and when establishing overpayments determine if DES will apply a waiver.
2. Bill claimants for overpayments and arrange payment plans with claimants, where required, and repay any recovered overpayments to the federal government, as required.

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

This finding is similar to prior-year finding 2020-02.

¹ In response to the Novel Coronavirus Disease of 2019 (COVID-19) pandemic, the United States Congress passed several laws that essentially expanded unemployment insurance through new federally funded programs for a period of time to provide economic relief to individuals who were unable to work because of the COVID-19 pandemic and established the Pandemic Unemployment Assistance (PUA), Pandemic Emergency Unemployment Compensation (PEUC), and Federal Pandemic Unemployment Compensation programs (FPUC). The PUA program, which provided unemployment compensation through September 6, 2021—or September 4, 2021, for the State of Arizona—to individuals who were not traditionally eligible for benefits under regular UI programs, such as those who were self-employed workers, independent contractors, and gigeconomy workers, those with limited work history, and certain other workers whose employment was affected by the COVID-19 pandemic. These programs provided claimants with a minimum weekly benefit, pursuant to each state’s unemployment compensation law, and anything above Arizona’s minimum weekly benefit of \$117—up to \$240 total per week in Arizona—would require wage verification. In addition, the FPUC program supplemented \$600 to the weekly benefits an individual may receive under regular UI or PUA through July 31, 2020, provided they were eligible to participate in the UI programs. Again on December 26, 2020, the FPUC program supplemented \$300 to the weekly benefits an individual may receive under regular UI or PUA through September 6, 2021, or September 4, 2021, in Arizona (Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020 [Public Law 116-136], Title II, Subtitle A (2020); as amended by the Consolidated Appropriations Act of 2021 [Pub. L. 116- 260], Division N, Title II, Subtitle A; as amended by the American Rescue Plan Act of 2021 [Pub. L.117–2], Title IX, Subtitle A, Sec. 9011 (2021)). As a result, from March 27, 2020, to September 5, 2020, eligible individuals could have received up to a maximum of \$840 in weekly benefits under these federal programs.

² Arizona Department of Administration. (2021). State of Arizona Annual Comprehensive Financial Report, June 30, 2021. Phoenix, AZ.

³ On March 27, 2020, the CARES Act, Section 2102(a)(3)(A), provided the criteria for which an individual self-certifies eligibility for PUA under the Presidentially declared public health emergency resulting from the COVID-19 pandemic. The self-certification required claimants to self-declare that they were eligible for the PUA program and were able to work and available for work but unable to do so because of at least 1 specific, qualifying COVID-19-related reason. In addition, the CARES Act, §2102(h), applied the Disaster Unemployment Assistance program’s administrative requirements to PUA since PUA was similar to unemployment compensation provided under Presidentially declared disasters.

⁴ 20 Code of Federal Regulations (CFR) §625.6(e).

⁵ U.S. Department of Labor, Office of the Inspector General (April 27, 2020). Unemployment Insurance Program Letter No. 16-20, Change 1, Attachment I, Question 20. https://wdr.doleta.gov/directives/attach/UIPL/UIPL_16-20_Change_1.pdf.

⁶ 20 CFR §625.14[a].

⁷ On February 7, 2022, U.S. Department of Labor (DOL) issued updated guidance that lists 7 scenarios under which states may waive recovery of CARES Act programs overpayments if they choose to apply waivers to the CARES Act programs. The list includes 2 previously identified scenarios from the DOL guidance issued on May 5, 2021. U.S. Department of Labor, Office of the Inspector General (February 7, 2022). Unemployment Insurance Program Letter No. 20-21, Change 1. https://wdr.doleta.gov/directives/attach/UIPL/UIPL_20-21_Change_1.pdf.

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

Agency Response: Concur

Agency: Department of Economic Security (DES)

Name of contact persons and titles: Sandra Canez, Unemployment Insurance Program Administrator and Jacqueline Butera, Quality Assurance and Integrity Administrator

Anticipated completion date: June 30, 2023

The Department of Economic Security (DES) will address the audit recommendations, as follows:

1. Continue using system-generated alerts and information and allocate sufficient resources, such as staffing, to perform wage verifications to process the backlog of claimants who received increased PUA weekly benefit payments to determine the weekly benefit amount they qualified for and identify overpayments, and when establishing overpayments determine if DES will apply a waiver.

The Department is currently conducting the review of claims with a Weekly Benefit Amount (WBA) higher than \$117, and where appropriate, issuing determinations for adjusted benefit amounts. Any identified overpayments will be established per standard process.

The Department has an established process to consider debt resulting from the establishment of an overpayment for waiver, as permitted under state law and federal rule. Note, overpayments categorized as fraud are not permitted to be waived per state and federal rule.

2. Bill claimants for overpayments and arrange payment plans with claimants, where required, and repay any recovered overpayments to the federal government, as required.

The Department initiated the formal establishment and issuance of Pandemic Unemployment Assistance (PUA) overpayments, inclusive of Federal Pandemic Unemployment Compensation (FPUC), in January, 2022. The interface between the PUA program system and existing accounts receivable system is in place effective February, 2022. Recovery and reimbursement efforts are occurring per normal procedures.

2021-04

The State issued its Annual Comprehensive Financial Report late, resulting in untimely financial information for State legislators, federal grantors, creditors, and other stakeholders

Condition—The Arizona Department of Administration (ADOA), the State agency responsible for preparing and issuing the State’s Annual Comprehensive Financial Report (ACFR) using information provided by other State entities, did not timely receive necessary information and therefore could not prepare and issue the State’s ACFR in time to meet the State’s federally mandated audit requirement deadline of September 30, 2022. Specifically, 20 State agencies, 3 State universities, and 2 retirement systems must provide ADOA timely, accurate, and complete financial information so that it can issue the State’s ACFR in time to meet the State’s federally mandated audit requirement deadline. Four of 20 State agencies and 1 of 2 retirement systems that were required to submit their financial information to ADOA by November 12, 2021—the deadline ADOA established and communicated to them in its annual letter—did not do so. Specifically, the Arizona Health Care Cost Containment System (AHCCCS) and the Department of Economic Security (DES), the 2 largest and most significant of the 4 State agencies that provided late financial information, did not submit their final financial information to ADOA until over 9 months’ late on August 9, 2022, and September 30, 2022, respectively. The 1 retirement system and other 2 State agencies that provided late financial information to ADOA—the Public Safety Personnel Retirement System, the Arizona Department of Transportation, and Arizona Correctional Industries—submitted final financial information to ADOA on January 4, 2022; January 26, 2022; and May 17, 2022, respectively.

Effect—State legislators, federal grantors, creditors, and other stakeholders lacked timely financial information to make important decisions about the State’s operations and financial position. The State’s delay in meeting its financial reporting and audit requirements may affect those decision-makers’ ability to rely on financial information that is not provided timely or may result in the credit-rating agencies lowering the State’s credit ratings for its bonds and certificates of participation. Further, the State’s delay in issuing its single audit reporting package, which includes the State’s ACFR, could result in actions taken by federal grantors on the State’s various federal awards, as described in finding 2021-122.

Cause—The State agencies’ delays in providing the information to ADOA were generally caused by their limited resources, such as reduced staffing from retirements and other employee turnover, combined with increased workloads due to carrying out additional responsibilities and administering new federal funding in response to the COVID-19 pandemic. In particular, AHCCCS and DES were impacted by these factors, considering the Medicaid and unemployment insurance programs, respectively, that each of them administer, resulting in them having fewer staff to prepare their financial information and oversee their financial reporting processes to ensure they met ADOA’s deadline.

Criteria—State law requires State agencies and other organizations included in the State’s financial reports to submit all necessary financial information to the ADOA to be used to prepare the State’s ACFR (Arizona Revised Statutes [A.R.S.] §35-131[1]). The ADOA’s policies and procedures also direct these State agencies and other organizations to provide instructions for submitting their financial information to the ADOA by a specified date to meet the State’s financial reporting and audit requirement deadlines. Further, State and federal laws and regulations and the State’s debt covenants and various federal award terms, require the State to issue its ACFR and single audit reporting package in a timely manner. Specifically, the State was required to submit its single audit reporting package, which includes the State’s ACFR, to the Federal Audit Clearinghouse by September 30, 2022.

Recommendations—ADOA should work with the State agencies, including AHCCCS and DES, to provide guidance and assist them with their financial reporting process, as needed, so that it can prepare and issue the State’s ACFR in time to meet financial reporting and audit requirements. In addition, those individuals in management who are responsible for AHCCCS’, DES’, and various other State agencies’ financial reporting process should:

1. Ensure they allocate the appropriate resources to the financial reporting process to submit financial information to ADOA on time.

2. Ensure they have written policies and procedures for their employees involved in the financial reporting process to follow to prepare the financial information. Further, DES should take corrective action on our recommendations described in findings 2021-01, 2021-02, and 2021-03.
3. Coordinate and communicate directly with ADOA any difficulties they are having and to seek guidance and assistance when needed.

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

Agency Response: Concur

Agency: Arizona Department of Administration (ADOA)
Arizona Health Care Cost Containment System (AHCCCS)
Department of Economic Security (DES)

Name of contact persons and titles: Ashley Ruiz, ADOA Assistant Director
Karen MacLean, AHCCCS DBF Finance Administrator
Roberta Harrison, DES Chief Financial Officer

Anticipated completion date: See below

ADOA anticipated completion date: January 31, 2026

The ability of the ADOA to issue the State's ACFR timely is largely contingent upon timely receipt of audited financial statements and other required information from State Agencies. ADOA provides written communications of expected dates of receipts of such information to the State agencies annually. ADOA will continue to work with State agencies, including AHCCCS and DES to provide guidance to assist them with their financial reporting process to issue the State's ACFR in accordance with the financial reporting and audit requirements.

AHCCCS anticipated completion date: June 30, 2025

AHCCCS agrees with this finding and will implement the following:

- Staffing
 - AHCCCS hired an Accountant IV to assist with the financial statements toward the end completing the FY 21 audit. This person is assisting with the FY 22 audit while still being trained and learning her duties and responsibilities. It is anticipated she will add more value and have an impact on the preparation of the FY 23 financial statements.
 - Management of the unit is providing comprehensive cross training to other team members who are already helping with the current FY 22 audit.
- Pre-Audit Preparation
 - On a quarterly basis, prepare a draft of the financial statements with no accruals based only on AFIS data. The purpose is to ensure all transactions have the appropriate chart of accounts elements and are mapped correctly to the respective accounting lines.
 - On a quarterly basis, prepare a draft SEFA to identify at an earlier stage of the audit any additional major programs that will be audited besides Medicaid and CHIP.
 - Negotiate with AHCCCS outside auditors, if possible, to begin audit work earlier, April/May. AHCCCS would provide preliminary reports for testing of program payments as well as payroll made in the first 3 quarters of the fiscal year. AHCCCS would also provide any MCO oversight documentation that is available.
- Overall Efficiencies
 - Over the next few years, redesign and automate other internal processes to increase efficiency and provide the audit team members additional time to address the financial statements.

DES anticipated completion date: November 30, 2023

DES concurs that the timely submission of the Annual Comprehensive Financial Report (ACFR) is vital for oversight and strategic decision-making purposes. While we will always strive to comply with the applicable timelines, articulating the complexities of new federal regulations and how that translated to financial reporting proved exceedingly challenging this reporting period. The DES will work internally to update written procedures for preparing components of the ACFR in real time as new programs and funding sources are being deployed. Additionally, the DES will actively coordinate with our partners in order to meet our reporting obligations in a timely manner.

2021-05

The Department of Revenue did not ensure it collected all income taxes that are due to the State, increasing the risk that the State may not receive all of its income tax revenues

Condition— Contrary to State law, the Department of Revenue (DOR) did not perform all necessary reconciliations to ensure it collected all income taxes due to the State. Variations of this finding have been reported since fiscal year 2006.

Effect—DOR may not collect all income taxes that are due, increasing the risk that the State may not receive all its income tax revenues. Also, the State risks reporting inaccurate income tax revenue in its financial statements.

Cause—Since at least fiscal year 2006, DOR's tax administration system lacked the functionality to perform certain automatic reconciliations. In December 2020, DOR implemented an alternative, manual process to reconcile calendar year 2020 income tax withholdings from employers to individual income taxes. However, DOR's alternative process did not include all income tax accounts, and according to DOR, its reconciliation process accounts for only approximately 21 percent of the employers registered with the State in tax year 2020.

Criteria— State law requires that DOR administer and enforce Arizona income tax laws, which includes collecting income tax. The State of Arizona Accounting Manual requires that State agencies reconcile relevant activity.

Recommendations—DOR should perform all necessary reconciliations to ensure it collects all income tax due from taxpayers by addressing its system's limitations or improving its newly implemented alternative process to include all relevant accounts.

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

This finding is similar to prior-year finding 2020-04.

Agency Response: Concur

Agency: Department of Revenue (DOR)

Name of contact person and title: Mike Devine, ADOR Chief Internal Auditor

Anticipated completion date: June 30, 2028

In December 2020 the Department completed a project that allows it to ingest W2 and Form 1099 data submitted electronically by employers for use in performing income tax reconciliations. The Department will continue to engage in outreach and education efforts to assist employers in understanding and complying with requirements for electronic submission of withholding information in order to help ensure that all relevant accounts are included in the Department's reconciliation process. Additionally, the Department is engaged in the procurement of a new integrated tax system that will include withholding reconciliation for all relevant income tax accounts. As described in the Fiscal Year 2023 Appropriations Report, the Department's fiscal year 2023 budget includes \$15,819,800 for the development of a new integrated tax system. The Department estimates the system will cost \$104,827,700 in total, and anticipates that the system will be implemented in stages across fiscal years 2023 through 2028.

2021-06

The Department of Revenue did not publish \$24.8 million of unclaimed individual income tax overpayments dating back as far as 2007, and they were not readily available for taxpayers to search and claim

Condition—Contrary to State law, the Department of Revenue (DOR) did not include \$24.8 million of individual income tax overpayments in its unclaimed property system that is used to publish abandoned property on its website for taxpayers to search and claim. These overpayments from 45,566 taxpayer accounts ranged from \$50 to \$885,613 and dated back as far as fiscal year 2007. Taxpayers have approximately 35 years to file a claim for abandoned property A.R.S. §44-317[E]).

Effect—Abandoned individual income tax overpayments totaling \$24.8 million were not published on DOR’s website and therefore were not readily available for individual taxpayers to search and claim.

Cause—DOR’s tax administration system lacked the functionality to automatically transfer individual income tax overpayments from that system to its unclaimed property system, and DOR did not implement an alternative process to publish abandoned individual income tax overpayments.

Criteria—State laws require DOR to publish information about all abandoned property of at least \$50 on its website, including information about unclaimed individual income tax overpayments (A.R.S. §§44-309 & 44-317[E]).

Recommendations—DOR should:

1. Post all individual income tax overpayments of at least \$50 on its website for taxpayers to search and claim.
2. Address its system’s limitations or develop an alternative process to ensure overpayments of income tax are transferred to its unclaimed property system.

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

This finding is similar to prior-year finding 2020-05.

Agency’s response: Concur

Agency: Department of Revenue (DOR)

Name of contact person and title: Mike Devine, ADOR Chief Internal Auditor

Anticipated completion date: June 30, 2028

As noted in the finding, issues with ADOR’s tax administration system currently prevent the Department from transferring overpayments to the unclaimed property system. However, information regarding these overpayments is still accessible by taxpayers that call in to the Department. As described in the Fiscal Year 2023 Appropriations Report, the Department’s fiscal year 2023 budget includes \$15,819,800 for the development of a new integrated tax system. The Department estimates the system will cost \$104,827,700 in total, and anticipates that the system will be implemented in stages across fiscal years 2023 through 2028.

2021-07

State discovered and corrected \$126.7 million of misstatements to assets and expenses reported in prior years’ financial statements related to insurance losses for its insurance guaranty funds

Condition—In fiscal years 2018 through 2020, the Department of Insurance and Financial Institutions (DIFI) had omitted information about the insurance guaranty funds’ ability to assess and bill losses for insolvent insurers to the Arizona Department of Administration (ADOA), which compiles the State’s financial statements.

Effect—Absent the needed information from DIFI, ADOA did not apply the appropriate accounting treatment in prior years and therefore reported a net misstatement on the State’s financial statements of \$126.7 million for fiscal year 2021. Specifically, this

omitted information caused ADOA to inaccurately report expenses resulting from insurance losses and under report receivables during fiscal years 2018 through 2020 in the State's financial statements.

ADOA corrected the State's financial statements for fiscal year 2021 to reflect the correct accounting treatment for the insurance losses after the error was discovered while integrating the insurance guaranty funds' separately issued financial statements for fiscal year 2021 that were prepared under a new basis of accounting.¹

Cause—It is unclear whether DIFI management who should have provided the needed information to ADOA in fiscal years 2018 through 2020 understood what specific information DIFI should be providing to ADOA annually and how to perform the associated calculations. The State's financial statements and the insurance guaranty funds' separately issued financial statements were not prepared using the same basis of accounting until fiscal year 2021. Therefore, prior to fiscal year 2021, ADOA relied on DIFI to provide information other than the separately audited financial statements to integrate the guaranty funds' activity into the State's financial statements.

Criteria—State law allows DIFI to assess and recover losses from insolvent insurers (Arizona Revised Statutes §20-686). Further, the Governmental Accounting Standards Board sets the accounting and financial reporting standards that require the State to prepare its financial statements in accordance with generally accepted accounting principles, the application of which depends on having all the relevant information involving the transactions and events to be reported.

Recommendations—DIFI should:

1. Ensure it is providing all the relevant information needed for applying the appropriate accounting treatment to accurately report the insurance guaranty funds' activity in the State's financial statements.
2. Continue to prepare the insurance guaranty funds' separately issued financial statements using the same basis of accounting as the State's financial statements.

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

¹The State's insurance guaranty funds' separately issued financial statement audit was correctly stated, and insurance industry regulators rely on that separate financial statement audit. The insurance guaranty funds are reported as a discretely presented component unit in the State's financial statements.

Agency Response: Concur

Agency: Department of Insurance and Financial Institutions (DIFI) and Department of Administration (ADOA)
Name of contact persons and titles: Lori Nester, DIFI Executive Director and Ashley Ruiz, ADOA Assistant Director
Anticipated completion date: April 1, 2022

As a component unit of DIFI, the Arizona Insurance Guaranty Funds (the Funds) issue separate and distinct financial statements from DIFI. In the subject fiscal years (2018 through 2020), the Funds operated on a cash basis of accounting. Financial statements created on such a basis of accounting recognize revenue when received and expenses when paid. Their creation requires no estimate of receivables or anticipated liabilities, and no such information was omitted by the Funds/DIFI management. The Funds' ability to assess its member companies for claims and expenses incurred as a result of an insurance insolvency is statutory, and as a result, public knowledge. All information requested for the creation of the State's financial statements by the General Accounting Office (GAO) was provided by the Funds/DIFI Management.

1. The Funds/DIFI will continue to provide all information requested to support the State's application of appropriate accounting treatment for accurate reporting of the Funds' activity in their financial statements.
2. The Funds/DIFI will continue to prepare the Funds' separately issued financial statements using the same basis of accounting as the State's financial statements.

The General Accounting Office made a correcting entry and noted the correction in the Annual Comprehensive Financial Report.

2021-08

Four State agencies had deficiencies in their processes for managing and documenting IT risks, which may put operations and IT systems and data at unintended and unnecessary risk of potential harm

Condition— We reviewed the risk-assessment process at 5 State agencies including the Departments of Administration (ADOA), Child Safety (DCS), Economic Security (DES), Revenue (DOR), and Land (LDA), and found that DCS', DES', and LDA's processes for managing and documenting their risks did not include an overall risk assessment process that included identifying, analyzing, and responding to the agency-wide information technology (IT) risks, such as potential harm from unauthorized access, use, disclosure, disruption, modification, or destruction of IT data and systems. Further, ADOA's, DCS', DES', and LDA's processes did not include identifying, classifying, and inventorying sensitive information that might need stronger access and security controls.

Effect—The State agencies' administration and IT management may put the agencies' operations and IT systems and data at unintended and unnecessary risk.

Cause—Because the State's risk-assessment process is decentralized and managed at each agency, the agencies are in various stages of developing or implementing policies and procedures for assessing and managing risk and have not fully implemented agency-wide risk-assessment processes that address IT security.

Criteria—The State agencies are required to follow the State-wide IT policies established by the ADOA Arizona Strategic Enterprise Technology Office (ADOA-ASET), which are based on the IT security framework of the National Institute of Standards and Technology, to help effectively manage risk at State agencies. Effectively managing risk includes an entity-wide risk assessment process that involves members of the agencies' administration and IT management. The risk assessment should determine the risks the agencies face as they seek to achieve their objectives to not only report accurate financial information and protect their IT systems and data but to also carry out their overall mission and service objectives. The process should provide the basis for developing appropriate responses based on identified risk tolerances and specific potential risks to which the agencies might be subjected. To help ensure the agencies' objectives can be met, an annual risk assessment should consider IT risks. For each identified risk, the agencies should analyze the identified risk and develop a plan to respond within the context of the agencies' defined objectives and risk tolerances. The process of managing risks should also address the risk of unauthorized access and use, modification, or loss of sensitive information.

Recommendations—The State agencies should:

1. Identify, analyze, and reduce risks to help prevent undesirable incidents and outcomes that could impact business functions and IT systems and data. (DES, LDA)
2. Plan for where to allocate resources and where to implement critical controls. (ADOA, DCS, DES)
3. Ask responsible administrative officials and management over finance, IT, and other entity functions for input in the agencies' processes for managing risk. (DES, LDA)
4. Perform an annual entity-wide IT risk assessment that includes evaluating and documenting risks and safeguards. Such risks may include inappropriate access that would affect financial data, system changes that could adversely impact or disrupt system operations, and inadequate or outdated system security. (DCS, DES, LDA)
5. Evaluate and manage the risks of holding sensitive information by identifying, classifying, and inventorying the information the agencies hold to assess where stronger access and security controls may be needed to protect data in accordance with State statutes and federal regulations. (ADOA, DCS, DES, LDA)

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

This finding is similar to prior-year finding 2020-07.

Agency Response: Concur

Agency: Department of Administration (ADOA)
Name of contact person and title: Ashley Ruiz, Assistant Director

Anticipated completion date: June 30, 2024

The State is actively working to correct all issues related to the analyzing, managing and documenting of IT risks and identification, classification, and inventorying of sensitive information on the State's IT systems. Policy, processes and procedures have been implemented or are being developed to address any gaps. Each agency has developed a detailed corrective action plan to address this finding and will work with Department of Administration-Arizona Strategic Enterprise Technology Office as needed to implement recommendations in accordance with State-wide prescribed policies and procedures

2021-09

Five State agencies' control procedures over IT systems and data were not sufficient, which increases the risk that the agencies may not adequately protect those systems and data

Condition—We reviewed the access, configuration management, information technology (IT) security, and contingency-planning controls at the Departments of Administration (ADOA), Child Safety (DCS), Economic Security (DES), Revenue (DOR) and Land (LDA) and found that ADOA's, DCS', DES', DOR's, and LDA's control procedures were not sufficiently developed, documented, and implemented to respond to risks associated with their IT systems and data. The agencies lacked sufficient procedures over the following:

- **Restricting access**—Procedures did not consistently help prevent or detect unauthorized or inappropriate access to IT systems and data. (ADOA, DCS, DES, DOR, LDA)
- **Managing system configurations and changes**—Procedures did not ensure configuration settings were securely maintained and all IT system changes were adequately managed. (DES, LDA)
- **Securing systems and data**—IT security policies and procedures lacked controls to prevent unauthorized or inappropriate access or use, manipulation, damage, or loss. (ADOA, DES, DOR, LDA)
- **Ensuring operations continue**—Contingency plans either were not developed or lacked key elements related to restoring operations in the event of a disaster or other system interruption. (DES, DOR, LDA)

Effect—There is an increased risk that the State agencies may not adequately protect their IT systems and data, which could result in unauthorized or inappropriate access and/or the loss of confidentiality or integrity of systems and data. It also increases the agencies' risk of not being able to effectively continue daily operations and completely and accurately recover vital IT systems and data in the event of a disaster or system interruption.

Cause—Because the State is decentralized and IT systems and data are managed at each agency, the State agencies are in various stages of developing and implementing policies and procedures for access, configuration management, security, and contingency planning and have not fully implemented them. Further, ADOA did not exercise oversight of controls delegated to other State agencies for one ADOA-managed system.

Criteria—The State agencies are required to follow the State-wide IT policies established by the ADOA Arizona Strategic Enterprise Technology Office (ADOA-ASET), which are based on the IT security framework of the National Institute of Standards and Technology, to implement effective internal controls that protect their IT systems and ensure the integrity and accuracy of the data they maintain, as follows:

- **Restricting access through logical controls**—Help to ensure systems and data are accessed by users who have a need, systems and data access granted is appropriate, and key systems and data access is monitored and reviewed. (ADOA, DCS, DES, DOR, LDA)
- **Managing system configurations and changes through well-defined, documented configuration management process**—Ensures the agencies' IT system configurations are documented and that changes to the systems are identified, documented, evaluated for security implications, tested, and approved prior to implementation. This helps limit the possibility of an adverse impact on the systems' security or operation. (ADOA, DES, LDA)
- **Securing systems and data through IT security internal control policies and procedures**—Help prevent, detect, and respond to instances of unauthorized or inappropriate access or use, manipulation, damage, or loss to their IT systems and data. (ADOA, DES, DOR, LDA)
- **Ensuring operations continue through a comprehensive, documented, and tested contingency plan**—Provides the preparation necessary to place the plan in operation and helps to ensure business operations continue and systems and data can be recovered in the event of a disaster, system or equipment failure, or other interruption. (DES, DOR, LDA)

Recommendations— The State agencies should:

1. Plan for where to allocate resources and where to implement critical controls. (DCS)
2. Make it a priority to develop and document comprehensive IT policies and procedures and develop a process to ensure the procedures are being consistently followed. (ADOA, DES, DOR, LDA)
3. Monitor agency employees' adherence to the IT policies and procedures on a periodic basis to ensure they are consistently followed and inform employees of updates to the policies and procedures throughout the year. (DES)
4. Work with ADOA-ASET on the ways to implement audit recommendations. (ADOA, DES, DOR, LDA)

Restricting access—To restrict access to their IT systems and data, the agencies should develop, document, and implement processes to:

5. Assign and periodically review employee user access ensuring appropriateness and compatibility with job responsibilities. (ADOA, DCS, DES, DOR, LDA)
6. Remove terminated employees' access to IT systems and data. (ADOA, DES, DOR)
7. Review all other account access to ensure it remains appropriate and necessary. (ADOA, DES, DOR)
8. Evaluate the use and appropriateness of accounts shared by 2 or more users and manage the credentials for such accounts. (ADOA, DCS, DES, DOR, LDA)
9. Enhance authentication requirements for IT systems. (ADOA, DCS, DES, DOR, LDA)
10. Protect IT systems and data with session time-outs after a defined period of inactivity. (LDA)

Managing system configurations and changes—To configure IT systems securely and manage system changes, the agencies should develop, document, and implement processes to:

11. Establish and follow a documented change management process. (DES, LDA)
12. Document changes, testing procedures and results, change approvals, and post-change review. (ADOA)
13. Maintain configurations for all system services, assets, and infrastructure; manage configuration changes; and monitor the system for unauthorized or unintended configuration changes. (DES)

Securing systems and data—To secure IT systems and data, the agencies should develop, document, and implement processes to:

14. Perform proactive key user and system activity logging and log monitoring, particularly for users with administrative access privileges. (ADOA, DES, DOR, LDA)
15. Prepare and implement a security incident response plan clearly stating how to report and handle such incidents. (LDA)
16. Provide all employees ongoing training on IT security risks and their responsibilities to ensure systems and data are protected. (DES)
17. Ensure awarding and subsequent monitoring of IT vendor contracts is adequately conducted to ensure vendor qualifications and adherence to the vendor contract. (ADOA)

Ensuring operations continue—To ensure operations continue, the agencies should develop, document, and implement processes to:

18. Develop and implement a contingency plan, and ensure it includes all critical elements to restore critical operations, including being prepared to move critical operations to a separate alternative site if necessary. (DOR)
19. Test the contingency plan. (DES, DOR, LDA)
20. Train staff responsible for implementing the contingency plan. (DOR)

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

This finding is similar to prior-year finding 2020-08.

Agency's Response: Concur

Agency: Department of Administration (ADOA)

Name of contact persons and titles: Ashley Ruiz, (ADOA) Assistant Director

Anticipated completion date: June 30, 2024

The State is actively working to correct all issues related to the access, configuration management, information technology security (IT), and contingency planning of its IT resources. IT systems security is of the utmost importance to the State. Policy, processes and procedures have been implemented or are being developed to address any gaps. Each agency has developed a detailed corrective action plan to address this finding.

Other auditors' financial statement findings

2021-10

The other auditors who audited the Arizona Correctional Industries (ACI) reported the following internal control deficiency for its financial statement closing process for activity within the Other Enterprise Funds in the State's financial statements. ACI's and the State's 2021 financial statements were adjusted for all material misstatements noted.

Condition—During the course of our audit, we determined that multiple accounts on the Statement of Net Position were not accurately stated due to a lack of timely closing procedures, a lack of reconciliation of the sub-ledgers to the general ledger, and a lack of documented year-end closing procedures and checklists.

Effect—Numerous audit adjustments and multiple versions of ACI's final trial balance were required to properly reconcile and report year-end balances related to capital assets, accounts receivable, and various liability accounts.

Cause—Due to the COVID-19 pandemic, ACI has experienced loss of inmate and noninmate staff, some of whom were historically assigned the task of aiding in year-end review procedures. Additionally, ACI experienced the loss of key staff that previously coordinated the majority of the year-end closing process. These factors plus lack of cross-training of remaining staff and lack of documented procedures ultimately contributed to multiple improper and untimely reconciliations.

Criteria—Based on our understanding of the ACI's internal policies and procedures, the finance department performs a year-end review of all closing entries and reconcile all subledgers to the general ledger to ensure amounts included in the financial statements are presented in accordance with Generally Accepted Accounting Principles (GAAP).

Recommendations—We recommend the organization develop and document a year-end checklist of each asset and liability on the Statement of Net Position to ensure all account balances have been reviewed, that subledger reconciliations are completed, and that any necessary accruals are recorded. Furthermore, we recommend a secondary review be implemented over all accounts on the Statement of Net Position to ensure all changes have been identified and recorded. Additionally, we recommend that the organization begin to formally document the processes required to perform key reconciliations and other year-end closing procedures and to cross train staff on all accounting procedures including yearend closing procedures.

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

Agency Response: Concur

Agency: Arizona Correctional Industries (ACI)

Name of contact persons and titles: Dale Beatty, Chief Financial Advisor

Anticipated completion date: December 31, 2021

RECOMMENDATION: We recommend the organization develop and document a year-end checklist of each asset and liability on the Statement of Net Position to ensure all account balances have been reviewed, that subledger reconciliations are completed, and that any necessary accruals are recorded. Furthermore, we recommend a secondary review be implemented over all accounts on the Statement of Net Position to ensure all changes have been identified and recorded. Additionally, we recommend that the organization begin to formally document the processes required to perform key reconciliations and other year-end closing procedures and to cross train staff on all accounting procedures including year-end closing procedures.

ACI Management concurs with the finding and will implement the recommendation above.

2021-11

The other auditors who audited the ACI reported the following internal control deficiency for its cash reconciliations activity within the Other Enterprise Funds in the State’s financial statements.

Condition—The monthly cash reconciliations were not performed timely for the organization’s cash account for the month of June 2021. The June 2021 cash reconciliation was not complete until March of 2022. Additionally, it has come to our attention that cash reconciliations for the month of July 2021 through the date of this report have not been completed.

Effect—Failure to perform cash reconciliations timely can result in incomplete financial reporting and a possible inability to prevent or detect fraud within a reasonable time frame.

Cause—Due to the COVID-19 pandemic, the loss of key finance personnel, and the lack of cross-training and documented processes, ACI has unreconciled differences in the cash reported on the State’s AFIS system and the general ledger (EPICOR) system.

Criteria—The organization is required to timely perform cash reconciliations between AFIS and EPICOR, and monitor controls over those reconciliations monthly.

Recommendations—We recommend the organization reconcile all cash accounts monthly and implement review procedures to ensure reconciliations are completed timely. We recommend the organization formally document the cash reconciliation processes and to cross-train multiple staff on those processes in the case of a loss in key accounting personnel.

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

Agency Response: Concur

Agency: Arizona Correctional Industries (ACI)
Name of contact persons and titles: Dale Beatty, Chief Financial Advisor
Anticipated completion date: December 31, 2022

RECOMMENDATION: We recommend the organization reconcile all cash accounts monthly and implement review procedures to ensure reconciliations are completed timely. We recommend that organization formally document the cash reconciliation processes and to cross-train multiple staff on those processes in the case of a loss in key accounting personnel.

ACI Management concurs with the finding and will implement the recommendation above.

2021-12

The other auditors who audited the ACI reported the following internal control deficiency for its cash reconciliations activity within the Other Enterprise Funds in the State’s financial statements.

Condition—The fixed assets sub-ledger and general ledger accounts have not been properly updated the last few years to account for all disposals during the year. The organization failed to reconcile all capital assets from the subledger to items disposed of through ADOA Surplus. This has been a written recommendation to management in past year’s audits, and is now being reflected in the audit report as a significant deficiency.

Effect—Items on the fixed assets sub-ledger that had been disposed of during the year still remained on the fixed asset schedule as of year-end and as such both the total cost and total accumulated depreciation were overstated.

Cause—Due to lack of year-end checklists, documentation of year-end reconciliation processes, and due to inmate and personnel turnover historically used to help reconcile capital assets.

Criteria—The organization is required to properly update the fixed assets sub-ledger and general ledgers to properly reflect all activity, additions and disposals from throughout the fiscal year. Additionally, the State of Arizona requires all disposals made through ADOA surplus to be removed from ACI's capital asset ledgers.

Recommendations—We recommend that the organization reconcile their fixed asset sub-ledger to the master listing of items that have been disposed of through Surplus monthly and at year-end. We recommend that at least annually, nonfinancial management from different departments review the fixed asset inventory schedule for potential disposals. We recommend that the organization add the reconciliation of fixed assets to monthly and year-end checklists, to document this process, and to crosstrain other finance staff to be able to do these reconciliations as well.

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

Agency Response: Concur

Agency: Arizona Correctional Industries (ACI)
Name of contact persons and titles: Dale Beatty, Chief Financial Advisor
Anticipated completion date: December 31, 2022

RECOMMENDATION: We recommend that the organization reconcile their fixed asset sub-ledger to the master listing of items that have been disposed of through Surplus monthly and at year-end. We recommend that at least annually, non-financial management from different departments review the fixed asset inventory schedule for potential disposals. We recommend that the organization add the reconciliation of fixed assets to monthly and yearend checklists, to document this process, and to cross-train other finance staff to be able to do these reconciliations as well.

ACI Management concurs with the finding and will implement the recommendation above

2021-13
The other auditors who audited the Arizona Commerce Authority (ACA) reported the following internal control deficiency over its revenues within the Aggregate Discretely Presented Component Units in the State's financial statements. ACA's and the State's 2021 financial statements were adjusted for all material misstatements noted.

Condition—The Authority did not properly accrue for revenue that was earned as of June 30, 2021. An audit adjustment was proposed, and subsequently recorded by management.

Effect—Internal control weakness as an audit adjustment was proposed and subsequently recorded by management to properly state the financial statements in accordance with governmental generally accepted accounting principles.

Cause—The Authority's determination and reporting of receivables and revenue incorporated an error that resulted in an adjustment in the financial statements. The Authority did not have sufficient review procedures in place to identify the error.

Criteria—In accordance with GASB 33 *Accounting and Financial Reporting for Nonexchange Transactions*.

Recommendations—We recommend the Authority evaluate its internal control processes over year-end closing procedures to ensure revenue related receivables are properly recorded at year-end.

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

Agency Response: Concur

Agency: Arizona Commerce Authority (ACA)

Name of contact person and title: Ken Burns, Chief Financial Officer

Anticipated completion date: June 30, 2022

RECOMMENDATION: We recommend the Authority evaluate its internal control processes over year-end closing procedures to ensure revenue related receivables are properly recorded at year-end.

The Authority concurs with the recommendation and will review its year end closeout process and procedures to ensure activity is properly reported.

2021-14

The other auditors who audited the Public Safety Personnel Retirement System (PSPRS) reported the following internal control deficiency over its financial reporting system activity that is reported within the Pension and Other Employee Benefit Trust Funds in the State's financial statements

Condition—During fiscal year 2021, PSPRS did not use a fully functional accounting and financial reporting system.

Specific to the financial systems limitations, we noted the following:

- PSPRS' financial reporting database does not have a consolidated general ledger module.
- PSPRS' financial reporting database does not allow for accounting periods to be closed and locked from transactions and journal entries.
- PSPRS' financial reporting database does not have adequate journal entry approval controls or segregation of duties built into the system.

Effect—PSPRS' internal controls over financial reporting of their financial statements were not designed and operating to ensure that a misstatement would be prevented or detected and corrected in a timely manner as a result of using a system lacking proper functionality.

Cause—PSPRS' financial reporting system, EPIC 2.0, was created in house and was not designed to incorporate standard GL reporting functionality and controls. Management has implemented controls to mitigate the risks posed by the financial reporting system's deficiencies. However, due to the nature of the system design flaws these risks cannot be fully addressed while continuing to use this application as the general ledger.

Criteria—Management is responsible for designing, implementing, and maintaining internal controls that include controls over the general ledger, and complete and accurate financial statements.

Recommendations—We recommend management complete the implementation of the financial accounting system, Microsoft Dynamics GL, to optimize the functioning of that system and incorporate it into all current and new accounting processes. As part of this implementation, we recommend PSPRS develop a process to review and post summary journal entries based on reconciled subledger activity.

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

This finding is similar to prior-year finding 2020-09.

Agency Response: Concur

Agency: Public Safety Personnel Retirement System (PSPRS)

Name of contact person and title: John Moorman, Chief Financial Officer

Anticipated completion date: June 30, 2022

Management has identified key design deficiencies associated with the current EPIC 2 system and have implemented compensating controls to mitigate the risk of a financial reporting misstatement. Management will additionally continue to assess and develop the MS Dynamics Great Plains General Ledger during the ongoing design phase of the new Pension Administration System (PAS). Management will also continue strengthen and enhance current controls and operation of the existing EPIC 2 system to ensure successful build out and transition to the new PAS.

2021-15

The other auditors who audited the PSPRS reported the following internal control deficiency over its investment accounting for activity that is reported within the Pension and Other Employee Benefit Trust Funds in the State's financial statements.

Condition—We observed PSPRS made progress toward addressing this finding, including creating and filling an investment accounting staff position and development of an external limited partner reconciliation process, however our prior year recommendations were not fully implemented for FY 2021. Investment activity is only recorded to the general ledger at year end. Additionally, it was noted that a complete monthly custodial bank reconciliation process was not implemented for FY 2021. Lastly, external limited partner investment fund net asset values and related investment income and expenses were not reconciled monthly by fund between the monthly custodial bank reporting and external limited partner capital account statements for FY 2021.

Effect—Increased likelihood of unidentified errors and inaccurate investment account balances.

Cause—PSPRS has not fully implemented routine investment accounting policies, procedures, and activities.

Criteria—Management is responsible for designing, implementing, and maintaining internal controls that include controls over account reconciliations, and complete and accurate financial statements.

Recommendation—We recommend PSPRS standardize and document investment accounting procedures, including robust, timely reconciliation of investment balances, income and expenses between the custodial bank, external manager reporting and general ledger.

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

This finding is similar to prior-year finding 2020-11.

Agency Response: Concur

Agency: Public Safety Personnel Retirement System (PSPRS)

Name of contact person and title: John Moorman, Chief Financial Officer

Completed date: June 30, 2022

Investment Operations (IO) have developed a number of new processes and activities during FY21 and ongoing for FY22 ensuring regular reconciliation between the custodial bank and external manager records, both on investment valuations and the investment transactions reporting side. Management is confident that these activities/improvements have substantially reduced the risk of errors and potential financial statement misstatements. These internal control improvements include the daily and monthly reconciliation of all drawdown fund transaction records and real-time reconciliation of all other investment transactions with the exception of three equity SMAs, which continue to have their activity and balances reconciled directly between the manager (State Street) and BNYM, on a monthly basis. Additionally, reconciliation of all NON-drawdown fund valuation (NAV) records are now occurring on a monthly basis and drawdown fund (non-lagged) valuation records are performed on a quarterly basis to ensure the accuracy of the BOR. IO

will continue working with CLA auditors to ensure our custodial reconciliation processes fully meet their expectations and to address all of their remaining concerns in time for the next annual audit. Finally, beginning in Q2 2021, IO is now preparing quarterly GL summary files for entry into the financial reporting system. The IO team has started work with BNYM to create custom report(s) that would allow an automated process to improve efficiency and expedite the entire GL entry process going forward.

2021-16

The other auditors who audited the Arizona Department of Transportation (ADOT) reported the following internal control deficiency over expenditure cutoff for activity within the Transportation and Aviation Planning, Highway Maintenance and Safety Fund and Other Governmental Funds in the State's financial statements. ADOT's and the State's 2021 financial statements were adjusted for all material misstatements noted.

Condition—During the course of our audit, we proposed and the Department subsequently recorded adjustments to correct accounts payable/expenditures. As a result of audit procedures, we noted that five transactions were not recorded in the proper period totaling \$8,028,427.

Effect—The lack of controls in place over the review of subsequent disbursements increases the risk of misstatements or errors occurring and not being detected and corrected.

Cause—The Department's internal control procedures failed to detect subsequent disbursements requiring accrual in the current audit period.

Criteria—Internal controls should be in place to provide reasonable assurance that expenditures are recorded in the proper period in accordance with accounting principles generally accepted in the United States of America.

Recommendation—We recommend that the Department implement policies and proper internal control procedures to ensure that expenditures are recorded in the proper period.

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

This finding is similar to prior-year finding 2020-13.

Agency Response: Concur

Agency: Arizona Department of Transportation (ADOT)
Name of contact person and title: Michelle Huckabay,
Controller Completed date: June 30, 2022

We concur, in the past few fiscal years the agency has made a good faith effort to get the information being entered into the procurement system to be as accurate as possible by the end users. To mitigate this issue, the Accounts Payable manager will:

- Provide education/expectations to users via a required computer-based training(s) by June 30th. This will bring additional awareness to the expectations of end users and their role during the fiscal year end.
- Explore new opportunities to gather the information needed, or validate the information provided. In addition, because of the ongoing nature of the service date issue, we have submitted a proposal to the CFO to engage our internal audit team to perform an audit of the procurement system users, and their utilization of the service date(s) fields in the system.

In addition, because of the ongoing nature of the service date issue, we have submitted a proposal to the CFO to engage our internal audit team to perform an audit of the procurement system users, and their utilization of the service date(s) fields in the system.

2021-17

The other auditors who audited ADOT reported the following internal control deficiency over financial reporting for its motor vehicle department revenues within the Transportation and Aviation Planning, Highway Maintenance and Safety Fund in the

State's financial statements. ADOT's and the State's 2021 financial statements were adjusted for all material misstatements noted.

Condition—The Department did not have internal controls in place to ensure that chargebacks between customer accounts through the MVD's MAX system were not misappropriated. Potentially fraudulent chargebacks misappropriated by customers totaled \$854,484.

Effect—The lack of MVD's MAX system internal controls over customer account chargebacks increases the risk of fraud occurring and not being detected and corrected.

Cause—The Department did not have proper system controls within MVD's MAX system to deter the opportunity for customer account chargebacks to be misappropriated.

Criteria—Internal controls should be in place to provide reasonable assurance that revenues are properly recorded in accordance with accounting principles generally accepted in the United States of America.

Recommendation—We recommend that the Department implement proper MAX system controls to ensure that misappropriation of customer chargebacks is mitigated.

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

Agency Response: Concur

Agency: Arizona Department of Transportation (ADOT)
Name of contact person and title: Michelle Huckabay, Controller
Completed date: June 30, 2022

We concur, in the past several months the agency has made significant changes to improve the systems controls within MVD's MAX system to deter the opportunity for customer account chargebacks. The following is a list of implementations:

1. PPV's are no longer allowed to be used by individuals. Only organizations can.
2. Additional checks went in on the Kyndryl side to validate credit cards and bank accounts.
3. Funding of customer accounts for individuals is no longer allowed unless there are special circumstances.
4. If a customer funds an account and then does a chargeback the funds are removed from the customer account if they are still there.
5. We ran a query to match up customer funding to customers that owe ADOT funds. We manually liquidated accounts to cover funds owed to us. This only included compliance payments not items ordered by the court.
6. RFTA, MVD and OIG are working on items that pop up as a fraud case. We now have a spreadsheet that we all work off of.

2021-18

The other auditors who audited the Arizona Property and Casualty Insurance Guaranty Fund (APCIGF) reported the following internal control deficiency over disbursement approval. This fund is combined into the Department of Insurance and Financial Institutions Guaranty Funds column within the Aggregate Discretely Presented Component Units in the State's financial statements.

Condition—The worker's compensation disbursement approval processes contain the following control deficiencies, which are considered material weaknesses:

- Documentation that the APCIGF Checks to Business reports of disbursements, initiated by a thirdparty administrator, were reviewed was not available for February 2020.
- For 1 of 43 workers compensation claim disbursements tested, amounts paid were not properly supported by the LEC letter. The recipient was underpaid \$15 per month from November 2019 through March 2021. In March 2021, the underpayments were issued to the recipient.

Effect—Material errors in financial reporting may not be prevented or detected on a timely basis.

Cause—Although the internal controls were adequately designed, there were deficiencies in the execution of the controls.

Criteria—Reports of disbursements, initiated by a third-party administrator, should be reviewed and maintained. Disbursements should only be made in accordance with the proper supporting documentation.

Recommendation—Processes should be implemented to ensure that the APCIGF Checks to Business Reports are reviewed and maintained. These reviews should be documented. Additionally, changes in benefits should be reviewed to ensure that disbursements are properly supported. This will help ensure that disbursements are properly supported and approved.

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

Agency Response: Concur

Agency: Arizona Property and Casualty Insurance Guaranty Fund (APCIGF)
Name of contact person and title: Lori Nestor, Executive Director
Completed date: June 30, 2022

Although a process is in place to ensure that APCIGF Checks to Business Reports are reviewed monthly, only 11 months of digitally signed reports were able to be produced for this audit. Future versions of the reviewed documents will be saved in our new document retention system to ensure that all are maintained and available for review in the future. Benefit change documentation will be maintained in a manner that makes the document easy to find, and greater care will be taken to ensure that benefits match awards. LEC awards will be reviewed at all diaries to ensure that proper amounts are being paid.

2021-19

The other auditors who audited the Arizona Life and Disability Insurance Guaranty Fund reported the following internal control deficiency in its service organization oversight. This fund is combined into the Department of Insurance and Financial Institutions Guaranty Funds column within the Aggregate Discretely Presented Component Units in the State’s financial statements.

Condition—TriPlus Services, Inc.’s systems and controls were not monitored by the Fund. There was no evidence that Policy and Claims Administration (PACA) Working Group’s Reports on activities and general administration statistics, and claims data from the monthly Penn Treaty NonLTC and LTC GA Operations Reports were reviewed.

Effect—Material errors in financial reporting may not be prevented or detected on a timely basis.

Cause—Although the internal controls were adequately designed, there were deficiencies in the execution of the controls.

Criteria—Complimentary user controls should be implemented over service organization control objectives.

Recommendation—A process should be implemented to monitor the systems and controls of service organizations. These reviews should be documented. This will help ensure that the Fund is properly monitoring the systems and controls of service organizations.

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

Agency Response: Concur

Agency: Arizona Life and Disability Insurance Guaranty Fund (ALDIGF)

Name of contact person and title: Lori Nestor, Executive Director

Completed date: June 30, 2022

Although reports regarding both LTC and Non-LTC activity are downloaded and reviewed by the Executive Director monthly, no initials or other proof of review has been added in the past. The reports will be digitally signed to acknowledge review when downloaded going forward. PACA has not produced any reports since April 2020, and it's unclear whether they'll resume. If they do, those reports will be retrieved and reviewed when produced. Any copies retrieved will be digitally signed as well.