



OFFICE OF  
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

December 12, 2024

**MEMORANDUM FOR JESSICA MILANO, CHIEF PROGRAM OFFICER,  
OFFICE OF CAPITAL ACCESS, DEPARTMENT OF THE TREASURY**

**FROM:** Deborah L. Harker /s/  
Assistant Inspector General for Audit

**SUBJECT:** Desk Review of State of Arizona's Use of Coronavirus  
Relief Fund Proceeds (OIG-CA-25-016)

Please find the attached desk review memorandum<sup>1</sup> on the State of Arizona's (Arizona) use of Coronavirus Relief Fund (CRF) proceeds. The CRF is authorized under Title VI of the Social Security Act, as amended by Title V, Division A of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Under a contract monitored by our office, Castro & Company, LLC (Castro), a certified independent public accounting firm, performed the desk review. Castro performed the desk review in accordance with the Council of the Inspectors General on Integrity and Efficiency *Quality Standards for Federal Offices of Inspector General* standards of independence, due professional care, and quality assurance.

In its desk review, Castro personnel reviewed documentation for a non-statistical selection of 25 transactions reported in the quarterly Financial Progress Reports (FPR) and identified a combination of unsupported and ineligible questioned costs of \$135,747,413 and \$74,044, respectively, resulting in total questioned costs of \$135,821,457 (see attached schedule of monetary benefits).

Castro also identified reporting misclassifications related to Transfers greater than or equal to \$50,000<sup>2</sup> and Aggregate Payments to Individuals<sup>3</sup> that did not comply with Department of the Treasury's (Treasury) Guidance.

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<sup>1</sup> The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) assigned the Department of the Treasury Office of Inspector General with responsibility for compliance monitoring and oversight of the receipt, disbursement, and use of Coronavirus Relief Fund (CRF) payments. The purpose of the desk review is to perform monitoring procedures of the prime recipient's receipt, disbursement, and use of CRF proceeds as reported in the grant-reporting portal on a quarterly basis.

<sup>2</sup> A transfer to another government entity is a disbursement or payment to a government entity that is legally distinct from the prime recipient.

<sup>3</sup> Obligations and expenditures for payments made to individuals, regardless of amount, are required to be reported in the aggregate in the grant-reporting portal to prevent inappropriate disclosure of personally identifiable information.

Castro determined that the expenditures related to the Aggregate Reporting less than \$50,000<sup>4</sup> payment type complied with the CARES Act and Treasury's Guidance. Castro also determined that the expenditures related to Grants greater than or equal to \$50,000, Transfers greater than or equal to \$50,000, and Aggregate Payments to Individuals payment types did not comply with the CARES Act and Treasury's Guidance. Additionally, Castro determined that Arizona's risk of unallowable use of funds is high.

Castro recommends that Treasury Office of Inspector General (OIG) follow-up with Arizona's management to confirm if the \$135,747,413 noted as unsupported costs within the Transfers greater than or equal to \$50,000 and Aggregate Payments to Individuals payment types can be supported. If support is not provided, Treasury OIG should recoup the funds or request Arizona's management to provide support for replacement expenses, not previously charged, that were eligible during the CRF period of performance.

In addition, Castro recommends that Treasury OIG request that Arizona's management provide support for replacement expenses, not previously charged, that were eligible during the CRF period of performance for the \$74,044 of ineligible costs charged to the Grants greater than or equal to \$50,000 and Aggregate Payments to Individuals payment types. If support is not provided, Treasury OIG should recoup the funds.

Further, based on Arizona management's responsiveness to Treasury OIG's requests and management's ability to provide sufficient documentation and/or replace unsupported and ineligible transactions charged to CRF with valid expenditures, Castro recommends Treasury OIG determine the feasibility of conducting an audit for the Grants greater than or equal to \$50,000, Transfers greater than or equal to \$50,000, and Aggregate Payments to Individuals payment types.

Castro also noted that Arizona had findings in its Single Audit Act reports for fiscal years 2020, 2021, and 2022. Castro recommends that Treasury OIG follow-up with Treasury's Office of Capital Access to ensure that management decision letters are issued on the findings identified by the auditor in the Single Audit reports, which are summarized below.

- 1) Arizona's fiscal year 2020 Single Audit Act report was published on October 27, 2021. In this Single Audit report, the auditor identified

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<sup>4</sup> Recipients are required to report CRF transactions greater than or equal to \$50,000 in detail in the grant-reporting portal. Transactions less than \$50,000 can be reported as an aggregate lump-sum amount by type (contracts, grants, loans, direct payments, and transfers to other government entities).

\$25,579,909 in CRF related questioned costs.

- 2) Arizona's fiscal year 2021 Single Audit Act report was published on November 28, 2022. In this Single Audit Act report, the auditor identified \$1,256,302 in unsupported CRF related questioned costs.
- 3) Arizona's fiscal year 2022 Single Audit Act report was published on December 20, 2023. In this Single Audit Act report, the auditor included control related findings, but the auditor did not identify any questioned costs.

Castro also recommends Treasury OIG follow-up with Arizona to obtain a copy of its fiscal year 2023 Single Audit Act report as this was not available to Castro at the time of its desk review planning procedures.

Additionally, Castro identified other matters throughout the course of its desk review, which warranted recommendations to Treasury OIG for additional action. Castro recommends Treasury OIG follow-up on these issues:

- 1) Castro noted that Arizona's reported Transfers greater than or equal to \$50,000 did not comply with Treasury's Guidance. Based on the state's invoice level general ledger detail provided, there was a scope limitation for five of six transactions selected for testing. Arizona management did not complete a true reconciliation of the expenses incurred by Arizona state agencies and the amount of invoice level transactions provided to Castro did not agree to the amount claimed within the grant-reporting portal. Without this level of detail, Castro could not determine whether expenditure amounts reported were properly supported and could not perform adequate invoice-level testing. Castro recommends Treasury OIG request that Arizona's management completes a reconciliation of its Transfers greater than or equal to \$50,000 population utilizing state agency incurred expenditures at the invoice level. Based on Arizona management's ability to provide a sufficient general ledger detail reconciliation for Transfers greater than or equal to \$50,000, Castro recommends Treasury OIG determine the feasibility of performing additional testing over Transfers greater than or equal to \$50,000.
- 2) Castro recommends Treasury OIG request Arizona's management perform an assessment over whether there were any additional indirect costs, above those identified by Castro, claimed within its Grants greater than or equal to \$50,000 CRF submission, and identify those for removal and repayment to Treasury, as applicable.

- 3) Castro recommends Treasury OIG request that Arizona's management performs an assessment of whether it had any additional annual leave payouts that were earned prior to the covered period and claimed as CRF expenses, above those identified by Castro, and identify those for reversal and repayment to Treasury, as applicable.
- 4) Castro tested \$3,692,832 out of \$112,240,073 in substantially dedicated payroll claimed by Arizona. Since Castro identified unsupported questioned costs within these Aggregate Payments to Individuals Substantially Dedicated Payroll expenditures tested, Castro recommends Treasury OIG determine the feasibility of performing additional follow-up with Arizona's management to determine if there were other instances of unsupported balances within the remaining portion of this balance.

Arizona management opted to forgo meeting with Treasury OIG and Castro to further discuss the questioned costs. Arizona management stated it preferred to spend the time completing reconciliations necessary to address the findings and that it believes Arizona can provide supporting documentation upon additional review, if requested.

In connection with our contract with Castro, we reviewed Castro's desk review memorandum and related documentation and inquired of its representatives. Our review, as differentiated from an audit performed in accordance with generally accepted government auditing standards, was not intended to enable us to express an opinion on Arizona's use of CRF proceeds. Castro is responsible for the attached desk review memorandum and the conclusions expressed therein. Our review found no instances in which Castro did not comply in all material respects with *Quality Standards for Federal Offices of Inspectors General*.

We appreciate the courtesies and cooperation provided to Castro and our staff during the desk review. If you have any questions or require further information, please contact me at (202) 486-1420, or a member of your staff may contact Lisa DeAngelis, Audit Director, at (202) 487-8371.

cc: Michelle A. Dickerman, Deputy Assistant General Counsel, Department of the Treasury  
Danielle Christensen, Deputy Chief Program Officer, Office of Capital Access, Department of the Treasury  
Jean Bell, Accounting Manager, State of Arizona  
Deidre Mai, Deputy Director, Grants & Federal Resources, Governor's Office of Strategic Planning and Budgeting, State of Arizona  
Wayne Ference, Partner, Castro & Company, LLC

Attachment

Schedule of Monetary Benefits

According to the Code of Federal Regulations,<sup>5</sup> a questioned cost is a cost that is questioned due to a finding:

- (a) which resulted from a violation or possible violation of a statute, regulation, or the terms and conditions of a Federal award, including for funds used to match Federal funds;
- (b) where the costs, at the time of the review, are not supported by adequate documentation; or
- (c) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

Questioned costs are to be recorded in the Department of the Treasury's (Treasury) Joint Audit Management Enterprise System (JAMES).<sup>6</sup> The amount will also be included in the Office of Inspector General (OIG) Semiannual Report to Congress. It is Treasury management's responsibility to report to Congress on the status of the agreed to recommendations with monetary benefits in accordance with 5 USC Section 405.

<u>Recommendation</u>	<u>Questioned Costs</u>
Recommendation No. 1	\$135,821,457

The questioned cost represents amounts provided by Treasury under the Coronavirus Relief Fund. As discussed in the attached desk review, \$135,821,457 is Arizona's expenditures reported in the grant-reporting portal that were ineligible or lacked supporting documentation.

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<sup>5</sup> 2 CFR § 200.84 – Questioned Cost

<sup>6</sup> JAMES is Treasury's audit recommendation tracking system.

Desk Review of the State of Arizona

December 12, 2024

OIG-CA-25-016

MEMORANDUM FOR DEBORAH L. HARKER,  
ASSISTANT INSPECTOR GENERAL FOR AUDIT

FROM: Wayne Ference  
Partner, Castro & Company, LLC

SUBJECT: Desk Review of the State of Arizona

On April 3, 2024 we initiated a desk review of the State of Arizona's (Arizona) use of the Coronavirus Relief Fund (CRF) authorized under Title VI of the Social Security Act, as amended by Title V, Division A of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act).<sup>1</sup> The objective of our desk review was to evaluate Arizona's documentation supporting its uses of CRF proceeds as reported in the GrantSolutions<sup>2</sup> portal and to assess the risk of unallowable use of funds. The scope of our desk review was limited to obligation and expenditure data for the period of March 1, 2020 through December 31, 2022,<sup>3</sup> as reported in the GrantSolutions portal.

As part of our desk review, we performed the following:

- 1) reviewed Arizona's quarterly Financial Progress Reports (FPRs) submitted in the GrantSolutions portal through December 31, 2022;
- 2) reviewed the *Department of the Treasury's (Treasury) Coronavirus Relief Fund Guidance* as published in the Federal Register on January 15, 2021;<sup>4</sup>

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<sup>1</sup> P.L. 116-136 (March 27, 2020).

<sup>2</sup> GrantSolutions, a grant and program management Federal shared service provider under the United States (U.S.) Department of Health and Human Services, developed a customized and user-friendly reporting solution to capture the use of CRF payments from prime recipients.

<sup>3</sup> Arizona fully expended their total CRF proceeds as of December 31, 2022. Castro set the scope end date to December 31, 2022, which was the date of Arizona's last reporting submission within the GrantSolutions portal.

<sup>4</sup> Coronavirus Relief Fund Guidance as published in the Federal Register (January 15, 2021).  
[https://home.treasury.gov/system/files/136/CRF-Guidance-Federal-Register\\_2021-00827.pdf](https://home.treasury.gov/system/files/136/CRF-Guidance-Federal-Register_2021-00827.pdf)

## Desk Review of the State of Arizona

- 3) reviewed Treasury's Office of Inspector General (OIG) *Coronavirus Relief Fund Frequently Asked Questions Related to Reporting and Recordkeeping*;<sup>5</sup>
- 4) reviewed Treasury OIG's monitoring checklists<sup>6</sup> of Arizona's quarterly FPR submissions for reporting deficiencies;
- 5) reviewed other audit reports issued, such as Single Audit Act reports,<sup>7</sup> and those issued by the Government Accountability Office and other applicable Federal agency OIGs for internal control or other deficiencies that may pose risk or impact Arizona's uses of CRF proceeds;
- 6) reviewed Treasury OIG Office of Investigations, the Council of the Inspectors General on Integrity and Efficiency Pandemic Response Accountability Committee,<sup>8</sup> and Treasury OIG Office of Counsel input on issues that may pose risk or impact Arizona's uses of CRF proceeds;
- 7) interviewed key personnel responsible for preparing and certifying Arizona's GrantSolutions portal quarterly FPR submissions, as well as officials responsible for obligating and expending CRF proceeds;

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<sup>5</sup> Department of the Treasury Office of Inspector General *Coronavirus Relief Fund Frequently Asked Questions Related to Reporting and Recordkeeping* OIG-20-028R; March 2, 2021.

<sup>6</sup> The checklists were used by Treasury OIG personnel to monitor the progress of prime recipient reporting in the GrantSolutions portal. GrantSolutions quarterly submission reviews were designed to identify material omissions and significant errors, and where necessary, included procedures for notifying prime recipients of misreported data for timely correction. Treasury OIG followed the *CRF Prime Recipient Quarterly GrantSolutions Submissions Monitoring and Review Procedures Guide*, OIG-CA-20-029R to monitor the prime recipients on a quarterly basis.

<sup>7</sup> P. L. 104-156 (July 5, 1996) The Single Audit Act of 1984, as amended in 1996, requires entities who receive federal funds in excess of \$750,000 to undergo an annual audit of those Federal funds. The act was enacted for the purpose of promoting sound financial management, including effective internal controls, with respect to Federal awards administered by non-Federal entities and to establish uniform requirements for audits. This prime recipient was subject to those audit requirements, and Castro reviewed applicable prior year single audit reports as part of our desk review risk assessment procedures.

<sup>8</sup> Section 15010 of P.L. 116-136, the CARES Act, established the Pandemic Response Accountability Committee within the Council of the Inspectors General on Integrity and Efficiency to promote transparency and conduct and support oversight of covered funds (see Footnote 18 for a definition of covered funds) and the coronavirus response to (1) prevent and detect fraud, waste, abuse, and mismanagement; and (2) mitigate major risks that cut across program and agency boundaries.

## Desk Review of the State of Arizona

- 8) made a non-statistical selection of Grants, Transfers,<sup>9</sup> Aggregate Reporting,<sup>10</sup> Aggregate Payments to Individuals<sup>11,12</sup> data identified through GrantSolutions reporting; and
- 9) evaluated documentation and records used to support Arizona's quarterly FPRs.

Based on our review of Arizona's documentation supporting the uses of its CRF proceeds as reported in the GrantSolutions portal, we determined that the expenditures related to the Aggregate Reporting less than \$50,000 payment type complied with the CARES Act and Treasury's Guidance. Additionally, we determined that the expenditures related to the Grants greater than or equal to \$50,000, Transfers greater than or equal to \$50,000, and Aggregate Payment to Individuals payment types did not comply with the CARES Act and Treasury's Guidance.

We identified unsupported and ineligible questioned costs of \$135,747,413 and \$74,044, respectively, with total questioned costs of \$135,821,457. We also determined Arizona's risk of unallowable use of funds is high.

Castro recommends that Treasury OIG follow-up with Arizona's management to confirm if the \$135,747,413 noted as unsupported expenditures within the Transfers greater than or equal to \$50,000 and Aggregate Payments to Individuals payment types can be supported. If support is not provided, Treasury OIG should recoup the funds or request Arizona's management to provide support for replacement expenses, not previously charged, that were eligible during the CRF period of performance.

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<sup>9</sup> A transfer to another government entity is a disbursement or payment to a government entity that is legally distinct from the prime recipient.

<sup>10</sup> Prime recipients were required to report CRF transactions greater than or equal to \$50,000 in detail in the GrantSolutions portal. Transactions less than \$50,000 could be reported as an aggregate lump-sum amount by type (contracts, grants, loans, direct payments, and transfers to other government entities).

<sup>11</sup> Obligations and expenditures for payments to individuals, regardless of amount, were required to be reported in the aggregate in the GrantSolutions portal to prevent inappropriate disclosure of personally identifiable information.

<sup>12</sup> Castro identified a misclassification in reporting that did not comply with Treasury's Guidance. Arizona reported \$609,316,321 of payments to individuals in the Transfers greater than or equal to \$50,000 payment type rather than the Aggregate Payments to Individuals payment type. Due to the errors in GrantSolutions reporting, Castro utilized Arizona's general ledger balances for transaction selection purposes for the Transfers greater than or equal to \$50,000 and Aggregate Payments to Individuals payment types. See Non-Statistical Transaction Selection Methodology section below for additional details.



## Desk Review of the State of Arizona

In addition, Castro recommends that Treasury OIG request Arizona management provide support for replacement expenses, not previously charged, that were eligible during the CRF period of performance for the \$74,044 of ineligible costs charged to the Grants greater than or equal to \$50,000 and Aggregate Payments to Individuals payment types. If support is not provided, Treasury OIG should recoup the funds.

Further, based on Arizona's responsiveness to Treasury OIG's requests and its ability to provide sufficient documentation and/or replace unsupported and ineligible transactions charged to CRF with valid expenditures, Castro recommends Treasury OIG determine the feasibility of conducting an audit for the Grants greater than or equal to \$50,000, Transfers greater than or equal to \$50,000, and Aggregate Payments to Individuals payment types.

At the time of our fieldwork, Castro noted that Arizona had findings in their Single Audit reports for fiscal years 2020, 2021, and 2022. Castro recommends that Treasury OIG follow-up with Treasury's Office of Capital Access to ensure that management decision letters are issued on the findings identified by the auditor in the Single Audit reports, which we have summarized below.

- Arizona's fiscal year 2020 Single Audit report was published on October 27, 2021. In this Single Audit report, the auditor identified \$25,579,909 in CRF-related questioned costs.
- Arizona's fiscal year 2021 Single Audit report was published on November 28, 2022. In this Single Audit report, the auditor identified \$1,256,302 in unsupported CRF-related questioned costs.
- Arizona's fiscal year 2022 Single Audit report was published on December 20, 2023. In this Single Audit report, the auditor did include control related findings, but the auditor did not identify any questioned costs.

We also recommend Treasury OIG follow-up with Arizona to obtain a copy of its fiscal year 2023 Single Audit report as this was not available to Castro at the time of our desk review planning procedures.

### **Non-Statistical Transaction Selection Methodology**

Treasury issued a \$1,856,987,708 CRF payment to Arizona. As of December 31, 2022, Arizona’s cumulative obligations and expenditures were both \$1,856,174,237. Arizona returned a total of \$813,471 in CRF proceeds to Treasury prior to its final GrantSolutions portal submission of December 31, 2022.<sup>13</sup> Arizona’s cumulative obligations and expenditures by payment type are summarized below.

<b>Payment Type</b>	<b>Cumulative Obligations per FPR</b>	<b>Cumulative Expenditures per FPR</b>	<b>Cumulative Expenditures per GL Populations</b>
Contracts >= \$50,000	\$ -	\$ -	\$ -
Grants >= \$50,000	\$ 811,750,946	\$ 811,750,946	\$ 811,750,946
Loans >= \$50,000	\$ -	\$ -	\$ -
Transfers >= \$50,000	\$ 1,043,233,941	\$ 1,043,233,941	\$ 433,917,620
Direct Payments >= \$50,000	\$ -	\$ -	\$ -
Aggregate Reporting < \$50,000	\$ 1,189,350	\$ 1,189,350	\$ 1,189,350
Aggregate Payments to Individuals (in any amount) <sup>14</sup>	\$ -	\$ -	\$ 609,316,321
<b>Totals</b>	<b>\$ 1,856,174,237</b>	<b>\$ 1,856,174,237</b>	<b>\$ 1,856,174,237</b>

<sup>13</sup> Arizona confirmed that as part of its state agency reconciliation requested as part of Castro’s desk review, the Arizona Department of Economic Security identified \$133,213 of additional unused funds that Arizona returned to Treasury after its final GrantSolutions portal reporting submission date of December 31, 2022. See Transfers greater than or equal to \$50,000 section within the Desk Review Results section below for questioned costs identified during Castro’s tie-out procedures performed at the state agency level. This \$133,213 is included within those questioned costs. Since the return of these funds to Treasury happened during our desk review, this amount was not excluded from the amounts subject to testing during our desk review.

<sup>14</sup> Castro identified a misclassification in reporting that did not comply with Treasury’s Guidance. Arizona reported \$609,316,321 of payments to individuals in the Transfers greater than or equal to \$50,000 payment type rather than the Aggregate Payments to Individuals payment type. Due to the errors in GrantSolutions reporting, Castro utilized Arizona’s general ledger balances for transaction selection purposes for the Transfers greater than or equal to \$50,000 and Aggregate Payments to Individuals payment types.

## Desk Review of the State of Arizona

Castro made a non-statistical selection of the Grants greater than or equal to \$50,000, Transfers greater than or equal to \$50,000, Aggregate Reporting less than \$50,000, and Aggregate Payments to Individuals payment types. Selections were made using auditor judgment based on information and risks identified in reviewing audit reports, the GrantSolutions portal reporting anomalies<sup>15</sup> identified by the Treasury OIG CRF monitoring team, and review of Arizona's FPR submissions. Arizona did not obligate or expend CRF proceeds for the Contracts greater than or equal to \$50,000, Loans greater than or equal to \$50,000, and Direct Payments greater than or equal to \$50,000 payment types; therefore, we did not make a selection of transactions from these payment types.

The number of transactions (25) we selected to test was based on Arizona's total CRF award amount and our overall risk assessment of Arizona. To allocate the number of transactions (25) by payment type (Grants greater than or equal to \$50,000, Transfers greater than or equal to \$50,000, Aggregate Reporting less than \$50,000, and Aggregate Payments to Individuals), we compared the payment type dollar amounts as a percentage of cumulative expenditures as of December 31, 2022. The transactions selected for testing were not selected statistically, and therefore results could not be extrapolated to the total universe of transactions.

### **Background**

The CARES Act appropriated \$150 billion to establish the CRF. Under the CRF, Treasury made payments for specified uses to States and certain local governments; the District of Columbia and U.S. Territories, including the Commonwealth of Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands; and Tribal governments (collectively referred to as "prime recipients"). Treasury issued a \$1,856,987,708 CRF payment to Arizona. The CARES Act stipulates that a prime recipient may only use the funds to cover costs that—

- (1) were necessary expenditures incurred due to the public health emergency with respect to the coronavirus disease 2019 (COVID-19);
- (2) were not accounted for in the budget most recently approved as of March 27, 2020; and

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<sup>15</sup> Treasury OIG had a pre-defined list of risk indicators that were triggered based on data submitted by prime recipients in the FPR submissions that met certain criteria. Castro reviewed these results provided by Treasury OIG for the prime recipient.

## Desk Review of the State of Arizona

(3) were incurred during the covered period between March 1, 2020 and December 31, 2021.<sup>16</sup>

Section 15011 of the CARES Act required each covered recipient<sup>17</sup> to submit to Treasury and the Pandemic Response Accountability Committee, no later than 10 days after the end of each calendar quarter, a report that contained (1) the total amount of large, covered funds<sup>18,19</sup> received from Treasury; (2) the amount of large, covered funds received that were expended or obligated for each project or activity; (3) a detailed list of all projects or activities for which large, covered funds were expended or obligated; and (4) detailed information on any level of sub-contracts or sub-grants awarded by the covered recipient or its sub-recipients.

The CARES Act assigned Treasury OIG the responsibility for compliance monitoring and oversight of the receipt, disbursement, and use of CRF proceeds. Treasury OIG also has the authority to recoup funds in the event that it is determined a recipient failed to comply with requirements of subsection 601(d) of the Social Security Act, as amended, (42 U.S.C. 801(d)).

### **Desk Review Results**

#### Financial Progress Reports

We reviewed Arizona's quarterly FPRs through December 31, 2022, and found that Arizona timely filed quarterly FPRs in the GrantSolutions portal in compliance with Treasury OIG's reporting requirements for the periods ending June 30, 2020 through December 31, 2022.

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<sup>16</sup> P.L. 116-260 (December 27, 2020). The covered period end date of the CRF was extended through December 31, 2021 by the Consolidated Appropriations Act, 2021. The covered period end date for tribal entities was further extended to December 31, 2022 by the State, Local, Tribal, and Territorial Fiscal Recovery, Infrastructure, and Disaster Relief Flexibility Act, Division LL of the Consolidated Appropriations Act, 2023, P.L. 117-328, December 29, 2022, 136 Stat. 4459.

<sup>17</sup> Section 15011 of P.L. 116-136, the CARES Act, defined a covered recipient as any entity that received large, covered funds and included any State, the District of Columbia, and any territory or possession of the United States.

<sup>18</sup> Section 15010 of P.L. 116-136, the CARES Act, defined covered funds as any funds, including loans, that were made available in any form to any non-Federal entity, not including an individual, under Public Laws 116-123, 127, and 136, as well as any other law which primarily made appropriations for Coronavirus response and related activities.

<sup>19</sup> Section 15011 of P.L. 116-136 defined large, covered funds as covered funds that amounted to more than \$150,000.

## Desk Review of the State of Arizona

### Summary of Testing Results

We found that the expenditures related to the Aggregate Reporting less than \$50,000 payment type complied with the CARES Act and Treasury's Guidance. Additionally, we found that the Grants greater than or equal to \$50,000, Transfers greater than or equal to \$50,000, and Aggregate Payments to Individuals payment types did not comply with the CARES Act and Treasury's Guidance because we were unable to determine if all tested expenditures were necessary due to the COVID-19 public health emergency, were not accounted for in the budget most recently approved as of March 27, 2020, and were incurred during the covered period. The transactions selected for testing were not selected statistically, and therefore results could not be extrapolated to the total universe of transactions.

Within Table 1 below, we have included a summary of \$135,766,044 in unsupported and ineligible expenditures identified as questioned costs through our testing of detailed transactions, which did not comply with the CARES Act and Treasury's Guidance. Castro also identified other matters throughout the course of our desk review procedures which we considered to be questioned costs that were not part of our testing of detailed transactions. Table 2 below combines the questioned costs identified in Table 1 with the other questioned costs of \$55,413 identified separately from our detailed transaction testing to account for total questioned costs of \$135,821,457. See the Desk Review Results section below Table 2 for a detailed discussion of questioned costs and other issues identified throughout the course of our desk review.

**Table 1 - Summary of Expenditures Testing and Recommended Results  
As of December 31, 2022**

<b>Payment Type</b>	<b>Cumulative Expenditures per GL Populations Amount</b>	<b>Cumulative Expenditure Tested Amount</b>	<b>Unsupported Tested Questioned Costs</b>	<b>Ineligible Tested Questioned Costs</b>	<b>Total Tested Questioned Costs</b>
Contracts >= \$50,000	\$ -	\$ -	\$ -	\$ -	\$ -
Grants >= \$50,000	\$ 811,750,946	\$ 111,407,588	\$ -	\$ -	\$ -
Loans >= \$50,000	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers >= \$50,000	\$ 433,917,620	\$ 119,614,002	\$ 117,614,002	\$ -	\$ 117,614,002
Direct Payments >= \$50,000	\$ -	\$ -	\$ -	\$ -	\$ -
Aggregate Reporting < \$50,000	\$ 1,189,350	\$ 88,586	\$ -	\$ -	\$ -
Aggregate Payments to Individuals (in any amount)	\$ 609,316,321	\$ 522,361,307	\$ 18,133,411	\$ 18,631	\$ 18,152,042
<b>Totals</b>	<b>\$ 1,856,174,237</b>	<b>\$ 753,471,483</b>	<b>\$ 135,747,413</b>	<b>\$ 18,631</b>	<b>\$ 135,766,044</b>

**Table 2 – Summary of Tested and Other Matters Identified Questioned Costs  
As of December 31, 2022**

Payment Type	Unsupported Tested Questioned Costs	Ineligible Tested Questioned Costs	Ineligible Reconciliation Errors Questioned Costs (Other Matter)	Total Ineligible Questioned Costs	Total Questioned Costs (Tested & Other Matter)
Contracts >= \$50,000	\$ -	\$ -	\$ -	\$ -	\$ -
Grants >= \$50,000	\$ -	\$ -	\$ 55,413	\$ 55,413	\$ 55,413
Loans >= \$50,000	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers to Other Government Agencies >= \$50,000	\$ 117,614,002	\$ -	\$ -	\$ -	\$ 117,614,002
Direct Payments >= \$50,000	\$ -	\$ -	\$ -	\$ -	\$ -
Aggregate Reporting < \$50,000	\$ -	\$ -	\$ -	\$ -	\$ -
Aggregate Payments to Individuals (in any amount)	\$ 18,133,411	\$ 18,631	\$ -	\$ 18,631	\$ 18,152,042
<b>Totals</b>	<b>\$ 135,747,413</b>	<b>\$ 18,631</b>	<b>\$ 55,413</b>	<b>\$ 74,044</b>	<b>\$ 135,821,457</b>

Grants Greater Than or Equal to \$50,000

We determined Arizona’s Grants greater than or equal to \$50,000 did not comply with the CARES Act and Treasury’s Guidance. We tested a total of \$111,407,588 in transaction expenditures for 10 grants and identified no testing exceptions. The grants tested included expenditures related to public health and safety payroll;<sup>20</sup> payroll for election campaign employees; safe re-opening of schools; facilitation of distance learning; mobile voting equipment; tablet purchases used for communication and conferences in response to COVID-19; and advertising that marketed free summer teacher trainings that were run by the grant program to help give teachers the skillset needed to teach in a virtual environment during the pandemic. Although there were no exceptions identified with the 10 grants tested, we identified other ineligible questioned costs of \$55,413 that were not part of the transactions we selected for detailed testing. These costs were identified during

<sup>20</sup> Treasury’s Federal Register Guidance provided the following examples of public health and safety employees: “police officers (including state police officers), sheriffs and deputy sheriffs, firefighters, emergency medical responders, correctional and detention officers, and those who directly support such employees such as dispatchers and supervisory personnel... employees involved in providing medical and other health services to patients and supervisory personnel, including medical staff assigned to schools, prisons, and other such institutions, and other support services essential for patient care (e.g., laboratory technicians) as well as employees of public health departments directly engaged in matters related to public health and related supervisory personnel.”

## Desk Review of the State of Arizona

Castro's grants reconciliation procedures between the general ledger (GL) and GrantSolutions.

During our grants reconciliation procedures, Castro reviewed the sub-recipient GL documentation provided and determined that Arizona had a balance of indirect costs in the amount of \$55,413. Arizona management told us that they claimed these costs to cover a portion of the salaries for three employees who supported the grant. Arizona claimed 15 percent, 20 percent, and 26 percent of the total salary costs covered by the grant for these three employees, respectively. Arizona and its sub-recipients claimed indirect cost rates by employing guidance from the Code of Federal Regulations (CFR), 2 CFR 200.414(f), Grants and Agreements, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Direct and Indirect (F&A) Costs.<sup>21</sup> This guidance defined indirect cost rates and sets forth the 10 percent de minimis<sup>22</sup> indirect cost rate that could be used indefinitely instead of charging the actual administrative costs. Treasury's CRF guidance published in the Federal Register<sup>23</sup> stated that this provision did not apply to the use of CRF funds and recipients could not apply their indirect costs rates to payments received from the CRF. Therefore, Arizona, by applying the indirect cost rate, did not comply with Treasury's requirements, resulting in an unallowable use of CRF proceeds in the amount of \$55,413. Castro questions \$55,413 as other matter ineligible costs.

Castro recommends Treasury OIG request Arizona perform an assessment over whether there were any additional indirect costs claimed within its Grants greater than or equal to \$50,000 CRF submission, and identify those for removal and repayment to Treasury, as applicable.

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<sup>21</sup> Code of Federal Regulations (CFR), 2 CFR 200.414(f), *Grants and Agreements, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Direct and Indirect (F&A) Costs* states: "...any non-Federal entity that does not have a current negotiated (including provisional) rate...may elect to charge a de minimis rate of 10% of modified total direct costs (MTDC) which may be used indefinitely. No documentation is required to justify the 10% de minimis indirect cost rate. As described in § 200.403, costs must be consistently charged as either indirect or direct costs but may not be double charged or inconsistently charged as both. If chosen, this methodology once elected must be used consistently for all Federal awards until such time as a non-Federal entity chooses to negotiate for a rate, which the non-Federal entity may apply to do at any time."

<sup>22</sup> De minimis means lacking significance or importance: so minor as to merit disregard.

<sup>23</sup> Payments from the Fund are not administered as part of a traditional grant program and the provisions of the Uniform Guidance, 2 CFR part 200, that are applicable to indirect costs do not apply. Recipients may not apply their indirect costs rates to payments received from the Fund.



## Desk Review of the State of Arizona

### Transfers to Greater Than or Equal to \$50,000

We determined Arizona's Transfers greater than or equal to \$50,000 did not comply with the CARES Act and Treasury's Guidance. We selected six transfers for testing totaling \$119,614,002 out of a total GL detail population of \$433,917,620. Of the six transfers, Castro tested one transfer totaling \$2 million without exception. The transfer tested without exception included expenditures related to advertisement and digital media that: marketed for critical industries impacted by the supply chain disruption during the pandemic; provided information to small businesses to receive CRF proceeds to support state agency efforts during the COVID-19 crisis; provided information for upskilling displaced workers; and communicated COVID-19 updates.

For the remaining five of six transfer selections, we determined that Arizona management could not provide accurate or complete populations for Castro to select transactions to test at the invoice level, which resulted in a scope limitation. This scope limitation resulted from Arizona management not completing a true reconciliation of the expenses incurred by the applicable Arizona state agencies, resulting in the remaining Transfers greater than or equal to \$50,000 testing balance of \$117,614,002 to be unsupported questioned costs, as detailed below.

Additionally, Castro determined that Arizona's reported Transfers greater than or equal to \$50,000 did not comply with Treasury's Guidance, because the guidance considered state agencies and departments to be part of the prime recipient government, and transactions from those state agencies should have been reported in the GrantSolutions portal by the prime recipient as if they were obligated or expended by the prime recipient. Transfers should involve payments to units of government separate from the state. Castro also determined Arizona's reported Transfers greater than or equal to \$50,000 did not comply with Treasury's Guidance, because Arizona reported payroll transactions as Transfers rather than as Aggregate Payments to Individuals.

For all six transfer testing selections, Castro determined that Arizona reported Transfers greater than or equal to \$50,000 as payments from the prime recipient government to itself (e.g., to Arizona state agencies). Arizona reported these expenditures in this manner because the Arizona Governor's Office entered into agreements with Arizona state agencies to cover COVID-19 related expenses paid for by those agencies. Arizona considered these agreements to be recognized as formal sub-recipient obligations based on their interpretation of Treasury's Guidance.

## Desk Review of the State of Arizona

Castro considered this to be a reporting error that did not comply with Treasury's Guidance<sup>24</sup> because the guidance considered state agencies and departments to be all part of the prime recipient government, and transactions from those state agencies should have been reported in the GrantSolutions portal by the prime recipient as if they were obligated or expended by the prime recipient.

For five out of six transfers selected for testing totaling \$117,614,002, Castro requested GL details at the transactional level to support the claimed expenditures and to select transactions at the invoice level to facilitate determining CRF eligibility. Arizona provided budgetary GL details at the batched level (non-transaction level) that agreed to the amounts claimed in the GrantSolutions portal. However, Castro noted the following issues related to these five transfer selections:

- The GL data included budgetary entries to transfer funds between different state agencies. This budgetary data was not true expenditure data and did not reflect amounts paid to entities outside of Arizona's prime recipient government needed for Castro to complete our testing and reconciling procedures related to our transaction selections.
- The GL data contained manual journal voucher postings to transfer underlying state agencies' incurred expenditure transactions from state agency funding codes (e.g., general fund) to the CRF expenditure fund. Arizona management told us that the state agencies had their own accounting records detailing the expenses incurred at the vendor invoice level and explained that this transferred balance was an aggregate journal voucher entry (e.g., one balance could have over 100 invoices with different vendors). Without this level of detail, Castro could not determine whether expenditure amounts reported were properly supported. We also could not perform a complete evaluation of the expenditures claimed to complete our risk assessment and make additional invoice level selections.

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<sup>24</sup> Department of the Treasury Office of Inspector General *Coronavirus Relief Fund Frequently Asked Questions (FAQ) Related to Reporting and Recordkeeping* OIG-20-028R; March 2, 2021, FAQ numbers 1 and 5, stated the following:

**"1. Who is a prime recipient?"**

A prime recipient is an entity that received a CRF payment directly from Treasury in accordance with the CARES Act, including: All 50 States...

**5. If the prime recipient distributes funds to an agency or department within the prime recipient's government, is the agency or department considered the prime recipient or a sub-recipient when funds obligated are \$50,000 or more?**

The agency or department is considered part of the prime recipient as they are all part of the same legal entity that received a direct CRF payment from Treasury. Obligations and expenditures that the agency or department incurs with the CRF proceeds must be collected by and reported in the GrantSolutions portal by the prime recipient as if they were obligated or expended by the prime recipient."

## Desk Review of the State of Arizona

- Many transactions in the GL detail population were missing invoice numbers and vendor names. Without this level of detail, Castro could not determine whether expenditure amounts reported were properly supported and facilitate our invoice level testing to determine CRF eligibility.

Castro discussed with Arizona management that we considered this GL detail to be at the batched level, which was insufficient for the purposes of our reconciliation procedures. We requested the invoice level transaction expenditure detail so there was sufficient insight into how these funds were spent to determine their CRF eligibility.

Arizona did not complete a true reconciliation of the expenses incurred by Arizona state agencies and the amount of invoice level transactions provided to us did not agree to the amount claimed within the GrantSolutions portal. Without this level of detail, Castro could not determine whether expenditure amounts reported were properly supported and could not perform invoice-level testing to determine CRF eligibility for these five transfers selected for testing. Castro questions \$117,614,002 as unsupported due to this scope limitation.

Additionally, Arizona's Transfers greater than or equal to \$50,000 payment type included payroll transactions incurred by Arizona state agencies that should have been reported in the GrantSolutions portal within the Aggregate Payments to Individuals payment type. Castro requested and Arizona provided the portion of the transfers that related to payroll and the portion that related to state agency incurred non-payroll expenses. See Aggregate Payments to Individuals Analysis within the Aggregate Payments to Individuals section of our Desk Review Results below for additional details.

Castro recommends Treasury OIG request that Arizona management completes a reconciliation of its Transfers greater than or equal to \$50,000 population utilizing state agency incurred expenditures at the invoice level. Based on Arizona management's ability to provide a sufficient general ledger detail reconciliation for Transfers greater than or equal to \$50,000, we recommend Treasury OIG determine the feasibility of performing additional testing over Transfers greater than or equal to \$50,000.

### Aggregate Reporting Less Than \$50,000

We determined Arizona's Aggregate Reporting less than \$50,000 complied with the CARES Act and Treasury's Guidance. We tested a total of \$88,586 of transaction expenditures for one aggregate reporting transaction and identified no exceptions. The transaction tested included expenditures related to the purchase of computers for students and janitorial services to support local education

## Desk Review of the State of Arizona

agencies and charter schools in Arizona with the safe re-opening of schools due to the COVID-19 pandemic.

### Aggregate Payments to Individuals

CRF payments made to individuals, regardless of amount, were required to be reported in the aggregate in the GrantSolutions portal to prevent inappropriate disclosure of personally identifiable information. Castro notes that Aggregate Payments to Individuals consists of the following broad types of potential costs, which we have defined from Treasury's Guidance as published in the Federal Register.<sup>25</sup> Prime recipients may or may not have claimed all of these types of expenditures.

- **Public Safety/Health Payroll** – consisted of payroll costs for public health and safety department personnel.
- **Substantially Dedicated Payroll**<sup>26</sup> – consisted of payroll costs for non-public health and safety personnel who were substantially dedicated to mitigating or responding to the COVID-19 public health emergency.
- **Non-Substantially Dedicated Payroll**<sup>27</sup> – consisted of payroll costs for personnel who performed COVID-19 related tasks on a part-time basis.
- **Non-Payroll Expenditures** – consisted of financial assistance payments to citizens due to hardship or loss of income, unemployment claims, and other non-payroll related expenses made to individuals.

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<sup>25</sup> *Coronavirus Relief Fund Guidance* as published in the Federal Register (January 15, 2021). [https://home.treasury.gov/system/files/136/CRF-Guidance-Federal-Register\\_2021-00827.pdf](https://home.treasury.gov/system/files/136/CRF-Guidance-Federal-Register_2021-00827.pdf)

<sup>26</sup> Substantially dedicated payroll costs meant that personnel must have dedicated over 50 percent of their time to responding or mitigating COVID-19. Treasury's Federal Register Guidance stated that: "The full amount of payroll and benefits expenses of substantially dedicated employees may be covered using payments from the Fund. Treasury has not developed a precise definition of what "substantially dedicated" means given that there is not a precise way to define this term across different employment types. The relevant unit of government should maintain documentation of the "substantially dedicated" conclusion with respect to its employees."

<sup>27</sup> Payroll costs that are not substantially dedicated meant payroll costs that are not public health and safety, and which were not substantially dedicated to performing COVID-19 related tasks. Treasury's Federal Register Guidance defined more stringent tracking requirements for these types of payroll costs. Specifically, the Treasury's Federal Register stated that agencies must: "track time spent by employees related to COVID-19 and apply Fund payments on that basis but would need to do so consistently within the relevant agency or department. This means, for example, that a government could cover payroll expenses allocated on an hourly basis to employees' time dedicated to mitigating or responding to the COVID-19 public health emergency."

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Arizona's Aggregate Payments to Individuals balance consisted of payroll and other transactions from the following types of claimed costs.

Aggregate Payments to Individuals Category Types	Total Expenses Claimed
Public Health and Safety Payroll	\$ 418,381,379
Substantially Dedicated Payroll	\$ 112,240,073
Non-Substantially Dedicated Payroll	\$ 2,587,433
Non-Payroll Transactions <sup>28</sup>	\$ 76,107,436
<b>Totals</b>	<b>\$ 609,316,321</b>

Castro noted that public health and safety payroll transactions were subject to Treasury's administrative accommodation,<sup>29</sup> and therefore, were subject to less detailed documentation requirements. Castro tested public health and safety payroll transactions by reviewing itemized payroll distribution reports to support these balances. Substantially dedicated payroll balances were not subject to this administrative accommodation, and therefore, Castro tested these transactions by reviewing Arizona's "substantially dedicated" conclusion with respect to its employees and payroll distribution files, and by performing tests over specific employee timesheet submissions, as needed. Non-substantially dedicated payroll balances were not subject to this administrative accommodation, and therefore, Castro tested these transactions by reviewing payroll distribution files and by performing tests over specific employee timesheet submissions.

We determined Arizona's Aggregate Payments to Individuals did not comply with the CARES Act and Treasury's Guidance. We tested a total of \$522,361,307 in expenditures for eight Aggregate Payments to Individuals transactions. The Aggregate Payments to Individuals expenditures tested related to one non-payroll transaction for Unemployment Insurance (UI) Trust Fund replenishment payments, one non-substantially dedicated payroll transaction, four public health and safety payroll transactions, and two substantially dedicated payroll transactions. For the non-payroll transaction tested, Castro determined the UI payments were replenishments and not augmentations, which we consider to be

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<sup>28</sup> This entire balance related to unemployment replenishment payments that Arizona made into its Unemployment Insurance Trust fund. See **Unemployment Insurance Trust Fund Replenishment Analysis** section below for additional discussion.

<sup>29</sup> Treasury's Federal Register Guidance stated that the administrative accommodation meant, "In recognition of the particular importance of public health and public safety workers to State, local, and tribal government responses to the public health emergency, Treasury has provided, as an administrative accommodation, that a State, local, or tribal government may presume that public health and public safety employees meet the substantially dedicated test...This means that, if this presumption applies, work performed by such employees is considered to be a substantially different use than accounted for in the most recently approved budget as of March 27, 2020. All costs of such employees may be covered using payments from the Fund for services provided during the period that begins on March 1, 2020, and ends on December 31, 2021."

tested without exception. We identified exceptions for one public health and safety payroll transaction and one substantially dedicated payroll transaction, resulting in unsupported questioned costs of \$18,133,411 and ineligible questioned costs of \$18,631, respectively, for a total of \$18,152,042 of questioned costs.

### **Public Health and Safety Payroll – Unsupported and Ineligible Questioned Costs**

For one of the public health and safety transaction selections for the Arizona Department of Corrections, Castro obtained and reviewed the payroll distribution report provided and identified a total amount of \$293,726,641, which did not agree to the transaction selection amount claimed of \$309,170,396, resulting in a total variance of \$15,443,755. Castro questions the \$15,443,755 as unsupported. The Arizona Department of Corrections management told us that the payroll expenditures transferred into the CRF came from a legacy system that aggregated into their current payroll system, and that it would not be possible to provide a payroll file that would agree to the claimed amount because of the aggregation.

Out of the \$293,726,641 included in the payroll distribution report mentioned above, Castro identified \$18,631 that we considered to be ineligible. These ineligible costs were related to annual leave payouts to public health and safety personnel. On April 9, 2020, Arizona charged \$18,631 in annual leave payout expenses to the CRF for one public health and safety employee that was retiring during that pay period. This amount was for a payout of 359 hours of accrued annual leave. Treasury's Guidance, Federal Register Notice Volume 86, Number 10 for the CRF, published January 15, 2021, states that payments from the fund may only be used to cover costs that were incurred during the period that begins on March 1, 2020 and ends on December 31, 2021 (the covered period). Castro determined that using CRF proceeds for this annual leave payout covered costs for hours that were accrued prior to the start of the pandemic and the covered period. As a result, Castro questions the \$18,631 annual leave payout as ineligible.

Castro noted that Arizona's Single Audit Act auditor also questioned annual leave payouts claimed by Arizona within the Fiscal Year 2020 Single Audit Report. Castro recommends Treasury OIG request that Arizona management performs an assessment of whether it had any additional annual leave payouts that were earned prior to the covered period and claimed as CRF expenses and identify those for reversal and repayment to Treasury, as applicable.

### **Substantially Dedicated Personnel - Unsupported Questioned Costs**

Castro tested two substantially dedicated payroll transaction selections totaling \$3,692,832. For one of the substantially dedicated payroll transaction selections related to the Arizona Department of Administration, Castro obtained and reviewed the payroll distribution report provided and identified a total amount of \$987,008 which did not agree to the transaction selection amount claimed of \$3,676,664, resulting in a total variance of \$2,689,656. We requested that Arizona provide an explanation and additional support for the variance, and Arizona responded by providing us with the budgetary GL details that showed the interagency transfer of funds to the Arizona Department of Administration, which agreed to the amount of \$3,676,664. Castro did not consider this a sufficient response to our request, as the additional information provided was not a payroll distribution report showing how the payroll was expended. We received only \$987,008 in payroll distribution reports, therefore Castro questions \$2,689,656 as unsupported.

Castro tested \$3,692,832 out of the total amount of \$112,240,073 in Substantially Dedicated Payroll claimed by Arizona. Since Castro identified unsupported questioned costs within these Aggregate Payments to Individuals Substantially Dedicated Payroll expenditures tested, we recommend Treasury OIG determine the feasibility of performing additional follow-up with Arizona to determine if there were other instances of unsupported balances within the remaining portion of this balance.

### **Unemployment Insurance Trust Fund Replenishment Analysis**

The non-payroll transaction tested consisted of \$76,107,436 in payments from March 2020 through August 2021 to replenish Arizona's UI Trust Fund. Arizona performed an unemployment claim analysis supporting how it determined that the change in this balance (unemployment claims paid) occurred due to the COVID-19 pandemic and not due to unemployment claims that would have been paid regardless of the pandemic.

Castro obtained and inspected the bank statements to support key UI Trust Fund balances included within Arizona's unemployment claim analysis and which were needed to justify the eligibility of unemployment expenditures claimed as CRF expenditures. Castro also obtained a written confirmation from the Arizona personnel responsible for managing the UI Trust Fund, which stated that Arizona utilized other federal funding sources to reimburse its UI Trust Fund; however, Castro accounted for those in our analysis and noted that Arizona's UI trust fund balance decreased by more than the amount of other federal funding sources used.

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Castro concluded that Arizona's CRF replenishment payment consisted of an UI Trust Fund replenishment payment and not an augmentation to the UI Trust Fund. Additionally, Castro determined these payments were necessary due to the COVID-19 pandemic and did not represent unemployment claims that would have been paid regardless of the pandemic.

### **Conclusion**

We determined that the expenditures related to the Aggregate Reporting less than \$50,000 payment type complied with the CARES Act and Treasury's Guidance. Additionally, we determined that the Grants greater than or equal to \$50,000, Transfers greater than or equal to \$50,000, and Aggregate Payments to Individuals payment types did not comply with the CARES Act and Treasury's Guidance.

We identified unsupported and ineligible questioned costs of \$135,747,413 and \$74,044, respectively, with total questioned costs of \$135,821,457. Also, we identified GrantSolutions portal misclassification reporting issues related to Transfers greater than or equal to \$50,000 and Aggregate Payments to Individuals that did not comply with Treasury's Guidance.

Additionally, Arizona's risk of unallowable use of funds is **high**.

Castro recommends that Treasury OIG follow-up with Arizona's management to confirm if the \$135,747,413 noted as unsupported expenditures within the Transfers greater than or equal to \$50,000 and Aggregate Payments to Individuals payment types can be supported. If support is not provided, Treasury OIG should recoup the funds or request Arizona's management to provide support for replacement expenses, not previously charged, that were eligible during the CRF period of performance.

In addition, Castro recommends that Treasury OIG request that Arizona management provide support for replacement expenses, not previously charged, that were eligible during the CRF period of performance for the \$74,044 of ineligible costs charged to the Grants greater than or equal to \$50,000 and Aggregate Payments to Individuals payment types. If support is not provided, Treasury OIG should recoup the funds.



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Further, based on Arizona management's responsiveness to Treasury OIG's requests and management's ability to provide sufficient documentation and/or replace unsupported and ineligible transactions charged to CRF with valid expenditures, Castro recommends Treasury OIG determine the feasibility of conducting an audit for the Grants greater than or equal to \$50,000, Transfers greater than or equal to \$50,000, and Aggregate Payments to Individuals payment types.

At the time of our fieldwork, Castro noted that Arizona had findings in their Single Audit reports for fiscal years 2020, 2021, and 2022. Castro recommends that Treasury OIG follow-up with Treasury's Office of Capital Access to ensure that management decision letters are issued on the findings identified by the auditor in the Single Audit reports, which we have summarized below.

- Arizona's fiscal year 2020 Single Audit report was published on October 27, 2021. In this Single Audit report, the auditor identified \$25,579,909 in CRF related questioned costs.
- Arizona's fiscal year 2021 Single Audit report was published on November 28, 2022. In this Single Audit report, the auditor identified \$1,256,302 in unsupported CRF related questioned costs.
- Arizona's fiscal year 2022 Single Audit report was published on December 20, 2023. In this Single Audit report, the auditor included control related findings, but the auditor did not identify any questioned costs.

We also recommend Treasury OIG follow-up with Arizona to obtain a copy of its fiscal year 2023 Single Audit report as this was not available to Castro at the time of our desk review planning procedures.

Castro also identified other matters throughout the course of our desk review, which warrant recommendations to Treasury OIG for additional action. Castro recommends Treasury OIG follow-up on these issues:

- Castro noted that Arizona's reported Transfers greater than or equal to \$50,000 did not comply with Treasury's Guidance. Based on the state's invoice level general ledger detail provided, there was a scope limitation for five of six transactions selected for testing. Castro recommends Treasury OIG request that Arizona management completes a reconciliation of its Transfers greater than or equal to \$50,000 population utilizing state agency incurred expenditures at the invoice level. Based on Arizona management's ability to provide a sufficient general ledger detail reconciliation for Transfers greater than or equal to \$50,000, we recommend Treasury OIG determine the feasibility of performing

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additional testing over Transfers greater than or equal to \$50,000.

- Castro recommends Treasury OIG request Arizona perform an assessment over whether there were any additional indirect costs claimed within its Grants greater than or equal to \$50,000 CRF submission, and identify those for removal and repayment to Treasury, as applicable.
- Castro recommends Treasury OIG request that Arizona's management performs an assessment of whether it had any additional annual leave payouts that were earned prior to the covered period and claimed as CRF expenses, and identify those for reversal and repayment to Treasury, as applicable.
- Castro tested \$3,692,832 out of \$112,240,073 in substantially dedicated payroll claimed by Arizona. Since Castro identified unsupported questioned costs within these Aggregate Payments to Individuals Substantially Dedicated Payroll expenditures tested, we recommend Treasury OIG determine the feasibility of performing additional follow-up with Arizona management to determine if there were other instances of unsupported balances within the remaining portion of this balance.

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All work completed with this letter complies with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Federal Offices of Inspectors General*, which require that the work adheres to the professional standards of independence, due professional care, and quality assurance to ensure the accuracy of the information presented.<sup>30</sup> We appreciate the courtesies and cooperation provided to our staff during the desk review.

Sincerely,



Wayne Ference  
Partner, Castro & Company, LLC

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<sup>30</sup> <https://www.ignet.gov/sites/default/files/files/Silver%20Book%20Revision%20-%208-20-12r.pdf>