



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Procedural Review

Arizona Pioneers' Home

As of September 12, 2003



Debra K. Davenport
Auditor General

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**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

November 26, 2003

Jeanine Dike, Superintendent
Arizona Pioneers' Home
300 South McCormick Street
Prescott, AZ 86303

Dear Ms. Dike:

We have performed a procedural review of the Pioneers' Home's internal controls in effect as of September 12, 2003. Our review consisted primarily of inquiries, observations, and selected tests of internal control policies and procedures, accounting records, and related documents. The review was more limited than would be necessary to give an opinion on internal controls. Accordingly, we do not express an opinion on internal controls or ensure that all deficiencies in internal controls are disclosed.

Specifically, we reviewed statutory compliance, cash receipts, cash disbursements, journal entries, payroll, imprest accounts, capital assets, and guest trust fund receipts and disbursements.

As a result of our review, we noted certain deficiencies in internal controls that the Pioneers' Home's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate internal controls. Our recommendations concerning them are described in the accompanying summary.

This letter is intended solely for the information and use of the Pioneers' Home and is not intended to be and should not be used by anyone other than the specified party. However, this letter is a matter of public record, and its distribution is not limited.

Should you have any questions concerning our procedural review, please let us know.

Sincerely,

Dennis L. Mattheisen, CPA
Financial Audit Director

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The Pioneers' Home should effectively control cash receipts

The Pioneers' Home is responsible for safeguarding cash it receives directly. Because of the relatively high risk associated with cash transactions, the Pioneers' Home should have effective internal controls to safeguard cash by depositing it and accurately recording the resulting transactions. However, the Pioneers' Home did not have adequate controls to ensure that all cash and checks received were deposited and recorded. For cash and checks received through the mail for resident services and donations, receipts were not listed on a mail receipts log and two employees were not always present when the mail was opened. For cash received from candy and stamp sales, receipts were not issued and the numbers of items sold were not reconciled to cash receipts. As a result, the Pioneers' Home could not determine that the proper amount of cash was received and deposited from candy and stamp sales.

To help ensure that all cash receipts are received, deposited, and recorded in the accounting records, two employees should be present when opening the mail and list all cash and checks received on a log that will later be reconciled to the bank deposits. Also, an employee should count candy and stamps at the beginning and end of each day and reconcile the number of items sold to daily cash receipts. A supervisor should review documentation for all reconciling items.

The Pioneers' Home should separate employee responsibilities for its checking account

Because checking accounts are highly susceptible to misuse, the Pioneers' Home should establish and maintain adequate internal controls over its emergency purchases checking account. Effective internal control policies and procedures require that responsibilities for initiating, approving, and reconciling transactions be separated. However, the Pioneers' Home did not properly separate employee responsibilities. Specifically, one employee could prepare checks, sign checks, and

use the signature stamp for the second authorized signature. This could result in unauthorized purchases and if such purchases were to occur, they may not be detected because this same employee prepared the monthly bank reconciliations for the checking account.

The following procedures can help Pioneers' Home properly separate employee responsibilities to help prevent unauthorized purchases:

- Two employees should sign all checks after reviewing supporting documentation for the purchase. The signature stamp should not be used for the second authorized signature.
- An employee who is not an authorized check signer should maintain custody of the signature stamp.
- An employee who is not an authorized check signer should prepare the monthly bank reconciliations. If this is not possible, a supervisor should review and approve the reconciliations.

The Pioneers' Home should properly safeguard assets

The Pioneers' Home should ensure that assets and other negotiable instruments are adequately safeguarded at all times. Although the Pioneers' Home secured unclaimed payroll warrants, various petty cash funds, and undeposited cash receipts for meal tickets in a locked safe at night, it did not secure these items during the day. During working hours these items were kept in the safe, which was unlocked and accessible to all employees in the business office, on top of employees' desks, or in a business office employee's unlocked desk drawer.

To help prevent potential theft or misuse, the Pioneers' Home should establish the following procedures to safeguard cash and other negotiable instruments:

- Secure undeposited cash receipts in a cash register or locked desk drawer during the day and limit access to only a few employees.
- Keep the safe locked at all times and only permit access by a limited number of employees.



Arizona Pioneers' Home

Janet Napolitano
Governor

300 South McCormick Street
Prescott, Arizona 86303

Jeanine Dike
Superintendent

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November 21, 2003

Mr. Dennis L. Mattheisen, CPA
Financial Audit Director
Office of the Auditor General
2910 N 44th St., Suite 410
Phoenix, AZ 85018

Dear Mr. Mattheisen:

This letter is in response to the procedural review of internal controls at the Pioneers' Home in effect as of September 12, 2003.

RECOMMENDATION 1

The Pioneers' Home should effectively control cash receipts

A cash register will be installed in the Business Office that will effectively control cash receipts.

1. Cash and checks received through the mail for resident services are deposited in a locked box in the Business Office. Residents who make their own payments also drop their payments in the locked box. The box is opened and items removed with another employee present. Payments will immediately be processed through the cash register, providing a receipt and accounting log before they leave the Business Office. The log can later be reconciled to bank deposits.
2. Receipts will be issued for candy and stamp sales as sales are entered on the cash register.
3. The Pioneers' Home is a 24 hour/7 day a week facility. Therefore, Business Office staff is not always present to accept payment for candy sold, which benefits the Employee Recognition Fund. Employees that gain access to the snacks being sold on weekends, holidays, or after hours, leave payment on the counter. Taking inventory on a daily basis is not practical. With a cash register, however, there will be accounting of money collected for sales.
4. A supervisor will review documentation for reconciliations.

RECOMMENDATION 2

The Pioneers' Home should separate employee responsibilities for its checking account

1. Dale Sams has been an authorized signer on the Imprest checking account, which is part of the Home's petty cash. He most often also prepares checks and maintains the

Superintendent's signature stamp. On November 21, 2003, he was removed as a signer on the account. He now can prepare checks and maintain the signature stamp, but will find two of the other four authorized signers to sign each check. The signature stamp will only be used at times when a check must be issued and two of the four authorized signers are not available to sign, including Jeanine.

2. Dale Sams may now reconcile the bank statement for the Imprest account, without creating a conflict, because he is no longer an authorized signer on the account.

RECOMMENDATION 3

The Pioneers' Home should properly safeguard assets

1. Undeposited cash receipts will be kept in the cash register installed in the Business Office. A limited number of employees and residents will have access to the register drawer. Money will not be left out in the open in boxes/bags that other employees or residents could tamper with. Before closing the Office at 4 p.m., each day the Office will open the cash drawer and balance it to the register tape. When the Office is closed for the day, the money in the cash register will be removed and put in the safe.
2. The safe is locked at all times. Access is limited to only a few employees who have the combination.

Sincerely,

Jeanine Dike
Superintendent

JD:ds