



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Procedural Review

State of Arizona Corporation Commission

As of January 18, 2005



Debra K. Davenport
Auditor General

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

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AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

June 28, 2005

Brian C. McNeil, Executive Secretary
State of Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Dear Mr. McNeil:

At your request we have performed a procedural review of the Commission's internal controls in effect as of January 18, 2005. 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 cash receipts of the Corporations Division.

As a result of our review, we noted certain deficiencies in internal controls that the Commission'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 Commission 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.

Debbie Davenport
Auditor General

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The Commission should improve controls over cash receipts

Since cash receipts can be easily lost, stolen, or misused, it is essential that the Commission have effective internal controls over cash receipt transactions. However, the Commission did not have effective controls over Corporations Division cash receipt transactions. Specifically, all receipts received through the mail were not recorded in the mail log, and cash receipt forms were not prepared for all over-the-counter receipts. Also all cashiers used the same cash drawer. As a result, auditors were unable to determine that all monies received were recorded and deposited.

To help control and safeguard cash receipts, the Commission should establish and follow the procedures listed below:

- Two employees should open the mail and prepare a log of all cash and checks received. This log should be reconciled to the daily deposit to ensure that all cash receipts collected through the mail are deposited and recorded.
- The Commission should prepare and issue cash receipt forms for all over-the-counter receipt transactions and reconcile them to the daily deposit to ensure that all cash receipts collected over-the-counter are deposited and recorded.
- The Commission should provide cashiers with separate cash drawers and hold them responsible for cash overages and shortages.

The Corporations Division should improve controls over its computer system

The Corporations Division electronically processes and stores information on corporations doing business in the State on its computer system. The computer system also controls access to the Division's cash drawer. As such, it is essential for the Division's computer system to protect confidential or sensitive information from unauthorized changes or access. However, the Division did not establish effective internal controls over changes or access to its computer system. For example, any supervisor could change employees' ability to access or process certain information

without authorization. In addition, supervisors did not review detailed system-generated transaction reports, and employees did not lock unattended computers.

To help strengthen controls over the computer system, the Division should establish and follow the procedures listed below:

- The Division should limit access to security screens and the ability to change employee access to information to the data base managers. Furthermore, the employee's supervisor should review and approve requests to establish or modify employee access rights. This will help ensure that an employees' access is compatible with their job duties.
- Supervisors should review detailed transaction reports weekly to help prevent unauthorized changes to corporate information.
- The Division should develop a written policy that requires employees to lock all unattended computer stations. This will help prevent unauthorized access to the computer system and cash drawer. Supervisors should monitor compliance with the policy.

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BRIAN C. McNEIL
Executive Secretary

ARIZONA CORPORATION COMMISSION

May 26, 2005

Ms. Debbie Davenport
Auditor General
2910 N. 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

Thank you for responding to my request for an internal control review of the Corporation Division's (the "Division") cash receipts process. The work performed by your audit team will assist the Division in implementing procedures that will allow us to better safeguard revenues.

Your staff provided two recommendations in the draft report. While specific responses are included in this letter, I think it is important to note that resource limitations clearly affect our ability to create or improve the systems we would ideally want to have. During the recently completed legislative session, the Legislature did address the critical staffing deficiencies within the Division. Their decisions, however, were based on a budget request that was developed much earlier than the internal control review done by your office. As we develop an FY 2007 budget request over the next few months, we will be considering the same issues raised in your review.

Also over the next few months, we will be looking at the possibility of ending all but minor cash transactions and focusing on the use of checks, money orders and credit cards. Currently, credit card usage is extremely limited, but we are moving toward a much broader acceptance of such transactions.

Our specific responses to your recommendations follow:

General Recommendation 1: The Commission should improve controls over cash receipts.

- **Specific Recommendation: Two employees should open the mail and prepare a log of all cash and checks received. This log should be reconciled to the daily deposit to ensure that all cash receipts collected through the mail are deposited and recorded.**

Division Response: The Division receives over \$12 million in revenue per year, the majority being processed through the mail. Last year, our Mail Section, comprised of two full-time Mail Clerks, processed over 225,000 items of mail.

The Division agrees, in principle, with your recommendation that two employees should open the mail and prepare a log of all cash and checks received. However, with a two-person mail room and a very high volume of mail, logging individual payment transactions would be unrealistic. The Division already faces challenges in opening and processing the mail on the same day that it is received without the added process of logging payments.

The Division's Budget and Accounting Administrator is scheduled to visit several state agencies which are known for high-volume payment processing over the next several weeks. We are also examining expanding the planned use of an automated check reader that, utilizing OCR technology, scans checks, records critical data (e.g., check number, payee and amount) and assigns a transaction number. While originally intended for the Commission's Business Office functions, the reader may prove useful in addressing concerns regarding logging/receipting of checks. Before attempting to implement this technology within the Division, however, we must resolve whether there can be an effective interface between the reader and the database currently used by the Division.

- **Specific Recommendation: The Commission should prepare and issue cash receipt forms for all over-the-counter receipt transactions and reconcile them to the daily deposit to ensure that all cash receipts collected over-the-counter are deposited and recorded.**

Division Response: The Division agrees with this recommendation. Currently, only cash payments result in the issuance of a receipt. Unfortunately, there is a barrier to implementing this recommendation. The system, as currently programmed, requires a number of data fields to be populated in STARPAS (State of Arizona Public Access System) before a file number is assigned and payment can be applied. We estimate that expanding this process to other payment methods could add 3-4 minutes to each counter transaction. With facility limitations, this could seriously impact the lines at the counter and increase the average wait time for each customer.

The Division will work with the IT Division to determine whether a cash receipt program (which does not require the level of data entry currently performed) could be implemented to issue a receipt. In the future, a receipt could be generated without having to establish the file number first.

- **Specific Recommendation: The Commission should provide cashiers with separate cash drawers and hold them responsible for cash overages and shortages.**

Division Response: The Division agrees with the audit recommendation. However, the implementation of this recommendation is contingent on space resource constraints being resolved. We have just received preliminary information from the Arizona Department of Administration regarding the allocation of additional space to the Commission, however, details remain unclear. Upon favorable resolution of key details, we will seriously consider adding one or two additional customer service windows--each window with its own cash drawer—to the Corporate Filings area. In the meantime, we have attempted to limit access to each cash drawer

to one individual each day, with one other individual filling in during breaks, lunch etc. This practice has resulted in a significant decrease in daily overages or shortages. For example, during FY04, the division averaged four overages or shortages per month, whereas during FY05, the division averages only one overage or shortage per month with the new practice.

The Division is also considering implementing a single cashier's office function where customers from the Corporate Records, Annual Reports or Corporate Filings area could all pay for their item/service. This would also require additional staff resources that the Division does not currently have. The cashier function/staff would need to have clear segregation of duties from staff performing the services and/or providing the documents that were requested.

As mentioned earlier, our planning regarding cashier functions and availability may be impacted by a possible decision to significantly limit the use of cash in Division transactions. A final decision on this matter will not be made, though, until challenges regarding expanded credit card usage have been resolved.

Recommendation 2 - The Corporations Division should improve controls over its computer system.

- **Specific Recommendation: The Division should limit access to security screens and the ability to change employee access to information to the data base managers. Furthermore, the employee's supervisor should review and approve requests to establish or modify employee's access rights. This will help ensure that an employee's access is compatible with their job duties.**

Division Response: The Division agrees with this recommendation. Effective May 13, 2005, the IT Division modified the program to maintain security levels. Only three database administrators in the IT Division will have security levels of 900 or higher which will enable them the change the security settings. Any changes to security settings will need to be approved in writing by the Division Director or Deputy Director prior to the change being made. In addition, the IT Division programmed a report which can be printed periodically. The report lists security levels of all division staff. A procedure will be implemented to provide for a quarterly review of all security levels.

- **Specific Recommendation: Supervisors should review detailed transaction reports weekly to help prevent unauthorized changes to corporate information.**

Division Response: The Division agrees with this recommendation. In consultation with the IT Division, a report will be generated weekly listing any revenue deletions and/or credits. The Division Budget and Accounting Administrator will receive this report, review the data and perform random checks of transactions to assure the validity of the credit or deletion. The Division Director or Deputy Director will be notified when any unusual activity is discovered by the Budget and Accounting Administrator.

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- **Specific Recommendation: The Division should develop a written policy that requires employees to lock all unattended computer stations. This will help prevent unauthorized access to the computer system and cash drawer. Supervisors should monitor compliance with this policy.**

Division Response: The Division agrees with this recommendation. While this has been communicated to staff members periodically verbally or in writing, no formal policy exists. The Division will implement a formal written policy. In addition, once the migration to a Microsoft application is completed in July 2005, the Division will request that settings on every workstation be set to automatically lock the workstation after a reasonable period of workstation inactivity. Supervisors will be required to monitor compliance with the policy.

Thank you again for your willingness to conduct the review. Please feel free to contact me (602-542-3931) if you have any questions or concerns.

Sincerely,

Brian C. McNeil
Executive Secretary