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February 5, 2019

Jaime Dempsey, Executive Director  
Arizona Commission on the Arts

Dear Ms. Dempsey:

We performed an internal control and compliance review of the Arizona Commission on the Arts' internal controls in effect as of June 30, 2018. Our review consisted primarily of inquiries, observations, and selected tests of internal control policies and procedures, accounting records, and related documents. The review was not conducted in accordance with U.S. generally accepted auditing standards and was more limited than would be necessary to give an opinion on internal controls. Accordingly, we do not express an opinion on the effectiveness of internal controls or ensure that all deficiencies in internal controls are disclosed.

The internal control and compliance review report describes our findings and recommendations as a result of this review.

Sincerely,

Lindsey Perry, CPA, CFE  
Auditor General

## Arizona Commission on the Arts

**CONCLUSION:** Our Office completed a review of the Arizona Commission on the Arts' (Commission) internal controls over receipts, cash disbursements, payroll, transfers, information technology, and compliance with applicable Arizona Revised Statutes for the period July 1, 2017 through June 30, 2018. We identified deficiencies in internal controls that the Commission's management should correct to ensure that it adequately fulfills its responsibilities. Our findings and recommendations are described below.

### Background

The Commission provides grants, programs, services, and leadership in support of arts and arts education programs and in partnership with arts organizations, schools, festivals, and individual artists. The Commission is governed by a 15 member Governor-appointed board. The board approves the Commission's grant awards to schools and community organizations to enable them to maintain ongoing quality public arts programs.

The Commission employs 11 staff members who engage in partnerships with arts-focused service organizations at the local, regional, and national level and who manage the Commission's budgeting and finances. As shown to the right, the Commission primarily receives revenue from the State and federal grants. The State provides the Commission with a percentage of filing fees from the Arizona Corporation Commission and in fiscal year 2017 provided a one-time \$1.5 million allocation from the State General Fund. The Commission also receives donations and grants from private foundations and individuals and fees from citizens who attend its sponsored workshops. To effectively account for these revenues, the Commission must adhere to internal control procedures that follow the State's central accounting policies and procedures included within the *State of Arizona Accounting Manual* (SAAM), described below.

#### Fiscal year 2017 revenues<sup>1</sup>

	<b>\$2,874,930</b>
	<b>STATE</b>
	<b>\$833,000</b>
	<b>FEDERAL</b>
	<b>\$353,644</b>
	<b>DONATIONS AND FEES</b>
	<b>\$4,061,574</b>
	<b>TOTAL REVENUES</b>



**SAAM**—All state agencies are required to comply with SAAM's central accounting policies and procedures. These include requirements such as those needed to implement effective controls over accounting for and recording receipts including cash, checks, money orders, etc., and for performing and documenting monthly bank reconciliations. Among many other things, SAAM includes requirements for documenting and ensuring that access to IT systems and other resources are adequately restricted.

### Commission should strengthen controls over receipts

**Commission did not establish required receipt procedures and responsibilities**—The Commission collects receipts including checks and money orders through the mail or in person. For the Commission to strengthen its internal controls over these receipts, it must have and maintain effective written policies and procedures that ensure the receipts are recorded and deposited in a timely manner in accordance with SAAM.<sup>2</sup> Although the Commission used an employee stamp to endorse and record checks received in a log on the day

<sup>1</sup> Fiscal year 2017 obtained from the Arizona Financial Information System.

<sup>2</sup> SAAM, Topic 20: Current Assets, Section 10: Cash and Cash Receipts.

received, no employee signed the log to indicate who recorded it. Also, no one ensured checks were deposited in a timely manner. In fact, the Commission stored received checks for up to 3 months in an unlocked desk drawer until deposited. Although our review did not identify any missing cash receipts or improper deposits, these deficiencies increased the risk of loss, theft, or misuse of the Commission's receipts.

## Recommendations

To help ensure that all receipts are properly collected, recorded, and deposited in a timely manner, the Commission should develop and implement policies and procedures in accordance with SAAM requirements. Specifically, the Commission should ensure:

- The employee responsible for receiving the receipt through the mail records the receipt details and signs the completed log.
- The employee who records receipts in the accounting records should not be the same employee who does the bank deposits.
- All receipts are deposited in a timely manner and stored in a secured and locked stationary area.

## Commission should perform monthly bank reconciliations

**Commission did not perform required monthly bank reconciliations to its accounting system**—In accordance with SAAM, the Commission must perform monthly bank reconciliations and maintain documentation. A person who is not responsible for other banking duties should perform the reconciliations.<sup>3</sup> Although an employee reviewed the Commission's monthly bank statements, the review was not documented and was performed by an employee responsible for other conflicting receipt recording and reconciling functions. This deficiency increases the risk of misstatements and fraud occurring and not being detected and corrected.

### Recommendation

The Commission should implement a monthly bank reconciliation process that includes supervisory review and approval and retain the reconciliations in accordance with records retention policies. Further, the Commission should ensure receipt handling, recording, and reconciling responsibilities are adequately separated.

## Commission should improve access controls over information technology

**Commission did not have required policies and procedures to help prevent or detect unauthorized or inappropriate access to its IT systems and data**—In accordance with SAAM, the Commission should have effective internal control policies and procedures for its IT systems and data.<sup>4</sup> Logical and physical access controls help to protect the Commission's IT systems and data from unauthorized or inappropriate access or use, manipulation, damage, or loss. Logical access controls also help to ensure that access is only for authenticated users. For its grant tracking and accounting software program, the Commission did not establish policies and procedures to appropriately enable, disable, and modify program users; review and approve access rights; monitor account activities; and train staff. This deficiency increases the risk that the Commission may not prevent or detect unauthorized or inappropriate access or use, manipulation, damage, or loss of its sensitive and confidential information.

### Recommendation

The Commission should develop its IT logical and physical access policies and procedures and implement them. Further, the Commission should train staff on its policies and procedures.

<sup>3</sup> SAAM, Topic 05: Internal Controls, Section 10: Internal Controls by Process, Banking procedures 3.2 and 3.3.

<sup>4</sup> SAAM, Topic 05: Internal Controls, Section 07: Internal Control Considerations for IT Environments.

Monday, January 28, 2019

Lindsey Perry  
Auditor General  
2910 North 44th Street, Suite 410  
Phoenix, AZ 85018

Dear Ms. Perry:

The Arizona Commission on the Arts appreciates the opportunity to respond to the recommendations and findings of the review performed by the Office of the Auditor General. Below, please find the Department's response to the review findings.

**Finding 1: The Arts Commission should strengthen controls over receipts**

Response: The Arts Commission will use the Cash Control guidelines outlined in SAAM, Topic 05: Internal Controls, Section 10: Internal Controls by Process. Measures have been adopted to ensure that two employees are present when opening mail and receiving checks, and logging and endorsing checks. Receipts will then be turned over to the fiscal office to be secured until they are deposited. Using the guidelines set forth in SAAM, Topic 05, Section 10, fiscal office personnel will deliver the receipts to the Central Services Bureau for transfer to the Treasurer. If direct deposit is required, agency personnel outside of the fiscal office and not involved in the receipt of mail will deposit receipts directly into the State's bank. Agency policies and procedures to govern these steps have been created and reviewed with personnel.

**Finding 2: The Arts Commission should perform monthly bank reconciliations**

Response: The Arts Commission will perform monthly and quarterly reconciliations of all funds and banking procedures using guidelines outlined in SAAM. The necessary separation between personnel who handle cash receipting, disbursing, and reporting vs. personnel who complete the reconciliations will be created through collaboration with the Central Services Bureau. Reconciliations will be reviewed with agency management and all documentation will be preserved according to the State's records retention schedule. Agency policies and procedures to govern these steps have been created and reviewed with personnel.

**Finding 3: The Arts Commission should improve access controls over its information technology resources**

Response: The Arts Commission will continue to pursue acquiring more individual software licensing within our financial abilities. Until that point, the agency will maintain a regular log documenting when certain logins are in use and by whom. These records will be kept locked during non-business hours. Detailed logs will be kept of application access by employees, including the IT manager. A secondary staff member will be selected to serve as IT manager in the event the IT manager is unable to fulfill his/her duties. Furthermore, the IT Manager will develop policies and procedures to safeguard unwarranted access to the agency's cloud-based server and to data stored within the agency's CRM, financial software and any other software containing sensitive information. These policies will be documented, and all current and new employees will be trained on them within the year, with training to include not limited to what each role has access to, how to access said information, and how access will be removed per an individual's role change or termination.

Sincerely,

Jaime Dempsey, Executive Director

Arizona Commission on the Arts | An Agency of the State of Arizona