



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Procedural Review

# Arizona State Real Estate Department

As of May 16, 2006

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**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

October 6, 2006

Elaine Richardson, Real Estate Commissioner  
Arizona State Real Estate Department  
2910 North 44<sup>th</sup> Street, Suite 100  
Phoenix, AZ 85018

Dear Ms. Richardson:

We have performed a procedural review of the Department's internal controls in effect as of May 16, 2006. 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, cash disbursements, transfers, journal entries, payroll, purchasing, revolving accounts, equipment, and financial reporting.

As a result of our review, we noted certain deficiencies in internal controls that the Department'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 Department 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 Department should improve controls over cash receipts

Because of the relatively high risk associated with transactions involving cash, it is essential that the Department have effective internal controls over these transactions. However, the Department did not have effective controls to ensure that all cash and checks collected were adequately safeguarded, deposited in a timely manner, and accurately recorded. Specifically, the responsibilities for reconciling, depositing, and recording cash receipts were performed by one employee. In addition, proper cash register controls, such as providing cashiers with separate cash drawers, locking cash drawers during a cashier's absence, and reconciling cash drawers daily, were not in effect. Further, cashiers' overages and shortages were neither calculated nor monitored.

The Department should establish proper cash-handling and recordkeeping policies and procedures, and periodically monitor that those procedures are being followed and are operating effectively. These procedures should include the following:

- Separate cash-handling and reconciling responsibilities among employees so that no single employee is responsible for receiving cash, reconciling cash receipt transactions, preparing bank deposits, and recording cash receipts in the accounting records.
- Provide a separate cash drawer for each cashier to establish accountability, and instruct cashiers to lock cash drawers when not in use. Furthermore, each cashier should reconcile their daily cash receipt activity, and a supervisor should review and approve these reconciliations.
- Hold cashiers responsible for daily cash overages and shortages through disciplinary action.

## The Department should comply with established purchasing card policies and procedures

Purchases made using state-issued purchasing cards, similar to credit cards, are highly susceptible to fraud, waste, and abuse. The General Accounting Office of the

Department of Administration has established policies and procedures to control the use of purchasing cards that all state agencies must follow. However, the Department did not always follow the established policies and procedures. Specifically, for 2 of 3 months tested, the Department's purchasing card administrator did not reconcile charge slips submitted by users to the monthly billing from the purchasing card vendor. In addition, one purchasing card transaction for \$325 for a conference hotel room was not supported by a charge slip, and one monthly billing was not marked paid.

To help ensure compliance with established policies and procedures and to control purchasing card transactions, the Department should perform the following:

- Reconcile charge slips to monthly billings and ensure that all charges appear proper.
- Require users to retain and submit all receipts that support purchasing card transactions. If original receipts are not available due to loss or are illegible, the cardholder must complete an affidavit detailing the purchase and the reason the receipt is not available.
- Mark monthly purchasing card billings as paid to help prevent duplicate payment.

## The Department's capital assets listing should be accurate

Maintaining an accurate record of equipment is essential to ensure that these assets are properly controlled and reported in the State's financial statements. However, the Department did not maintain a complete and accurate capital assets listing. Specifically, the Department did not update the State's capital assets accounting system for some items acquired or disposed of during the fiscal year. In addition, the Department did not perform a physical inventory of its equipment or prepare a capital assets closing package for submission to the Department of Administration.

The following procedures can help the Department strengthen its controls over equipment:

- Record capital asset purchases and disposals in the State's capital assets accounting system within 5 working days after the transaction occurred.
- Perform an annual physical inventory of all equipment items and make corrections to the capital assets accounting system based on the inventory

results. This inventory should be performed by an employee who has no custodial responsibilities for equipment items.

- Prepare a year-end closing package and reconcile the prior year's capital assets list to the current year's list. Make all necessary corrections, and submit this closing package to the Department of Administration.

## The Department should ensure that payroll expenditures on its financial records are accurate

The Department's management and state officials depend on accurate financial information so they can fulfill their oversight responsibility and report accurate information to the public. Reconciling payroll expenditures from the Human Resource Information Solution (HRIS) to the Arizona Financial Information System (AFIS) on a regular basis allows the Department to detect and correct any data entry errors, such as inaccurate account codes, in a timely manner. However, the Department did not prepare such reconciliations.

To help ensure that accurate and complete financial information is recorded on the AFIS, the Department should reconcile its payroll expenditures recorded on the HRIS to those recorded on the AFIS after each pay period and for each account code. The Department should promptly investigate and correct all differences noted.

## The Department needs policies and procedures over employee access capabilities and system software changes

Effective written policies and procedures that establish controls over employee access to computer systems and changes to computer programs provide the basic framework for employee accountability. They help ensure that computer access is properly controlled so that employees only have access to functions necessary to perform their job responsibilities. In addition, they help ensure that changes to computer programs are accurate and have been properly authorized and tested before being placed into operation. The Department uses the Real Estate Licensing Module (REALM) system to track real estate licensee information and collect the related fees. However, the Department did not have written policies and procedures to control employee access to the system or changes to computer programs. As a result, employee access and changes made to the computer program were not documented.

To help safeguard sensitive electronic information and ensure that REALM functions properly, the Department should develop and implement written policies and procedures to control system access and changes to computer programs. These policies and procedures should ensure that:

- Employee access to the REALM is limited so that employees can perform only those functions that are necessary to fulfill their job responsibilities.
- Changes to the REALM computer programs are properly designed, tested, documented, and approved by management prior to making the change.

## The Department should strengthen controls by separating accounting responsibilities

Separating the responsibilities of employees so that no one employee controls a complete transaction cycle is essential to reducing the risk of possible fraud and other irregularities. However, the Department did not separate employees' responsibilities over the accounts payable, payroll, and transfer transaction cycles. For example, one employee was able to prepare claims for payment, approve the claims, and release the claims for payment on the AFIS. This employee also was responsible for submitting requests to establish vendors with the Department of Administration without a supervisor's approval. In addition, one employee was responsible for calculating retroactive pay increases, entering the information into the HRIS, and paying the employees.

The Department should establish policies and procedures to separate accounting responsibilities among employees. No single employee should perform all tasks related to a specific transaction cycle. If proper separation of responsibilities is not possible due to limited staffing, then a supervisory employee with limited accounting responsibilities should review and approve accounting transactions and related reconciliations.

## The Department should comply with established purchasing requirements

To help promote open and fair competition among vendors and ensure that the Department receives the best possible value for the public money it spends, the Department must follow prescribed purchasing requirements outlined in the Uniform Procurement Code established by the Enterprise Procurement Services (EPS) of the Department of Administration. However, the Department did not follow the requirements when it purchased items when there was only a single vendor.



Specifically, for one professional service contract, the Department did not document in writing the reason for the sole source purchase and obtain EPS' approval for making the purchase. In addition, the Department exceeded its delegated purchasing authority of \$10,000 when it contracted with the sole source vendor.

To help ensure that the Department follows Uniform Procurement Code requirements and that the Department does not exceed its delegated purchasing authority, the Department should perform the following procedures:

- Determine in writing that a sole source condition exists and include the specific efforts made to determine the availability of other sources. This documentation should be retained in the contract files.
- Contract for goods and services within the Department's delegated purchasing authority of \$10,000 or obtain prior authorization from EPS to exceed the limit.



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**"AN EQUAL EMPLOYMENT OPPORTUNITY AGENCY"**

September 27, 2006

Mr. Dennis L. Mattheisen, CPA  
Financial Audit Director  
Office of the Auditor General  
2910 North 44<sup>th</sup> Street, Suite 410  
Phoenix, Arizona 85018

Dear Mr. Mattheisen:

The Department of Real Estate appreciates the opportunity to respond to the financial review performed by the Office of the Auditor General. The Department appreciates the opportunity to improve internal controls.

**Recommendation 1:** *The Department should improve controls over cash receipts.*

The Department agrees with the recommendation. The Department established separate cash handling and reconciling responsibilities among employees, provided separate cash drawers for each cashier, and cashiers are held responsible daily for cash overages and shortages.

**Recommendation 2:** *The Department should comply with established purchasing card policies and procedures.*

The Department agrees with the recommendation. The Department has utilized the Department of Administration's policies and procedures to control the use of purchasing cards, however during the two-month audit the Department was in a period of transition and these policies were not strictly followed. This was an anomaly. The Department will continue to reconcile charge slips to monthly billings, require users to retain and submit all receipts that support purchasing card transactions, and mark monthly purchasing card billings as paid.

**Recommendation 3:** *The Department's capital assets listing should be accurate.*

The Department agrees with the recommendation and is in the process of updating the capital asset inventory.

**Recommendation 4:** *The Department should ensure that payroll expenditures on its financial records are accurate.*

The Department agrees with the recommendation. The Department established a spreadsheet designed to reconcile payroll expenditures recorded on HRIS to those recorded on AFIS after each pay period and for each account code.

**Recommendation 5:** *The Department needs policies and procedures over employee access capabilities and system software changes.*

The Department agrees with this recommendation. The Department currently has controls over employee access to computer systems, but these controls are not written in policy. The Department will establish written policies and procedures to ensure that computer access is properly controlled.

**Recommendation 6:** *The Department should strengthen controls by separating accounting responsibilities.*

The Department agrees with this recommendation. However, the Department does not have the staffing capability to completely separate these functions. The Department's Chief Financial Officer reviews accounting transactions weekly to ensure that all transactions are completed appropriately. This protects the State against fraud.

**Recommendation 7:** *The Department should comply with established purchasing requirements.*

The Department agrees with this recommendation. When the Department became aware of the issues, the contract in question was immediately terminated. In order to ensure this does not happen again, all current and future procurement staff will be trained by ADOA in procurement code and law.

Again, thank you for the opportunity to respond to your findings and improve our internal controls. If you have any questions concerning the responses, please contact Tory Anderson at 602-468-1414 x140 or myself at 602-468-1414 x135.

Sincerely,

Elaine Richardson  
Commissioner