



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Procedural Review

Arizona Department of Weights and Measures

As of March 31, 2015

August • 2015
Report No. 15-303



Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

August 20, 2015

Andy Tobin, Director
Arizona Department of Weights and Measures

We have performed a procedural review of the Department of Weights and Measures internal controls in effect as of March 31, 2015. The review was requested by the Department and consisted 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 the effectiveness of internal controls or ensure that all deficiencies in internal controls are disclosed.

Specifically, we reviewed cash receipts, cash disbursements, journal entries, transfers, payroll, capital assets, and information technology.

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 findings and recommendations concerning these deficiencies are described in the accompanying summary.

This report is intended solely for the Department's information and use and is not intended to be and should not be used by anyone other than the specified party. However, this report 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,

Jay Zsorey, CPA
Financial Audit Director

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FINDING 1

The Department should improve controls over processing cash receipts

Criteria—To comply with the State of Arizona Accounting Manual (SAAM), Topic 20, §10, employees who are not responsible for maintaining accounting records should open cash receipts received in the mail. Two state employees should be present when mail is opened. This control ensures a separation of responsibilities and prevents errors, fraud, theft, or abuse in receiving, recording, and depositing receipts. In addition, supporting documentation should be maintained for all cash receipts a state agency collects to ensure that the revenue is recorded at the proper amount and accounted for. Further, the Department's accounting system should be reconciled to the State of Arizona's accounting system to ensure all revenues are properly recorded.

Condition and context—The Department's internal controls over cash receipts were not adequate to ensure that employee responsibilities were properly separated, cash receipt documentation was maintained, and cash receipts were reconciled to the accounting records. Specifically, one employee opened cash receipts received in the mail, recorded the cash receipts in the accounting system, and deposited the cash. In addition, the Department lacked supporting documentation for 14 of 20 cash receipts tested. Auditors were unable to determine if 11 cash receipts were properly recorded in the accounting records because the Department did not maintain documentation for 8 of the cash receipts and maintained only the State Treasurer deposit form for another 3 cash receipts. In addition, for 3 other cash receipts, the Department did not maintain documentation to support that currency was deposited intact into the Department's bank account. Further, cash receipts from credit card transactions were not being entered into the State's accounting system on a timely basis. This error would have been noted sooner if the Department reconciled cash receipts recorded in its accounting system to the State of Arizona's accounting system monthly.

Effect—The Department did not properly account for cash receipts, which increases the risk of errors, fraud, theft, and abuse.

Cause—Due to recent reductions in staffing, the Department did not have adequate personnel involved in the cash receipts process to properly separate cash receipt responsibilities, locate missing documentation, and perform reconciliations in a timely manner.

Recommendation—To help ensure that cash receipts are adequately controlled and to comply with the SAAM, the Department should:

- Require that two employees open the mail.
- Separate the duties of record keeping for cash receipts from cash deposits and reconciling accounting records.
- Retain documentation for all cash receipts.

- Record cash receipts in the State of Arizona accounting system in a timely manner.
- Reconcile cash receipts recorded in the Department's accounting records to the State of Arizona accounting system monthly, and investigate and resolve any differences.

FINDING 2

The Department should improve controls over employees' personnel documentation

Criteria—To comply with the SAAM, Topic 55, §5, payroll personnel must review payroll information, including personnel action forms documenting employees, positions, and salaries to ensure employees are paid at the correct rates based on their position and experience.

Condition and context—The Department lacked internal controls over maintaining employee personnel information and approving salaries. Specifically, auditors tested ten employees and noted that there was no support for one employee's position and salary. In addition, for another five employees, the employees' supervisors approved the personnel action forms but did not date the forms, and one form did not include any justification for the employee's pay increase.

Effect—The Department could pay an employee an inappropriate rate, and there is an increased risk of fraud, theft, and abuse.

Cause—The Department changed employee responsibilities over payroll, and no one person was responsible for verifying that all documentation was maintained and properly approved.

Recommendation—To help strengthen controls over payroll expenditures, the Department should maintain appropriate personnel documentation to support employee pay rates and ensure documentation is complete. The employee's supervisor should review and approve the documentation.

FINDING 3

The Department should update its capital assets list

Criteria—To comply with the SAAM, Topic 25, §35, the Department should maintain a capital assets list on the State’s Fixed Asset System that includes, at a minimum, property identification number, description, location of the asset, acquisition method, funding source, acquisition date, disposal date, purchase document number, and cost, as applicable. In addition, a list of all assets, even if not capitalized, should also be maintained. A physical inventory of these assets should be taken at least once a year.

Condition and context—The Department’s capital asset list and the State’s system were not complete because the Department has not completed a recent physical inventory. All five assets auditors selected from the Department’s premises and tagged as a capital asset were not recorded on the Department’s capital assets list or in the State’s system. Additionally, the Department did not have an employee assigned to be the property control officer to track all capital and noncapital assets.

Effect—Assets may be lost, stolen, misused, or misreported. In addition, it is critical for the Department to have a complete and up-to-date capital and noncapital asset listing because it is being merged into other state agencies, making its assets more vulnerable to loss, theft, or misuse if not properly accounted for.

Cause—The Department has recently experienced a decrease in the number of its employees, including the property control officer, and has not completed a physical inventory.

Recommendation—To help strengthen controls over capital assets and ensure all assets are accounted for during its merger, the Department should perform a physical inventory and compile a complete list of its capital and noncapital assets. The list of capital assets should include, at a minimum, the property identification number, description, location, acquisition method, funding source, acquisition date, purchase document number, and cost.

FINDING 4

The Department should improve access controls over its information technology systems

Criteria—The Department should have effective internal control policies and procedures to control access to its information systems.

Condition and context—The Department did not have adequate policies and procedures in place to ensure access to its information systems was appropriate. Specifically, changes to internal and external users' access were not reviewed to verify the changes were appropriate. Additionally, a former employee's access was not terminated but left open to allow another state agency employee to access information. Further, for four of ten users tested, the Department did not maintain documentation approving the users' access to its system.

Effect—There is an increased risk that the Department may not adequately prevent or detect unauthorized use, manipulation, damage, or loss of its information and data, including sensitive and confidential information.

Cause—The Department focused its efforts on the day-to-day operations and did not prioritize its review of IT policies and procedures to ensure they met IT standards and best practices.

Recommendation—To help prevent and detect unauthorized access or use, manipulation, damage, or loss to its information systems and data, the Department should develop and implement policies and procedures that include the following:

- Performing a periodic, comprehensive review of all existing employee access accounts to ensure system access granted is needed and compatible with job responsibilities.
- Removing employees' access immediately upon their termination and creating new user accounts for individuals who require system access.
- Using a standardized process to grant new users system access that includes appropriate approval and documentation

FINDING 5

The Department should improve its information system change management process

Criteria—The Department’s IT systems process and store information and data that are vital to its daily operations. Therefore, the Department should have adequate policies and procedures to track and document changes made to its systems.

Condition and context—The Department did not have written policies and procedures to document, test, review, and monitor modifications made to its IT systems. Specifically, the Department used an outside service organization to update its IT systems; however, the Department did not monitor system changes to verify the changes were appropriate. The contractor submitted a list of system changes with its monthly bill; however, the change log was not submitted to IT personnel for review and approval.

Effect—There is an increased risk that changes to IT systems and data could go undetected or have unintended results without proper documentation, authorization, review, testing, and approval of the changes.

Cause—The Department had limited IT resources and, as a result, did not have sufficient policies and procedures to monitor changes to its IT system.

Recommendation—To help prevent and detect unauthorized modifications to its system and data, the Department should develop and implement policies and procedures that include the following:

- Track and reconcile all changes to its IT system, whether completed by an outside service organization or performed in-house.
- Separate responsibilities for changes so no one employee has the ability to authorize, review, test, and approve the change prior to implementation.
- IT personnel familiar with contractor-processed changes should review contractor invoices for accuracy.

FINDING 6

The Department should develop a disaster recovery plan

Criteria—It is critical that the Department have a comprehensive disaster recovery plan in place to provide the continuity of operations and to help ensure that vital IT resources, which includes its systems, network, infrastructure, and data, can be recovered in the event of a disaster, system or equipment failure, or other interruption

Condition and context—The Department does not have a formal disaster recovery plan in place for its IT resources. Consequently, the Department was unable to pull up its Web site and on-line payment system immediately when it shut down. The Web site and on-line payment system were up and running approximately 5 business days after the outage. However, during the outage customers were required to submit payments through the mail or in person.

Effect—The Department risks not being able to provide for the continuity of operations, recover vital IT resources, and conduct daily operations in the event of a disaster, system or equipment failure, or other interruption, which could cause inaccurate or incomplete system information and data and expensive recovery efforts.

Cause—The Department was not aware they should develop policies and procedures to maintain a disaster recovery plan.

Recommendation—To help ensure the continuity of department operations in the event of a system disaster or equipment failure, or other interruption, the Department should develop and implement a disaster recovery plan. This Department should:

- Conduct a business impact analysis to evaluate the impact disasters could have on its critical business process and create a plan based on the result of the analysis.
- Prioritize critical business processes to determine which processes it should recover first and list procedures for restoring critical processes.
- Communicate and distribute a copy of the plan to all affected employees.
- Maintain a copy of the plan off-site.
- Make arrangements for a designated physical recovery facility.
- Make arrangements with vendors to support infrastructure and systems requirements.
- Test and document the plan annually and update the plan for any problems noted.

FINDING 7

The Department should establish policies to ensure compliance with Arizona Revised Statutes

Criteria—Key employees should disclose potential conflicts of interest in accordance with Arizona Revised Statutes (A.R.S.) §38-503.

Condition and context—The Department did not have proper controls to ensure that all employees in management positions completed a conflict-of-interest or related-party disclosure. Specifically, auditors noted that there was not a conflict-of-interest or related-party disclosures for each employee in a management position.

Effect—The Department risks engaging in transactions with conflicts of interests that have not been disclosed.

Cause—The Department was not aware that all key employees should complete a conflict-of-interest or related-party disclosure.

Recommendation—The Department should ensure that all employees in management positions complete a conflict-of-interest or related-party disclosure form each year to ensure compliance with A.R.S. §38-503. In addition, new employees in management positions should complete the form when hired in order to disclose any potential conflicts of interest or related parties.

DEPARTMENT RESPONSE

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ARIZONA DEPARTMENT OF WEIGHTS AND MEASURES

4425 West Olive Avenue, Suite 134 Glendale, AZ 85302

602-771-4920 FAX 623-939-8586 800-277-6675

www.azdwm.gov

“At The Speed Of Business”

Governor Douglas A. Ducey, January 12, 2015

August 17, 2015

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

Dear Auditor General Davenport,

Thank you for all your support and the professional process and respect of this agencies responsibilities during your audit process. Your entire staff was especially efficient and we deeply appreciate your agencies timely scheduling of our request for this audit of the Arizona Department of Weights and Measures.

The Arizona Department of Weights and Measures is in transition mode as you are aware. Three other agencies are now part of this transition. Your work to affirm the character of the process and the credibility of this agencies procedures helps us to complete the transition process.

The Arizona Department of Weights and Measures appreciates the opportunity to correct the findings of the procedural review performed by your office on March 31, 2015.

If you have any further concerns of questions, please do not hesitate to contact my office at 602-771-4922

Sincerely

Andy Tobin
Director
Arizona Department of Weights and Measures

“Trust, but verify.”

President Ronald Reagan December 8, 1987



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“At The Speed Of Business”

Governor Douglas A. Ducey, January 12, 2015

Finding 1: The Department should improve controls over processing cash receipts.

The Department accepts the findings of the Auditor General and appreciates the recommendation.

Response: The Director, or his designee, of the Department of Weights and Measures (DWM) will ensure that two employees open all mail together. All checks, money orders, cashier's checks, etc., will be endorsed at the time the mail is opened. The cash receipts (CR) will then be logged into the Department's Compliance Tracking Unit (CTU) database, two adding machine tapes run, and a deposit slip completed. Two daily transmittal reports will be printed from the CTU, one copy for the licensing desk to reconcile customer accounts, and one as back-up for the CR. The CR will then be taken to Bank of America (or other designated bank) for Deposit. The validated deposit slips, along with the two tapes, and the daily transmittal report will be stapled together and delivered to the Department of Administration's Central Services Bureau (CSB). CSB will key the daily deposits into the Arizona Financial Accounting System (AFIS) from the documentation provided. CSB will deliver a validate deposit slip along with the required AFIS documentation to the State Treasurer's Office for further processing. Once the Treasurer has approved, and the deposit is in final status in AFIS, CSB will return a copy of the AFIS documentation along with the two tapes, one validated deposit slip, and the daily transmittal report back to WMA for filing. CSB will provide a monthly AFIS reconciliation to reconcile to WMA's CTU, so that any differences may be investigated and resolved.

Finding 2: The Department should improve controls over employee personnel documentation. The Department accepts the findings of the Auditor General and appreciates the recommendation.

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The DWM gratefully appreciates the efforts of the AZ-DOA (HR) Division, who have helped coordinate and correct our HR services program since early March 2015.

Finding 3: The Department should update its capital assets list.

The Department accepts the findings of the Auditor General and appreciates the recommendation.

Response: As part of the transition plan, the DWM is working on re-affirming ALL assets at the agency and determining what assets will be moving over to the Department of Agriculture,

“Trust, but verify.”

President Ronald Reagan December 8, 1987

Department of Transportation and the Department of Public Safety via an ISA as well as the remaining assets being transferred to the state surplus program.

Finding 4: The Department should improve access controls over its information technology resources. BOTH FINDING 4 and 5 ARE RESPONDED BELOW:

Finding 5: The Department should improve its information system change management process. BOTH FINDINGS 4 and 5 ARE RESPONDED BELOW:

Response: The Department accepts the findings of the Auditor General and appreciates the recommendation.

We agreed to the findings. DWM had outdated and non-enforced IT policies and procedures. The previous management directly oversaw the IT responsibilities. It appeared to create a difficulty in coordinating general practices of IT procedures.

IT procedures were not prioritized and new procedures weren't well enforced. The IT department input and suggestions for new projects and procedures had not been approved and IT Procurement Procedure then was not followed as a matter of regular practice. During the last 3 years, management purchased, assigned or moved, IT assets, IT responsible wasn't coordinated on a large percentage of the acquisitions.

With limited resources IT was tracking and documenting all the requests submitted directly to IT Support, except the requests contracted without internal notification that were sent to external support and vendors directly. These practices from ADWM's management/staff are now being corrected and addressed.

Please note that we must default all ADWM's IT Policies and procedures to AZ department of Agriculture, as part of the transition of ADWM.

Systems and network security vulnerability scan performed by ASET/DOA –Test and validate that only the authorized items are running on the systems and network. Create and review in-depth logs files to monitor compliance with ASET security protocols, violation alerts, and actions taken.

Agency Website moved out and managed by ASET/DOA. This will maintain system up to date with the most current hardware, Operating Systems, security and on time applying of patches and maintenance. Providing a low cost and easy way to ensure backup and disaster recovery with offsite backups.

Email Exchange Services, core Business SQL Database have been moved to the AZDA IT infrastructure. - As part of the merging process with the AZ Agriculture Department (AZDA). We started to default AZDA IT policies and procedures. Verifying current user's network access, files and rules that allow on valid access. Closing all un-used ports on routers and disabling all unused user ids and passwords. Authentication violation within a specified period, disable the

user access from the system and network. Files and folders will be moved to AZDA as well and this is work progress.

IT Assets Inventory– By transferring IT assets shortly to the Arizona Department of Transportation (ADOT) we started collecting an inventory. This inventory should be completed to include all current IT assets and must be reviewed and updated frequently (at least quarterly). Most IT responsibilities and controls have been reinstated to Systems Administrator, whom continue to register and monitor IT services, security and equipment. With the assistance of the AZDA IT manager, Systems Administrator started to track and supervise IT Issues that require to contract external resources and involve expenses.

Finding 6: The Department should develop a disaster recovery plan 11.

The Department accepts the findings of the Auditor General and appreciates the recommendation.

Response: The Arizona Department of Weights and Measures has updated the “Business Continuity Plan Phase II”, as of July 31, 2015. A hard copy is located at the department office and an electronic copy is located on the department computer v-drive.

Finding 7: The Department should establish policies to ensure compliance with Arizona Revised Statutes.

The Department accepts the findings of the Auditor General and appreciates the recommendation.

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

