

# Arizona Department of Public Safety

Procedural Review

As of December 5, 2016  
Report 17-301



A Report to the Arizona Legislature

Debra K. Davenport  
Auditor General





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**AUDITOR GENERAL**

**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

February 7, 2017

Frank Milstead, Director  
Arizona Department of Public Safety

We have performed a procedural review of the Arizona Department of Public Safety's internal controls in effect as of December 5, 2016. 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 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, purchasing, capital assets, information technology access controls, travel, and compliance with conflict-of-interest requirements.

As a result of our review, we noted certain deficiencies in internal controls and noncompliance with Arizona Revised Statutes 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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## The Department should strengthen controls over cash receipts

**Criteria**—In accordance with the *State of Arizona Accounting Manual*, Topic 05, Section 10, and Topic 20 Section 10, the Arizona Department of Public Safety (Department) should have written policies and procedures on all cashing and related activities, including the handling of nonsufficient fund (NSF) checks, and should adequately separate cash-handling and cash-recording responsibilities. In addition, the Department should provide sufficient oversight and monitoring of its various operating units that collect cash receipts to help ensure that its policies and procedures are followed. Specifically, cash receipts should be recorded on the day when they are collected. Checks received by mail or drop-box should be recorded in a daily receipts log when collected and then reconciled with the day's total cash receipt collections and bank deposit. In addition, checks received by mail or drop-box should be restrictively endorsed upon receipt, safeguarded until deposited, and deposited daily, if significant, or at least weekly.

**Condition and context**—The Department established written policies and procedures to provide guidance to its operating units for collecting, recording, reconciling, and depositing cash receipts. However, the Department did not adequately monitor its operating units to help ensure that its procedures were followed. Auditors reviewed the Department's procedures for two of its seven operating units that handle cash receipts and noted the following deficiencies: Specifically, checks received by drop-box were left in a bin for up to 5 days before the Licensing Unit recorded, restrictively endorsed, and deposited them. Further, the Licensing Unit did not maintain a receipts log to help ensure that all checks received by drop-box were reconciled to the day's total cash receipts and bank deposit. Similarly, the Student Transportation Unit did not maintain a daily mail log to help ensure that all cash receipts collected by mail were recorded and deposited. In addition, the Department did not have written policies and procedures for controlling, pursuing, and resolving NSF checks. For example, both the Licensing and Student Transportation Units did not always ensure that NSF checks were adequately tracked, pursued, and resolved or that these responsibilities were performed by an individual who was independent of the cash-handling and cash-recording responsibilities.

**Effect**—There is an increased risk of loss, theft, or misuse of the Department's cash receipts.

**Cause**—The Department has limited staff, making it difficult for the Department to monitor its various operating units and establish NSF policies and procedures.

**Recommendation**—To help ensure that cash receipts are properly collected, recorded, reconciled, and deposited, the Department should strengthen the monitoring of its operating units to ensure that they follow established written policies and procedures. Specifically, the Department should require its operating units to maintain a daily receipts log for cash receipts received by mail or drop-box. The daily receipts log should be reconciled to the day's total cash receipts collections and bank deposit to help ensure that all cash receipts are recorded and deposited. In addition, establish policies and procedures for NSF checks and ensure that NSF checks are controlled and that the individuals who are responsible for tracking, pursuing, and resolving NSF checks are independent of cash-handling and cash-recording responsibilities.







## The Department should improve its procedures for travel expenditures

**Criteria**—The Department is required to follow the *State of Arizona Accounting Manual*, Topic 50, for travel expenditures. The Department also has its own policies and procedures to help ensure that the Department’s travel costs are the most economically advantageous and comply with state guidelines. In accordance with the Department of Public Safety General Order 7.2.20, Section IV (D), employees required to travel out of State on business should contact the Department’s Central Finance Office for airline and car rental reservations as soon as the travel information is available, the Central Finance Office will coordinate with the state-contracted travel agency to find the most economical airline carrier and car rental agency. Reservations should not be finalized until the travel request is approved.

**Condition and context**—The Department did not have adequate controls to properly review and approve travel requests and travel reimbursement claims to ensure the costs were the most economical. Specifically, for one of six employee travel expenditure transactions tested, the employee purchased airfare on a personal credit card without using the Central Finance Office or a state-contracted travel agency to procure the airfare, as required by the policies. In addition, this purchase was made before an out-of-state travel request form was submitted and approved.

**Effect**—The Department may have not obtained the most economical airfare.

**Cause**—The Department did not always properly review employee travel requests and travel claims to ensure that its established policies and procedures were followed and that the costs were allowable and the most economical.

**Recommendation**—To help ensure that the Department’s travel costs are the most economically advantageous and comply with its policies and state guidelines, the Department should require that all employee travel requests and travel claims are properly reviewed and approved for allowability by individuals who are knowledgeable of the travel policies and procedures prior to disbursing funds. In addition, the Department should ensure that all out-of-state travel is approved and that the Central Finance Office makes all airline and car rental reservations.





## The Department should improve controls over purchasing

**Criteria**—To ensure that the Department receives the best possible value for the public money it spends, it should follow the prescribed competitive purchasing procedures outlined in the *Arizona Procurement Code*, established by the Department of Administration—State Procurement Office. In accordance with R2-7-E301 of the *Arizona Procurement Code*, the Department is required to prepare and maintain a written determination of the basis for the sole source procurement of goods and services when there is only a single source for the purchase or when no reasonable alternative exists. Additionally, the Department should issue a request for quotation (RFQ) for purchases estimated to be between \$10,000 and \$100,000 in accordance with Arizona State Procurement codes R2-7-D302 and R2-7-D303.

**Condition and context**—The Department did not always follow the State's requirements to use competitive purchasing procedures. Specifically, for one of ten purchases tested, the Department did not maintain in the contract file a director-written determination of the basis for the sole source procurement. In addition, for one of ten purchases tested, the Department did not maintain in the contract file an RFQ or a director-written determination of the basis for the procurement if the purchase was considered sole source.

**Effect**—Noncompliance with the *Arizona Procurement Code* R2-7-E301, R2-7-D302, and R2-7-D303. Additionally, the Department may not have obtained the most advantageous price for the goods and services it purchased.

**Cause**—The Department did not always ensure that it maintained documentation evidencing that competitive purchasing procedures were followed.

**Recommendation**—To help ensure that it obtains the most advantageous price for the goods and services it purchases and to comply with the State's procurement requirements, the Department should ensure that it prepares and maintains documentation evidencing that competitive purchasing procedures were followed. For example, include a written determination of the basis for the sole source procurement and RFQs in the contract files.





# The Department should improve controls over capital assets

**Criteria**—In accordance with the *State of Arizona Accounting Manual*, Topic 25, Section 35, the Department should have effective internal controls sufficient to control, safeguard, and report capital assets.

**Condition and context**—The Department has nearly 33,400 capital assets that are located throughout the State. However, the Department did not have adequate controls in place to properly identify and locate them. Specifically, auditors could not locate two of ten capital assets tested. The Department loaned one of the missing assets to another law enforcement agency, and that agency disposed of the asset without notifying the Department. In addition, the asset's tag or serial number listed in the Department's capital asset list did not match the tag or serial number of the physical asset for two of ten capital assets tested.

**Effect**—Without effective internal controls, the Department's capital assets may be exposed to the risk of loss, theft, or misuse. Additionally, if capital assets acquired with federal award monies are not adequately tracked, or are loaned to other state and local law enforcement agencies and are disposed of without requesting permission from the grantor, the Department may risk violating federal laws and regulations.

**Cause**—The Department's capital asset list properly identified capital assets that were loaned to other law enforcement agencies. However, the Department did not have procedures in place to contact those agencies on a periodic basis to verify whether they were properly identifying the assets on loan as belonging to the Department and to provide guidance on the assets return or disposal. Also, the Department has a significant number of equipment items to track and did not always update its capital asset list.

**Recommendation**—To help ensure that its capital assets are properly controlled, safeguarded, and accounted for in accordance with state policies and procedures, the Department should update its capital assets list for any changes resulting from its annual inventory and compare the list to the Department's capital assets recorded on the State's fixed assets system. In addition, the Department should develop and implement procedures to properly account for assets on loan to other law enforcement agencies. Specifically, the Department should contact those agencies at least annually to verify that the assets on loan were properly identified by the agency as belonging to the Department and to provide guidance on loaned assets' return or disposal.



# DEPARTMENT RESPONSE



# ARIZONA DEPARTMENT OF PUBLIC SAFETY

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*"Courteous Vigilance"*

DOUGLAS A. DUCEY    FRANK L. MILSTEAD  
Governor                      Director

January 30, 2017

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

**Re: Response to Procedural Audit Findings**

Dear Mr. Zsorey:

**Finding #1:** The Department should strengthen controls over cash receipts.

**Response:** As recommended, DPS will endeavor to strengthen the monitoring of its operating units to ensure that they follow established written policies and procedures.

**Finding #2:** The Department should improve its procedures for travel expenditures.

**Response:** As recommended, DPS will endeavor to ensure that all out-of-state travel is approved and that the central finance office makes all airline and car rental reservations.

**Finding #3:** The Department should improve its controls over purchasing.

**Response:** As recommended, DPS will endeavor to ensure that it prepares and maintains documentation evidencing that competitive purchasing procedures were followed. In an attempt to improve procurement services and compliance, the Department has contracted with the Arizona Department of Administration to provide all procurement functions.

**Finding #4:** The Department should improve controls over capital assets.

**Response:** As recommended, DPS will endeavor to reconcile its capital assets list with the State's fixed assets system and to develop and implement procedures to properly account for assets on loan to other law enforcement agencies.

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

Sincerely,

Frank L. Milstead, Colonel  
Director



