



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Procedural Review

# Arizona Department of Liquor Licenses and Control

As of March 31, 2015

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August • 2015  
Report No. 15-305



**Debra K. Davenport**  
Auditor General

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AUDITOR GENERAL

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

**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

August 27, 2015

John Cocca, Director  
Arizona Department of Liquor Licenses and Control

We have performed a procedural review of the Department of Liquor Licenses and Control's internal controls in effect as of March 31, 2015. 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, executive travel, journal entries, transfers, payroll, capital assets, and compliance with certain Arizona Revised Statutes.

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

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## The Department should improve internal controls related to its capital assets

**Criteria**—In accordance with the State of Arizona Accounting Manual Topic 25 (Long-lived Resources; formerly Section II-G-1), the Department should have effective internal controls over its capital assets that are sufficient to control, safeguard, and accurately report capital assets.

**Condition and context**—The Department had 14 capital assets listed on the State's Fixed Asset Module (FAM). During test work, auditors noted the Department:

- had not performed a physical inventory of its capital assets in approximately 2 years and did not have records to support when it last reconciled its internal capital assets listing to the FAM.
- improperly capitalized \$375,250 in software consulting fees in a prior fiscal year and incorrectly recorded the purchase as a capital asset on its internal capital assets listing and the FAM.
- did not complete a Property Disposal Request and Authorization Form for surveillance equipment transferred to another state agency in a prior fiscal year and never removed the transferred capital asset from its internal capital assets listing or the FAM.
- did not retain capital asset disposal documentation for two copiers disposed of in a prior year and never removed these items from its internal capital assets listing or the FAM.

**Effect**—Without effective internal controls, the Department's capital assets are exposed to theft or misuse. Further, the Department is not communicating accurate information to the State's General Accounting Office for inclusion of its capital assets in the State's annual financial statements.

**Cause**—The Department did not have a process to comply with the State's capital assets policies and procedures.

**Recommendation**—The Department should comply with the State's capital assets policies and procedures to help ensure its capital assets are properly controlled, safeguarded, and reported in the State's financial statements. Specifically, the Department should:

- conduct a physical inventory of its capital assets annually, update its internal capital assets listing and FAM for any changes, and perform a reconciliation between its internal listing and the FAM at least annually.
- capitalize expenditures in accordance with the State's policies and procedures.
- retain the appropriate documentation supporting all capital assets transfers and disposals.

- update its internal capital assets listing and the FAM for all transferred and disposed capital assets.

# FINDING 2

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## The Department should establish policies and procedures to ensure compliance with Arizona conflict-of-interest laws

**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 in place to ensure that all employees in management positions completed a conflict-of-interest or related-party disclosure. During test work, auditors noted the Department did not maintain conflict-of-interest or related-party disclosures for four of six employees in management positions tested.

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

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

**Recommendation**—The Department should maintain accurate and up to date conflict-of-interest or related-party disclosure forms for all management employees to ensure compliance with A.R.S. §38-503. In addition, the Department should require all new employees in management positions to complete the forms when hired. Further, the Department should ensure that key employees refrain from participating in transactions or decisions, such as contracts for goods or services, when they have a conflict of interest.





# DEPARTMENT RESPONSE

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DEPARTMENT RESPONSE



STATE OF ARIZONA  
DEPARTMENT OF LIQUOR LICENSES AND CONTROL

Douglas A. Ducey  
GOVERNOR

John Cocca  
DIRECTOR

August 27, 2015

Debra K. Davenport, Auditor General  
State of Arizona Office of the Auditor General  
2910 N. 44<sup>th</sup> Street, Suite 410  
Phoenix, AZ 85018

**RE: Response to the August 2015 Procedural Review,  
Report No. 15-305**

Dear Ms. Davenport:

The Department of Liquor Licenses and Control ("department") appreciates the opportunity to respond to the findings of the procedural review performed by your audit team, dated August 2015. I would like to extend our "thank you" to you for the dedication and commitment, time, and research your staff contributed in conducting the department's audit.

Below, please find the department's responses to the audit findings.

**Finding 1: The Department should improve controls related to its capital assets**

Response: The department concurs with the finding that it should develop policies and procedures to help it ensure compliance with the State of Arizona Accounting Manual (SAAM) in order to properly safeguard its assets including: (a) conducting an annual physical inventory; (b) capitalizing expenditures; (c) retaining the appropriate documentation supporting all capital asset transfers/disposals; and (d) updating its internal capital assets listing and the State's Fixed Asset Module for all transferred and disposed capital assets.

**Finding 2:           The Department should establish policies to ensure  
compliance with Arizona Revised Statutes**

Response: The department concurs with the finding that it should obtain from new management hires and maintain current conflict of interest or related party disclosure forms for all members of management in compliance with A.R.S. § 38-503. In furtherance of this Finding, the department obtained updated conflict of interest disclosure forms from all existing management personnel.

The department recognizes the importance of maintaining a reliable system of internal controls and will take the necessary steps to make the improvements identified in the August 2015 procedural review.

Thank you, again, for the effort and time put in to helping us better serve the state of Arizona.

Sincerely yours,

John Cocca  
Director

