



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Management Letter

Department of Economic Security

Year Ended June 30, 2006



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

September 18, 2007

Tracy L. Wareing, Director
State of Arizona
Department of Economic Security
1717 West Jefferson Street
Phoenix, AZ 85007

Dear Ms. Wareing:

In planning and conducting our single audit of the State of Arizona for the year ended June 30, 2006, we performed the following as required by *Government Auditing Standards* (GAS) and Office of Management and Budget (OMB) Circular A-133:

- Considered the Department's internal controls over financial reporting,
- Tested its internal controls over major federal programs, and
- Tested its compliance with laws and regulations that could have a direct and material effect on the State's financial statements and major federal programs.

Specifically, we performed tests of revenues, receivables, expenditures, payables, transfers, cost allocations, payroll, purchasing, bank accounts, capital assets, and financial reporting. In addition, we performed compliance test work on the Food Stamp Cluster, Workforce Investment Act Cluster, Unemployment Insurance (UI), Rehabilitation Services—Vocational Rehabilitation Grants to States, Temporary Assistance for Needy Families, Child Support Enforcement, Foster Care—Title IV-E, Social Services Block Grant, and Disability Insurance/SSI Cluster.

All audit findings that are required to be reported by GAS and OMB Circular A-133 have been included in the State of Arizona's Single Audit Reporting Package for the year ended June 30, 2006, and have been communicated to your staff. In addition, our audit disclosed an internal control weakness and instance of noncompliance with laws and regulations that did not meet the reporting criteria. Management should correct this deficiency to ensure that it fulfills its responsibility to establish and maintain adequate internal controls and comply with laws and regulations. Our recommendation is described below.

The Employment Administration should investigate and resolve unreconciled differences in a timely manner

The Employment Administration (Administration) is responsible for processing UI benefit payments to qualified recipients and disbursed more than \$185 million in benefits in fiscal year 2006. Therefore, the Administration should have effective internal controls to accurately account for and control cash disbursements. However, this was not always

Tracy L. Wareing, Director
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accomplished. Although the Administration prepared monthly reconciliations of benefit payments from its accounting records to the bank statements, it did not always investigate and correct unreconciled differences. As a result, there was an unreconciled difference of approximately \$555,000 at June 30, 2006. Auditors noted similar problems in prior years, and the unreconciled difference has continued to increase since June 30, 2004.

To help ensure the Administration has effective internal controls that account for and control all UI benefit payments, the Administration should identify all reconciling items, investigate them, and make necessary corrections to its accounting records.

This letter is intended solely for the information 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 its contents, please let us know.

Sincerely,

Dennis L. Mattheisen, CPA
Financial Audit Director



ARIZONA DEPARTMENT OF ECONOMIC SECURITY

1717 W. Jefferson • P.O. Box 6123 • Phoenix, AZ 85005

Janet Napolitano
Governor

Tracy L. Wareing
Director

AUG 24 2007

Ms. Debra K. Davenport
Auditor General
Office of the Auditor General
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Ms. Davenport:

Thank you for the opportunity to respond to the Department of Economic Security (DES) Management Letter audit findings for the fiscal year 2005-06 financial statement and single audit of DES. It is understood that the Department's responses will be included in the published Management Letter.

The Department wishes to express its appreciation to you and your staff for the time and effort invested in these audits. Enclosed, please find our response to your recommendations related to the DES Employment Administration.

If you have any questions, please contact James Hillyard, Assistant Director for the Division of Business and Finance at (602) 542-7166, or me at (602) 542-5757.

Sincerely,

Tracy L. Wareing
Director

Enclosure

The Employment Administration should investigate and resolve unreconciled differences in a timely manner

To help ensure the Administration has effective internal controls that account for and control all UI benefit payments, the Administration should identify all reconciling items, investigate them, and make necessary corrections to its accounting records.

Department Response

The Department concurs. The Administration has determined that all items were correctly posted to the ledgers, but the information was not displaying correctly in the automated system for the 2003, 2004, and 2005 ledgers. The Administration will be focusing efforts on the reconciliation of the outstanding amount, and anticipates having the reconciliation complete and solutions identified to remedy the finding by March 2008.