



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Management Letter

**Department of
Health Services**

Year Ended June 30, 2002



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

March 10, 2003

Ms. Catherine R. Eden, Director
State of Arizona
Department of Health Services
1740 West Adams Street
Phoenix, AZ 85007

Dear Ms. Eden:

In planning and conducting our single audit of the State of Arizona for the year ended June 30, 2002, 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 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 cash receipts, federal revenues and receivables, payroll, capital assets, and the Immunization Grants program.

All audit findings that are required to be reported by GAS and OMB Circular A-133 will be included in the State of Arizona's Single Audit Reporting Package for the year ended June 30, 2002, and have been communicated to your staff. In addition, our audit disclosed an internal control weakness that does not meet the reporting criteria. Management should correct this deficiency to ensure that it fulfills its responsibility to establish and maintain adequate internal controls. Our recommendation is described in the accompanying summary.

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

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Recommendation I: The Laboratory Licensure Office
should improve controls and procedures over billings
and cash receipts

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Department Response

BACKGROUND

The Department of Health Services' Laboratory Licensure Office assures the quality of analytical testing being done by clinical and environmental laboratories for the State. They provide technical training and consultative support; prescribe rules for minimum standards of proficiency, methodology, quality assurance, operation, and safety for environmental laboratories; and provide the standards for personnel education, training, and expertise necessary to meet federal environmental statutes or regulations.

The Laboratory Licensure Office should improve controls and procedures over billings and cash receipts

The Laboratory Licensure Office (the Office) receives cash receipts for laboratory license applications, methods fees, billings for the Office's lab auditors' travel costs, and copy fees. Inadequate controls and procedures over billings and cash receipts increase the risk of loss through error, theft, and fraud. The Office should establish written procedures, adequately segregate duties, and safeguard cash receipts to reduce this risk of loss.

Auditors noted the following specific weaknesses in the Laboratory Licensure Office's established procedures:

- The Office did not have written procedures for billings and cash receipts.
- An employee who prepares the billing invoices also receives cash receipts. These receipts are delivered to an employee in the Controller's Office who also receives cash receipts by mail. This employee prepares and delivers the deposits to the Treasurer's Office and enters deposits onto the Arizona Financial Information System.
- During the day, cash received at the Office is not locked in a safe or locking file cabinet prior to deposit.

- Billings generated for laboratory charges are not reviewed and approved prior to recording and mailing.
- The Office is allowed to bill in advance the estimated cost of laboratory inspections and investigations by lab auditors. However, the Office does not adjust a laboratory's billing accordingly if the difference between the estimated and actual cost is less than \$40.

In addition we noted the method for processing cash receipts is inefficient and overly complicated. Receipts are collected at both the Laboratory Licensure Office and the Controller's Office. To ensure laboratory payments are properly recorded, the Controller's Office must make copies of the receipts for the Laboratory Office. This increases the chance of misplacing receipts and complicates the recording of lab billings and collections.

The Department should ensure the Laboratory Licensure Office establishes written procedures for billings and cash receipts; properly segregates billings, cash receipts, and accounting duties; and safeguards cash receipts. Doing so will help the Office adequately control billings and cash receipts.



Division of Business and Financial Services

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JANET NAPOLITANO, GOVERNOR
CATHERINE R. EDEN, DIRECTOR

March 3, 2003
Debbie Davenport
State Auditor General
2910 N. 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

The Arizona Department of Health Services has chosen to respond to your Management Letter for the year ending June 30, 2002. The Management Letter resulted from a single audit performed on our agency in accordance with the *Government Auditing Standards (GAS)* and Office of Management and Budget (OMB) Circular A-133. Attached is our response to your audit finding and related recommendations.

If you have any questions, please contact me at 542-1443 or Jim Beutler, Administrator for the Office of the Controller, at 542-2996.

Sincerely,

Craig Dunlap
Assistant Director

Attachment

- c: Rose Conner, Assistant Director, Public Health Services
- Wes Press, Bureau Chief, State Laboratory
- Steve Baker, Manager, Office of Laboratory Licensure
- Jim Beutler, Administrator, Controller's Office
- Kim VanPelt, Office of Director Strategic Planning Manager

CORRECTIVE ACTION PLAN:

1. The Environmental Licensure program, at the time of the audit, had a written standard operating procedure (SOP). An updated SOP has been completed. The completion date for the updated SOP was October 23, 2002. This finding is complete.
2. The office has implemented a policy for personnel receiving cash receipts and preparing deposit slips. When a check is received by mail, the individual that opened the mail records the check into the check log. Once the check is recorded, the check is then received by another individual who prepares the deposit slip. The completion date for implementing the above procedure was September 30, 2002. This finding is complete.
3. Cash receipts received at the office are taken to the accounting office as soon as a deposit slip has been completed. The check or checks, if they are not transferred to accounting immediately, are locked in a secure location. The completion date was September 30, 2002. This finding is complete.
4. Billing invoices generated for laboratory charges are now reviewed and approved prior to mailing. An individual generates a billing invoice and a second individual reviews and approves the billing invoice. The completion date was October 22, 2002. This finding is complete.
5. The office has implemented a new policy concerning overpayments and underpayments. Overpayments or underpayments are received for applications, methods billings, or travel billings. When this occurs, it is noted in the laboratories' control log sheet. Once the actual cost is known to the office, the laboratory which has submitted the payments is then notified by mail of the debit or credit to their account. The completion date was September 24, 2002. This finding is complete.

The checks received at the Laboratory Licensure P.O. Box will now be delivered directly to the Laboratory Licensure Office instead of being delivered to the Controller's Office for deposit. The Laboratory Licensure Office will include these checks in their regular deposit process. The completion date will be March 4, 2003. This finding is complete.