



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Management Letter

**Department of Economic
Security**

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

June 12, 2003

William Bell, Acting Director
State of Arizona
Department of Economic Security
1717 West Jefferson Street
Phoenix, AZ 85007

Dear Mr. Bell:

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 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 allocation, payroll, purchasing, bank accounts, capital assets, financial reporting, and compliance with laws and regulations for the Emergency Food Assistance Cluster, Unemployment Insurance, Senior Community Service Employment Program, Temporary Assistance for Needy Families, Child Care Cluster, Social Services Block Grant, and Social Security—Disability Insurance programs.

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, 2002, and have been communicated to your staff. In addition, our audit disclosed internal control weaknesses that do not meet the reporting criteria. Management should correct these deficiencies to ensure that it fulfills its responsibility to establish and maintain adequate internal controls. Our recommendations are described in the accompanying summary.

This letter is intended solely for the information of the Department of Economic Security 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

TABLE OF CONTENTS



Recommendation I: The Division of Developmental Disabilities should properly reconcile its fiduciary accounts

1

Recommendation II: The Department should protect its information system from damage and equipment failure

1

Department Response

The Division of Developmental Disabilities should properly reconcile its fiduciary accounts

The Division of Developmental Disabilities has six regional offices that administer the financial activity for individuals with developmental disabilities who are unable to handle their own finances. Each regional office maintains the financial activity records for disabled individuals on a personal computer. Each regional office also maintains a fiduciary bank account for depositing social security checks, Arizona Long-Term Care System receipts, and other cash receipts and issuing checks for disabled individuals' expenses. Therefore, it is essential that the Division maintains accurate records for these accounts to safeguard disabled individuals' assets.

However, in December 1999, the Division changed the software on its personal computers and did not provide adequate training to its employees on the new software. As a result, employees at several regional offices incorrectly recorded financial activity onto the new system and were unable to reconcile their accounting records to the banks' statements.

The Division should immediately and adequately train its employees to record financial transactions on the new accounting system, correct the erroneous financial information recorded on the new system, and reconcile the accounting records monthly to the bank statements. These procedures will help ensure that accurate and complete financial information is maintained for each of its disabled clients. This recommendation was previously provided in our Management Letter to the Department dated June 3, 2002.

The Department should protect its information system from damage and equipment failure

The Department uses a computerized information system to process its financial transactions. Therefore, it is vital that the Department have an up-to-date contingency plan so it will be able to process its transactions should a major computer hardware or software failure occur. However, the Department's disaster recovery plan for its information system was kept in the same room as the Department's computer equipment and had not been updated or tested since 1988. Further, the room did not

have a water detection device in the event of flooding or malfunctioning fire sprinkler heads. In addition, the Department may not have enough electric capacity to run the information system in the event of a power outage.

To protect the Department's information system from damage and loss of valuable data, the Department should perform the following:

- Store the disaster recovery plan at an off-site location and test the plan on an annual basis.
- Install a water detection device in the computer room.
- Maintain an adequate electric power supply.

A similar recommendation was previously provided in our Management Letter to the Department dated June 3, 2002.



ARIZONA DEPARTMENT OF ECONOMIC SECURITY

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

Janet Napolitano
Governor

William Bell
Acting Director

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 management letter for the financial statement audit of the Department and the single audit of the State of Arizona for the fiscal year 2001-02.

It is understood that this response 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.

Sincerely,

William Bell

Enclosure

DEPARTMENT OF ECONOMIC SECURITY
RESPONSE TO THE FISCAL YEAR 2001-02
MANAGEMENT LETTER

The Division of Developmental Disabilities should properly reconcile its fiduciary accounts.

The Department's policies require the reconciliation of all bank accounts monthly. A review of the Division of Developmental Disabilities' fiduciary accounts indicates that for several of the accounts identified in the audit, the financial activity recorded on the system has been corrected and the accounts reconciled; however, there are accounts that still require further corrective action.

To correct the deficiencies, the Division planned to assign oversight and statewide supervisory responsibility to a person qualified to review the accounts, train staff, ensure that fiduciary accounts are reconciled monthly and ensure that accurate and complete financial information is maintained for each client. Training had been accomplished using district staff; oversight and ongoing review of accounts for completeness and accuracy is being done by regional Administrative Services Officers and designated staff. Because of staffing resource shortages, the Division has not had an available resource that could be assigned these responsibilities.

The Division will assign oversight and statewide supervisory responsibility to a person qualified to review the accounts, continue to train and upgrade staff skills, ensure that fiduciary accounts are reconciled monthly, and ensure that accurate and complete financial information is maintained for each client with an account.

The Division will review its current policy and procedures and revise and update as necessary.

The Department should protect its information system from damage and equipment failure.

Over the course of the past several months, considerable progress has been made in developing a Disaster Recovery Plan (DRP). The Department has also implemented recent upgrades to the data center power supply systems. The Data Center now has sufficient power to sustain system operations during power failures. Further, water detection devices have been installed in all flooring sections to detect possible flooding situations.

The Department has a full-time Disaster Recovery Coordinator and is in the process of developing a meaningful DRP. Once this plan is completed, as a paper-based plan, steps will be taken to test it to the degree possible.

DEPARTMENT OF ECONOMIC SECURITY
RESPONSE TO THE FISCAL YEAR 2001-02
MANAGEMENT LETTER

The following is additional information related to the recommended contents of the DRP:

- Personnel assigned to disaster recovery teams and their emergency telephone number.

The Division of Technology Services (DTS) maintains emergency telephone numbers of response personnel in the Department Business Continuity Plan and the DTS DRP. Involved personnel are provided with calling cards that provide calling tree information in support of these plans in the event of an emergency. Recovery teams, positions, employees and related contact information are also contained within the Division's Disaster Recovery Planning software application.

- A risk analysis identifying critical applications, exposures, and an assessment of potential impact on the Department.

A risk analysis of the Department's data center was performed during the DRP process. This item was completed.

- Arrangements with vendors to support hardware and software requirements.

As part of the DRP all hardware and software vendors were identified and formal disaster recovery communications protocols were determined. Contract terms and conditions are being considered for modification to include special provisions for disaster recovery situations. Most IT vendors provide emergency shipping provisions to customers experiencing disaster conditions; therefore, the need for special contract wording is questionable.

- A designated physical facility offsite.

Due to funding limitations, the Department is unable to secure a hot or cold alternative physical facility for its data center operation. Discussions are currently underway with the Arizona Department of Administration and Department of Public Safety to determine the feasibility of creating a joint data mirroring and backup/recovery environment that would meet the needs of all three organizations. A multi-agency budget issue will be developed for submission to the State Legislature this summer for funding consideration.