



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Procedural Review

# Department of Education

As of August 16, 2005

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**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

November 1, 2005

The Honorable Tom Horne  
State Superintendent of Public Instruction  
State of Arizona Department of Education  
1535 West Jefferson Street  
Phoenix, AZ 85007

Dear Mr. Horne:

We have performed a procedural review of the Department's internal controls in effect as of August 16, 2005. 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 internal controls or ensure that all deficiencies in internal controls are disclosed.

Specifically, we reviewed cash receipts, cash disbursements, journal entries, transfers, payroll, purchasing, equipment, and financial reporting.

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 recommendations concerning them are described in the accompanying summary.

This letter is intended solely for the information and use 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 our procedural review, please let us know.

Sincerely,

Debbie Davenport  
Auditor General

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## The Department should improve controls over equipment disposals

The Department owns \$5.2 million of equipment; therefore, it is important that it controls and safeguards these assets. To maintain control over these assets, the Department should remove equipment disposed of from the State's capital assets accounting system. However, the Department had \$1.6 million of equipment items that had been traded in, disposed of, or lost in prior years that had not been removed from the State's capital assets accounting system. As a result, the Department's equipment was overstated by \$1.6 million in the State's financial statements.

To help ensure that the Department has control over its equipment items, it should remove equipment from the capital assets accounting system within 5 working days of the disposal dates.

## The Department should develop written policies and procedures for its intranet procurement system

The intranet procurement system is the Department's primary procurement system. The system is used to control the Department's purchasing and receiving of goods and services. Because the system is critical to the Department's daily operations, it is important that written policies and procedures are established to control system operations. Written policies and procedures provide the basic framework needed for establishing employee accountability. They also serve as a reference tool for employees seeking guidance on how to handle complex or infrequent transactions and offer guidance for controlling daily operations. Reliance on appropriate written policies and procedures can enhance both accountability and consistency, and safeguard assets and data. However, the Department had no detailed written policies and procedures for system administrators.

The Department should develop detailed written policies and procedures that are secured and available to system administrators and other information technology employees that address the following:

- System maintenance—Detailed information on system development, maintaining hardware and software, and system processing integrity. This will help ensure the system is properly maintained and that information is processed completely and accurately.
- Technical guidance—Program coding information, hardware specifications (i.e., the server the system resides on), network configurations, and emergency shutdown procedures. This will aid employees in planning system changes and analyzing and solving system problems.
- System changes/updates—Proper authorization and approval of hardware and software changes, including change requests, testing changes, documentation of changes, and separation of responsibilities. This will help ensure changes are not made, tested, and implemented by a single employee.

## The Department should control access and changes made to its intranet procurement system

In a paperless electronic procurement system, monitoring system access and database and firewall changes is crucial to ensure only authorized purchases are made. The Department had drafted, but not formalized, written policies and procedures that require a review of system audit logs, but these policies and procedures did not designate an employee responsible for performing the reviews. In addition, reviews of audit logs that show invalid access attempts, database changes, and firewall changes were not performed. Furthermore, auditors noted several employees who were granted access rights to the intranet procurement system that were inappropriate for their job responsibilities.

To help strengthen controls and ensure only authorized purchases are made, the Department should:

- Establish policies and procedures to assign the review of audit logs to an employee not responsible for controlling system access, maintaining databases, or making firewall changes.
- Ensure audit logs are reviewed and that instances of unauthorized system access and unauthorized changes to databases and to the firewall are reported to appropriate system administrators.

- Control access rights so that access is restricted to only those functions an employee needs to perform his or her job responsibilities.
- Monitor access rights granted to employees quarterly to help ensure system access remains appropriate for an employee's job responsibilities.



State of Arizona  
Department of Education

Tom Horne  
Superintendent of  
Public Instruction

October 25, 2005

Ms. Debbie Davenport

Office of the Auditor General  
2910 North 44<sup>th</sup> Street, Suite 410  
Phoenix, AZ 85018

Dear Ms. Davenport:

Enclosed you will find the corrective actions that ADE will implement in regard to the procedural review letter effective August 16, 2005. If you have further questions you may contact me at 602.364.0132.

Sincerely,

Vicki Salazar  
Associate Superintendent of Finance



**“The Department should improve controls over equipment disposals”**

The agency concurs with this finding and a formal process is in place to insure that disposed equipment is removed from the capital assets accounting system within 5 working days. When facilities forwards a SP101 to the State Procurement office for approval, a copy will be forwarded to Accounting so the necessary paperwork can be prepared. As soon as facilities receives the approved SP 101 from the State Procurement office, an electronic copy of the SP101 is immediately forwarded to Accounting in order to remove the equipment from the capital assets accounting system within the required 5 days. Accounting will then forward an electronic receipt to facilities. In addition to these processes, an annual fixed asset physical inventory is conducted prior to the close of each fiscal year.

**“The Department should develop written policies and procedures for its intranet procurement system”**

The agency concurs that it does not have a system administrator’s manual, which provides for system maintenance, technical guidance, and system changes/updates. This will be completed by 3/31/2006.

**“The Department should control access and changes made to its intranet procurement system”**

Although the Department did not have a formal written policy in place, there is an informal approval process for control access to the system given by the DAS (Deputy Associate Superintendent) of the appropriate Division. Formal written polices and procedures will be developed and completed by 12/31/2005. This will include the establishment of an approval process with internal review and audit to insure that access is restricted and appropriate to employee’s job responsibilities with approvals up through the DAS level.

Changes to Intranet Procurement system:

ADE has had an informal process in place to make any changes to the system to include approval up to the DAS level.

ADE will formally develop internal Policies and procedures for any changes to the Procurement system to be completed by 12/31/2005.