



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Procedural Review

# Department of Environmental Quality

As of June 23, 2003

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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

August 22, 2003

Stephen A. Owens, Director  
Department of Environmental Quality  
1110 West Washington Street  
Phoenix, AZ 85007

Dear Mr. Owens:

We have performed a procedural review of the Department's internal controls in effect as of June 23, 2003. 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, transfers, payroll, purchasing, revolving accounts, and capital assets.

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 below.

### The Department should enforce existing capital asset controls

The Department currently has approximately \$10 million in capital assets and, therefore, it is essential that the Department adequately safeguards and accounts for these assets. To meet these responsibilities, the Department has established internal control policies and procedures. However, the Department did not always follow its established policies and procedures. Specifically, asset purchases were not recorded on the State's capital assets system in a timely manner. None of the \$459,000 in assets purchased during the first 9 months of fiscal year 2003 had been added to the State's system by June 2003. In addition, the Department did not retain documentation supporting asset disposals, and the State's system included assets the Department did not own.

The following procedures can help the Department accurately record and safeguard capital assets:

- The Department should add assets acquired to the State's system within 5 working days after issuing warrants to pay for the assets.

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Department of Environmental Quality  
August 22, 2003  
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- The Department should prepare and retain disposal forms that are reviewed and approved by an administrator before assets are disposed of.
- The Department should not record assets owned by others on the State's capital assets system.

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,

Dennis L. Mattheisen, CPA  
Financial Audit Director



Janet Napolitano  
Governor

# ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY

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Stephen A. Owens  
Director

August 8, 2003

Mr. Dennis L. Mattheisen, CPA  
Financial Audit Director  
Auditor General's Office  
2910 N. 44th Street, Suite 410  
Phoenix, Arizona 85018

Dear Mr. Mattheisen:

I am writing in response to your letter dated June 23, 2003. ADEQ agrees that we have more than 10 million dollars in capital assets and that we are responsible for adequately safeguarding and accounting for these assets. ADEQ also agrees that we have sound internal control policies and procedures. Prior to my becoming ADEQ Director earlier this year, however, these policies and procedures were not consistently followed. This lack of consistency in following the established policies and procedures created some confusion and delays in documenting and recording new assets or in deleting surplus assets. As of September 1, 2003, all these assets will be part of our fixed assets inventory system.

Tenant improvement assets incorrectly recorded as State assets have been removed from our fixed asset system. The General Services Manager will ensure that ADEQ adheres to its established policies and procedures and that its assets are tagged and inventoried before distribution or deployment. The General Services Manager shall review and approve all deletions of assets from the inventory.

The Accounts Payable and Fixed Assets groups are working to improve communications and coordination with the Programs, their Business Managers, the Procurement and Receiving Units. General Services has reviewed and adopted plans to enhance the accuracy of its information and the participation of all Programs in tracking and inventorying their fixed assets.

In closing, we appreciate the efforts and professional assessment provided by the Auditor General's staff of the current condition of our fixed assets and inventory controls. Their findings support the efforts and changes we have been working toward since I became ADEQ Director. It has been a deliberate process but one that will yield an accurate statement of our fixed assets and inventory as we implement the remaining improvements. If you have any questions or need additional information, please call me.

Sincerely

Stephen A. Owens  
Director

cc: Lynette Spring, Auditor General's Office  
Richard W. Tobin II, Counselor to the Director  
John Joyce, General Services Manager

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