

**State of Arizona  
Department of Public Safety  
Management Letter  
Year Ended June 30, 2001**



DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

February 28, 2002

Colonel Dennis Garrett, Director  
Department of Public Safety  
2102 West Encanto Boulevard  
P.O. Box 6638  
Phoenix, AZ 85005-6638

**Subject: Management Letter**

Dear Colonel Garrett:

In planning and conducting our audit of the State of Arizona for the year ended June 30, 2001, we considered the Department of Public Safety's internal controls over financial reporting and tested its compliance with laws and regulations that could have a direct and material effect on the State's financial statements as required by *Government Auditing Standards*.

Specifically, we performed tests of land, buildings, improvements, equipment, and transfers.

There are no audit findings that are required to be reported by *Government Auditing Standards*. However, 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 below.

**The Department should improve its fixed asset control and recordkeeping procedures**

The Department's assets ultimately belong to the State's taxpayers, and the Department has a stewardship duty to account for and safeguard these assets. However, the Department's internal control and recordkeeping procedures were inadequate to ensure that its general fixed assets were completely and accurately recorded and properly safeguarded. These deficiencies were previously reported to the Department in prior years' management letters.

*The Department has not yet properly valued certain assets acquired before July 1, 1995. All purchased assets should be valued at actual cost; however, if actual cost information is not available, those assets should be recorded at estimated historical cost. Interest paid for assets purchased through installment purchase agreements should not be recorded as part of the asset's cost.*

*The Department failed to record some of its fixed assets on the State's Fixed Assets System (FAS). The FAS should contain records of all the Department's fixed assets because the State is ultimately responsible for reporting in its financial statements all of Arizona's general fixed assets. In fact, FAS could fill the Department's need for a comprehensive general fixed assets listing. It is the Department's responsibility to update FAS, and it should do so in a timely manner.*

*The Department could not account for all of its general fixed assets. Annual reconciliations would help ensure that the general fixed assets listing is complete. The Department should reconcile the current-year capitalized acquisitions on the listing (total additions) to total capital expenditures for the year. In addition, the Department should reconcile its current-year beginning balance to its prior-year ending balance and its current-year beginning balance, plus additions, minus deletions, to its current-year ending balance.*

*The Department did not adequately safeguard all of its fixed assets. Employees who had custody of the fixed assets were also allowed to inventory them, which increased the risk that the assets could be lost or stolen without being detected. The Department should assign employees who have no custodial duties the task of performing the physical inventory of fixed assets.*

*The Department did not provide fixed asset information to the General Accounting Office. The GAO relies on information in agencies' year-end closing packages to prepare the State's financial statements. It is important that the Department submit its closing package to GAO within the time frames requested.*

This letter is intended solely for the information of the Department of Public Safety, 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 PUBLIC SAFETY**  
2102 WEST ENCANTO BLVD. P.O. BOX 6638 PHOENIX, ARIZONA 85005-6638 (602) 223 - 2000



**JANE DEE HULL**  
GOVERNOR

**DENNIS A. GARRETT**  
DIRECTOR

February 25, 2002

Ms. Debra Davenport, CPA, Auditor General  
Office of the Auditor General  
2900 North 44th Street, Suite 410  
Phoenix, Arizona 85018

Re: DPS Audit Response - Year Ended June 30, 2001

Dear Ms. Davenport:

The Arizona Department of Public Safety (DPS) has reviewed findings contained in our financial audit conducted by Auditor General personnel for year ended June 30, 2001. The following are specific responses to each recommendation.

**GENERAL FIXED ASSETS**

**Department Response:** Agree

- Acquisitions of land and buildings in recent years have been recorded at actual cost, but much of the older inventory has no recorded historical cost. However, as time and monies permit, the Department will determine the feasibility of reviewing these records to determine whether historical cost data can reasonably be established. As noted in prior audit responses, previous arrangements with the Arizona Department of Administration (DOA) to assist us in addressing this issue did not take place due to staffing changes at their agency. For assets acquired under an installment purchase agreement, the Statewide Fixed Assets System (SFAS) dictates how, and under what conditions, a purchase of this nature is deemed a fixed asset.
- Due to the lack of recorded historical cost data, several of the Department's older aircraft were not included in the initial file conversion when SFAS was implemented in 1995. To address this situation, the Department has been in contact with DOA representatives to determine the proper valuation method for these items. Assuming the prescribed methodology can reasonably be established, the Department will ensure the records are added to SFAS. It should be noted the Department utilizes SFAS as our "official" record keeping system for recording fixed assets costing \$5,000 and above, however, DPS will continue to use its internal asset recording systems (such as the fleet management system)

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for tracking assets under \$5,000 and to produce additional management information and reporting not currently provided by SFAS.

- The Department will initiate efforts as soon as possible to begin conducting reconciliations between current year capitalized acquisitions and capital expenditures.
- It would require additional manpower throughout DPS facilities in the State in order to comply with this recommendation. For this reason, it is not anticipated the Department can entirely segregate record keeping from custodial functions. However, the Department requires documentation to be kept on file in a central location for all record keeping transactions, and an annual physical inventory is conducted (as per State requirements) with listings generated by the unit housing the central files. Any changes and/or discrepancies to these listings must be documented and justified, and approved by management.
- As previously indicated, the Department will initiate reconciliation efforts which will provide the ability to comply with closing package requirements.

Should you require further information, please contact Ms. Lu Himmelstein, DPS Finance Manager, at (602) 223-2443.

Sincerely,

Dennis A. Garrett, Colonel  
Director