



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Procedural Review

Department of Veterans' Services

As of May 31, 2003



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

September 30, 2003

Patrick F. Chorpenning, Director
Department of Veterans' Services
3225 North Central Avenue, Suite 910
Phoenix, AZ 85012

Dear Mr. Chorpenning:

We have performed a procedural review of the Department's internal controls in effect as of May 31, 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, capital assets, purchasing, financial and federal grant reporting, and fiduciary record-keeping.

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,

Dennis L. Mattheisen, CPA
Financial Audit Director

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The Department should promptly prepare wards' final accounting reports

Wards' estates should be distributed in the wards' or wards' beneficiaries best interests, and promptly preparing the final accounting reports helps ensure the proper distribution of wards' estates. However, the Department did not always follow the necessary procedures to ensure the wards' final accounting reports were prepared in a timely manner. Specifically, for 16 wards tested, the Department had not prepared final accounting reports for two wards who have been deceased for 8 years and prepared final accounting reports for 2 other wards more than 1 year after their deaths.

To help ensure that wards' estates are distributed accurately and in a timely manner, the Department should

- Perform all necessary close-out procedures stated in its Decedent Checklist within a reasonable period of time such as 1 year after the ward's death.
- Distribute the ward's estate as expeditiously and efficiently as is consistent with the estate's best interests as required by Arizona Revised Statutes §14-3703.

The Department's capital assets should be physically controlled

Capital assets represent a major investment of State monies and equipment items are particularly susceptible to theft or loss. Therefore, the Department should establish effective controls to ensure that equipment items are properly recorded and safeguarded. However, the Department did not have the necessary controls in place since none of the five assets acquired during the current year were recorded on the capital assets listing and several equipment items were not identified as State property.

To help ensure that assets are physically controlled and an accurate capital assets listing is maintained, the Department should establish the following procedures:

- When new equipment items are received, accurately record all necessary information from supporting documentation on the capital assets listing maintained on the State's Fixed Asset System (FAS).
- Before using equipment items, affix a tag with an identifying number to each item or specifically identify the item on the list using the serial number.
- Review the capital assets listing for accuracy and completeness annually.

The Department should ensure federal grants are recorded on the State's accounting system

Accurately reporting federal grants on the State's accounting system is essential to help ensure that federal expenditures are included on the State's Schedule of Expenditures and Federal Awards (SEFA) for federal audit purposes. In August 2001, the Department of Veteran Affairs awarded the Department more than \$7.7 million to construct a State Veterans' Cemetery. However, the Department did not properly complete section H of the State's closing package to ensure that the State was aware of the federal award. Therefore the State's SEFA was understated for fiscal year 2001-02.

To properly account for federal expenditures on the State's accounting system, the Department should follow the procedures listed below:

- When a federal award is first received, notify the State's General Accounting Office and provide them the necessary information including, grant number, grant phase, grantor, and grant type.
- Reconcile the State's Grant Summary report to the Department's accounting records at least annually.



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PATRICK F. CHORPENNING
DIRECTOR

September 18, 2003

Dennis L. Mattheisen, CPA
Financial Audit Director
Office of the Auditor General
2910 N. 44th Street, Suite 410
Phoenix, AZ 85007

Dear Mr. Mattheisen:

We have reviewed the Auditor General's procedural review report and appreciate the opportunity to respond to the three findings noted.

The Department should promptly prepare wards' final accounting reports

The department concurs with the Auditor General's finding and will implement the recommended procedures to ensure estates are distributed in a timely manner.

The Department's capital assets should be physically controlled

The department concurs with the Auditor General's finding and will implement the recommended procedures to ensure assets are physically controlled and an accurate capital assets listing is maintained.

The Department should ensure federal grants are recorded on the State's accounting system

The department concurs with the Auditor General's finding and will implement the recommended procedures to ensure federal expenditures are properly accounted for on the state's accounting system.

Should you have any questions or need additional information, please do not hesitate to contact me. Thank you.

Sincerely,

Gary Noviello
Assistant Director