

**STATE OF ARIZONA
DEPARTMENT OF PUBLIC SAFETY
Management Letter
Year Ended June 30, 2000**

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Year Ended June 30, 2000**

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

April 3, 2001

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, 2000, 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 general fixed assets; financial reporting; cash receipts of the Finance Department, Licensing Unit, and Fingerprint Unit; and transfers of cash from the Asset Forfeiture Unit to the Finance Department.

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. These audit findings and our related recommendations are briefly described in the accompanying summary.

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

Attachment

DEPARTMENT OF PUBLIC SAFETY
Summary of Audit Findings
Year Ended June 30, 2000

Introduction

The Department of Public Safety is the state agency responsible for the public safety of Arizona citizens.

The Office of the Auditor General last performed tests of financial reporting and internal controls as of June 30, 1999. At that time, we noted the following significant deficiencies in the Department's internal controls that could have a major impact on the Department's ability to properly safeguard its assets and record and report its transactions.

- The Department did not adequately control, account for, and report its general fixed assets.
- Internal controls over cash receipts should be improved.

Although the Department's management implemented many of the recommendations from that report, further action is still necessary. We reviewed the Department's internal controls in effect as of June 30, 2000, and determined that several of the same or similar deficiencies still existed. The following describes the deficiencies we noted and our recommendations concerning them.

The Department did not adequately control and account for its general fixed assets

The Department's internal control and recordkeeping procedures were inadequate to ensure that its general fixed assets were completely and accurately recorded and adequately safeguarded. These deficiencies have been previously reported to the Department in prior years' management letters.

The Department did not ensure that its general fixed assets listing was complete. The Department did not reconcile the current year capitalized acquisitions on the listing (total additions) to total capital expenditures for the year. These amounts should be reconciled at least annually. 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, less deletions, to its current year ending balance.

The Department did not use the correct valuation basis for some fixed assets. Land and buildings acquired before July 1, 1995, were recorded at replacement cost. In addition, assets purchased under the terms of installment purchase agreements before July 1, 1995, were recorded at estimated cost including interest.

Generally accepted accounting principles require that purchased property and equipment be recorded at actual cost, or estimated historical cost if the actual cost information is not available. In addition, the value recorded for assets purchased under the terms of installment purchase agreements should be the asset's fair value on the date of purchase. The Department should work with the Department of Administration to establish the correct valuation for assets acquired before July 1, 1995.

The Department did not ensure that all fixed assets were adequately safeguarded. Employees who performed the physical inventory of fixed assets also retained custody of the assets.

DEPARTMENT OF PUBLIC SAFETY
Summary of Audit Findings
Year Ended June 30, 2000

This increases the risk that assets could be lost or stolen without being detected. Therefore, an employee with no custodial functions should perform the physical inventory of fixed assets.

The Department did not provide fixed assets information to the General Accounting Office (GAO) in a timely manner. Since GAO relies on the information in the year-end closing packages to prepare the State's financial statements, it is important that the Department prepare and submit the closing package to GAO within the time frames requested.

Internal controls over cash receipts should be improved

Cash, by its nature, is more susceptible to manipulation than any other asset; therefore, effective control of checks, currency, and other cash items is imperative. Control begins immediately upon receipt of cash and includes not only physical safeguarding, but accurate recording, independent verification, and reconciling amounts in the accounting records to amounts deposited.

During our review of the cash receipts procedures in the Finance Department and Licensing and Fingerprint Units, as well as the transfers of cash from the Asset Forfeiture Unit to the Finance Department, we noted the following deficiencies.

The Fingerprint Unit's cash receipts were not always deposited in a timely manner. We noted one deposit of \$3,600 that was not deposited until five business days after the money was received.

To help ensure that all monies are adequately safeguarded, the Department should establish procedures to deposit receipts of \$500 or more on a daily basis. (*State of Arizona Accounting Manual, Section II-Q*)

The Tucson Licensing Unit's cash receipts were not always recorded in the State's accounting system in a timely manner. The Tucson Licensing Unit deposited cash receipts into the State's bank account. Then, the Finance Department prepared a Deposit with State Treasurer form GAO 605 to record the receipts in the State's accounting system. However, for two of ten receipts tested, we noted that these monies were not recorded in the State's accounting system until 17 and 66 days after the original receipt date.

To improve internal controls over cash receipts, the Department should establish policies and procedures to ensure that all of the Tucson Licensing Unit's cash receipts are recorded in the State's accounting system in a timely manner. (*State of Arizona Accounting Manual, Section II-Q*)

The Fingerprint Unit did not restrict access to the keys that allow employees to enter areas where cash was kept. Keys were kept in an unlocked desk drawer that was accessible to all employees.

To properly safeguard cash receipts, the Fingerprint Unit should restrict access to the keys that allow employees to enter areas where cash is secured to an essential number of employees. (*State of Arizona Accounting Manual, Section II-Q*)

ARIZONA DEPARTMENT OF PUBLIC SAFETY
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JANE DEE HULL
GOVERNOR

DENNIS A. GARRETT
DIRECTOR

February 28, 2001

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, 2000

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, 2000. The following are specific responses to each recommendation.

GENERAL FIXED ASSETS

Department Response: Agree

- Adequate staffing has allowed the Department to make great progress in file build-up of items in the Statewide Fixed Assets System (FAS). This will allow the Department to initiate reconciliation efforts for Fiscal Year 2001 acquisitions.
- 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 costs can reasonably be established. As noted in last year's audit response, previous arrangements with the Department of Administration 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 FAS program dictates how, and under what conditions, a purchase of this nature is deemed a fixed asset.
- 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 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.

Ms. Debra Davenport, CPA, Auditor General
February 28, 2001

- As previously indicated, due to the Department's progress in FAS file build-up, the Department will initiate reconciliation efforts for Fiscal Year 2001 acquisitions to comply with closing package requirements.

INTERNAL CONTROLS OVER CASH

Department Response: Agree

- The Department normally processes daily deposits within one-to-three working days, depending upon volume, and completed deposits are delivered daily to the State Treasurer's Office. Finance has not historically date-stamped Fingerprint Unit cash receipts upon delivery to their offices so it could not previously be determined as to length of time that transpired between delivery and actual deposit of those receipts. However, Finance has since implemented procedures to ensure all cash receipts from the Fingerprint Unit are datestamped upon delivery to Finance. In this manner, Finance will be able to track and ensure Fingerprint Unit receipts are deposited within the targeted one-to-three working day time frame.
- As a result of the Fiscal Year 1999 audit, DPS closed the bank account previously utilized by Tucson Licensing to ensure all monies are deposited directly into the State service bank. The sample which resulted in a significant delay (sixty-six days) occurred during the transition from the close-out of this account to depositing directly into the State service bank. As previously stated, the Department attempts to deposit all monies within one-to-three working days, depending upon volume, and will ensure Tucson Licensing deposits are made within this time frame.
- To remedy this situation, and ensure an additional level of security, while still maintaining operational capabilities, the Fingerprint Unit will lock the supervisor's office each day when checks are stored in the cash box. The only personnel with access to the office keys will be the supervisor and bureau management staff.

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

Sincerely,



Dennis A. Garrett, Colonel
Director