

**Arizona Game and Fish Department
Procedural Review Letter
As of May 22, 2002**



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

June 28, 2002

Duane L. Shroufe, Director
Arizona Game and Fish Department
2221 West Greenway Road
Phoenix, AZ 85023-4399

Subject: Procedural Review Letter

Dear Mr. Shroufe:

We have performed a procedural review of the Department's internal controls in effect as of May 22, 2002. 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, purchasing, journal vouchers, payroll, checking accounts, credit cards, revolving accounts, and equipment.

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

Attachment

Table of Contents

Recommendation

The Department should establish controls
over its special operations monies 1

Department Response

The Department should establish controls over its special operations monies

The Arizona Game and Fish Department was established to manage and preserve wildlife and enforce laws related to protecting wildlife. Consequently, the Department established the Special Operations Unit, which investigates illegal commercial use of wildlife, with priority on unlawful commercial activity such as the sale of wildlife and illegal guided hunts.

The Unit maintains several bank accounts and credit cards it uses for its undercover operations and spends approximately \$50,000 a year on these activities. Disbursements are made at the discretion of individual investigators; however, the Unit lacked the internal controls necessary to ensure that its disbursements were appropriate and complied with state policies. Auditors noted the following control deficiencies:

Incompatible employee responsibilities—Separation of responsibilities is critical to effective internal control; it reduces the risk of both erroneous and inappropriate transactions. In general, the approval, accounting, and reconciling functions should be separated among employees; however, the Unit supervisor requested funding; initiated, approved, received, and recorded purchases of goods and services; and reconciled accounting records to the bank statements. Further, an independent employee did not review the undercover financial activities or monthly bank reconciliations.

No central recordkeeping system and inadequate case files and supporting documentation—A central recordkeeping system that records monies received and disbursed is a basic accounting tool to provide management with a comprehensive view of the Unit's overall financial activity. An individual case file is another tool to accumulate information pertinent to all disbursements for each case. In addition, cost documentation such as written agreements, requisitions, purchase orders, vendor invoices, and cash register receipts are essential to support cash disbursements. For informant disbursements, a control log that serves as cost documentation is necessary to track disbursements by date, check number, informant control number, case number, amount, and purpose. Further, an individual informant file is also necessary to document disbursements by informant control number, case number, information provided, amount, and resolution of the information received.

Auditors reviewed the Unit's financial records and noted that the Unit lacked a central recordkeeping system to provide comprehensive detailed financial activity or case files to accumulate cash disbursements by case number. Instead, the investigators kept their own accounting records. As a result, the Unit was unable to generate financial summary reports of its complete operations for its management.

Arizona Constitution Article 9, Section 7 stipulates that public monies must be spent to serve public purposes and cannot be used to foster or promote any individual's purely private or personal interests. Further, Arizona Revised Statutes (A.R.S.) §17-315(B)(4) requires that Wildlife Theft Prevention monies be used only for expenditures to investigate unlawful commercial use of wildlife.

Auditors examined 3 months of cost documentation and found that the Unit did not always maintain informant files or cost documentation to support its undercover expenditures. Consequently, the Unit could not demonstrate compliance with Arizona Constitution Article 9, Section 7 or A.R.S. §17-315(B)(4). Further, auditors identified expenditures that were not supported or appeared unnecessary.

- The Unit paid two informants for the following undercover expenditures without written agreements:
 - One informant received \$400 monthly for rent, utilities, and telephone costs for a leased facility. Further, the informant also conducted his own private business from this facility and received minimal payments and mileage reimbursement for providing information to the Department.
 - Another informant received \$1,000 monthly plus travel and miscellaneous expenses for undercover services.
- The Unit lacked cost documentation or informant files to support numerous cash disbursements totaling \$609 and several informant disbursements totaling \$1,250.
- The Unit used seven phone lines and three cellular phones for three investigators, which cost \$2,400 in a 3-month period. Further, one investigator did not use the state's toll-free line for long-distance calls and, therefore, incurred \$242 in charges for 1 month.
- The Unit did not document why investigators' purchases of socks, boots, fanny packs, and gloves totaling \$149 served a public purpose.

Inadequate controls over bank accounts and credit cards—Cash is especially susceptible to theft or misuse, so it is important to establish effective controls to adequately safeguard it, however, the Unit did not have adequate controls over its bank accounts and credit cards as specified below:

- Three investigators used eight checking accounts and eight credit cards established at multiple financial institutions. Further, the Unit did not maintain a listing of these accounts and credit cards to monitor the activity.

- Two informants, one of whom lived in another state, maintained two of the Unit's checking accounts and received bank statements directly from the banks. Further, the Unit did not review or approve the in-state account's activities.
- The Unit did not always pay its credit card balances and other bills within 30 days to avoid interest payments.
- The Unit's supervisor had \$600 cash on hand at one time.
- One investigator deposited his own money into one of the Unit's checking accounts to pay for his personal expenses.

Noncompliance with state policies—It is imperative that the Unit complies with state policies to fulfill its responsibility to spend public monies prudently, however, the Unit did not always comply with the state requirements for procurement and travel. Auditors identified the following instances of noncompliance:

- The Unit used undercover monies to purchase radio equipment, ink cartridges, software, and miscellaneous supplies instead of completing Small Purchase Authorization forms. As a result, the Unit failed to comply with the Arizona Procurement Rules and Regulations R2-7-336.
- One investigator did not submit travel expenses to the Department for reimbursement as required by A.R.S. §38-622. Instead, he used undercover monies to pay for these expenses that were not related to undercover operations.

The Department should establish written policies and procedures for its Special Operations Unit to ensure that:

- ✓ The Department separates approval, accounting, and reconciling responsibilities for the Unit among employees.
- ✓ The Unit maintains accounting records of all Unit receipts and disbursements.
- ✓ The Unit maintains cost documentation (i.e., vendor invoices, control logs, and informant files) and evidence of supervisor approval for all disbursements.
- ✓ The supervisor reviews and documents approval for all checking account and credit card activity.
- ✓ The Unit safeguards undercover monies and minimizes excessive cash on hand.
- ✓ The Unit pays its credit card and other bills within 30 days to avoid interest payments.
- ✓ The supervisor provides training to Unit investigators on State procurement and travel policies.

Recommend establishing written policies and procedures over operations monies



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June 25, 2002

Dennis L. Mattheisen, CPA, Financial Audit
Director Auditor General's Office
2910 N. 44" St., Suite 410

Phoenix, Arizona 85018

Dear Mr. Mattheisen:

The Arizona Game and Fish Department has reviewed the Arizona Auditor General's report on our Special Operation Unit's financial controls relative to the Wildlife Theft Prevention Fund. The Department agrees with the recommendation given at the end of the report and expects to have full written financial control procedures in place and implemented by October 1, 2002. Specific comments relative to the various findings, issues and recommendations presented in the report are as follows. (Findings are noted in italicized type and comments are given in regular type.)

Incompatible employee responsibilities - we concur with the finding and the recommendation. The Law Enforcement Branch Chief will act as the independent reviewer of the monthly financial activities of the Special Operations Unit. Additionally, as cases are completed the Department's Internal Auditor will conduct an independent closeout audit.

No central recordkeeping system and inadequate case files and supporting documentation - we concur with the finding and recommendation. All original Special Operations Unit financial records, receipts, bank statements, etc. will be filed in a standard format centrally housed in the Special Operations Unit Supervisor's office within the Law Enforcement Branch.

- *The Unit paid two informants for undercover expenditures without written agreements*-we concur with the finding. The Department will coordinate with our representative from the Arizona Attorney General's Office to enhance and standardize the current informant/operative agreement being used by the Special Operations Unit.
- *The Unit lacked cost documentation or informant files to support cash disbursements and informant disbursements* - we concur with the finding and recommendation. Receipts will be obtained in all cases, unless to do so would compromise an investigation. Written documentation verified by a supervisor will be placed in the case file when receipts cannot be obtained or are lost. Informant control logs will continue to be used by informant control officers. All informants will continue to be assigned an informant control number and a

Mr. D. L. Mattheisen

June 25, 2002

Page 2 of 4

specific informant file will be kept for each informant. All Special Operations Unit informant files will be housed in the Special Operations Unit Supervisor's office within the Law Enforcement Branch. Enhanced documentation on payments to informants relative to results and benefits will be added to the individual informant files. A supervisor will acknowledge and approve all cash disbursements.

- *The Unit used seven phone lines and three cellular phones for three investigators. Further, one investigator did not use the state's toll-free line for long-distance calls - we concur with the finding. We appreciate your review of our phone use, however, at the present time there are various investigations that the three officers have ongoing, and we conclude that the number of phone lines is justified based on current need. As an investigation is ended, and if the phone line used in that investigation has no further use, then the phone line will be disconnected. Relative to long distance charges, the use of undercover calling cards or charging calls to an undercover phone will be allowed only when the officer's undercover identity is being used and/or it is necessary for the undercover investigator to protect an undercover identity. All other Department related long distance calls by an investigator away from a Department Office will be processed by using the state's 1-800 # service.*
- *The Unit did not document why investigators' purchases served a public purpose - we concur with the finding. Items noted were specific to a cold weather undercover operation and would be authorized expenditures relative to the fund. However, normal Department purchasing procedure (i.e. Small Purchase Authorization) should have been used to facilitate the purchases. In the future, purchases using undercover accounts and monies will only occur for respective undercover operations and when an undercover identity must be used or protected. Necessary support documentation will be maintained in the case file. All other normal operating purchases and transactions will be handled through normal Department purchasing channels.*

Inadequate controls over bank accounts and credit cards -

- *Three investigators used eight checking accounts and eight credit cards established at multiple financial institutions. Further, the Unit did not maintain a listing of these accounts and credit cards to monitor the activity - we concur with the finding. At this time, all the current undercover checking accounts and credit cards are justified given the investigations that are ongoing. As the investigations end, the checking accounts and the credit cards will be closed out or cancelled, if no longer needed. A central file will be housed in the Special Operations Unit Supervisor's Office within the Law Enforcement Branch, which will document and allow for the tracking of checking accounts and credit cards issued to or controlled by Unit officers.*

Mr. D. L. Mattheisen

June 25, 2002

Page 3 of 4

- *Two informants maintained two of the Unit's checking accounts and received bank statements directly from the banks- we concur with the finding. As were the cases here, in certain operations, the informant/operative will need to maintain the individual undercover checking account, as they will be writing checks as part of the undercover business or cover. In the case of an undercover business operated by an informant/operative, the monthly bank statements should come back to that business location. The individual informant control officer will insure that he/she is reviewing the informant's/operative's accounting records and bank statements on at least a monthly basis. It will be up to the individual informant control officer, in consultation and coordination with their respective supervisor, to see that all monies are being spent properly and accounted for properly. Copies of all documents will be made and left with the informant/operative, with all original records being housed in the Special Operations Unit Supervisor's office within the Law Enforcement Branch.*
- *The Unit did not always pay its credit card balances and other bills within 30 days to avoid interest payments-we concur with the finding. Undercover credit card balances will be paid within 30 days or by the payment due date, whichever comes first.*
- *The Unit's supervisor had \$600 on hand at one time-we concur with the finding. There are going to be many times when it will be necessary to have this amount of cash available. At this time, the Department does not see this to be a problem, as long as the cash is secure and accounted for. Additionally, all related financial activity relative to the cash will continue to be documented on a monthly expenditure form.*
- *One investigator deposited his own money into one of the Unit's checking accounts to pay for his personal expenses - we concur with the finding. In this situation, the officer was maintaining a justified covert identity and activities for which personal benefit did occur, thus the use of state funds was not allowed. In order to augment his identity and information distribution he cycled personal funds through the related undercover account. In the future, an officer's own personal money, in the form of cash, will be used. Undercover identity augmentation can be gained through other forms of information exchange.*

Noncompliance with State Policies -

- *The Unit used undercover monies to purchase radio equipment, ink cartridges, software, and miscellaneous supplies instead of completing Small Purchase Authorization forms. As a result, the Unit failed to comply with the Arizona Procurement Rules and Regulations R2-7336 - we concur with the finding. The noted purchases were appropriate for the fund; however, since they were normal operating expenditures for which an undercover identity was not necessary, the normal Department purchasing channels should have been used. As noted above, in the future, purchases using undercover accounts and monies will only occur for respective undercover operations and when an undercover identity must be used or*

Mr. D. L. Mattheisen

June 25, 2002

Page 4 of 4

protected. Necessary support documentation will be maintained in case file. All other normal operating purchases and transactions will be handled through normal Department purchasing channels.

- *One investigator did not submit travel expenses to the Department for reimbursement as required by A. R.S. §38-622. Instead, he used undercover monies to pay for these expenses that were not related to undercover operations - we concur with the finding. In the future, only travel expenses directly related to an undercover investigation, and where the officer's undercover identity is used, will be paid for out of undercover funds. Other travel costs and reimbursements will be processed using normal Department time and travel reporting procedures.*

Again as stated above, the Department agrees with the recommendation given at the end of the report and expects to have the majority of changes in practice by August 1, 2002. Full implementation of necessary changes with written financial control procedures should be completed by October 1, 2002. We appreciate your critical assessment of our Special Operation Unit's financial controls, and look forward to your follow-up audit next year. Thank you for the opportunity to review and comment on this audit report.

Sincerely,

Duane L. Shroufe
Director

DLS:lo:jb

Cc: Steve Ferrell, Deputy Director

Mike Senn, Assistant Director, Field Operations
Division Leonard Ordway, Law Enforcement Branch
Chief
Jim Bidle, Special Operations Unit Supervisor