



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Management Letter

# Industrial Commission of Arizona

Year Ended June 30, 2005

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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

June 6, 2006

Larry Etchechury, Director  
Industrial Commission of Arizona  
800 W. Washington Street  
Phoenix, AZ 85007

Dear Mr. Etchechury:

In planning and conducting our audit of the State of Arizona for the year ended June 30, 2005, we considered the Industrial Commission's (Commission) 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 cash receipts; receivables; cash disbursements; cash; investments, including securities lending transactions; capital assets; long-term debt; accrued insurance losses; related party transactions; statutory compliance; and financial reporting of the Commission's Special Fund.

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 in the accompanying summary.

This letter is intended solely for the information of the Commission 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

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# The Commission needs to prepare timely financial statements

The State of Arizona must issue timely financial statements to satisfy the audit requirements imposed by federal laws, state statutes and regulations, grant contracts, and long-term debt covenants. To help ensure that the State's financial statements are prepared and issued in a timely manner, the Department of Administration's General Accounting Office (GAO) has established timelines for the individual state agencies to submit required financial information to it for inclusion in the statewide financial statements. The Commission's management is responsible for preparing complete and accurate financial statements for the Commission's Special Fund and submitting them to GAO in a timely manner. However, the Commission did not meet GAO reporting timelines. The Commission submitted preliminary financial statements to the GAO on October 24, 2005, 24 days late, and their final financial statements were submitted to the GAO on February 10, 2006, 88 days late. The delays resulted from the Commission not preparing and reviewing timely reconciliations of financial records and not posting transactions to the general ledger in a timely manner.

To help ensure that financial statements are prepared and issued in a timely manner, the Commission should implement the following procedures:

- Reconcile the financial records and post all adjustments to the general ledger within 2 weeks of the end of the month.
- Allocate the appropriate resources and monitor and enforce completion dates for compiling, preparing, and reviewing the financial statements and supporting schedules.
- Provide auditors and the GAO with complete and accurate financial statements, including notes and supporting schedules, by the established deadlines.

A similar recommendation was previously provided in our Management Letter to the Commission dated June 21, 2005.

## The Commission should develop written policies and procedures for computer operations

Written policies and procedures provide the basic framework needed for establishing employee accountability. They serve as a reference tool for employees seeking guidance on how to handle complex or infrequent transactions and situations. Additionally, they offer guidance for controlling daily operations. Reliance on appropriate written policies and procedures can enhance both accountability and consistency; safeguard assets and data; and ensure continuity of services in the event of computer system failure. However, the Commission had not established detailed written policies and procedures over its computer operations.

The Commission should develop and implement written policies and procedures that address the following:

- Computer Operations—Procedures for day-to-day operations and physical security of the computer system to ensure that operators use the correct data, computer programs, and other resources when processing daily activity, and that computer equipment is safeguarded against theft or misuse.
- Program Changes—Procedures that require proper authorization and approval of changes, including program change requests, testing program changes, documentation of changes, and separation of responsibilities to ensure changes are not made, tested, and implemented by the same employee.
- Disaster Recovery—A written plan to ensure that critical functions continue in the event of a computer system failure.

A similar recommendation was previously provided in our Management Letter to the Commission dated June 21, 2005.

# THE INDUSTRIAL COMMISSION OF ARIZONA



## ADMINISTRATION DIVISION

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May 24, 2006

Debra K. Davenport  
Auditor General  
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2910 N. 44<sup>th</sup> Street, Suite 410  
Phoenix, AZ 85018

Dear Ms. Davenport:

In response to the two recommendations found in the auditor's management letter, we concur that resolving the issues related to both recommendations is highly important to the Industrial Commission of Arizona (Commission). Our response follows each recommendation listed below.

### **Recommendation 1: The Commission needs to prepare timely financial statements.**

The current Special Fund general ledger system has some limitations for posting monthly entries for the new State Fiscal Year while holding the previous SFY open during the period the Auditor General completes the audit. This results in a catch up period every year in which several months of general ledger entries need to be done within a very short period of time. In order to handle this workload issue, the Commission did employ a seasonal accountant during the last year.

During the last 12 months, the work assignments were reallocated for the Special Fund Accounting Unit. A high level position in the Unit is now responsible for the general ledger and financial statements. With the current Accounting staff workload and projected changes for the near future, the Commission may have to consider establishing an additional full-time high level accounting position.

The CFO will put together a time schedule for completion of the various tasks related to the financial statement preparation process. A review process will also be included in the time schedule. The Accounting Manager will meet on a regular basis with the accounting staff working on the financial statements to be sure that the time lines are being met.



Debra K. Davenport  
Auditor General  
May 24, 2006  
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**Recommendation 2: The Commission should develop written policies and procedures for computer operations.**

Computer Operations: The MIS staff is currently writing comprehensive policies that govern ICA MIS Computer Operations. Policies cover: Use of Correct Data, Computer Programs, and Additional Resources needed for daily ICA operations.

Program Changes: A program Change Management Policy is being drafted. Policies included in the draft: Change Authorization, Approval Authorization, Change Requests - Development, Change Requests - Production, Code Change Tracking, Development to Production Uploads, Systems and User Documentation Changes, Reporting Changes.

Segregation of duties is being addressed based on current level of MIS staffing.

Disaster Recovery: The current Disaster Recovery plan is being documented and upgraded. Policies included in the upgrade: Backup, Transfer, Storage, Recovery, and Maintenance.

Sincerely,

Gary R. Norem, CPA, CGFM  
Chief Financial Officer

GN/sc