



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Management Letter

Industrial Commission of Arizona

Year Ended June 30, 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

April 28, 2004

Larry Etchechury, Director
Industrial Commission of Arizona
800 West 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, 2003, we considered the Commission'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 bidding; cash; investments, including security lending transactions; receivables; long-term debt; capital assets; accrued insurance losses; revenues; expenses; 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 an internal control weakness that did not meet the reporting criteria. Management should correct this deficiency to ensure that it fulfills its responsibility to establish and maintain adequate internal controls. Our recommendation is described below.

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 system failure. However, the Commission lacked detailed written policies and procedures over its computer operations. The Commission should develop and implement written policies and control procedures that address the following:

- Computer Operations—The correct data, computer programs, and other resources are used by operators when processing daily activity.
- Computer Access—Access to computer programs and data, as well as physical access to the computer system is restricted to authorized individuals.

Larry Etchechury, Director
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- Program Changes—Changes to computer programs are properly approved, designed, tested, and implemented.
- Disaster Recovery—Critical functions continue in the event of a computer system failure.

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

THE INDUSTRIAL COMMISSION OF ARIZONA

ACCOUNTING DIVISION

P.O. BOX 19070
PHOENIX, ARIZONA 85005-9070



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LARRY ETCHECHURY, DIRECTOR
TERESA HILTON, SECRETARY

April 14, 2004

Debra K. Davenport
Auditor General
Office of the Auditor General
2910 N. 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

In response to the items found in the auditor's management letter pertaining to the development of written policies and procedures for the computer operations, we submit the following information.

Computer Operations

The batch processing jobs for the Special Fund accounting system are programmed as scripted well-defined processes. Strict control is in place so that only MIS staff has access to them and only MIS staff can execute them. They are totally restricted from any end users access.

Accessing Programs and Data

Physical access to the ICA Operations Center is strictly controlled. Only the MIS staff, building maintenance and security staffs have access into the Operations Center via electronic badge readers. These readers maintain a log of who entered by date and time.

THE INDUSTRIAL COMMISSION COMPLIES WITH THE *AMERICANS WITH DISABILITIES ACT* OF 1990. IF YOU NEED THIS DOCUMENT IN ALTERNATIVE FORMAT, CONTACT ADMINISTRATION AT (602) 542-1829

Debra K. Davenport
Auditor General
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Program Change Controls

I have defined and implemented a "Change" management procedure and documentation form that address these points. The form is attached to this memo for your review.

Backup and Recovery

Currently, the Special Fund accounting system runs on a dedicated UNIX server, warrants and reports are generated on a line printer and laser printer respectively. The data and system software is backed-up every night and sent off site to archives. In the case of a disaster, manual accounting procedures would be the fail back option available until the hardware / software could be replaced and the system recovered.

Sincerely,

Gary R. Norem
Manager, Accounting Division

Attachment

GN:sc

ICA M.I.S. Section



System / Application Change Request

Please complete this form to request any change or modification to an ICA information system or program:

Name of Requester: _____ Phone: _____

Divisional Application: _____

Change/Modification Requested:

Is this a program 'bug', a new function, or a change in processing logic? _____

Is this a 'critical' change? Y / N If so, by what date does the change have to be done? _____

Division Manager Signature: _____ Date: ___/___/___

For ICA M.I.S. use only

Date received by M.I.S: ___/___/___ By: _____

Database change required? Y / N

Date assigned to DBA: ___/___/___ To: _____

Date DB Change Tested/Verified: ___/___/___

Date assigned to M.I.S staff: ___/___/___ To: _____

Date Change Tested: ___/___/___

Date Change Verified: ___/___/___ By: _____

Date Change Put Into Production: ___/___/___ By: _____

Date Signed Off by C.I.O: ___/___/___ By: _____