



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Management Letter

# Office of the State Treasurer

Year Ended June 30, 2003

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**Debra K. Davenport**  
Auditor General

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**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL**

**WILLIAM THOMSON**  
DEPUTY AUDITOR GENERAL

October 13, 2004

The Honorable David Petersen  
Arizona State Treasurer  
Office of the State Treasurer  
1700 West Washington Street  
Phoenix, AZ 85007-2812

Dear Mr. Petersen:

In planning and conducting our audit of the Office for the year ended June 30, 2003, we considered the Office's internal controls over financial reporting as required by U.S. generally accepted auditing standards and tested its compliance with laws and regulations that could have a direct and material effect on the Office's financial statements.

We noted no internal control weaknesses or instances of noncompliance that we consider to be material to the financial statements. However, our audit disclosed an internal control weakness that management should correct to ensure that it fulfills its responsibility to establish and maintain adequate internal controls. Our recommendation is described below.

**The Office should ensure that employees  
are paid only for services rendered**

Salaries, wages, and related payroll costs are a major portion of the Office's operating budget. Therefore, it is critical that the Office have strong internal controls to ensure that employees are paid only for services rendered. However, the auditors found that the Office did not always follow proper procedures. Specifically, after the Office had conducted an investigation pertaining to two of its employees, they terminated them for cause on July 21, 2003, and appropriately escorted them from the office. However, the Office kept these employees on the payroll and continued to pay them salaries totaling more than \$12,000 through August 21, 2003. Since the Office received no value in exchange for the payments made, these payments were a gift of public monies according to Article IX, Section 7 of the Arizona Constitution.

The Honorable David Petersen  
October 13, 2004  
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To help ensure compliance with the Arizona Constitution and strengthen control over payroll expenditures, the Office should only pay employees for services already rendered. Further, the Office should seek reimbursement for these monies improperly paid to these terminated employees.

This letter is intended solely for the information of the Office 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,

Debbie Davenport  
Auditor General



DAVID PETERSEN  
TREASURER

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RE: Response to Management Letter

Dear Ms. Davenport;

We have received a copy of the management letter. The response of the Arizona Treasurer's Office is as follows.

The Arizona Treasurer's Office (ASTO) is well aware of the impact of personal services upon the appropriated budget. In the matter of using administrative leave for two employees terminated in August of 2003, the ASTO disagrees with the conclusions drawn by the Auditor General's Office. The ASTO based its actions on the following:

- (1) It was the intention of the Treasurer's office to place two uncovered employees on paid administrative leave on July 21, 2003, pending an examination of facts and circumstances surrounding their employment. Arizona Administrative Code R2-5-409 states, "An agency head may grant administrative leave to relieve an employee of duties temporarily during the investigation of alleged wrongdoings by the employee." The ASTO believes it acted within its authority to utilize administrative leave with these two employees.
- (2) To protect the security of State property and the integrity of the on-going investigation, the two employees were escorted from their offices by security officers. This was not the first time Security Officers had been asked to escort employees from the office. The same procedure was used when a receptionist was laid off during the budget cutbacks of January of 2003. The ASTO does not believe this action precludes the use of administrative leave.
- (3) The State received value for the investigation period because the two employees were required to be available for questions and clarification of facts. Communications did occur between the Treasurer's office and the two employees during the investigation period. In *Witsuber v. Paradise Valley Unified School Dist.* (1984) the courts found it was not considered a gift of public funds to continue the payment of a public employee's salary for a period of time. The ASTO agrees with the courts and will not seek reimbursement of the funds because of the benefit enuring to the State of Arizona.

The ASTO agrees a review of the internal administrative leave process is advisable. The letters to the employees informing them of their administrative leave status and ultimate termination date could have been worded differently and the sequence of events in the administrative leave process can be improved. The Treasurer's Office will make every effort to refine its administrative process.

Sincerely,

E. Blaine Vance  
Deputy Treasurer