



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Procedural Review Letter

Office of the State Treasurer
As of December 31, 2002



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 21, 2003

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

Subject: Procedural Review Letter

Dear Mr. Petersen:

We have performed a procedural review of the State Treasurer's internal controls in effect as of December 31, 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. Additionally, the review did not include compliance with Security and Exchange Commission or National Association of Securities Dealers regulations or analysis of investment performance.

The results of our review are summarized below.

Cash

We reviewed the policies and procedures for managing and recording cash transactions and collateralization of cash in effect as of December 31, 2002. Specifically, we performed the following:

- Tested 30 cash receipts and 16 cash disbursement transactions.
- Tested reconciling items on two monthly servicing bank reconciliations and three monthly investment bank reconciliations for propriety.
- Ensured that all cash accounts were collateralized in accordance with Arizona Revised Statute (A.R.S.) §35-312.
- Confirmed all cash balances reported on the Treasurer's report at December 31, 2002, with banks.
- Observed that the Treasurer's Office had separated responsibilities among employees so that no one employee had complete control over cash receipts or disbursements.

Our review found no significant deficiencies in the policies and procedures for cash receipts, cash disbursements, bank reconciliations, and collateralization of cash accounts required by A.R.S. §35-312, and no misstatements in cash balances at December 31, 2002.

Investments

We reviewed the policies and procedures for managing and accounting for investments and compliance with statutes in effect as of December 31, 2002. Specifically, we performed the following:

- Examined the credit ratings for five investments and investments types held at December 31, 2002, and compared them with statutory guidelines.
- Examined nine investments in the investment trust funds for compliance to maturity limitations in accordance with the Treasurer's investment policy.
- Confirmed all investment balances reported on the Treasurer's report at December 31, 2002, with financial institutions.
- Observed that an employee who was not responsible for issuing buy and sell orders to financial institutions recorded investment transactions.
- Recalculated the allocation of the potential loss from the Treasurer's National Century Financial Enterprises, Inc. NPF-XII investment to each participant in the Local Government Investment Pool (LGIP) No. 5 as of November 21, 2002.

Our review found no significant deficiencies in the policies and procedures listed above, no noncompliance with statutes governing the credit ratings or investments types held at December 31, 2002, no noncompliance with investment maturity limitations, and no misstatements in investment balances at December 31, 2002. Further, the potential loss allocation from the NPF-XII investment to each LGIP participant has been calculated accurately.

Participant Transactions

We reviewed the Treasurer's policies and procedures for assessing management fees, and managing and recording investment transactions for pool participants. We examined the following and noted no significant deficiencies:

- The Treasurer's management fee assessment to all pool participants.
- Investment trust fund contributions and withdrawals made by 15 pool participants.
- Interest apportionment and distribution to 12 pool participants.

Custodial Securities

We reviewed the Treasurer's policies and procedures for holding and recording custodial securities for various state agencies. Additionally, we tested 74 custodial securities and confirmed custodial securities balances for the Arizona Department of Insurance at December 31, 2002. Based on our review, we found no significant deficiencies in the Treasurer's policies and procedures for holding and recording custodial securities for the state agencies, and noted no misstatements at December 31, 2002.

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Other Transaction Cycles

We reviewed the policies and procedures for payroll and purchasing. Based on our review of five employee payroll warrant calculations and eight disbursement warrants, we found no significant deficiencies in the Treasurer's policies and procedures for payroll and purchasing in effect at December 31, 2002.

This letter is intended solely for the information and use of the State Treasurer 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,

Debbie Davenport
Auditor General