



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Procedural Review

# Arizona Radiation Regulatory Agency

As of January 31, 2015

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July • 2015  
Report No. 15-302



**Debra K. Davenport**  
Auditor General

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AUDITOR GENERAL

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

**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

July 6, 2015

Aubrey V. Godwin, Director  
Arizona Radiation Regulatory Agency

We have performed a procedural review of the Arizona Radiation Regulatory Agency's internal controls in effect as of January 31, 2015. 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 the effectiveness of internal controls or ensure that all deficiencies in internal controls are disclosed.

Specifically, we reviewed cash receipts, cash disbursements, purchasing, payroll, journal entries, transfers, travel related expenditures, capital assets, and compliance with certain state laws.

As a result of our review, we noted certain deficiencies in internal controls that the Agency's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate internal controls. Our findings and recommendations concerning these deficiencies are described in the accompanying summary.

The Office of the Auditor General is also conducting a performance audit and sunset review of the Arizona Radiation Regulatory Agency and the Medical Radiologic Technology Board of Examiners. That audit will be issued at a future date.

This report is intended solely for the information and use of the Agency and is not intended to be and should not be used by anyone other than the specified party. However, this report 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,

Jay Zsorey, CPA  
Financial Audit Director

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# FINDING 1

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## The Agency must comply with the State's procurement policies

The Arizona Radiation Regulatory Agency (Agency) expended \$458,740 in nonpayroll-related charges during our review period of July 1, 2014 through January 31, 2015. Procuring materials and services is a critical activity in any governmental organization, and the Agency must comply with all applicable state procurement requirements. The State of Arizona Accounting Manual (SAAM), Section II-H-1, Subsection IV.B, and the State of Arizona Administrative Code, Section R2-7-D302, require that the Agency issue a request for written quotations to award contracts for over \$5,000 up to the Agency's delegated purchasing authority of \$10,000. Arizona Revised Statutes (A.R.S.) §41-2536 allows the Agency to award a contract without competition if there is only one source for the required material or service. When making sole source purchases, statute requires the Agency to maintain in the contract file a written determination that there is only one source for the material or service. However, auditors identified information technology (IT) support services and equipment maintenance services purchases during the review period totaling \$35,891 and \$7,412, respectively, for which the Agency did not solicit written quotations or maintain written sole source determinations.

The Agency indicated it selected the IT support services vendor in a prior year because the vendor employed the person who had initially set up the Agency's system and who had specialized knowledge. The Agency initially documented the services as a sole source procurement to restore its IT system and provide IT staff training. However, it continued to use the vendor for all of its IT system support services without requesting written quotations from other vendors or maintaining a written determination of the continued sole source procurement for the IT support services. Further, the Agency's purchases from this vendor exceeded its delegated purchasing authority without the State Procurement Office's written permission. Additionally, the Agency indicated that the equipment maintenance services it purchased from another vendor were available from only that vendor because of the equipment's specialized nature, but the Agency did not maintain a written determination that this was a sole source procurement.

## Recommendations

To help ensure that expenditures are adequately controlled and to comply with state procurement policies, the Agency should ensure that it maintains evidence of written quotations or written sole source determinations, as applicable, in the contract file. Furthermore, the Agency should consult with the State Procurement Office in making sole source determinations and request written permission before exceeding its delegated purchasing authority.



# FINDING 2

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## The Agency should strengthen its controls over capital assets

As of January 31, 2015, the Agency reported \$118,360 for capital assets, net of accumulated depreciation, in the State's Fixed Asset System (FAS). The SAAM, Section II-G-1, includes procedures that each agency must follow for conducting an annual physical inventory to help adequately safeguard its capital assets. Those procedures require that the inventory be performed by two personnel who do not have custodial responsibility for the capital assets, and that the inventory's results, including management reviews, be documented in writing on the capital assets list. In addition, the SAAM requires the Agency's property control officer to select a random sample of assets to test the list's accuracy, sign and date the list to document the property control officer completed this test, and retain all documentation supporting the physical inventory. However, the capital assets list the property control officer maintained did not show evidence that the property control officer recorded the inventory results or that the property control officer performed any of the required reviews or tests. As a result, auditors were unable to verify that a physical inventory was conducted or that the FAS was properly updated for any additions, deletions, or changes. Further, the Agency indicated that the program managers who have custodial responsibility for the assets performed the inventory.

## Recommendations

To help maintain an accurate capital assets list, adequately safeguard capital assets, and comply with the SAAM, the Agency should:

1. Require that two personnel who do not have direct custodial responsibility for the assets perform a physical inventory annually.
2. Document the physical inventory results on the capital assets list.
3. Document management reviews and the property control officer's tests on the capital assets list.
4. Retain all documentation supporting the physical inventory.





# FINDING 3

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## The Agency must comply with Arizona Revised Statutes governing the use of restricted monies

The Agency receives monies for regulatory licenses, assessments, and fees that may be expended only for statutorily authorized uses. In accordance with A.R.S. §32-2823, the Agency records license and fee monies it receives for the Medical Radiologic Technology Board of Examiners in the State Radiologic Technologist Certification Fund. The Agency may use these monies only for the certification and regulation of radiologic technologists, to match federal grants for examinations or certifications, or for purposes provided for by the State Legislature. In addition, A.R.S. §26-306.02 established the Nuclear Emergency Management Fund that consists of monies appropriated from assessments on corporations constructing or operating a commercial nuclear generating station. The Agency may use fund monies only for administering and enforcing the State's plan for an off-site response to an emergency caused by an accident at a commercial nuclear generating station.

The Agency expended \$167,120 and \$445,549 from the State Radiologic Technologist Certification Fund and the Nuclear Emergency Management Fund, respectively, during our review period of July 1, 2014 through January 31, 2015. However, auditors noted that the expenditures from the State Radiologic Technologist Certification Fund included payroll expenditures totaling \$56,478 for three employees whose duties sometimes included licensing laser technicians for cosmetic procedures. Statutes do not authorize the Agency to use fund monies for licensing laser technicians for cosmetic procedures. Further, auditors noted that the Agency distributed payroll costs to all of its funds based upon budgeted amounts instead of the actual time employees worked on each program or project, and did not revise the budgeted distributions based on actual costs. The Arizona Department of Administration's General Accounting Office communicated this issue to the Agency in a letter dated April 4, 2011, but the Agency has not corrected the finding. Although auditors determined this issue did not impact the federal program the Agency administered, the Agency's payroll cost distribution to other funds based on budgeted amounts may have resulted in it using restricted monies for activities not allowed by statutes. In addition, auditors identified motor pool charges of approximately \$7,000 in the Nuclear Emergency Management Fund during the review period for vehicles the Agency's other programs used. The Agency normally charged these program's expenditures to its Radiation Regulatory Fee Fund. The Agency indicated that it used restricted monies to cover these payroll expenditures and motor pool charges because there was not sufficient monies available in its other funds to cover the costs.

## Recommendations

To comply with statutes, the Agency should use restricted monies only for their authorized purposes and cover shortages in other funds with available unrestricted resources. Also, as the General Accounting Office recommended, the Agency should require that employees having multiple job responsibilities and funding sources prepare detailed personnel activity reports demonstrating that the payroll costs the Agency charged to each funding source represents the actual time the employee worked on the project. If the Agency distributes payroll costs based on budgeted amounts for interim accounting purposes, the Agency should adjust payroll costs at least quarterly to reflect actual costs.

# AGENCY RESPONSE

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AGENCY RESPONSE



**Douglas A. Ducey**  
*Governor*

**Aubrey V. Godwin**  
*Director*

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June 22, 2015

Jay Zsorey, CPA  
Financial Audit Director  
Office of the Auditor General  
2910 N. 44<sup>th</sup> Street, Suite 410  
Phoenix, AZ 85018

Dear Mr. Zsorey:

Thank you for providing the draft report of the recent Audit of the Agency. Attached are our responses and reply to the audit. In short, we concur and are instituting corrective actions.

Sincerely

Aubrey V. Godwin, M.S., CHP  
Director

Finding 1.

Response: The Agency agrees that we must comply with the State's procurement policies. We will consult with procurement and get written confirmation that our purchases will comply with the State's policy.

Finding 2.

Response: We are modifying our inventory procedures to conform to the requirements of the SAAM.

Finding 3.

Response: We have corrected the charges by the Motor Pool to the General Fund. We are instituting a time accounting system to more accurately track our activities. The problem is generated by having to pay salaries, rent, office supplies, power, and motor pool charges prior to collecting the bulk of the fees until January of each year.

