

Arizona Department of Gaming

Procedural Review

As of June 12, 2018
Report 18-303



A Report to the Arizona Legislature

Lindsey Perry
Auditor General





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AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

July 16, 2018

Dan Bergin, Director
Arizona Department of Gaming

We have performed a procedural review of the Arizona Department of Gaming's (Department) internal controls in effect as of June 12, 2018. 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, travel, payroll, capital assets, transfers, information technology access controls, and compliance with certain Arizona Revised Statutes.

As a result of our review, we noted certain deficiencies in internal controls that the Department'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 Department. The results of that audit will be issued at a future date.

This report is intended solely for the Department's information and use 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
Director, Financial Audit Division





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The Department should improve internal controls over capital assets

Criteria—In accordance with the *State of Arizona Accounting Manual* (SAAM), Topic 05 (Internal Controls) and Topic 25 (Long-lived Resources), the Department should have effective internal controls over its capital assets that are sufficient to control, safeguard, and accurately report capital assets.

Condition and context—The Department had approximately 66 capital assets listed on the State's Fixed Asset Module (FAM) as of December 31, 2017. However, the Department did not have sufficient internal controls in place to properly control, safeguard, and report its capital assets. Specifically, the Department had no record of when it last performed a physical inventory of its capital assets or reconciled its internal capital assets list to the FAM. Additionally, 5 of the 22 capital assets tested had been disposed of or transferred to another state agency, and the Department had not removed the assets from the FAM in a timely manner.

Effect—Without effective internal controls, the Department's capital assets are exposed to loss, theft, or misuse. Further, the Department did not accurately report some of its capital assets information to the State Comptroller for financial reporting purposes.

Cause—The Department did not prioritize performing an annual inventory of its capital assets or maintaining an up-to-date capital assets list on the FAM.

Recommendation—To help ensure capital assets are properly controlled, safeguarded, and reported in the State's financial statements, the Department should improve its internal controls to comply with the State's capital assets policies and procedures. Specifically, the Department should:

- Conduct a physical inventory of its capital assets, update its internal capital assets list and FAM for any changes, and perform a reconciliation between its internal list and the FAM at least annually. In addition, the Department should document the physical inventory and retain the documentation for the 3-year retention period established by the State Library, Archives and Public Records.
- Update its internal capital assets list and the FAM for all transferred and disposed capital assets in accordance with the SAAM's requirements.



The Department should improve internal controls to ensure compliance with Arizona conflict-of-interest laws

Criteria—Arizona Revised Statutes (A.R.S.) §38-503 regarding conflicts of interest states that any public officer or employee of a state agency who has, or whose relative has, a substantial interest in any contract, sale, purchase, or service to that particular agency shall make known that interest in that state agency’s official records and shall refrain from voting upon or otherwise participating in any manner as an officer or employee in such contract, sale, or purchase. In addition, the *State of Arizona Accounting Manual (SAAM)*, Topic 05 (Internal Controls), §35, requires the Department to report to the State Comptroller, for financial reporting purposes, if it has any related-party transactions that aggregate to \$100,000 or more during the immediately preceding fiscal year.

Condition and context—The Department did not have adequate internal controls to ensure that all management employees disclosed potential conflicts of interest. Specifically, the Department did not maintain conflict-of-interest disclosure forms for three of five management employees tested.

Effect—There is a risk that a conflict of interest existed and expenditures may have occurred that resulted in employee personal gain or were otherwise inappropriate. Further, the Department may fail to report related-party transactions to the State Comptroller for financial reporting purposes.

Cause—The Department did not always maintain conflict-of-interest disclosure forms due to oversight.

Recommendation—The Department should maintain accurate and up-to-date conflict-of-interest disclosure forms to help ensure compliance with A.R.S. §38-503. Further, if the Department has related-party transactions that aggregate to \$100,000 or more annually, it should report them to the State Comptroller for financial reporting purposes.



The Department should improve financial management of the Arizona Benefits Fund

Criteria—Arizona Revised Statutes §5-601.02(H) requires the Department to administer the Arizona Benefits Fund (Fund), which consists of monies Indian tribes paid to the State of Arizona from gaming compacts and interest earned on those monies. Furthermore, statute requires the Department to allocate a percentage of fund monies for reimbursement of administrative and regulatory expenses and for problem gambling initiatives. Therefore, the Department should maintain effective financial management over the Fund to ensure monies are used in accordance with state laws.

Condition and context—The Department did not maintain effective financial management over the Fund. Although the Department had controls in place to ensure it did not overspend amounts allocated for reimbursement of administrative and regulatory expenses and for problem gambling initiatives, it commingled unspent allocated monies in the Fund. Specifically, the Department reported unspent allocated monies of approximately \$4 million in the Fund as of December 31, 2017, that had accumulated over several fiscal years. The Department could not separately identify in the State’s accounting information system how much of the unspent monies should be used to reimburse administrative and regulatory expenses or for problem gambling initiatives.

Effect—The Department risks spending fund monies in violation of state laws. Auditors did not find any instances of noncompliance with state laws during test work.

Cause—The Department did not separately identify in the State’s accounting information system the amount of unspent allocated monies available to reimburse administrative and regulatory expenses and for problem gambling initiatives.

Recommendation—To help ensure fund monies are used in accordance with state laws, the Department should improve financial management of the Fund. Specifically, the Department should identify and account for monies designated for reimbursement of administrative and regulatory expenses separately from monies designated for problem gambling initiatives in the State’s accounting information system. Additionally, the Department should review prior years’ allocations and expenditures to help identify accurate amounts of unspent monies available to reimburse administrative and regulatory expenses and for problem gambling initiatives.

DEPARTMENT RESPONSE



ARIZONA DEPARTMENT OF GAMING
TRIBAL GAMING • RACING • BOXING & MIXED MARTIAL ARTS

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July 16, 2018

Ms. Lindsey Perry, Auditor General
State of Arizona Office of the Auditor General
2910 N. 44th Street, Suite 410
Phoenix AZ 85018

Re: Response to the June 2018 Procedural Review.

Dear Ms. Perry:

The Arizona Department of Gaming (“ADG” or “Department”) appreciates the opportunity to respond to the recommendations and findings of the procedural review performed by the Office of the Auditor General.

Below, please find the Department’s response to the audit findings.

Finding 1: The Department should improve internal controls over capital assets.

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented. In anticipation of the recommendation, The Department has already completed a physical inventory of all capital assets and updated the internal capital assets list as requested by the end FY18.

Finding 2: The Department should improve internal controls to ensure compliance with Arizona conflict-of-interest laws.

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented. As of today’s correspondence, the Department has requested all employees to provide ASPS Disclosure Statement Forms (conflict of interest) to our Human Resources section pursuant to ARS § 38-503.

Finding 3: The Department should improve financial management of the Arizona Benefits Fund

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The Department will conduct a thorough review of prior years’ allocations and expenditures to determine accurate amounts and unspent monies available for problem gambling

Ms. Lindsey Perry, Auditor General

July 16, 2018

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initiatives. Furthermore, the Department shall identify and track all monies designated for reimbursement of administrative and regulatory expenses separately from monies designated for problem gambling initiatives going forward.

ADG appreciates the input and recommendations of the Office of the Auditor General and looks forward to fully implementing their suggestions in a timely manner. Additionally, the Department believes the outcomes garnered from the audit process will only better the service and safety provided to the Arizona public. Again, on behalf of the Arizona Department of Gaming, I want to thank you for your hard work in compiling such a thorough review.

Sincerely,

Daniel Bergin
Director

