



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Procedural Review

Arizona Department of Water Resources

As of September 23, 2005



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

December 8, 2005

Herb Guenther, Director
Arizona Department of Water Resources
3550 N. Central Avenue
Phoenix, AZ 85012

Dear Mr. Guenther:

We have performed a procedural review of the Department's internal controls in effect as of September 23, 2005. 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.

Specifically, we reviewed cash receipts, cash disbursements, purchasing, journal entries, transfers, capital assets, revolving accounts, and statutory compliance.

As a result of our review, we noted a deficiency 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 recommendation is described below.

**The Department should strengthen
internal controls over purchasing**

The Department has been given authority to purchase its own goods and services and consequently, the Department should ensure that it receives the best possible value for the public monies it spends and promotes open and fair competition among vendors. Therefore, the Department's management should ensure that it obtains all goods and services in accordance with Arizona Revised Statutes and the Arizona Procurement Code. However, the Department did not always follow statutes and the Arizona Procurement Code. For example, the Department made one sole source purchase for which management did not document in writing that only one vendor existed.

To strengthen controls over purchasing and to comply with procurement statutes and the Arizona Procurement Code, the Department should only award a contract for materials, services, or construction without competition when management determines in writing that there is only one vendor from which to purchase the goods or services. The Department should retain such written determination with other supporting documents and avoid sole source purchases except when no reasonable alternative vendor exists.

Herb Guenther, Director
Arizona Department of Water Resources
December 8, 2005
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Should you have any questions concerning our procedural review, please let us know.

Sincerely,

Dennis L. Mattheisen, CPA
Financial Audit Director

ARIZONA DEPARTMENT OF WATER RESOURCES
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Janet Napolitano
Governor

Herbert R. Guenther
Director

December 5, 2005

Dennis L. Mattheison, CPA
Financial Audit Director
Office of the Auditor General
2910 N. 44th Street, Ste. 410
Phoenix, AZ 85018

Dear Mr. Mattheison:

The Department of Water Resources appreciates the opportunity to respond to the procedural review performed by the Office of the Auditor General.

Deficiency Noted: Auditors noted one purchase for which the Department did not prepare written documentation of management's determination for a sole source purchase.

Department Response: The Department concurs with the finding. The purchase in question was, by its nature, sole source; there is only one vendor for the item. We will, however, schedule additional training for procurement staff on how to properly document sole source purchases. This training will include instruction on how to prepare the written determination of sole source and on what constitutes complete supporting documentation for the files.

Again, thank you for the opportunity to respond to your finding and improve our internal controls.

Sincerely,

Ronald R. Gray
Assistant Director - Administration