

Arizona Corporation Commission

Procedural Review

As of April 23, 2018
Report 18-301



A Report to the Arizona Legislature

Lindsey Perry
Auditor General





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OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

May 2, 2018

Mr. Ted Vogt, Executive Director
Arizona Corporation Commission

We have performed a procedural review of the Arizona Corporation Commission's (Commission) internal controls over cash receipts in effect as of April 23, 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 receipt processes for the Commission's Corporations and Securities Divisions.

As a result of our review, we noted certain deficiencies in internal controls that the Commission'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.

This report is intended solely for the Commission'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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Commission should strengthen controls over cash receipts

Criteria—In accordance with the State of Arizona Accounting Manual (SAAM), Topic 20: Current Assets, Section 10: Cash and Cash Receipts, the Arizona Corporation Commission (Commission) should have effective internal controls over cash receipts and equivalents (i.e., checks, money orders, warrants, etc.) to help ensure receipts are received intact, properly recorded, and deposited in a timely manner. Specifically, the Commission should:

- Have two employees who are not responsible for maintaining accounting records open cash receipts received in the mail.
- Deposit cash receipts intact as soon as practical. If it is impractical to do so on the day of collection, accumulated receipts of \$1,000 or more must be deposited at the end of the business day of reaching this total. Accumulated receipts of \$50 or more should be deposited within 5 business days of reaching this total. Additionally, monies received in June—the last month of the fiscal year—should be deposited by the last business day of June.
- Record cash receipts in the State's accounting system as soon after receipt as practicable, but no more than 5 business days after receipt.

Further, in accordance with SAAM, Topic 05: Internal Controls, Section 10: Internal Controls by Process, 4.1, the Commission must maintain written procedures on all cashing and related activities.

Condition and context—The Commission had procedures in place to control cash receipts its Corporations and Securities Divisions collected and its Administrative Services Division processed, but the Commission should improve controls in some areas. Specifically, the Commission did not ensure that two employees were present when receiving mail receipts. Additionally, not all receipts received in the mail or at the front counter were deposited in a timely manner. For 2 of 15 Securities Division licensing and registration receipts tested, amounts received in December 2017 exceeded the \$1,000 deposit threshold and should have been deposited at the end of the business day; however, these receipts totaling approximately \$468,000 and \$224,000 were deposited 4 business days after receipt. Further, for one batch of Securities Division fingerprint-processing receipts tested that had receipts totaling \$638 and was deposited in July 2017, the Division held some receipts up to 28 business days after reaching an accumulated total of \$50 before processing them for deposit, and some receipts were collected in June 2017. In this instance, \$616 of the \$638 was deposited in an untimely manner, and \$550 of the \$638 was recorded in the wrong fiscal year. Additionally, during December 2017 the Commission recorded Securities Division licensing and registration deposits totaling nearly \$1.1 million in the State's accounting system in an untimely manner. Lastly, although the Corporations Division had written procedures for collecting receipts at its front window, the Division did not maintain written procedures over cash receipts received through the mail or collected online.

Effect—There is an increased risk of loss, theft, or misuse of the Commission's cash receipts and an increased risk for delays in processing cash receipts. Additionally, \$550 was recorded in the wrong fiscal year.

Cause—The Commission's limited staff made it difficult for two employees to open and record mail receipts. Further, the Commission's written policies and procedures to control cash receipts were insufficient.

Recommendation—To help ensure that cash receipts are properly collected, recorded, and deposited in a timely manner, the Commission should strengthen controls over cash receipts. Specifically, the Commission should:

- Ensure two employees are present when mail is opened. If the Commission does not have sufficient staff to accomplish this, it should consider entering into a labor-sharing arrangement with another agency or enter into a contract with the Arizona Department of Administration’s Central Services Bureau to provide additional support.
- Implement policies and procedures to ensure all cash receipts, including fingerprint-processing receipts, are deposited in a timely manner in accordance with the requirements outlined in SAAM, Topic 20, Section 10.
- Ensure all receipts are recorded and deposited in a timely manner. If employees responsible for recording and depositing receipts in a timely manner are out of the office, another employee should be trained to perform these duties while also maintaining proper separation of responsibilities.
- Establish, implement, and maintain policies and procedures for cash receipts the Corporations Division receives through the mail and online.



Commission's Enforcement Unit should establish policies and procedures to ensure it properly controls cash receipts

Criteria—In accordance with the State of Arizona Accounting Manual, Topic 20: Current Assets, Section 10: Cash and Cash Receipts, the Arizona Corporation Commission's (Commission) Securities Division's Enforcement Unit (Unit) should have procedures in place to ensure two employees who are not responsible for maintaining accounting records open cash receipts and equivalents (i.e., checks, money orders, warrants, etc.) received in the mail. Also, the Unit should appropriately control cash receipts using logs or prenumbered receipts that include the remitter's name and the remittance's purpose, amount, and form. Additionally, the Unit should restrictively endorse all noncash receipts on the day received and deposit all payments as soon as practical. The Unit should also reconcile all receipts with the deposit amounts recorded in its accounting system. Further, in accordance with SAAM, Topic 05: Internal Controls, Section 10: Internal Controls by Process, 4.1, the Commission must maintain written procedures on all cashing and related activities.

Condition and context—The Unit was responsible for collecting restitution and penalty payments from respondents as the Commission ordered. If a respondent did not pay the full amount, the matter was turned over to the Arizona Attorney General's Office for collection. The Attorney General's Office remitted restitution and penalty payments it collected to the Unit for further processing. However, for receipts the Unit collected, only one employee opened the mail, and in some cases, employees with access to accounting records opened the mail. Additionally, the receipts were not restrictively endorsed upon receipt, and not all payments were properly logged or entered into the Unit's accounting system. For example, although the Unit recorded five receipts on a payment log during the 2017 calendar year, one entry was incomplete because it did not include sufficient detail to identify the case the payment was for, the payment amount collected, or the form of remittance. Further, the Unit did not reconcile cash receipts to amounts deposited or recorded within its accounting system. Finally, the Unit did not have written procedures for processing restitution and penalty payments, including procedures when the Attorney General's Office collected the payments and remitted them to the Unit for further processing.

Effect—There is an increased risk of loss, theft, or misuse of restitution payments due to claimants and penalty payments due to the Commission.

Cause—The Commission's mailroom policy allowed two employees with access to accounting records to open mail and record mail receipts. In addition, the Commission's policy stated that restitution and penalty payments should be date stamped but not restrictively endorsed until the Unit confirmed the Commission had issued an order. Further, the Unit was in the process of changing the way it records and processes payments and did not have written policies and procedures in place to ensure all payments received were recorded in its accounting system and deposits were reconciled. Lastly, the Unit was unaware that it should maintain written procedures for all cashing and cash receipt functions.

Recommendation—To help ensure that all restitution and penalty payments are properly collected, recorded, deposited, and safeguarded from loss or theft, the Commission's Enforcement Unit should establish and implement policies and procedures as outlined in SAAM, Topic 05, Section 10, including:

- Only employees who are not responsible for maintaining accounting records should receive mail receipts. Two employees should be present when mail is opened.
- Restrictively endorse all payments on the day received.
- Properly log cash receipts when received and record them in the Unit's accounting system.
- Reconcile cash receipts to the accounting system records and amounts deposited, resolving any discrepancies. An employee who is not responsible for collecting or recording cash receipts should review and approve the reconciliation.
- Establish and implement policies and procedures for processing restitution and penalty payments, including procedures when the Attorney General's Office collects receipts and remits them to the Unit for further processing.

AGENCY RESPONSE



Executive Director, Ted Vogt

Chairman, Tom Forese
Bob Burns
Boyd W. Dunn
Andy Tobin
Justin Olson

May 2, 2018

Ms. Lindsey Perry
Auditor General
2910 N. 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Perry:

The Arizona Corporation Commission ("Commission") appreciates the opportunity to respond to the findings and recommendations of the procedural review performed by the Office of the Auditor General. The Commission would like to thank the Auditor General's staff for their professionalism and effort in the procedural review.

Finding 1: The Commission should strengthen controls over cash receipts.

Response: The Commission concurs with the finding that it should strengthen controls over cash receipts. The Commission will establish and implement procedures in accordance with the State of Arizona Accounting Manual, Topic 20, Section 10 and Topic 05, Section 10.

Finding 2: The Commission's Enforcement Unit should establish policies and procedures to ensure it properly controls cash receipts.

Response: The Commission concurs with the finding and will establish and implement procedures in accordance with the State of Arizona Accounting Manual, Topic 20, Section 10 and Topic 05, Section 10.

Should you have any questions concerning our procedural review, please let us know.

Respectfully,

Ted Vogt
Executive Director

