



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Procedural Review

Department of Fire, Building and Life Safety

As of September 29, 2011



Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

November 8, 2011

Gene Palma, Director
Department of Fire, Building and Life Safety

Recently the Office of the Auditor General completed a performance audit and sunset review that evaluated the Department's inspection programs and oversight activities, the sufficiency of fees charged, and monies spent from the Mobile Home Relocation Fund. We recommended that the Department better manage its fire safety inspection processes to help ensure that these inspections are regularly performed and establish fees sufficient to cover fire safety inspection costs and regulatory costs for manufactured housing and modular buildings. In addition, we determined the Department incorrectly spent some Mobile Home Relocation Fund monies and recommended that the Department implement procedures to ensure it correctly uses these monies. The detailed results of the audit are included in our performance audit report dated September 29, 2011, (Report No. 11-13) and will not be addressed further in this report. In conjunction with the performance audit we also performed a procedural review of the Department's internal controls. 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, transfers, payroll, purchasing, capital assets, budgeting, and compliance with Arizona Revised Statutes (A.R.S.).

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 are described below.

The Department should reconcile its accounting records to those of the State monthly

Criteria: The *State of Arizona Accounting Manual* (SAAM), Section II-A(M) requires each agency to reconcile its internal accounting records to the Arizona Financial Information System (AFIS), the source of the State's financial statements, in writing, at least monthly.

Condition and context: While testing cash receipts and cash disbursements, auditors noted the following:

- The Department did not reconcile its internal records of cash receipts for licenses and fees to deposits and amounts recorded on the AFIS.

- Internal records of expenditures, such as the disbursements journal, were not reconciled to the AFIS reports.

Effect: Financial transactions were not recorded accurately on the AFIS which affects the State's financial statements.

Cause: In July 2009, the Department contracted for its accounting services to be performed by the Department of Administration's Central Services Bureau (CSB). However, the Department was unaware that they were still responsible for the reconciliation of their internal records to the AFIS as this was not included in the Department's contract with CSB.

Recommendation: The Department should develop procedures to reconcile its internal accounting records to the AFIS on a monthly basis. This reconciliation should be documented and all errors and inconsistencies should be resolved and corrected in the AFIS, if necessary.

The Department should accurately record cash deposits, claims, and refunds for the Manufacturing Housing Cash Bond Fund

Criteria: The Department should accurately record cash deposits authorized by A.R.S. §41-2179, claims, and refunds in the Manufacturing Housing Cash Bond Fund in accordance with generally accepted accounting principles.

Condition and context: Prior to July 2009, the Department had been correctly adjusting the liability account for cash deposits and refunds in the Manufacturing Housing Cash Bond Fund. After that date, cash deposits and refunds were recorded as increases or decreases to revenue. In addition, the Department could not determine whether manufacturers and installers received their refunds when they no longer held current licenses.

Effect: Because the liability account has not been adjusted since July 2009, auditors estimated that it may be overstated by as much as \$283,000.

Cause: The Department and CSB were unaware that the cash deposits, claim payments, and refunds were not being properly recorded in AFIS. Furthermore, because of staffing changes made in 2008 and inadequate records, the Department was unable to properly track refunds.

Recommendation: The Department should determine which manufacturers and installers are owed refunds of their deposits, pay any outstanding refunds, and determine the correct liability amount in the Manufacturing Housing Cash Bond Fund. After that is done, the Department should make the necessary adjustments. In addition, the Department should instruct its employees on how to record deposits, claims, and refunds in the Bond Fund.

Mr. Gene Palma, Director
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This letter is intended solely for the information and use of the Department 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,

Jay Zsorey, CPA
Financial Audit Director

cc: Debra Blake, Deputy Director, Office of Manufactured Housing
MaryAnn Knight, Deputy Director, Administration

DEPARTMENT RESPONSE

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JANICE K. BREWER
Governor



GENE PALMA
Director

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September 20, 2011

Mr. Jay Zsorey, CPA
Financial Audit Director
Office of the General Auditor

Dear Mr. Zsorey;

The Department of Fire, Building and Life Safety (Department) wishes to thank you for the opportunity to respond to the findings of the recently conducted procedural review of the Department. The Department is also appreciative of your staff's professionalism and courtesy while conducting the review.

FINDING

The Department should reconcile its accounting records to those of the State monthly.

RECOMMENDATION

The Department should develop procedures to reconcile its internal accounting records to the AFIS on a monthly basis. This reconciliation should be documented and all errors and inconsistencies should be resolved and corrected in the AFIS, if necessary.

RESPONSE

The Department concurs with the finding and recommendation.

The Department is initiating the implementation of the recommendation through functional AFIS training for the Accounting Staff. Procedures and formats will be developed for the Accounting Staff to conduct appropriate documented monthly reconciliations of Department internal accounting records to AFIS. Staff will also be trained in the submission of necessary AFIS corrections.

FINDING

The Department should accurately record cash deposits, claims, and refunds for the Manufacturing Housing Cash Bond Fund.

RECOMMENDATION

The Department should determine which manufacturers and installers are owed refunds of their deposits, pay any outstanding refunds and determine the correct liability amount in the Manufacturing Housing Cash Bond Fund. After that is done, the Department should make the necessary adjustments. In addition, the Department should instruct its employees on how to record deposits, claims and refunds in the Bond Fund.

RESPONSE

The Department concurs with the finding and recommendation.

The Department has initiated implementation of the recommendation:

1. The Department has determined that there are no outstanding licensee requests for refunds of cash fund deposits,
2. AAC R4-34-402 stipulates that applicants may request refunds of their cash fund deposits if:
 - The license is not issued;
 - The license has been terminated for two years or more by expiration, revocation, or voluntary cancellation, and there are no outstanding claims against the deposit; and
 - Two years after an applicant files a commercial surety bond as a replacement for the cash deposit, if there are no outstanding claims

The Department is identifying former licensees whose licenses terminated more than two years ago and is establishing processes for ongoing updates of the two year termination threshold. These entities' cash fund deposit amounts will be included as liabilities to the Manufacturing Housing Cash Bond Fund.

3. The Department will instruct employees on how to record deposits, claims and refunds in the Manufacturing Housing Cash Bond Fund.

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The Department appreciates this opportunity to steady its course through recognition of findings and implementation of change. This combination will enable the Department to continue its commitment to excellence in service to the citizens.

Sincerely,

Gene Palma

