



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Procedural Review

Arizona Department of Agriculture

As of February 28, 2015

September • 2015
Report No. 15-306



Debra K. Davenport
Auditor General

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September 16, 2015

Mark W. Killian, Director
Arizona Department of Agriculture

We have performed a procedural review of the Department of Agriculture's internal controls in effect as of February 28, 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, executive travel, journal entries, transfers, payroll, capital assets, and compliance with certain Arizona Revised Statutes.

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 finding and recommendations concerning this deficiency is described below.

Criteria: In accordance with the State of Arizona Accounting Manual Topic 25 (Long-lived Resources; formerly Section II-G-1), the Department should have effective internal controls over its capital assets that are sufficient to control, safeguard, and report capital assets.

Condition and context: The Department had 464 capital assets listed on its internal capital assets list and on the State's Fixed Assets Module (FAM) as of February 28, 2015. However, the Department did not maintain effective internal controls over its capital assets to ensure its internal list and the FAM were up to date. For example, during test work, auditors were unable to locate 10 of 25 machinery and equipment items included on the Department's internal capital assets list and the FAM. Further, although the State's capital assets policies and procedures require the Department to perform an annual inventory of its capital assets, the Department has no record of when it last performed an inventory.

Effect: Without effective internal controls, the Department's capital assets are exposed to theft or misuse. Further, the Department is not communicating accurate information to the State's General Accounting Office for inclusion in the State's annual financial statements.

Cause: The Department's internal capital assets list and the FAM included machinery and equipment items that were disposed of in prior fiscal years, and the Department did not prioritize performing an annual inventory of its capital assets or updating its capital assets list and the FAM to remove the disposed items.

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

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- remove disposed assets from its internal capital assets list and the FAM within 5 days of the disposal date.
- conduct an annual inventory of its capital assets and update its internal capital assets list and the FAM for any changes.

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
Financial Audit Director

DEPARTMENT RESPONSE

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September 16, 2015

Debbie Davenport, Auditor General
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Dear Auditor General Davenport,

The Arizona Department of Agriculture would like to express our appreciation to you for the professional manner in which this current procedural audit was performed and for the opportunity to respond to the recommendations provided.

Finding 1: The Department should comply with the State's capital assets policies and procedures

Agency Response: The finding of the Auditor General is accepted and the audit recommendation will be implemented. The fiscal services unit is currently trying to restructure and identify staff that may assist with the updating of the Department's fixed asset listing and perform the required annual inventory.

If you should have any additional questions or concerns, please feel free to call my office at 602-542-5729.

Sincerely,

Mark W. Killian
Director

