



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Procedural Review

**Department of  
Agriculture**

As of May 28, 2004

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**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

June 30, 2004

Donald Butler, Director  
Arizona Department of Agriculture  
1688 West Adams  
Phoenix, AZ 85007

Dear Mr. Butler:

We have performed a procedural review of the Department's internal controls in effect as of May 28, 2004. 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, payroll, purchasing, journal entries, and capital assets.

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 recommendations concerning them are described in the accompanying summary.

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,

Dennis L. Mattheisen, CPA  
Financial Audit Director

# TABLE OF CONTENTS

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Recommendation 1: The Department should maintain effective controls over cash receipts	1
Recommendation 2: The Department should improve controls over its capital assets system	2
Recommendation 3: The Department should follow state procurement requirements	2
Department Response	

## The Department should maintain effective controls over cash receipts

The Department collects cash receipts for certificates, permits, and licenses in the main office and from animal health officers and inspectors for inspections, animal sales, and animal recoveries. Since cash receipts can be easily lost, stolen, or misused, the Department needs to properly control and safeguard them. However, the Department did not have adequate written procedures or enforce existing procedures to properly control and safeguard cash receipts. For example, the Licensing unit and the Animal Health and Welfare unit did not ensure that all monies were collected and recorded. Also, auditors noted instances in which officers and inspectors did not collect the proper fees, and noted delays up to 42 days in depositing collected receipts and in excess of one year submitting support to the main office.

The Department should establish detailed written procedures to effectively control and safeguard cash receipts and should monitor to ensure that they are following these procedures. These procedures should include the following:

- Unit supervisors should reconcile prenumbered inspection certificates, licenses, and permits for the Licensing unit and departmental reports for the Animal Health and Welfare unit to either the applicable control logs or the sequence of licenses or permits issued to help ensure that all monies due the Department have been collected and recorded. To facilitate reconciliation, the Licensing unit should record unique tracking numbers on the license and permit applications.
- Unit supervisors should determine that fees collected and recorded by the units were proper by agreeing them to the authorized fees schedules. Investigate and correct all differences immediately.
- The Animal Health and Welfare unit should enforce the Department's policy requiring officers and inspectors to deposit cash receipts into the state depository bank accounts at least weekly, and submit deposit slips and supporting documentation to the main office within 1 week of deposit. Also, the Animal Health and Welfare unit should prepare a weekly deposit with the State Treasurer to account for the depository bank account monies and ensure these revenues are recorded on the Arizona Financial Information System.

- The Department should reconcile daily the receipts recorded by the Licensing unit to the deposit with the State Treasurer to ensure that all recorded receipts are deposited. Investigate and resolve all differences.

## The Department should improve controls over its capital assets system

The Department has a significant investment in capital assets and therefore, it is essential that the Department maintain an accurate list of its capital assets to ensure they are properly accounted for. However, the Department did not maintain an accurate capital assets list. Specifically, although required, employees did not always notify the Fiscal Services unit when disposing of capital assets or moving them to another location. In addition, the Department did not perform a physical inventory of capital assets since fiscal year 2001.

In order to properly safeguard capital assets and ensure that these assets are properly recorded, the Department should:

- Monitor departmental units to ensure that they follow established policies for asset disposals and relocations. The appropriate personnel should approve all disposals and relocations, and should send supporting documentation to the Fiscal Services unit in a timely manner.
- Perform a physical inventory of capital assets annually and reconcile the inventory to the capital assets list. The Department should resolve all differences and make all necessary adjustments to the capital assets list.

## The Department should follow state procurement requirements

Following state procurement procedures is essential to ensure that the Department acquires goods and services at a fair and competitive price. However, the Department did not always follow state procurement procedures. Specifically, the Environmental Services unit did not obtain oral quotations for a \$2,000 purchase, and the Animal Services Division did not use the fax on demand system to solicit quotations for an \$11,000 purchase.

The Department needs to ensure that it consistently adheres to the following state procurement requirements:

- Obtain competitive sealed bids or proposals for purchases of \$25,000 or more.
- Obtain quotations using the fax on demand system for purchases of \$10,000 to \$25,000.
- Obtain written price quotations from at least three vendors for purchases of \$5,000 to \$10,000 and oral or written price quotations from at least three vendors for purchases of \$1,000 to \$5,000.



# Arizona Department of Agriculture

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(602) 542-4373 FAX (602) 542-5420

June 28, 2004

Mr. Dennis L. Mattheisen, CPA  
Office of The Auditor General  
2910 N. 44th Street, Suite 410  
Phoenix, Arizona 85018

Dear Mr. Mattheisen:

Enclosed are the responses to the Summary of Audit Findings for the Arizona Department of Agriculture's audit of May 28, 2004. Please know that the Department's management will work on fulfilling its responsibility of establishing and maintaining adequate internal controls for those deficiencies identified.

I would also like to compliment Jayson Vowell and his team, as they were professional and amiable; they worked quickly, but were thorough.

If you have any questions concerning the responses, please contact Sandra Torres at 542-3225 or myself at 542-0990.

Sincerely,

Donald Butler  
Director

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**STATE OF ARIZONA**  
**DEPARTMENT OF AGRICULTURE**  
**Response to Summary of Audit findings**  
**May 28, 2004**

**The Department should maintain effective controls over cash receipts (Recommendation 1)**

The Licensing section has made great strides and improvement in the last three years. A Revenue Tracking System has been developed and installed that does track all incoming revenue effectively; and with some work, can be tied directly to a particular license, permit or certificate.

The Licensing unit and the Animal Health and Welfare unit will verify that monies are collected and recorded by reconciling prenumbered inspection certificates (Licensing unit) and departmental reports (Animal Health and Welfare unit) to the applicable control logs. A change to add a unique revenue tracking number to all licenses and permit applications, which will verify that monies were received, will also be made. Furthermore, it will be necessary to enhance the Revenue Tracking System to include the Treasury Deposit Number in the entry field so that a reconciliation may be run between incoming receipts and outgoing deposits.

The Animal Health and Welfare unit will develop a written policy for the resolution of reported discrepancies with overages and shortages. Additionally, the Animal Health and Welfare unit will follow procedures in accordance with the State of Arizona Accounting Manual section II-Q, pages 1-5, when depositing cash receipts into the state depository bank accounts. They will also submit the deposit slip and supporting documentation to the Department within one week of deposit.

**The Department should improve controls over its capital assets system (Recommendation 2)**

The Department is currently modifying its internal procedures and is in the process of conducting a physical inventory to ensure the inventory and fixed asset database is accurate. A detailed internal inventory form is also being developed so equipment movement can be properly tracked. The form will require approval by the appropriate personnel before the equipment is moved, and then it will be sent to the Fiscal Services unit to be recorded in the inventory database.

**The Department should follow State Procurement requirements (Recommendation 3)**

There had been a misunderstanding about the purpose of an open purchase order, as it was believed that bids were originally obtained before issuing the open purchase order rather than when an item was purchased. It has been explained to all divisions that purchases \$1,000 and over requires bids prior to purchase in order to be competitive and obtain the best value for the Agency.

Additionally, all procurement personnel have been reminded that any purchase not on state contract and \$10,000 or more must be placed on the fax-on-demand website. In the audit finding situation, a trade-in for a horse trailer was necessary in the transaction, which resulted in the division checking for bids from several trailer companies to find out who would take a trade-in. In the process, a verbal commitment was made to the low bid vendor. Procurement believes that with the many bids obtained and with a verbal commitment already made, it was in the best interest to the Department and the State to accommodate the commitment without legal entanglements.

As an added note all divisions have received training on procurement compliance, policy and procedures. Furthermore, our agency Director, who has primary purchasing authority, is scheduled to attend the State Procurement (SP101) on July 22, 2004.