

**Arizona Department of Water Resources  
Procedural Review Letter  
As of April 20, 2001**

**ARIZONA DEPARTMENT OF  
WATER RESOURCES  
Procedural Review Letter  
As of April 20, 2001**

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DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

**STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL**

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

June 6, 2001

Rita Pearson Maguire, Director  
Arizona Department of Water Resources  
500 North Third Street  
Phoenix, AZ 85004-3903

**Subject: Procedural Review Letter**

Dear Ms. Maguire:

We have performed a procedural review of the Arizona Department of Water Resources internal controls in effect as of April 20, 2001. 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, interfund transactions, payroll, purchasing, revolving accounts, equipment, and statutory compliance.

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. Those deficiencies and our recommendations concerning them are described in the accompanying summary.

This letter is intended solely for the information and use of the Arizona Department of Water Resources 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

Attachment

**Arizona Department of Water Resources  
Summary of Deficiencies  
As of April 20, 2001**

**The Department did not follow  
state procurement rules**

The Department did not always follow the State's procurement rules. We noted three purchases in which the Department did not prepare a written determination to explain why sole source procurements were appropriate. For one of those purchases, the Department did not obtain State Procurement Office approval to purchase an item at a cost greater than the \$10,000 purchasing threshold.

Sole source procurements should be avoided unless no reasonable alternative supplier for goods and services exists. To ensure compliance with Arizona Revised Statutes §41-2536, the Department must prepare and maintain written determinations justifying the basis for sole source purchases. In addition, the Department has no purchasing authority beyond its delegated threshold and must obtain written approval from the State Procurement Office for purchases in excess of this threshold. (*State of Arizona Accounting Manual*, section II-H-1, page 5)

**The Department did not adequately  
safeguard cash receipts**

Cash receipts are especially susceptible to theft or misuse and it is important to safeguard them as they are received. We noted that the Department kept cash receipts in an unlocked file prior to deposit. In addition, cashiers were not provided separate cash drawers, and these drawers were kept out on the counter or in an unlocked cabinet.

To help ensure that the Department's cash receipts are adequately safeguarded and controlled, the Department should ensure that adequate physical facilities are in place for storing cash receipts prior to deposit and that cash drawers are kept in a locked cabinet or are otherwise safeguarded when not in use. In addition, cashiers should be provided separate cash drawers to help establish accountability. (*State of Arizona Accounting Manual*, section II-Q)

**ARIZONA DEPARTMENT OF WATER RESOURCES**

500 North Third Street, Phoenix, Arizona 85004

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**JANE DEE HULL**  
Governor

**RITA PEARSON  
MAGUIRE**  
Director

May 30, 2001

Jay Zsorey, Financial Audit Manager  
Office of the Auditor General  
2910 N. 44<sup>th</sup> Street  
Phoenix, AZ 85018

Dear Mr. Zsorey:

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

We have enclosed the Summary of Deficiencies and the Departments response.

Sincerely,

A handwritten signature in black ink that reads "Joseph C. Smith".

Joseph C. Smith  
Deputy Director

JCS:bjw  
Enclosure

cc: Ron Gray, CFO

**Arizona Department of Water Resources  
Summary of Deficiencies  
As of April 20,2001**

**The Department did not follow State procurement rules**

The Department did not always follow the State's procurement rules. We noted three purchases in which the Department did not prepare a written determination to explain why sole source procurements were appropriate. For one of those purchases, the Department did not obtain State Procurement Office approval to purchase an item at a cost greater than the \$ 10,000 purchasing threshold.

Sole source procurements should be avoided unless no reasonable alternative supplier for goods and services exists. To ensure compliance with Arizona Revised Statutes 41-253 6, the Department must prepare and maintain written determinations justifying the basis for sole source purchases. In addition, the Department has no purchasing authority beyond its delegated threshold and must obtain written approval from the State Procurement Office for purchases in excess of this threshold. (*State of Arizona Accounting Manual*, section II-H-1, page 5)

**Department response**

The Department accepts that staff did not document properly the noted purchases. While verbal authorization for the noted expenditure over limit was obtained from the State Procurement Office, staff did not obtain written authorization. Procurement staff members have been enrolled in State Procurement Office certification training to reinforce their understanding of procurement rules.

**The Department did not adequately safeguard cash receipts**

Cash receipts are especially susceptible to theft or misuse and it is important to safeguard them as they are received. We noted that the Department kept cash receipts in an unlocked file prior to deposit. In addition, cashiers were not provided separate cash drawers, and these drawers were kept out on the counter or in an unlocked cabinet.

To help ensure that the Department's cash receipts are adequately safeguarded and controlled, the Department should ensure that adequate physical facilities are in place for storing cash receipts prior to deposit and that cash drawers are kept in a locked cabinet or are otherwise safeguarded when not in use. In addition, cashiers should be provided separate cash drawers to help establish accountability. (*State of Arizona Accounting Manual*, section II-Q)

**Department response**

The Department agrees that it is important to safeguard and control cash receipts. The Department remodeled the cashiering area to move cash receipts away from the public service areas. The Department provides two cash drawers and related change funds for the cashiering function. In addition, a safe has been provided to secure the cash drawers and cash receipts when they are not in use.