



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Procedural Review

Department of Financial Institutions

As of June 27, 2006



Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

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

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

October 10, 2006

Felecia A. Rotellini, Superintendent of Financial Institutions
State of Arizona
Department of Financial Institutions
2910 N. 44th Street, Suite 310
Phoenix, AZ 85018

Dear Ms. Rotellini:

We have performed a procedural review of the Department's internal controls in effect as of June 27, 2006. 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, transfers, journal entries, payroll, purchasing, equipment, and financial reporting.

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

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The Department should follow state travel policies and procedures

The General Accounting Office of the Department of Administration, has established policies and procedures for employee travel that all executive branch State agencies must follow. Under these policies and procedures, employees are entitled to mileage reimbursement only when conducting state business away from their homes or duty posts. However, the Department did not follow this policy since it reimbursed employees for mileage when they came into work on a scheduled day off.

To help ensure compliance with the employee travel policies and procedures established by the General Accounting Office, the Department should reimburse employees for mileage only when they conduct state business away from their homes or duty posts.

The Department should improve controls over cash receipts

Because of the relatively high risk associated with transactions involving cash, it is essential that the Department have effective internal controls to safeguard cash. However, the Department did not have effective controls to ensure that all cash and checks received were deposited in a timely manner and were recorded promptly in the accounting records. During the period tested, auditors noted that the Department made deposits every Wednesday and Friday, and the average deposit amount was \$50,000.

To help control and safeguard cash receipts, the Department should deposit cash receipts daily when total receipts exceed \$500.



ARIZONA DEPARTMENT OF FINANCIAL INSTITUTIONS

Felecia A. Rotellini
Superintendent of Financial Institutions

Janet Napolitano
Governor

August 31, 2006

Dennis L. Mattheisen, CPA
Financial Audit Director
Office of the Auditor General
2910 N. 44th Street, #410
Phoenix, AZ 85018

Dear Mr. Mattheisen:

The Department of Financial Institutions (DFI) appreciates the opportunity to respond to the procedural review performed by the Office of the Auditor General. Your staff was professional and efficient in their review.

Recommendation #1. DFI agrees that the practice described in your findings is contrary to travel policies and procedures, and will educate all employees affected, including accounting personnel of the proper application of reimbursable expenditures as it relates to mileage of uncovered personnel.

Recommendation #2. DFI will institute daily deposits of its cash receipts. As a note however, the Department had been making deposits on a much more frequent basis than the default schedule of Wednesdays and Fridays due to the volume of cash receipts. For FY2006, DFI made 205 deposits, or close to 4 deposits per week.

In addition, the Department notes that cash receipts are entered into our accounting records on the same day as receipt, since paper receipts act as our primary accounting record. DFI will continue to ensure cash is receipted in a timely manner. As we institute daily deposits as noted above, float and the delay between receipt and recording into AFIS should be minimized.

Again, thank you for the opportunity to respond and improve our internal controls.

Sincerely,

Kevin McCullough
Assistant Superintendent, DFI