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REPORT NO. 01-25

February 27, 2002

Kenneth Wynn, Director
Department of Alcoholic Beverage Control
and
Nicholas E. Hales, Chairman
Alcoholic Beverage Control Commission

We have completed our audit of the financial statements of the State of Utah for the year ended June 30, 2001. Our report thereon, dated November 2, 2001, is issued under separate cover.

In planning and performing our audit, we considered the Department of Alcoholic Beverage Control's (DABC's) internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the State's financial statements and not to provide assurance on internal control. We noted no matters involving DABC's internal control over financial reporting that we consider to be a material weakness. However, our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses particularly since our review was based on our audit of the State as a whole.

During our audit, we noted certain matters involving the internal control over financial reporting of DABC and its operations. We are submitting for your consideration related recommendations designed to help DABC make improvements and achieve operational efficiencies. These matters are described in the accompanying schedule of findings and recommendations.

This report by its nature focuses on exceptions, weaknesses, and problems. This should not be understood to mean there are not also various strengths and accomplishments.

This report is intended solely for the information and use of DABC and the Alcoholic Beverage Control Commission and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the courtesy and assistance extended to us by the personnel of DABC during the course of our audit, and we look forward to a continuing professional relationship. If you have any questions, please call Jon Johnson, Audit Director, at 538-1359.

Sincerely,

Auston G. Johnson, CPA
Utah State Auditor

cc: Dennis R. Kellen, Operations Manager
Richard Pearson, Manager, Administrative Services
Rae Jordison, Accounting Supervisor

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

FINDINGS AND RECOMMENDATIONS FOR THE FISCAL YEAR ENDED JUNE 30, 2001

1. EXCESSIVE INVENTORY ADJUSTMENTS (Repeat Finding)

Our observation of the annual inventory counts for 40 inventory items at the Department of Alcoholic Beverage Control's (DABC) warehouse showed that 21, or 53%, of the items required adjustments to the perpetual inventory records. We also noted that the account used to record inventory variances between DABC's periodic counts and the perpetual system reported a net inventory variance of \$1,061,572.09 for fiscal year 2001. Although the number and amount of adjustments decreased from the prior year, they are still excessive and could indicate weaknesses in the flow of information, record keeping, or the handling of inventory.

Recommendation:

We recommend that DABC evaluate its inventory processes and record keeping and make necessary corrections in order to improve the accuracy of the perpetual inventory records.

DABC's Response:

We concur. The department is making efforts to remedy this problem by:

- a. Exploring the feasibility of procuring Accounts Receivable and Accounts Payable packages;*
- b. Constructing a new warehouse addition, which has been approved, to provide more storage and reduce inventory errors;*
- c. Procuring additional scanner guns that will be assigned to each of our warehouse personnel; and*
- d. Changing internal procedures to assist us in minimizing inventory adjustments and identifying items that make up our inventory variance.*

(Budget reductions for FY2002/2003 may preclude implementing the above.)

2. UNTIMELY ACCOUNTS RECEIVABLE RECONCILIATION

The accounts receivable subsidiary ledger is not being reconciled to the FINET trial balance on a timely basis. As of our testwork on August 7, 2001, the last month reconciled was November 2000. Monthly reconciliations performed in a timely manner help to ensure that all receivables are accurately reported and properly collected.

Recommendation:

We recommend that DABC perform accounts receivable reconciliations on a monthly basis to ensure that all receivables are accurately reported and properly collected.

DABC's Response:

We concur. Accounts Receivable reconciliations will be done on a timely basis.

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

FINDINGS AND RECOMMENDATIONS FOR THE FISCAL YEAR ENDED JUNE 30, 2001

3. LACK OF FORMAL WRITTEN INFORMATION TECHNOLOGY POLICIES AND PROCEDURES (Repeat Finding)

DABC has no formal written policies and procedures for the information technology area. Formal written policies and procedures are vital to the functioning of the organization and ensure that the aims and objectives of the organization are met in a controlled and standardized manner. Some information technology policies that could be formalized include: security management, operations, business continuity planning, change control, systems development life cycle, and user rights and responsibilities.

Recommendation:

We recommend that DABC develop formal written policies and procedures for the information technology area.

DABC's Response:

We concur. DABC agrees there is still much to be done to adequately document the department's operational IT policies and procedures and is committed to doing so. While many operating policies and procedures are well understood and strictly adhered to, they must be documented and included in the department's policy manual.

During FY2001, the IT Division developed a table of contents of many operational policies and procedures that must be written. Assignments will now be made to the appropriate staff to commit the policies and procedures to writing. It should be noted that DABC's commercially acquired and in-house developed information systems are well documented. Still lacking is adequate documentation of the IT Division's operational and administrative policies and procedures.