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UTAH STATE AUDITOR

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**REPORT NO. 02-616**

October 25, 2002

Kenneth Wynn, Director  
Department of Alcoholic Beverage Control  
1625 South 900 West  
Salt Lake City, Utah 84130-0408

Dear Mr. Wynn:

We have performed the procedures described below to certain aspects of the Department of Alcoholic Beverage Control's (the Department) internal control and compliance for the period January 1, 2001 through November 30, 2001. The purpose of these procedures is to assist the Department in evaluating its internal control and compliance. The procedures performed were as follows:

1. We reviewed controls over and counted petty cash funds.
2. We tested a sample of cash disbursements for propriety, reasonableness, and compliance with certain internal and State purchasing policies.
3. We reviewed compliance with certain laws and policies and procedures regarding personnel and payroll issues, such as nepotism, annual evaluations, compensation increases, bonuses, and incentive awards.
4. We reviewed the internal control over fixed assets and tested the completeness and accuracy of the fixed assets listing through a sample of fixed assets.
5. We reviewed services contract management including internal control and compliance with certain policies and procedures.

Our procedures were more limited than would be necessary to express an audit opinion on compliance or on the effectiveness of the Department's internal control or any part thereof. Accordingly, we do not express such opinions. Alternatively, we have identified the procedures we performed and the findings resulting from those procedures. Had we performed additional

procedures or had we made an audit of the effectiveness of the Department's internal control, other matters might have come to our attention that would have been reported to you.

Our findings resulting from the above procedures are included in the attached findings and recommendations section of this report. We feel that Finding Number 1 is a significant weakness to the Department. If this weakness is left uncorrected, an unacceptable amount of errors or misappropriations could occur without detection. We are particularly concerned with part a. of finding Number 1 and the Department's apparent disregard of State law.

This report 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 this specified party.

By its nature, this report focuses on exceptions, weaknesses, and problems. This focus should not be understood to mean there are not also various strengths and accomplishments. We appreciate the courtesy and assistance extended to us by the personnel of the Department during the course of the engagement, and we look forward to a continuing professional relationship. If you have any questions, please call Joe Christensen, Deputy State Auditor, at 538-1354.

Sincerely,

Auston G. Johnson, CPA  
Utah State Auditor

cc: Nicholas E. Hales, Chairman, Alcoholic Beverage Control Commission  
Dennis R. Kellen, Operations Manager  
Richard Pearson, Administrative Services Manager  
Rae Jordison, Accountant

**DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL**  
**FOR THE PERIOD JANUARY 1, 2001 THROUGH NOVEMBER 30, 2001**

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# DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

## FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 1, 2001 THROUGH NOVEMBER 30, 2001

### 1. WEAKNESSES RELATING TO PURCHASING (Significant Weakness)

During our testwork at the Department of Alcoholic Beverage Control (the Department), we noted the following weaknesses relating to purchasing:

- a. While reviewing Department purchases, we identified one payment to a vendor, totaling \$7,579, which was split between five invoices in order to reduce the purchase amount on each invoice, thereby avoiding the requirement of going through a competitive bid process as required by State accounting policies (FIACCT 04). In addition, 2 of 25 sampled purchasing card statements contained purchases from one vendor that appeared to have been artificially divided in order to reduce the purchase amount of each transaction, thereby avoiding the process of obtaining a second price quote for items between \$500 and \$2000 also required by State accounting policies (FIACCT 04). Per section R33-3-3 of *the Utah Administrative Code*, purchases cannot be artificially divided to avoid these requirements. Artificially dividing purchases into smaller amounts to avert purchasing requirements could allow noncompetitive and unreasonable expenditures to be made. We are particularly concerned about the Department's apparent disregard of this State law and these State accounting policies since this same problem was also noted during the last two reviews we performed of Department controls in 1995 and 1999.
- b. Various purchases from 15 of the 25 purchasing card statements we examined contained transactions that had been improperly coded in FINET. Adequate supervisory reviews over FINET entries should catch any transactions that are entered incorrectly. Incorrect coding of transactions into FINET can cause the Department's financial information to be improperly reported and reduce the effectiveness of budgetary controls.
- c. Seven of 25 sample purchasing card statements contained transactions that were lacking adequate supporting documentation (purchase receipts). State Finance Purchasing Card Policies and Procedures require that all purchase receipts be included in the supporting documentation for purchase card purchases. Receipts for purchases provide an itemized listing of actual items purchased, which is necessary for proper approval of the purchase and proper coding on FINET.
- d. Two of 25 sample purchasing card statements contained transactions that were between \$501 and \$2000 and lacked a second price quote as required by State accounting policies (FIACCT 04-04.00).
- e. Eleven of 25 cash disbursements sampled did not have an adequate receiving report to indicate that the items paid for had been properly received. State accounting policies (FIACCT 04-13.00) require that all goods and services received be acknowledged, including inspection for adequacy, by a receiving report or valid signature. Not having adequate support could result in the payment for goods or services that were not received or were inadequate.

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## **FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 1, 2001 THROUGH NOVEMBER 30, 2001**

- f. Two of 25 cash disbursements sampled were not properly processed to include the applicable vendor discount offered. The discount for one sample item was calculated incorrectly, and the discount for the other sample item was not taken. State accounting policies (FIACCT 05-06.00) mandate that all vendor discounts offered will be taken. It is important to take advantage of all discounts offered, including calculating them correctly, in order to avoid unnecessary expenditures.
- g. One of 25 cash disbursements sampled exceeded the \$50 limit allowed by State accounting policies (FIACCT 05-09.00) for expenditures involving holiday decoration items.

Following State laws and accounting policies and procedures relating to purchases is necessary in order to prevent the misuse or misappropriation of State Funds.

### **Recommendation:**

#### **We recommend that the Department:**

- a. **Comply with State law and purchasing policies and procedures by not artificially dividing purchases. We also recommend that the Department inform vendors that purchases for the same item or service are not to be divided.**
- b. **Accurately code purchase card transactions into FINET and provide an independent review of transaction entries to catch any errors.**
- c. **Obtain adequate supporting documentation for all purchase card purchases.**
- d. **Provide a second price quote for any single purchase over \$500, including those using purchasing cards.**
- e. **Prepare and retain adequate support for goods or services received.**
- f. **Properly calculate and take advantage of vendor discounts.**
- g. **Keep expenditures for holiday decorations within approved limits.**

#### **Department's Response:**

*Concur. The Department will review purchases to ensure we are complying with purchasing policies. Also, we will ensure that purchases are properly coded and discounts taken when available.*

# **DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL**

## **FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 1, 2001 THROUGH NOVEMBER 30, 2001**

### **2. INADEQUATE CONTROLS OVER THE IMPREST CHECKING ACCOUNT**

We noted the following control weaknesses related to the Department's imprest checking account:

- a. The Department makes incomplete and untimely entries in the check register. Many entries in the check register did not contain the date of the expenditure, and many entries were not being recorded until the bank statement was received. Complete and timely entries should be made in the check register as transactions are incurred to help maintain control of the account and allow an appropriate reconciliation to the bank records.
- b. Two of 8 disbursement checks sampled were written for food purchases. In addition, 1 of the 8 checks was to issue change to a customer who overpaid. State accounting policies (FIACCT 05-23) prohibit the use of the imprest checking account for food purchases or for use as a change fund. Not complying with State policy could result in improper expenditures and the misuse of state funds.

#### **Recommendation:**

**We recommend that the Department:**

- a. Make complete entries in the check register, including dates and amounts, at the time transactions are incurred.**
- b. Limit disbursements made from the imprest checking account to those items, amounts, and uses approved by State Policies and Procedures.**

#### **Department's Response:**

*Concur. The Department will make complete entries in the check register and comply with state policy on disbursements.*

### **3. NONCOMPLIANCE WITH STATE FIXED ASSET POLICIES**

During our testwork of fixed assets, we noted the following weaknesses:

- a. Seventeen of the 25 items we examined did not have an agency ID tag. State accounting policies (FIACCT 09-08.00) require all tangible fixed assets costing \$5,000 or more to be tagged with an agency ID tag that includes a unique agency ID number and the agency name.

# **DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL**

## **FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 1, 2001 THROUGH NOVEMBER 30, 2001**

- b. Two of the items were not listed on the fixed asset listing. State accounting policies (FIACCT 09-08.00) require that the fixed asset listing be adjusted in a timely manner as necessary to reflect dispositions and purchases, and to correct errors.

Complying with State fixed asset policies is necessary to minimize theft and other losses and to report Department assets and expenditures accurately.

### **Recommendation:**

**We recommend that the Department:**

- a. **Tag all fixed assets costing \$5,000 or more with an agency ID tag that includes a unique agency ID number and the agency name.**
- b. **Ensure all fixed assets costing \$5,000 or more are properly listed on the Department's fixed asset listing.**

### **Department's Response:**

*Concur. The Department will tag all tangible fixed assets with an ID tag. Also, we will adjust fixed asset lists in a timely manner.*