



Auston G. Johnson, CPA
UTAH STATE AUDITOR

STATE OF UTAH
Office of the State Auditor

211 STATE CAPITOL
SALT LAKE CITY, UTAH 84114
(801) 538-1025
FAX (801) 538-1383

DEPUTY STATE AUDITOR:
Joe Christensen, CPA

FINANCIAL AUDIT DIRECTORS:
H. Dean Eborn, CPA
Deborah A. Empey, CPA
Stan Godfrey, CPA
Jon T. Johnson, CPA

REPORT NO. 02-620c

August 5, 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 internal control of the Department of Alcoholic Beverage Control (the Department) for the period July 1, 2001 through March 15, 2002 at the following State liquor stores: #5, #8, #17, #19, #21, #23, #24, and #30. The purpose of these procedures is to assist the Department in evaluating its internal control. The procedures performed were as follows:

1. We tested the completeness and accuracy of the inventory listings through a sample of inventory (all stores noted above except #23).
2. We documented procedures for and counted petty cash and/or change funds.

Our findings resulting from the above procedures are included in the attached findings and recommendations section of this report.

Our procedures were more limited than would be necessary to express an opinion on any of the items referred to above or to express an opinion 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.

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 Dean Eborn, Audit Director, at 538-1352.

Sincerely,

Auston G. Johnson, CPA
Utah State Auditor

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

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL
FOR THE PERIOD JULY 1, 2001 THROUGH MARCH 15, 2002

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DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JULY 1, 2001 THROUGH MARCH 15, 2002

1. IMPROPER USE OF CHANGE FUNDS

During our testwork at the Department of Alcoholic Beverage Control Store #8, we noted two receipts for expenditures, totaling \$64, that were paid from the entity's change funds. State accounting policy FIACCT 5-23.02 states that "change funds are used for making change in operations where cash sales and receipts are made and are not used for making any expenditures." The improper use of change funds could result in the misappropriation of assets.

Recommendation:

We recommend that all store locations follow and comply with established State accounting policies and only use change funds for their intended purpose.

Department's Response:

The Department agrees with the auditor's recommendations and will immediately take steps to implement the State accounting policy in all liquor stores.

2. INACCURATE INVENTORY RECORDS

We compared the number of units on hand to the number of units recorded for 177 inventory line items at the locations listed below. The differences resulted in various overstatements or understatements ranging from 2 inventory units to 34 units. The following table details our test results of the line items counted at each location:

Store # (Location)	Total Line Items Tested	# of Line Items Tested with Errors	% of Units Tested in Error
Store 5 (Provo)	25	7	3%
Store 8 (Bountiful)	26	3	1%
Store 17 (Orem)	25	4	2%
Store 19 (Ogden)	25	7	1%
Store 21 (Ogden)	25	1	.01%
Store 24 (Ogden)	25	3	.03%
Store 30 (Layton)	26	2	.03%
TOTALS	177	27	

The Store Managers and/or Assistant Managers could not explain the reasons for the discrepancies. However, the following reasons could indicate why some of the errors occurred:

- a. Consumer theft (shoplifting).

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FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JULY 1, 2001 THROUGH MARCH 15, 2002

- b. Employees mistakenly add or charge inventory items to the wrong stock number or enter the wrong quantity purchased or sold (e.g. customers sometimes mix inventory sold in cases with different product types).

The Department should have adequate controls in place to enable each store to maintain an accurate inventory count. Not having adequate inventory controls can result in inventory being misappropriated and, subsequently, unusual or large adjustments occurring during the physical inventory counts.

Recommendation:

We recommend that store locations with more significant error rates improve their inventory controls by implementing tighter controls over recording inventory items received and sold to the correct stock number and with the correct quantities, especially when cases are mixed with similar products.

Department's Response:

The Department agrees with the auditor's recommendations. The Department is constantly working to improve its inventory control system and its reporting methods. It has installed customer monitoring systems and tighter controls for employees.