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UTAH STATE AUDITOR

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Office of the State Auditor

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REPORT NO. 04-12

December 21, 2004

Alcoholic Beverage Control Commission
and
Kenneth F. Wynn, Director
Department of Alcoholic Beverage Control
1625 South 900 West
P.O. Box 30408
Salt Lake City, UT 84130-0408

We have completed our audit of the financial statements of the State of Utah for the year ended June 30, 2004. Our report thereon, dated October 29, 2004, was issued under separate cover.

In planning and performing our audit, we considered the Department of Alcoholic Beverage Control's (the Department) 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 a certain matter involving the Department's internal control over financial reporting that we consider to be a reportable condition. This condition is identified in the accompanying finding and recommendation and is not believed to be a material weakness.

Reportable conditions are defined as matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses, particularly since our review was based on our audit of the State as a whole.

This report is intended solely for the information and use of the Alcoholic Beverage Control Commission and the Department 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 the Department during the course of our audit, and we look forward to a continuing professional relationship. If you have any questions, please call Stan Godfrey, Audit Director, at (801) 538-1356.

Sincerely,

Auston G. Johnson, CPA
Utah State Auditor

cc: Leonard J. Langford, Deputy Director of Finance

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

FINDING AND RECOMMENDATION FOR THE YEAR ENDED JUNE 30, 2004

NONCOMPLIANCE WITH PAYROLL POLICY AND SEPARATION OF DUTIES WEAKNESS (Reportable Condition)

As part of our annual audit of State payroll expenditures, we reviewed the reports associated with 40 payroll expenditures to ensure that they were properly reviewed, approved, and retained. For the two expenditures selected from the Department of Alcoholic Beverage Control (the Department), we noted the following:

- a. For one of the two expenditures, the Department did not retain the "Time Edit" report. State Accounting Policies and Procedures (FIACCT 11-17.00) require the Department to generate, review, approve, and retain certain payroll reports each pay period to ensure the accuracy and document approval of the payroll transactions entered into the SAP Payroll System (the System). Noncompliance with the policy could allow errors or misappropriations related to payroll expenditures to occur without detection.
- b. Two individuals who have the ability to enter time into the System also reviewed and approved payroll reports. A separation of duties weakness exists when the same individual has the ability to enter time into the System and also reviews and approves required payroll reports. FIACCT 11-17.00 requires a manager or supervisor other than the time entry operator to review and approve the payroll reports each pay period. Inadequate separation of duties could allow errors or misappropriations related to payroll expenditures to occur without detection.

Recommendation:

We recommend that the Department generate, review, approve, and retain required payroll reports each pay period to document that payroll transactions entered into the System are accurate and approved. We further recommend that the payroll reports be reviewed and approved by a manager or supervisor who does not have the ability to enter time into the System.

Department's Response:

We agree with the finding. The missing "Time Edit" report was for a payroll transaction in October 2003. In December 2003, the Department hired a new Financial Director and fully implemented the required review procedures for payroll. Since then, all required payroll reports are generated, reviewed, approved, and retained.

The Financial Director was inadvertently set up in the payroll system with the role of "Time Entry Operator" instead of "Payroll Monitor." When this was brought to the Department's attention during the audit, the Financial Director's role in the payroll system was immediately changed to "Payroll Monitor." The Financial Director is responsible for the review and approval of payroll and he has never entered any time in the payroll system.