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**REPORT NO. 05-620a**

July 19, 2005

Kenneth F. 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 for the period July 1, 2004 through April 29, 2005 for the locations in Carbon (Store 7), Grand (Store 27), and Tooele (Store 10) counties. The purpose of these procedures is to assist the Department in evaluating its internal control. The procedures performed were as follows:

1. We reviewed the cash receipting, cash disbursing, recording, and reconciliation duties for adequacy of separation of duties for internal control purposes.
2. We also reviewed controls over and counted petty cash funds and/or change funds.
3. We reviewed the Department's compliance with certain laws and policies and procedures regarding personnel and payroll issues, such as nepotism and annual evaluations.
4. We reviewed the internal control over capital assets and tested the completeness and accuracy of the capital assets listing through a sample of capital assets.
5. We reviewed inventory control policies and procedures, including physical inventory procedures and performed test counts.

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.

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. However, the report is a matter of public record and its distribution is not limited.

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 (801) 538-1352.

Sincerely,

Auston G. Johnson, CPA  
Utah State Auditor

cc: Leonard Langford, Director of Finance

**DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL**

FOR THE PERIOD JULY 1, 2004 THROUGH APRIL 29, 2005

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# DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

## FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JULY 1, 2004 THROUGH APRIL 29, 2005

### 1. DEPARTMENT POLICY IN VIOLATION OF STATE POLICY AND SOUND INTERNAL CONTROLS

We performed a surprise count of the change fund at Store 10 in Tooele County and noted that there was a \$40 personal check in the vault that the store had cashed for an employee. Upon further investigation and inquiry with the Department of Alcoholic Beverage Control (the Department) Director of Finance, we noted that the Department has a policy (09-32) that allows employees to cash personal checks (up to \$100 per week), or even State payroll checks at the manager's discretion, from the stores' change funds.

However, this Department policy is in violation of State Accounting Policies and Procedures (FIACCT) 05-23.02, which states that change funds are to be used for making cash change in operations. The cashing of employee's personal and pay checks is not considered part of the Department's operations, and therefore, should not be done. Also, employee's personal checks in the change fund could indicate a loan to the employee or act as a placeholder until an unexpected receipt is received and substituted for it. Therefore, allowing the cashing of employee checks could result in fraud going undetected.

#### Recommendation:

**We recommend that the Department modify their policy (09-32) and discontinue the practice of cashing employee's personal and pay checks.**

#### Department's Response:

*The Department has had a long history of cashing employee's personal and payroll checks. We did not believe that our policy was in violation of State policy. However, after discussion with the Utah State Auditor's Office and the State Division of Finance, we have decided to discontinue the practice of cashing employee's personal and payroll checks. We have eliminated our department policy 09-32 and have modified other policies to document the prohibition of cashing personal and payroll checks.*

### 2. UNAUTHORIZED CHANGE FUND AMOUNT

We noted a discrepancy with Store 27 in Grand County and their cash change fund on hand with the amount authorized by the State Division of Finance. The Store had a change fund of \$3,150 on the day of our surprise count, March 21, 2005, but the authorized amount verified by the Division of Finance is only \$3,000. Therefore, the Store has an additional \$150 in unauthorized change funds. Per FIACCT 05-23.02, "all cash change funds must be approved by the Division of Finance," including any increases or decreases. The lack of proper authorization could result in the misappropriation of State assets.

# DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

## FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JULY 1, 2004 THROUGH APRIL 29, 2005

### Recommendation:

**We recommend that the Department maintain their change funds at the State Division of Finance's authorized amount.**

### Department's Response:

*In February 2004, we had all store managers sign a State Finance FI 10 – Acceptance of Cash Custody form to document the amount of change fund and to accept custody and responsibility of their store change fund. Per discussions with the Moab store manager, at the time the auditors counted the change fund, there was an extra cash drawer that contained the additional \$150. We do not know how or when the store acquired the extra funds. We requested that the store manager deposit the extra \$150 from the change fund into the Department's depository bank account. We have verified that the extra funds have been deposited.*

*To ensure that stores maintain change funds at authorized levels, the Department uses store auditors to count store change funds. We have requested that store auditors visit and count all store change funds 2 to 3 times a year.*