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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

April 4, 2000

Mr. Edward F. Kelly
Chairman
Division of Alcoholic Beverage Control
State Liquor Authority
84 Holland Avenue
Albany, NY 12208

Re: Report 99-F-56

Dear Mr. Kelly:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law, we have reviewed the actions taken by the Division of Alcoholic Beverage Control as of February 18, 2000 to implement the recommendations contained in our prior audit report, *Division of Alcoholic Beverage Control - Control Over Revenues* (Report 95-S-77). Our report, which was issued November 12, 1996, examined the Division's revenue control practices.

Background

The Division of Alcoholic Beverage Control (Division) operates under the direction of the State Liquor Authority (SLA) to oversee the alcoholic beverage industry in New York State. The Division issues licenses and permits for the sale, distribution and manufacture of alcoholic beverages in the State. The Division also regulates trade and credit practices in the industry and monitors compliance with SLA rules and regulations. Vendors who do not comply with these rules and regulations may be fined by the SLA, and may have their licenses suspended or revoked by the SLA. The SLA is headed by a three-member board appointed by the Governor with the advice and consent of the State Senate.

The Division employs a staff of more than 200 and operates regional (zone) offices in Albany, New York City and Buffalo. The Division's budget for the 1999-2000 fiscal year totaled \$13.7 million. During this year, the Division anticipates collections of more than \$8 million in administrative fines.

Summary Conclusions

In our prior audit, we found significant weaknesses in the Division's controls over the billing, collection, and recording of revenue. As a result of these control weaknesses, some of the revenue due

the Division may not have been collected and the revenue that was collected was unnecessarily vulnerable to loss or theft. For example, revenue was not recorded immediately upon receipt to establish accountability, checks were sometimes not deposited for several weeks, and undeposited checks were not secured. We made several recommendations for improving the controls over the Division's fee and fine revenue.

In our follow-up review, we found that Division officials have made substantial progress in implementing the recommendations contained in our prior audit report. Division officials have improved on the accountability of blank and voided certificates and now have a permanent record of issued certificates maintained electronically and in hard copy formats. However, the Division has not developed automated controls for preventing the recording of incorrect certificate numbers. We also found substantial improvement in the follow up of outstanding fine accounts and the write-off of uncollectible fines. Further improvement is warranted in the recording of fines to ensure that Division accounting records accurately reflect the correct amount owed for fines.

Summary of Status of Prior Audit Recommendations

Of the 15 prior audit recommendations, Division officials implemented 11 recommendations, partially implemented two recommendations, and did not implemented one recommendation. One recommendation is no longer applicable.

Recommendation 1

Ensure that each zone office maintains a record accounting for the disposition of all certificate numbers at that office.

Status - Implemented

Agency Action - Division officials instituted a policy making each zone accountable for all blank, issued and voided certificates. Weekly transmittal reports are prepared by each zone listing the certificates issued and voided. The transmittals are sent to Central Office and reconciled.

Recommendation 2

Improve the SLIC system by:

- ! developing automated controls for preventing the recording of incorrect certificate numbers, and*
- ! maintaining a permanent record of all certificate numbers issued.*

Status - Partially Implemented

Agency Action - In 1996, the Division implemented a new computerized system that replaced the SLIC (the Division's automated licensing system). However, the new system lacks an edit check to prevent recording of incorrect certificate numbers, such as previously issued certificate numbers. The Division maintains a permanent record of all certificates issued in electronic format and a photocopy of the certificate is bound and filed.

Recommendation 3

Ensure that all voided and otherwise unissued certificates are forwarded to the Albany office and accounted for.

Status - Implemented

Agency Action - Division officials implemented procedures requiring the zones to forward all voided certificates to the central office weekly, along with a transmittal sheet that identifies the certificates issued and voided. A central office employee reconciles the transmittals to a computer listing of issued certificates and follows up on any discrepancies.

Recommendation 4

Ensure that blank certificates and voided certificates are not controlled by the same individual.

Status - Implemented

Agency Action - Division policy and current practice provides for a staff person in central administration to receive voided certificates along with the transmittal sheet. This person does not have control over blank certificates.

Recommendation 5

Ensure that personnel independent of the certificate issuance process periodically verify that all certificates can be accounted for.

Status - Implemented

Agency Action - A central office staff person independent from the certificate issuance process reconciles all issued and voided certificates.

Recommendation 6

Ensure that certificates can be recorded as voided by authorized employees only.

Status - Implemented

Agency Action - The Division has implemented a new computerized system and security software is used to authorize access only to assigned staff for the recording of voided certificates.

Recommendation 7

Ensure that Division accounting records accurately reflect the correct amount owed for fines.

Status - Not Implemented

Agency Action - Upon receipt of bond claim payments, the Finance Office staff prepare a log of the checks received and forward them to assigned staff for deposit. The checks are promptly deposited, but the computer system records are not immediately updated. We found that over \$1 million of imposed bond claims were received and deposited by the Albany Finance Office since November 14, 1999, but had not been recorded in the computerized system as of February 8, 2000. Division officials anticipate that this problem will be resolved by a new module for their computer system that will enable staff to record the imposed fines online. Officials told us that implementation of the new module has been delayed due to staff shortages and Y2K priorities.

Recommendation 8

Determine the disposition of the \$90,050 in fines that the bonding companies paid.

Status - No Longer Applicable

Agency Action - Records were no longer available to make this determination because the Division destroys records of Revenue Accounts after three years of the end of the fiscal year, in compliance with the *General Retention and Disposition Schedule for New York State Records*.

Recommendation 9

Establish procedures for:

- ! Periodic follow up on outstanding accounts, and*
- ! Aging outstanding accounts, and writing off accounts which are old and uncollectible.*

Status - Implemented

Agency Action - The Internal Audit Department follows up on outstanding accounts over 90 days old. Accounts that appear uncollectible are referred to the Counsel for authorization to write them off.

Recommendation 10

Record funds immediately upon receipt.

Status - Implemented

Agency Action - Division staff record revenues, and update their computerized records for license applications and renewals immediately upon receipt. The receipt of bond claims are manually recorded in a cashier's log.

Recommendation 11

Restrictively endorse checks immediately upon receipt.

Status - Implemented

Agency Action - The Division developed and distributed guidance to all zones regarding the immediate endorsement of checks.

Recommendation 12

Deposit funds promptly.

Status - Partially Implemented

Agency Action - The Division staff deposit revenues for license applications and renewals immediately upon receipt at each zone. However, the receipts of civil penalties are not immediately deposited. Civil penalty payments are received by the Office of the Secretary in New York City where the checks remain for approximately two weeks until they are sent to Albany for deposit. As a result, the State does not earn interest income on the revenue during this time. Additionally, there is an increased risk that the checks could be lost or stolen. Officials stated that although they anticipated implementing a new system that would provide efficiencies, they have encountered delays, such as, staffing, budget constraints and contract approval delays.

Recommendation 13

Secure undeposited checks.

Status - Implemented

Agency Action - The Division maintains undeposited checks in secured cabinets.

Recommendation 14

Ensure that the employees who receive and deposit cash do not also maintain the accounting records related to that cash.

Status - Implemented

Agency Action - The Division has segregated the duties of receiving and depositing funds from the duties of maintaining the accounting records. The licensing intake staff restrictively endorse and record receipts; designated “fees” staff prepare deposits; license processing staff enter all application data into the system; and, a separately designated “fees” staff person reconciles the cash accounting report.

Payments for bond claims and civil penalties are sent to the Central Accounting Unit in Albany. A designated staff person receives and deposits receipts, and another designated staff person maintains the accounting records related to the receipts.

Recommendation 15

Ensure that employee passwords for the SLIC system cannot be easily guessed, by other employees.

Status - Implemented

Agency Action - The Division’s information system is on a client/server platform and uses password security software that appears to be adequate.

Major contributors to this report were William Nealon, Stephen Goss, Charles Krahula, and Jorge Vázquez.

We would appreciate your response to this report within 30 days, indicating any actions planned or taken to address any unresolved matters discussed in this report. We also thank the management and staff of the Division of Alcoholic Beverage Control for the courtesies and cooperation extended to our auditors during this review.

Very truly yours,

Carmen Maldonado
Audit Director

cc: Charles Conaway