



OFFICE OF THE
UTAH STATE AUDITOR



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Department of Alcoholic Beverage Services

Management Letter

For the year ended June 30, 2024

Report No. 24-28

Office of the Utah State Auditor

Audit Leadership:

Tina Cannon, State Auditor

Jason Allen, CPA, CFE, Audit Director

Andrew Driggs, CPA, Audit Manager

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**OFFICE OF THE
UTAH STATE AUDITOR**

Management Letter No. 24-28

March 19, 2025

Members of the Utah Alcoholic Beverage Services Commission

And

Tiffany Clason, Executive Director

Department of Alcoholic Beverage Services

1625 South 900 West

P.O. Box 30408

Salt Lake City, UT 84130

Dear Director Clason:

This management letter is issued as a result of our audit of the State of Utah's basic financial statements as of and for the year ended June 30, 2024. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Our final report on internal controls and on compliance required under *Government Auditing Standards* will be issued under separate cover. This report will also provide further detail as to considerations made during the course of the audit regarding internal controls and compliance at the financial statement level, and the limited purposes of those considerations. The purpose of this letter is to communicate with the Department of Alcoholic Beverage Services (DABS) management concerns identified during the course of our audit.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees to prevent or to detect and correct on a timely basis misstatements, errors, or instances of noncompliance. A material weakness in internal control is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that material misstatements, errors, or noncompliance are not prevented or are not detected and corrected on a timely basis.

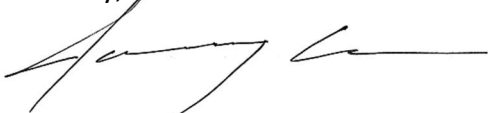
Based on the audit procedures performed, we identified a deficiency in internal control which we consider to be a material weakness (Finding 1).

DABS' written response to and Corrective Action Plan for this finding will be included in the final reports identified in the second paragraph above.

The purpose of this communication is solely to describe the scope of our testing of internal control over compliance and the results of that testing and not to provide an opinion on the effectiveness of DABS' internal control over compliance. Accordingly, this communication is not suitable for any other purpose. However, pursuant to *Utah Code* Title 63G Chapter 2, this report is a matter of public record, and as such, its distribution is not limited.

We appreciate the courtesy and assistance DABS personnel extended to us during the course of our audit, and we look forward to a continuing professional relationship. If you have any questions, please contact me.

Sincerely,



Jason Allen, CPA, CFE

Audit Director

801-808-0716

jasonallen@utah.gov

cc: Stephen Handy, Chair, Alcoholic Beverage Services Commission
Todd Darrington, Finance Director, Department of Alcoholic Beverage Services
Van Christensen, Finance Division Director, Department of Government Operations
Patricia Nelson, Assistant State Comptroller, Department of Government Operations
Jonathan Ball, Director, Legislative Fiscal Analyst

Findings & Recommendations

Finding 1. Untimely Reconciliations at DABS Led to Audit Adjustments Proposed for State's ACFR

(Finding Type: Material Weakness)

The Office of the Utah State Auditor (OSA) issued the Department of Alcoholic Beverage Services (DABS) a finding on May 9, 2024 for its operations not being recorded in the State's accounting system (FINET) in a timely manner (see OSA Report 24-01). DABS is reported as a major proprietary fund for the State's Annual Comprehensive Financial Report (ACFR). DABS had not performed reconciliations of its sub-accounting system (D365) to FINET to ensure the two systems agreed for financial reporting and oversight purposes. When the OSA issued this finding, DABS had recorded all fiscal year (FY) 2024 data and completed a reconciliation between D365 and FINET for July 2023 data only. DABS also performed preliminary reconciliations for the remainder of the fiscal year, but it was still in the process of resolving differences. Consequently, DABS had not completed other reconciliations, including bank reconciliations at that time.

By December 2024, DABS was still unable to reconcile the two systems and resolve differences, leaving unreconciled inaccurate data in FINET for ACFR reporting. As a result, auditors proposed the following corrections to properly present DABS activity in the ACFR:

- a. \$19.4 million reduction to FY 2023 Unrestricted Net Position and FY 2024 Purchases, Materials, and Services for Resale expense to account for FY 2023 activity left unreconciled at the end of FY 2023; the error was detected and corrected in FY 2024 with a reduction to the prior year liquor profit transfer.
- b. \$17.8 million reduction to FY 2024 Sales and Charges for Services revenue and Purchases, Materials, and Services for Resale expense to remove type 5 packaging agency revenue and expenses that do not belong to DABS; this error and correction had no effect on DABS' net position.

DABS' inability to reconcile the two systems stems from the complexities of tracking financial data at different levels of detail and the difference between how D365 and FINET record the data. If DABS cannot reconcile the two systems, it cannot ensure its financial activities are appropriately or accurately recorded in FINET for ACFR purposes. This could impact the annual statutory liquor profit transfer, preparation of the ACFR, and compliance with State bond compliance requirements.

Recommendation:

We recommend DABS ensure all data is recorded in FINET and reconciled in a timely manner and resolve interface issues between systems.

DABS' Response:

The Department of Alcoholic Beverage Services (DABS) acknowledges the importance of the audit finding related to the reconciliation between our sub-accounting system (0365) and the State's accounting system (FINET). We understand the significance of accurate and timely financial reporting for the State's Annual Comprehensive Financial Report (ACFR) and are fully committed to resolving the identified issues. DABS has already taken steps to address the situation, including leadership changes within the Division of Finance and initiating a comprehensive review process.

To ensure improvements, DABS has actively engaged with stakeholders to gather valuable feedback and identify the root causes of the discrepancies. We are dedicated to resolving these issues and have already started implementing corrective actions. This includes enhanced reconciliation procedures and ongoing efforts to streamline the data tracking process between 0365 and FINET. DABS is committed to ensuring the accuracy of our financial reporting and will continue to work diligently towards full compliance with all State requirements.

Corrective Action Plan:

In response to the audit finding regarding the timely recording of data in FINET, reconciliation of financial systems, and resolution of interface issues, the Department of Alcoholic Beverage Services (DABS) has developed a comprehensive corrective action plan. This plan outlines the specific actions we are taking to resolve the identified issues and prevent future discrepancies.

1. **Automating Data Transmittal:** DABS is working closely with the DGO Division of Technology Services (DTS) to develop a C# program that will automate the transmittal of data between the D365 system and FINET. This solution is expected to significantly reduce manual errors and ensure more timely and accurate data entry. The expected date of implementation for this program is May 30, 2025.
2. **Updating Reconciliation Processes:** To improve the reconciliation process and enhance transparency, DABS is updating its current procedures. This includes the use of automated queries and comparison tools to expedite reconciliation activities. These updates are designed to provide faster completion times and greater visibility into the reconciliation process. The expected completion date for these updates is April 30, 2025.
3. **Resolving Interface Issues:** The resolution of interface issues between D365 and FINET requires a more detailed analysis and process improvement. While the full resolution is anticipated to take time, DABS is already implementing key interface changes that will allow us to move forward with confidence. These initial changes will enable more reliable data integration while ongoing efforts address the complexities of the interface. The full resolution is expected by June 30, 2026.