

An Audit Report on Expenditures at the Alcoholic Beverage Commission

April 20, 2006

Members of the Legislative Audit Committee:

The Alcoholic Beverage Commission (Commission) has most of the internal controls necessary to provide reasonable assurance that its expenditures are properly authorized, reasonable, and processed correctly and in a timely manner. Auditors examined the Commission's expenditure control activities—which include approvals, authorizations, verifications, reconciliations, and segregation of duties—and a sample of expenditures. Although all of the expenditures that auditors tested were appropriate and reasonable, opportunities exist for the Commission to strengthen the processes related to its salaries and wages, procurement cards, and timeliness of payments to vendors.

Expenditure categories tested included salaries and wages; procurement card purchases; and "capital outlay," which includes the acquisition of computer equipment and vehicles. These categories represented 63.2 percent of the Commission's total expenditures during the audit period (see text box). Although the expenditures tested came from selected categories, the internal controls in place are the same for all types of expenditures.

The Commission's expenditure control activities generally rely on segregation of duties to ensure that errors or irregularities are prevented or detected. Any system of internal controls has inherent limitations and can provide only reasonable assurance of achieving the control objective, regardless of how well it is designed and operated. Internal controls cannot absolutely ensure that errors or irregularities would be prevented or detected.

Salaries and Wages

All 35 of the salary and wage expenditures tested, totaling \$160,004, were appropriate and reasonable. Auditors found no errors related to the processing of salaries and wages, but we identified opportunities for the Commission to strengthen its internal controls over the payroll process. For example, one employee had been paid \$300 in overtime even though the employee was in a position that is exempt from the U.S. Fair Labor Standards Act (FLSA), which is the federal law that governs overtime pay. In addition, the Commission is not following its procedures requiring supervisory review of the final payroll

Alcoholic Beverage Commission Expenditures

The table below contains the amounts the Commission expended, by category, for the audit period of fiscal year 2005 and fiscal year 2006 through November 30, 2005.

Alcoholic Beverage Commission Expenditures from September 1, 2004, through November 30, 2005

Category	Amount Expended	Percentage of Total Expenditures
Salaries and Wages	\$27,092,365	58.0%
Procurement Card Purchases	306,778	0.6%
Capital Outlay	2,142,939	4.6%
All Others	\$17,206,837	36.8%
Total Expenditures	\$46,748,919	100%

Source: Uniform Statewide Accounting System (USAS) and Uniform Statewide Payroll System (USPS)

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report, and there is no independent review of the trial payroll report prior to its release in the Uniform Statewide Payroll/Personnel System (USPS).

Recommendations:

The Commission should:

- Document and implement additional procedures to ensure that entries into USPS, such as changes to employee job classes or job title assignments and FLSA codes, are independently reviewed to ensure accuracy.
- Implement and enforce policies and procedures to ensure that payroll reports are independently reviewed by a supervisor prior to being released in USPS.

Procurement Card Expenditures

The majority of the 35 procurement card expenditures tested, totaling \$36,089, were appropriate and reasonable. The Commission has established a number of controls over procurement cards, including:

- Limiting procurement card use to only 40 (about 6 percent) of the 654 Commission employees.
- Delegating to area directors the responsibility of determining which employees should be issued procurement cards.
- Establishing in Commission policy the procurement card expenditure types and respective limits allowed, and requiring cardholders to acknowledge their understanding of the policy.

Auditors determined that the Commission does not have a process to ensure that procurement cards are being used in accordance with its policies. Beginning in October 2004, the Commission discontinued the procurement card administrator's reviews of card activity, even though these reviews are required by Commission policy. Without this review, there is limited assurance that procurement cards are used to purchase only items allowed by Commission policy.

Recommendation:

The Commission should comply with its policy and reinstate the procurement card review process.

Prompt Payment to Vendors

Ninety-six percent of the voucher payments the Commission made during the audit period complied with the Prompt Payment Act (Texas Government Code, Chapter 2251). However, of the 6,830 vouchers processed during our audit period, 283 (4 percent) were not paid in a timely manner.

The Prompt Payment Act requires state agencies to submit payments to vendors within 30 days of the receipt of goods or services or pay interest on the amount due. The amount of interest paid by the Commission was \$6,819 (0.06 percent) of the \$11,485,793 in voucher payments made during the audit period. The majority of interest payments (82 percent) were made in September 2004.

A post-payment audit conducted by the Office of the Comptroller of Public Accounts in fiscal year 2003 and a Commission internal audit conducted in fiscal year 2005 identified similar issues related to the

timeliness of payments to vendors. The Commission cited high turnover of employees as the reason for the late payments during our audit period.

Recommendation:

The Commission should implement policies and procedures designed to ensure that vouchers are paid in a timely manner in accordance with the Prompt Payment Act.

The Commission agrees with the recommendations in this report, and its responses are included in the attachment to this letter. We appreciate the Commission's cooperation during this audit. If you have any questions, please contact Susan Riley, Assistant State Auditor, or me at (512) 936-9500.

Sincerely,

John Keel, CPA
State Auditor

cc: Members of the Alcoholic Beverage Commission
Mr. John T. Steen, Jr., Chairman
Mr. Jose Cuevas, Jr.
Ms. Gail Madden
Mr. Alan Steen, Administrator, Alcoholic Beverage Commission



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Attachment

Objective, Scope, and Methodology

The audit objective was to determine whether expenditures for goods and services at the Alcoholic Beverage Commission (Commission) are properly authorized, processed correctly and in a timely manner, and reasonable for the performance of Commission functions.

The audit scope included expenditures made from September 2004 through November 2005.

Auditors interviewed personnel; performed analyses of the accounts; reviewed relevant laws, regulations, and Commission policies and procedures; and reviewed original documentation. This audit was conducted in accordance with generally accepted government auditing standards.

We conducted fieldwork from December 2005 through February 2006. The following members of the State Auditor's staff performed the audit work:

- Robert G. Kiker, CGAP (Project Manager)
- Margaret Nicklas, CGAP, CIA (Assistant Project Manager)
- Joseph K. Mungai, CIA (Team Leader)
- Annette Banks, MPA
- Michael Boehme
- Anthony T. Patrick, MBA
- Rachel A. Snell, MPA
- Leslie Ashton, CPA (Quality Control Reviewer)
- Susan Riley, CPA (Assistant State Auditor)

Management's Response



Alan Steen
Administrator

John T. Steen, Jr.
Chairman-San Antonio

Jose Cuevas, Jr.
Member-Midland

Gail Madden
Member-Dallas

April 13, 2006

John Keel, CPA
The State Auditor of Texas
Post Office Box 12067
Austin, Texas 78711-2067

Dear Mr. Keel:

Thank you for your work on the Texas Alcoholic Beverage Commission (TABC) audit. In response to your audit of the TABC, please find the responses to your recommendations attached.

Please feel free to contact me if you have any questions at 512/206-3217.

Respectfully,

Alan Steen
Administrator

P.O. Box 13127, Austin, Texas 78711-3127

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The Commission should:

- Document and implement additional procedures to ensure that entries into USPS, such as changes to employee job classes or job title assignments and FLSA codes, are independently reviewed to ensure accuracy.
- Implement and enforce policies and procedures to ensure that payroll reports are independently reviewed by a supervisor prior to being released in USPS.

Management agrees with the recommendations. The payroll officer currently reviews all entries made into USPS by the Human Resources Division (i.e. employee job classes, or job title assignments and FLSA codes, salaries). The expenditure processing supervisor is now reviewing all entries made into USPS by the payroll officer (i.e. direct deposits, W-4 changes, court ordered withholding orders, savings bonds, etc.)

The expenditure processing supervisor is reviewing all trial payroll reports prior to its release in USPS. This procedure was implemented on 03/01/06.

The Commission should comply with its policy and reinstate the procurement card review process.

Management agrees with the recommendation: The Senior Purchaser will ensure that procurement logs submitted by procurement card users are sufficiently reviewed by purchasing staff members such that procurements made outside of approved Commission policy are identified and that an exception report noting any deviations from policy is provided to management on a monthly basis. A copy of the logs will also be forwarded to the appropriate division director for them to review as to reasonableness of procurements. This review process will begin with the May 2006 procurement log submissions.

The Commission should implement policies and procedures designed to ensure that vouchers are paid in a timely manner in accordance with the Texas Prompt Payment Act.

Management agrees with the recommendation: The Director of Business Services has instructed purchasing section staff to maintain and monitor a file that contains outstanding invoices and purchase orders so that invoices approaching 30 days old are timely researched and submitted to accounts payable for payment in time to avoid late payment interest. The accounts payable section has been instructed not to pay late payment interest on invoices not having the proper purchase order number printed on the invoice. The division currently tracks the number of late payments on a monthly basis and will use this information to also determine the reason for the late payment which will assist in addressing this issue further. All of these procedures will be in place by May 1, 2006.