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STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

REVIEW REPORT

OF

ALCOHOL AND TOBACCO COMMISSION

STATE OF INDIANA

March 1, 2007 to February 28, 2010

FILED
08/17/2010

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AGENCY OFFICIALS

Office	Official	Term
Chairman	Dave Heath	01-10-05 to 12-12-08
	Alex D. Huskey (Interim)	12-13-08 to 03-22-09
	P. Thomas Snow	03-23-09 to 01-13-13

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE ALCOHOL AND TOBACCO COMMISSION

We have reviewed the receipts, disbursements, and assets of the Alcohol and Tobacco Commission for the period of March 1, 2007 to February 28, 2010. The Alcohol and Tobacco Commission's management is responsible for the receipts, disbursements, and assets.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the receipts, disbursements, and assets. Accordingly, we do not express such an opinion.

Financial transactions of this office are included in the scope of our audits of the State of Indiana as reflected in the Indiana Comprehensive Annual Financial Reports.

Based on our review, nothing came to our attention that caused us to believe that the receipts, disbursements, and assets of the Alcohol and Tobacco Commission are not in all material respects in conformity with the criteria set forth in the Accounting and Uniform Compliance Guidelines Manual for State Agencies, and applicable laws and regulations except as stated in the review comments.

STATE BOARD OF ACCOUNTS

May 24, 2010

EMPLOYEE PERMITS CASH SHORTAGE

Subsequent to our exit conference, the Alcohol and Tobacco Commission notified the State Board of Accounts of a cash shortage in the Employee Permits area. According to the Alcohol and Tobacco Commission staff, they received an inquiry from a customer regarding the status of a permit. After discovering that the application had not been entered into their computerized permit system, Alcohol and Tobacco Commission staff searched the office and found the application and attached manual cash receipt in the desk drawer of Employee Permits processor Azya Chenee Tyler. In her absence that day, staff also discovered 118 other applications with attached manual cash receipts in Ms. Tyler's drawer. The total of manual cash receipts attached to applications in Ms. Tyler's drawer was identified by the Alcohol and Tobacco Commission as $4,925. Because Ms. Tyler's cash box contained only $11 in currency and coins, the Alcohol and Tobacco Commission contacted the Indiana Office of the Inspector General and Indiana State Personnel Department. Upon her return on May 18, 2010, Ms. Tyler was interviewed and immediately terminated.

Permit Collections Process

The Employee Permits area issues permits for waiters, waitresses, clerks, and bartenders. The Employee Permits area is comprised of three processors who perform the same tasks which include, but are not limited to, the following: accept applications with permit payments at the window or by mail, prepare manual cash receipts for all cash collections, enter application and payment information into the computerized permit system, restrictively endorse money orders, stamp the application with the date entered, approve eligible permits for issuance, remit daily collections entered into the computerized permit system to the cashier for deposit, secure cash from partially processed applications in the individual's cash box in the safe with associated applications and money orders locked in the office overnight. The same processor will generally perform the entire process for any given application.

Money orders or cash are accepted for Employee Permit applications either at the agency's walk-in window or through the mail. All Employee Permits processors share one manual cash receipt book and the processor who accepts cash from the customer at the window or by mail is to initial the prepared receipt. The customer's application, a carbon copy of the manual cash receipt (if applicable), and payment are kept together by the processor until entry is complete. At the end of each day, each processor must provide the cashier with cash, money orders, and a handwritten report of total collections by denomination. Collection totals must agree with the application amounts entered into the computerized permit system that day for each batch assigned to and completed by the individual processor.

Cash Not Deposited

From the Alcohol and Tobacco Commission, we obtained data from the computerized permit system of all transactions with the payment method of cash processed between January 1, 2009 and May 25, 2010, by the three Employee Permit processors to compare processing times based on consecutively numbered manual cash receipt numbers entered. Through November 2009, the three processers were consistently within a few days of each other in processing the applications associated with cash receipts prepared consecutively. However, beginning in December 2009, Ms. Tyler's processing time for consecutive manual cash receipts was up to nineteen calendar days longer than the other two processors.

In consideration of the 90 day waiting period, we tested a random sample of 15 manual cash receipts processed in the computerized permit system by each of the three processors from March 1, 2010 to May 24, 2010, to identify the length of time between the manual cash receipt date and computerized permit system processing. We determined that it took Ms. Tyler an average of 11 calendar days to enter applications with cash collections into the system while each of the other two Employee Permit processors took an average of one calendar day. On May 18, 2010, Ms. Tyler had unprocessed applications and manual cash receipts in her drawer dating back to April 28, 2010.

We also verified that, except for the 119 unprocessed applications with attached manual cash receipts in the possession of Ms. Tyler, there were no other unprocessed applications associated with manual cash receipts prepared between March 1, 2010 and May 24, 2010. The cash for the 119 applications in Ms. Tyler's possession did total $4,925. However, as $11 was recovered from Ms. Tyler's cash box, the total cash shortage of employee permit application funds not deposited was $4,914.

We concluded that Azya Chenee Tyler, former Alcohol and Tobacco Commission Employee Permits processor, should repay the State of Indiana a total of $4,914. (See Summary, page 11)

Controls over the receipting, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements, and incorrect decision making. An Agency's control environment consists of the overall attitude, awareness and actions of management and the governing board or commission. This would include establishing and monitoring policies for developing and modifying accounting systems and control procedures. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview, Summary of Agency Accounting Responsibilities)

OFFICIAL BOND

The Alcohol and Tobacco Commission management secured a Public Employee Blanket Bond from Cincinnati Insurance Company which provides $2,500 of coverage. The continuous bond has been in effect since August 1, 2004, and the most recent policy premium was made for the period of August 1, 2009 through August 1, 2010. The policy includes a $250 deductible.

DAILY DEPOSITS

As stated in our prior Reports B25208 and B30215, the Alcohol and Tobacco Commission did not consistently deposit receipts within the following business day.

In addition to our current testing of receipt deposits, we also observed a significant backlog of mailed applications and remitted fees in the Employee Permits area. Mail was bundled and marked by date received but not date stamped, recorded in a cash book, or payment removed for deposit. On April 8, 2010, we observed several bundles of backlogged envelopes, applications, and payments with the oldest marked as received on February 12, 2010. On May 25, 2010, the bundles were examined again and the oldest was marked as received on March 17, 2010.

IC 5-13-6-1(b) states in part:

> "All public funds collected by state officers…shall be deposited with the treasurer of state, or an approved depository selected by the treasurer of state, not later than the business day following the receipt of the funds…Deposits do not relieve any state officer from the duty of maintaining a cashbook under IC 5-13-5-1."

INTERNAL CONTROL OVER REVENUE COLLECTIONS

Our review of revenue collections revealed the following deficiencies in the internal control structure:

Preventative System Controls Not Enforced

The computerized permit system allows for certain internal controls which are not utilized to full capacity in order to prevent and detect potential fraud: entry of payment type, entry of date received, and differentiating mail-in versus walk-in revenues. Enforcing use of system controls would enable management to: 1) determine if collections are deposited intact and all cash collections are supported by manual cash receipts, 2) maintain a record of payments and applications that were denied and/or returned, and 3) monitor areas of higher risk.

Segregation of Duties

Duties of the Alcohol and Tobacco Commission Employee Permit processors, Business Permit processors, and cashier are not adequately segregated. The processors are involved with all aspects of the permit process, from acceptance of the application, collection of the revenue, to issuance of permits from the computerized permit system. The cashier is responsible for preparing deposits and reconciling batch reports of processors to the computerized permit system, has primary responsibility for processing renewals, and also serves as a backup processor. Fraud may be committed and concealed when duties are not adequately segregated.

Applications in Suspense

Mailed Employee Permit applications that cannot be processed for various reasons and the associated money orders are tacked on the bulletin board in that area. Employee Permit processors consult the bulletin board should a customer initiate contact to inquire about the status of a permit. As of June 1, 2010, there were 11 money orders totaling $407 on the bulletin board. The dates of the money orders ranged from March 3, 2009 to March 26, 2010. There is no regular procedure as to the disposition of these funds or consideration for the length of time that a money order or business check will be valid. Retention of mail-in applicant envelopes may expedite resolution of these applications.

Reissued Permits

Processors have the authority to determine if reissuance of a permit requires payment. The computerized permit system does not enforce segregation of duties, management override, or require payment entry to complete processing of reissued permits. There is no management review performed to verify that the computerized permit system entry for reissued permits is appropriate or that the processor made a judgment consistent with management's intent regarding charging the reissue fee.

Revenue Entry

The computerized permit system does not require identifying payment information, such as business check or money order number and does not have field checks for manual entry fields related to accounting information. System controls related to revenue entry may reduce the frequency with which processors enter incorrect payment types.

Also, the computerized permit system generates a system receipt for all collections which follows the transaction through to deposit. Collections are not entered into the computerized permit system immediately upon receipt. For cash collections, a manual receipt is also prepared when collected. However, the cash receipt books are not reconciled by management to identify if there were any cash payments received that were not entered into the computerized permit system and to verify that all cash receipts are processed timely.

Safeguarding Assets

Upon opening the mail, money orders and business checks are restrictively endorsed only when additional verification work is probably not necessary. The check or money order is then stapled to the application. Applications with payments were observed sitting out in multiple locations throughout the office after work hours and unattended during breaks. Some of the applications and money orders or business checks were stamped as received several weeks prior. Any money orders or business checks not previously stamped are restrictively endorsed before deposited.

Checks should be restrictively endorsed with an endorsement stamp immediately upon receipt. This would occur upon opening the mail or otherwise receiving the instrument (check). Safeguard the collections through locked drawers, cabinets or safes, particularly during breaks, lunchtime, and overnight. Cash receipts books, licenses, etc., should be inaccessible to unauthorized persons. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, 4.3.2)

Applicable to the internal control deficiencies discussed above: Each agency, department, quasi, institution or office should have internal controls in effect to provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of managements' objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and forms of information processing are part of an internal control system. (Accounting and Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview)

SDO FUND RECONCILIATIONS

The Alcohol and Tobacco Commission has not performed bank and advance reconciliations of its Special Disbursing Officer (SDO) fund during our review period. Additionally, because reimbursements and other deposits were not entered in the Encompass check register, an accurate book balance was not kept.

At least monthly, the following reconciliations must be performed for the SDO Fund:

Reconciliation of the ENCOMPASS check register to the bank balance.

Reconciliation of the SDO advance to the ENCOMPASS check register balance.

If manual SDO checks are used, reconciliation of the SDO manual check register balance to the ENCOMPASS check register balance. (Accounting and Compliance Guidelines Manual - State Agencies, 6.4.10.10.5)

The ENCOMPASS system includes pages to reconcile bank statements with ENCOMPASS payment information. All SDO checking accounts must be reconciled monthly within ENCOMPASS. (Accounting and Compliance Guidelines Manual for State and Quasi Agencies, 6.4.10.10.6)

At all times, the unreimbursed disbursements plus any advances to office cash plus the SDO checking checking account balance must equal the local purchase advance. If the reconciled SDO advance is less than the amount originally advanced, the SDO officer may be personally responsible for the amount needed to balance the advance. This reconciliation of the SDO advance must be formally documented at least monthly. The best control is provided when the reconciliation is prepared or reviewed by staff independent of the functions of preparing checks or maintaining the check register. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, 6.4.10.10.7)

SDO ADVANCE

As stated in our prior Reports B25208 and B30215, the Special Disbursing Officer Fund advance for the Alcohol and Tobacco Commission was not turned over, or reimbursed completely, for several months.

Whenever an SDO Fund is established, money is removed from a Treasurer of State bank account, thus, not being invested. Therefore, consideration should be given to the size of the SDO Fund. If an agency is not using the total SDO advance within one or two months, the SDO advance is too large and should be reduced. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, 6.4.10.6)

CAPITAL ASSET INVENTORY

In the period between initial upload into ENCOMPASS and ENCOMPASS go-live, the capital asset inventory of the Alcohol and Tobacco Commission was not maintained to include additions and deletions. Also, results of the physical inventory of Excise Police equipment were not compared to the ENCOMPASS listing and accordingly updated in ENCOMPASS.

Agency personnel are responsible for accountability for all assets under their control, including capital assets. Adequate asset management staff should be assigned to recording and maintaining, on the ENCOMPASS financial system, all capital assets with a cost greater than $500. Assets are automatically capitalized upon approval by either the BU approver or AOS approver. Controls should be in effect to assure that additions, disposals, and transfers to other departments or agencies are recorded timely. Inventories of these assets should be performed each year in each department and compared to the ENCOMPASS listing. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, 8.3)

ALCOHOL AND TOBACCO COMMISSION
EXIT CONFERENCE

The contents of this report were discussed on June 24, 2010, with E. Edward Dunsmore, Executive Secretary; Alex D. Huskey, former Interim Chairman; Vicki Stephens, Controller; and Bobbi Piper, Office Manager. The official response has been made a part of this report and may be found on page 10.

The contents of this report were emailed on June 24, 2010, to Dave Heath, former Chairman; and P. Thomas Snow, Chairman.

STATE OF INDIANA
ALCOHOL AND TOBACCO COMMISSION

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To: Bruce Hartman, State Examiner
State Board of Accounts

From: Thomas Snow, Chairman
Alcohol & Tobacco Commission

Alex Huskey, Excise Superintendent
State Excise Police

Date: 6/28/10

According to an audit recently conducted by your agency for the period ending February 28, 2010, we have reviewed and acknowledge those concerns.

Some of the comments we can address fairly quickly. However, a number of them will take time to study and set up procedures using limited staff and an aging computer system. Most of our workflow processes have been the same through many audits, and have not been commented on previously, so addressing them all at once will be challenging.

If you have any questions, please let us know.

Ed Dunsmore

Ed Dunsmore for Thomas Snow, Chairman

Vicki Stephens for Alex Huskey

Alex Huskey, Superintendent

ALCOHOL AND TOBACCO COMMISSION
SUMMARY

	Charges	Credits	Balance Due
Azya Chenee Tyler, former Employee			
Permits processor:			
Employee Permits Cash Shortage, pages 4-5	$ 4,925	$ 11	$ 4,914

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AFFIDAVIT

STATE OF INDIANA)
)
Putnam COUNTY)

I, Jennifer Brand, Field Examiner, being duly sworn on my oath, state that the foregoing report based on the official records of the Alcohol and Tobacco Commission, for the period from March 1, 2007 to February 28, 2010, is true and correct to the best of my knowledge and belief.

Jennifer R. Brand
Field Examiner

Subscribed and sworn to before me this 22 day of July, 2010.

Linda Williamson
Notary Public

My Commission Expires: 03-02-2018
County of Residence: Putnam