



AUDITOR GENERAL

DAVID W. MARTIN, CPA



DEPARTMENT OF BUSINESS AND PROFESSIONAL REGULATION DIVISION OF ALCOHOLIC BEVERAGES AND TOBACCO DISTRIBUTION OF ALCOHOLIC BEVERAGE LICENSE TAXES TO COUNTIES AND MUNICIPALITIES Operational Audit

SUMMARY

This operational audit, for the period March 2005 through July 2007, and selected actions taken through March 2008, focused on the distribution of alcoholic beverage license taxes to counties and municipalities by the Department of Business and Professional Regulation (Department), Division of Alcoholic Beverages and Tobacco (Division). Our audit also included follow-up procedures to determine the current status of finding No. 2 of audit report No. 2007-010, Single Licensing System, which recommended that the Department initiate, as soon as possible, annual reviews of the data integrity, reliability, and security over its Single Licensing System (LicenseEase). Our audit disclosed the following:

Finding No. 1: The Division did not have effective controls in place to ensure the accuracy or completeness of the LicenseEase data used in the distribution process.

Finding No. 2: Adjustments made during the calculation of the amounts to be distributed were not fully documented.

Finding No. 3: Duties of employees had not been assigned in a manner that reasonably ensured the timely detection of errors, should they occur.

Prior Audit Finding: The Department has yet to complete an annual review of the data integrity, reliability, and security over its Single Licensing System.

BACKGROUND

The Division is responsible for regulating alcoholic beverage products sold and distributed in the State of Florida (State) and issues licenses to entities that have met licensure requirements, including the payment of applicable annual license fees. During our audit period, over 56,000 active alcoholic beverage licenses were in effect, according to Division licensure records.

State laws¹ require the Division to distribute to the State's counties and incorporated municipalities a stipulated percentage of applicable alcoholic beverage license fees collected within their jurisdictional boundaries. Counties are to be paid 24 percent and municipalities are to be paid 38 percent of the amounts collected within applicable jurisdictional boundaries. For fiscal year 2006-07, license fees collected totaled approximately \$35 million and approximately \$13 million was distributed to the State's counties and municipalities. The Division retains an administrative service fee of 7.3 percent of license fees collected.

The distribution process includes several steps and produces related reports, as described below:

¹ Chapter 561, Florida Statutes.

- **LicenseEase License Computer Application (LicenseEase)²** – Upon approval of a beverage license application, a license holder record was established in LicenseEase. The record was to include the license holder’s business location designation and any license fees paid by the license holder.
- **Batch Process** - On a quarterly basis, applicable beverage license tax collection data was retrieved from LicenseEase through a Batch Process that also applied distribution percentages to each collection.
- **Distribution Report** - The Batch Process calculated the initial distribution amounts based on a license holder’s business location designation (county and municipality, if applicable) and produced a report (Distribution Report) reflecting this process.
- **Distribution Database (Database)** - Initial distribution totals from the Distribution Report were manually input into the Distribution Database as beginning balances. Adjustments to initial distribution amounts were entered into the Database to correct any errors that had been discovered.
- **Query Program** - Initial distribution amounts and adjustments from the Database were processed through a Query Program to produce a Distribution Detail Report (Detail Report). The Query Program applied the applicable distribution percentages to each adjustment.
- **Detail Report** - The Detail Report listed a beginning balance, adjustments when applicable, and a final amount that was to be distributed for each county and incorporated municipality.
- **Distribution Payment Amount Spreadsheet (Spreadsheet)** - Final distribution amounts from the Detail Report were manually input into a spreadsheet. The spreadsheet was forwarded to the Department’s Bureau of Finance and Accounting for upload to FLAIR, the State’s accounting system, and eventual payment.

FINDINGS AND RECOMMENDATIONS

Finding No. 1: LicenseEase Data Validity

As indicated above, the business location designations recorded in LicenseEase were used as a basis for making preliminary calculations of the distribution amounts due to each county and, when applicable, the incorporated municipality. When a business location designation is incorrect, the related distribution amounts may also be incorrect. As part of our audit, we tested the processes used by the Division to ensure the accuracy and completeness of the business location designations maintained in LicenseEase. Our tests disclosed the following:

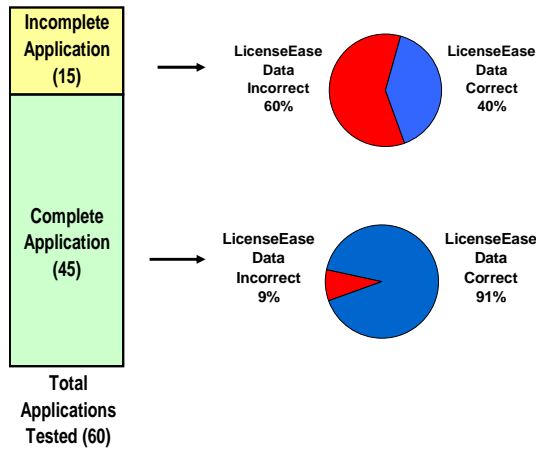
- The county and municipality of the license holder’s business location, as specified in the zoning section of the Division’s beverage license application,³ were manually recorded by Department employees into LicenseEase as the license holder’s business location designation. As part of our audit, we reviewed the accuracy of 60 license holder business location designations recorded in LicenseEase. In determining the correctness of the county and municipality shown in LicenseEase, we used, when available, the location as shown in the zoning section of the license application. When an application did not include a completed zoning section, we used alternative means to determine the applicable county and municipality for the licensed business location. Of the 60 applications tested, 13 (22 percent) had a business location designation error in LicenseEase.

As shown in the chart below, in attempting to determine causes for these data errors, our testing disclosed a strong relationship between errors in business location designations in LicenseEase and corresponding license applications with incomplete zoning sections.

² The Department’s licensing computer application. A license record includes, among other information, the license holder’s business location designation (county and, if applicable, the incorporated municipality).

³ Form DBPR ABT- 6001 Division of Alcoholic Beverages and Tobacco Alcoholic Beverage License and Retail Tobacco Products Dealer Permit Application.

Chart 1
Relationship Between LicenseEase Location Designation Errors and Incomplete Applications



As there seemed to be a relationship between the accuracy of the LicenseEase data and the completeness of the license applications, we considered the potential causes for the relatively large number of incomplete applications. We found that the format used for the license application may have been a significant contributing factor. The title of the zoning section of the application, “Zoning: To be Completed by the Zoning Authority Governing Your Business Location,” gave the appearance that the zoning section could only be completed by a zoning authority. However, contrary to the title of this section, applications for off-premises consumption of malt beverages were not required to obtain zoning verification.

- Sometimes, changes to license holders’ business location designations occur as a result of a municipal annexation and, less frequently, from the creation of a newly incorporated municipality. We found that the Division had not adopted written policies and procedures to identify changes in business location designations caused by such events. To identify the potential magnitude that municipal annexations might have had on license holders’ business location designations, we requested from the Department of State a listing of annexation notifications received during the audit period.

We were provided with a listing of over 2,000 annexation notifications. While we are aware that, more often than not, an annexation probably does not have an effect on a license holder’s municipality designation, the Division should have in place procedures to detect and document the boundary change, and when applicable, revise the license record affected by the annexation or newly incorporated municipality. When questioned about the annexation notices received during our audit period, Division personnel were only able to produce 27 such notices.

- Division personnel indicated that changes to license records in LicenseEase were often made when making a distribution adjustment. Our review disclosed that the Division did not maintain adequate documentation to support or track changes made to license records. The lack of adequate supporting documentation precluded the Department from demonstrating that changes were authorized, accurate, complete, and appropriate.

Absent processes that provide reasonable assurance as to the accuracy and completeness of the Division’s licensee records, including each licensee’s business location designation, there is an increased risk of related errors going undetected.

Recommendation: We recommend that the Division:

- **Take actions to detect and correct inaccurate license holders’ business location designations recorded in LicenseEase;**
- **Revise the current beverage license application to more clearly communicate the party that is responsible for properly identifying the business location;**
- **Adopt other procedures to more reasonably ensure LicenseEase data validity. At a minimum, the procedures should address the following:**
 - **Completeness of applications received;**
 - **Capture of all changes in license holders’ business location designations resulting from newly incorporated municipalities and annexations; and**

- **Documentation and proper authorization of changes made to LicenseEase license records.**

Finding No. 2: Distribution Database

As indicated in the BACKGROUND section of this report, LicenseEase data was used to produce a Distribution Report showing initial distribution amounts for each license holder sorted by county and, if applicable, the incorporated municipality. Totals from the Distribution Report were to be manually input into the Database as beginning balances, and these beginning balances were often subject to adjustments that were entered into the Database. Approximately 425 adjustments with an absolute value of approximately \$287,000 were made during the period March 1, 2005, through April 3, 2007. Our tests of the Division's adjustment process disclosed the following:

- Little or no supporting documentation was available to support the 30 adjustments we tested. Specifically:
 - Evidence of who initiated the adjustment was not documented for 26 of the adjustments;
 - Explanation for the need of the adjustment was not documented for 13 of the adjustments;
 - Evidence of authorization was not documented for any of the 30 adjustments;
 - Evidence of who recorded the adjustment into the Database was not documented for 27 of the adjustments; and
 - Evidence of a review process was not documented for any of the 30 adjustments.

We noted that the Division did not utilize a standardized form to document and control adjustments made through the Database. The use of a standardized form that includes spaces to record an initiator, authorizer, recorder, and reviewer may enhance support for each adjustment.

- The Division did not use a unique identifying number for Database adjustments. The use of unique identifying numbers would provide:

- A reference from Database adjustments to the adjustments' supporting documentation. Although sequential record numbers were automatically assigned by the Database to all adjustments, these record numbers were not used as a unique identifying number to cross-reference the adjustments to supporting documentation or related postings.
- A control to ensure that all authorized adjustments were recorded in the Database. For example, our review disclosed 67 different gaps in the record numbers that were automatically assigned by the Database. The 67 gaps included 14,942 missing records. The lack of a controlled record number precluded the Division from being able to provide us with a full explanation for the disposition of these missing records. Division personnel stated that 13,702 of the 14,942 missing records were the result of deletions of "unacceptable" records following a recent data conversion process. No explanation was provided for the other 1,240 records. Proper control of record numbers would provide accountability over the disposition of each record.

- The Division did not use control accounts to accumulate over- and underpayments of distribution payment amounts. For example, our audit tests disclosed three quarterly distribution overpayments, totaling \$1,500, that were not carried forward as adjustments to the next quarterly distribution payment. The existence of control accounts would have facilitated a more timely correction of these overpayments. The Division indicated that its intention was to carry forward the overpayments as an adjustment to the next quarterly distribution payment; however, as of June 2007, no adjustments had been made.
- The Division did not have procedures for addressing the retroactive effects of incorrect distribution payments caused by errors in the distribution process. For example, our review

of 30 adjustments disclosed that 11 of the adjustments were made to correct errors that affected multiple past distribution payment amounts. The number of periods included in these retroactive adjustments varied anywhere from one to seven fiscal years; however, the adjustments did not always fully address the number of quarters actually affected by the errors.

- The Division did not retain the Detail Reports, which were part of the supporting documentation for distribution payments. Our review included requesting some previously run Detail Reports. Since the reports were not retained, the Division reproduced the requested reports by processing original data through a subsequent version of the Query Program. For some of the reports we requested, the payment amounts on the reproduced reports did not equal the payment amounts recorded in FLAIR. According to Division personnel, these differences were the result of program changes made to the Query Program after the original Detail Reports had been produced. Division personnel did not retain documentation to support program changes made to the Query Program.

Recommendation: We recommend that the Division:

- **Adopt a standardized form to document and control adjustments made through the Database. Each standardized form should include a unique identifying number to provide a means to account for and control the adjustment.**
- **Create control accounts to facilitate corrections of over- and underpayments of distribution amounts.**
- **Implement procedures to address and correct errors in distributions.**
- **Maintain copies of all key documents used to support the distribution process.**

Finding No. 3: Segregation of Duties

Two individuals were involved in maintaining the payee address database, printing and affixing address labels to envelopes, and stuffing envelopes with

applicable portions of the Distribution and Detail Reports. Both individuals could also:

- Update LicenseEase records.
- Initiate, authorize, and record adjustments to the Database. (As previously discussed, there was no documentation to evidence the performance of these duties or the review of the adjustments.)
- Create the spreadsheet that was forwarded to Finance and Accounting as the support for making the related distribution payments.

One of the two employees was also responsible for maintaining the Database and Query Programs. The improper separation of payment distribution and record-keeping duties increases the likelihood that errors, should they occur, may go undetected.

Recommendation: We recommend that the Division redesign its distribution process workflow to eliminate these incompatible duty assignments.

PRIOR AUDIT FOLLOW-UP

In our prior audit,⁴ we recommended the Department initiate annual reviews of the data integrity, reliability, and security of the Department's Single Licensing System (LicenseEase). The Department, in its response, concurred with our recommendation to conduct annual reviews of the Single Licensing System and indicated that the Office of the Inspector General's approved plan for fiscal year 2006-2007 included a review of the Single Licensing System.

Our current review disclosed that a review of the Single Licensing System was not started during the fiscal year 2006-2007. However, in response to a recent inquiry, the Inspector General's Office stated that a review was started during the fourth quarter of fiscal year 2007-2008 with an anticipated completion date of June 30, 2008.

Recommendation: We recommend that annual reviews of Single Licensing System data integrity, reliability, and security be performed.

⁴ Auditor General Audit Report No. 2007-010, Single Licensing System, Finding No. 2, Review of Information Technology.

OBJECTIVES, SCOPE, AND METHODOLOGY

This operational audit focused on the procedures and practices of the Division of Alcoholic Beverages and Tobacco, related to State's distribution of alcoholic beverage license taxes.

Our objectives related to the Distribution Process were:

- To evaluate the effectiveness of established internal controls in achieving management's control objectives in the categories of compliance with controlling laws, administrative rules, and other guidelines; the economic, efficient, and effective operation of State government; the validity and reliability of records and reports; and the safeguarding of assets.
- To evaluate management's performance in achieving compliance with controlling laws, administrative rules, and other guidelines; the economic, efficient, and effective operation of State government; the validity and reliability of records and reports; and the safeguarding of assets.

Our audit included examinations of various records and transactions (as well as events and conditions) occurring during the period March 2005 through July 2007, and selected actions taken through March 2008. This operational audit was made in accordance with applicable Generally Accepted Government Auditing Standards. In conducting our audit we:

- Interviewed selected Department and Division personnel.
- Obtained an understanding of internal controls and observed, documented, and tested key processes and procedures related to the distribution of alcoholic beverage license taxes to the counties and municipalities.

- Reviewed Division beverage license data within LicenseEase (125 business location designations from a population of 56,394 nonrevoked beverage licenses).
- Examined Division beverage license applications for 60 nonrevoked beverage licenses from a population of 56,394.
- Examined distribution adjustment records and distribution reports (30 adjustments with an absolute value of \$110,157 from a population of 425 adjustments made from March 1, 2005, through April 3, 2007, with an absolute value totaling \$287,187).
- Evaluated Department corrective actions taken in response to finding No. 2 of audit report No. 2007-010.
- Performed various other auditing procedures, including analytical procedures, as necessary to accomplish the objectives of the audit.

AUTHORITY

Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



David W. Martin, CPA
Auditor General

MANAGEMENT RESPONSE

In a letter dated May 13, 2008, the Interim Secretary provided responses to our findings. The letter is included in its entirety at the end of this report as Appendix A.

This audit was conducted by Robin Ralston, CPA, and supervised by Frank Belt, CPA. Please address inquiries regarding this report to Kathryn Walker, CPA, Audit Manager, by e-mail (kathrynwalker@aud.state.fl.us) or by telephone (850-487-9085).

This report and other audit reports prepared by the Auditor General can be obtained on our Web site (<http://www.myflorida.com/audgen>); by telephone (850-487-9024); or by mail (G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450).

APPENDIX A
MANAGEMENT RESPONSE



DEPARTMENT OF BUSINESS & PROFESSIONAL REGULATION
OFFICE OF INSPECTOR GENERAL

CHARLIE CRIST
GOVERNOR

CHUCK DRAGO
INTERIM SECRETARY



May 13, 2008

David W. Martin, CPA
Auditor General
State of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Mr. Martin:

In accordance with Section 11.45(4)(d), Florida Statutes, enclosed is our response to the Auditor General's April 14, 2008 preliminary and tentative audit findings and recommendations based on an Operational Audit of the Department of Business and Professional Regulation, Division of Alcoholic Beverages and Tobacco, Distribution of Alcoholic Beverage License Tax to Counties and Municipalities.

We appreciate the time and energy put forth by your staff, and your efforts to improve the operations of state government.

If you have any questions, please let me know.

Sincerely,


Chuck Drago
Interim Secretary

CD/rf

Enclosure

cc: Ron Russo, Acting Deputy Secretary of Professional Regulation
Ron Ferguson, Acting Inspector General
Cynthia Hill, Director, Division of Alcoholic Beverages and Tobacco

APPENDIX A
MANAGEMENT RESPONSE (CONTINUED)

Department of Business and Professional Regulation
Division of Alcoholic Beverages and Tobacco
Response to Findings and Recommendations
Auditor General Report
Distribution of Alcoholic Beverage License Tax to
Counties and Municipalities

Finding No. 1:

The Division did not have effective controls in place to ensure the accuracy or completeness of the LicenseEase data used in the distribution process.

Recommendation:

We recommend that the Division:

- Take actions to detect and correct inaccurate license holders' business location designations recorded in LicenseEase;
- Revise the current beverage license application to more clearly communicate the party that is responsible for properly identifying the business location;
- Adopt other procedures to more reasonably ensure LicenseEase data validity. At a minimum, the procedures should address the following:
 - Completeness of applications received;
 - Capture of all changes in license holders' business location designations resulting from newly incorporated municipalities and annexations; and
 - Documentation and proper authorization of changes made to LicenseEase license records.

Agency Response:

We agree with this finding.

The current license application has a section to be completed by the zoning authority governing the applicant. If no zoning information is required, the location designation is left incomplete, and the license processor is responsible for determining the municipality designation for the license. This can cause inaccurate or incomplete information to be entered into the licensing database and cause an incorrect fee distribution for that license. The Division is revising their application to include a section for the license applicant to include the municipality and/or county designation for their license location. This should reduce the incidence of incomplete or incorrect locations in the licensing database.

The Division has not identified changes in business location designations caused by municipal annexations or newly incorporated municipalities. The Division has relied on the affected municipality to inform us of such changes. Procedures will be written and implemented that will assist in detecting and documenting such boundary changes, and applicable license record changes will be made.

APPENDIX A
MANAGEMENT RESPONSE (CONTINUED)

Department of Business and Professional Regulation
Division of Alcoholic Beverages and Tobacco
Response to Findings and Recommendations
Auditor General Report
Distribution of Alcoholic Beverage License Tax to
Counties and Municipalities

The Division has identified necessary changes to be made to the license records pertaining to location designations via emails, phone calls, or letters from the affected entities, or through distribution reviews. The Division has not always maintained adequate documentation to support or track changes made to license records. Beginning in March 2007, when this item was first discussed with Auditor General staff during their visit, we required that all adjustments to our database records initiated by the cities and counties be in writing, either by email or formal letter. We will develop written procedures for making any adjustments to our database. These procedures will include detailed requirements for the initiation, authorization, and recording of all adjustments to LicenseEase and our AB&T Distribution Database. As part of the procedures, we will develop a standard form to be used during the entire process, from initiation to final review, to document and track the changes made to the records.

It is anticipated that these revised procedures can be developed and implemented by June 30, 2008.

Finding No. 2:

Adjustments made during the calculation of the amounts to be distributed were not fully documented.

Recommendation:

We recommend that the Division:

- Adopt a standardized form to document and control adjustments made through the Database. Each standardized form should include a unique identifying number to provide a means to account for and control the adjustment.
- Create control accounts to facilitate corrections of over and under payments of distribution amounts.
- Implement procedures to address and correct errors in distributions.
- Maintain copies of all key documents used to support the distribution process.

Agency Response:

We agree with this finding.

The Division has not utilized a standard form to document and control adjustments made to the databases, nor have we used a unique identifying number for those adjustments. Written procedures are being developed for making any adjustments to our databases, to include detailed requirements for the initiation, authorization, and recording of all adjustments to LicenseEase and our AB&T Distribution Database. A tracking form will

APPENDIX A
MANAGEMENT RESPONSE (CONTINUED)

Department of Business and Professional Regulation
Division of Alcoholic Beverages and Tobacco
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Counties and Municipalities

be utilized during the entire process, from initiation to final review, and will be retained as documentation for the adjustments. The tracking form will include a unique identifier for each adjustment, along with the name of the initiator, authorizer, recorder, and reviewer of each adjustment. In June 2007, the Division developed a Crystal Reports tool that identifies carry-forward adjustments for the distribution database. This is recognized as an interim resolution of the issue, and the running of this report each quarter will be part of our written procedures. A major enhancement to the existing distribution adjustment database is necessary to properly account for the adjustments. Retroactive adjustments have been made based on the applicant's request. Without specific statutory guidance for this area, the Division can use the same logic and guidance provided in Section 215.26, Florida Statutes, for refund applications. This statute guides that a refund can be requested within three years after the right to such refund has accrued. As with other refunds, we will limit adjustments to a maximum of three years from when requested. The revised procedures and forms should be implemented by June 30, 2008.

Finding No. 3:

Duties of employees had not been assigned in a manner that reasonably ensured the timely detection of errors, should they occur.

Recommendation:

We recommend that the Division redesign its distribution process workflow to eliminate these incompatible duty assignments.

Agency Response:

The Division has a minimal staff that can perform the fee distribution workflow. The majority of the processing, reviewing, adjusting, and approving duties have been placed on two employees within the Bureau of Auditing. Procedures are being developed that will give some of the duties to Bureau of Licensing employees, thus accurately segregating the duty assignments. It is anticipated that this can be accomplished by June 30, 2008.

Prior Audit Finding:

The Department has yet to complete an annual review of the data integrity, reliability, and security over its Single Licensing System.

Recommendation:

We recommend that annual reviews of Single Licensing System data integrity, reliability, and security be performed.

APPENDIX A
MANAGEMENT RESPONSE (CONTINUED)

Department of Business and Professional Regulation
Division of Alcoholic Beverages and Tobacco
Response to Findings and Recommendations
Auditor General Report
Distribution of Alcoholic Beverage License Tax to
Counties and Municipalities

Agency Response:

As stated, the Department does concur with the recommendation. However, as stated previously in the Department's response to Auditor General Report 2007-010, although one review of the Single Licensing System regarding the data integrity, reliability, and security has not been performed, several procedures have been conducted to increase the integrity, reliability and security of the data as summarized below.

- In March 2004, the Department engaged the International Data Corporation (IDC) to conduct a risk assessment of information security practices and procedures which included the Single Licensing System. All recommendations have been instituted.
- In 2005, DynTek Services, Inc. performed a risk assessment which included an analysis of department policies, processes and procedures, as well as the vulnerability of information technology resources. In a follow-up review in 2006, DynTek found that all vulnerabilities had been corrected. Although this risk assessment was not directly on the Single Licensing System, the Single Licensing System does reside within the confines of the Department's network, which was the focus of this review.
- While conducting audits during fiscal year 2004-2005, the Office of Inspector General began including audit steps to verify the integrity and reliability of data on the Single Licensing System. This may include testing a data sample to the source file to ensure the integrity and reliability of data during its course through the business process, as well as a review of controls such as policies and procedures.
- The Office of Inspector General's approved audit plan for fiscal year 2006-2007 did include an audit regarding the Office of Technology and the areas of application software/network security with an emphasis on the Single Licensing System. The Office of Inspector General did engage with the Office of Technology on February 28, 2008 to evaluate agency access controls with an emphasis on the Single Licensing System. Fieldwork was begun in April of 2008, with an anticipated completion date of June 30, 2008. The Office of Inspector General plans to include further review of the Single Licensing System within the annual audit plan for fiscal year 2008-2009.

The Department will continue to explore additional procedures to increase the integrity, reliability and security of the Single Licensing System data.

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