OFFICE OF THE UTAH
STATE AUDITOR

Department of Alcoholic Beverage Services Agreed Upon Procedures for Fiscal Year 2026

Presented to the
Department of Alcoholic Beverage Services Commission

July 30, 2026

Statutory Authority (*Utah Code* 32B-2-302)

The State Auditor shall:

annually perform a financial audit of the department's accounts;

every two years . . . conduct an audit of the department's:

(a) management operations, best practices, and efficiency; and,

(b) ethics and statutory compliance

In addition ... the state auditor may engage in an activity ... allowed under Utah Constitution, Article VII, Section 15 or Title 67, Chapter 3, Auditor

Audit Team

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Agenda

- **Background of the Audit**
- **Five Findings and Recommendations**
  - Bailment Inventory Program Lacks Formal Policy and Financial Transparency
  - DABS Type 5 PA Audits are Predictable and Do Not Ensure that Reported Liquor Sales are Accurate
  - Improper Separation of Duties Within the Bank Reconciliation Process
  - Change Order Deposit Duration Exceeds Timeframe in Statute and DABS Policy
  - DABS Recorded Accounting Activity for a Closed Liquor Store
- **Closing Remarks**

Audit Background

- The Office of State Auditor annually audits DABS finances, operational effectiveness, and compliance
- Our Office has performed this audit since 2013
- The audit is statutorily required and was agreed to by the DABS Commission
- The audit commenced in February and ended in June 2026

Significant Progress From Previous Audits

- The past three audits have uncovered serious issues
  - System interface problems caused massive reporting errors and adjustments to the liquor profit transfer
  - Lack of bank reconciliations allowed a $118K theft
- Thanks to efforts by DABS Management and the DABS Commission, DABS has made significant progress

The audit resulted in 5 findings and recommendations

Summation from the report

Finding 1

Bailment Inventory Program Lacks Formal Policy and Financial Transparency

Bailment Inventory Program

- No formal, centralized policy for bailment inventory
  - Bailment is only managed based on historical practice and institutional knowledge
- Volume and estimated value of bailment inventory is not externally reported
  - Lack of disclosure can be misleading to decision makers and the public

Finding 1 Recommendations

- Establish a formal policy governing bailment inventory
- Consider externally reporting the volume and value of bailment inventory

Finding 2

DABS Type 5 PA Audits are Predictable and Do Not Ensure that Reported Liquor Sales are Accurate

Type 5 PA Liquor Sales and Audit Procedures

- DABS still did not ensure Type 5 PAs properly reported liquor sales
  - Inaccurate liquor sale reporting results in improper collection of fees and earmarks
- DABS Type 5 PA audits performed are predictable
  - Lack of variability could allow Type 5 PAs to predict audit procedures and temporarily adjust behavior to pass the audit

Finding 2 Recommendations

- Establish procedures to ensure Type 5 Package Agencies are accurately reporting liquor sales
- Introduce elements of unpredictability, including timing and procedures performed, into the annual audits

Finding 3

Improper Separation of Duties Within the Bank Reconciliation Process

Bank Reconciliation Separation of Duties

- DABS bank reconciliation process could allow for unauthorized adjustments to remain undetected
  - Staff member performing bank reconciliation could also record adjusting journal entries in the accounting system
  - An effective bank reconciliation process requires that separate individuals handle custody of cash, recordkeeping, and reconciliation

Finding 3 Recommendations

- Assign key bank reconciliation process duties to separate individuals
- Implement a prior year audit recommendation to establish a required approval to post entries to the accounting system

Finding 4

Change Order Deposit Duration Exceeds Timeframe in Statute and DABS Policy

Change Order Deposits Exceed Timeframe

- DABS is not redepositing change order funds within statute and policy
  - DABS should make deposits daily, if possible, but no later than once every three banking days
- DABS has made progress in updating policy, but the policy needs to be updated further to comply with statute

Finding 4 Recommendations

- Amend change order policy deposit timeframe to comply with statutory deposit requirements
- Ensure all change orders are deposited within the timeframe specified in statute and policy

Finding 5

DABS Recorded Accounting Activity for a Closed Liquor Store

Accounting Activity for Closed Liquor Store

- DABS recorded accounting activity and allocated overhead costs to an inactive liquor store
    - Financial activity should be recorded in a manner that accurately reflects actual operations
    - Although this only reflects accounting and budgeting treatment, inaccurate expense allocation can be misleading to decision makers and skew performance metrics

Finding 5 Recommendation

- Deactivate accounting codes associated with inactive liquor stores and ensure costs are properly allocated

Closing Remarks

- The Office of the Utah State Auditor would like to thank all those involved in the audit for their cooperation and support
- Management has made significant improvements in fixing recurring findings
- DABS can continue to improve its processes and controls