State of Utah
Office of the Utah State Auditor

Tina M. Cannon
Utah State Auditor

Department of Alcoholic Beverage Services

Management Letter

For the year ended June 30, 2026

Report No. 26-01

Office of the Utah State Auditor

Audit Leadership:
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STATE OF UTAH
OFFICE OF THE UTAH STATE AUDITOR

TINA M. CANNON
UTAH STATE AUDITOR

Management Letter No. 26-01

July 28, 2026

Members of the Utah Alcoholic Beverage Services Commission
And
Ms. Ericka Evans, Department Commissioner of the Department of Alcoholic Beverage Services

Commissioners and Ms. Evans:

Pursuant to *Utah Code 32B-2-302*, with the agreement of the Alcoholic Beverage Services Commission, and relating to the audit scope and focus described in the "State Auditor Proposed Audit Plan for Fiscal Year 2026," the Office of the Utah State Auditor has completed the annual audit of the Department of Alcoholic Beverage Services (DABS).

This audit began in February 2026 and included financial, regulatory, and operational reviews. The financial scope of the audit included a review of DABS's accounting system, including how financial data is recorded and reconciled with the statewide accounting system. Additionally, we evaluated the bank reconciliation process and cash handling procedures. The regulatory scope of the audit provided an assessment of oversight and monitoring procedures for Type 5 Package Agencies. The operational scope reviewed trend analysis and projections, staffing and oversight, and inventory practices and controls.

Audit Findings:

The audit identified five separate findings, for which the full details and agency responses are included in the audit report. The findings are summarized below:

- **Bailment Inventory Program Lacks Formal Policy and Financial Transparency:** DABS lacks a formal policy governing its bailment inventory program and does not publicly report the volume or value of that inventory.
- **Type 5 Package Agency (PA) Accounting and Oversight:** Oversight of Type 5 PAs remains an area of focus. In particular, DABS did not have a sufficient process to ensure Type 5 PAs accurately remit the proper amount of funds to DABS. In addition, DABS audits of Type 5 PAs lack an element of unpredictability in both timing and scope.

- **Lack of Separation of Duties Within Bank Reconciliations:** A single staff member performs bank reconciliations and records adjusting entries, resulting in a lack of separation of duties over key functions such as recordkeeping and authorization. This increases the risk that errors, unauthorized transactions, or fraudulent activity could occur and not be detected in a timely manner.
- **Change Order Deposit Duration Exceeds Time Frame in DABS Policy:** DABS did not complete all change order transactions within the timeframe required by DABS policy.
- **Accounting Activity Recorded for Closed Store:** DABS continued to record financial activity for a liquor store that had been closed for several years because DABS had not deactivated or restricted the store's accounting codes.

Audit Recommendations:

We encourage DABS to maintain the progress it has made thus far and to commit to both short-term and long-term improvements. Specifically, we recommend the following managerial and oversight actions be taken immediately:

- Establish a formal bailment policy and consider externally reporting the volume and value of bailment inventory.
- Strengthen oversight mechanisms for Type 5 Package Agencies, including improved tracking, reporting, and follow-up procedures related to the collection and remittance of funds. Additionally, update audit planning procedures to include rotation and randomization elements.
- Reassign roles and responsibilities within the bank reconciliation process to separate custody, recordkeeping, and authorization functions.
- Reinforce policy expectations with staff and provide training if needed to ensure deposits are made within statutory requirements.
- Direct accounting/system staff to deactivate closed liquor stores in the accounting system and reassign all ongoing costs to appropriate active stores or cost centers.

These measures will help safeguard public resources, ensure accurate financial reporting, and promote greater transparency and accountability.

The procedures of this audit do not constitute an audit conducted in accordance with generally accepted auditing standards, the objectives of which would be the expression of an opinion on DABS's internal control. Accordingly, we do not express such an opinion.

In addition, during the audit, we gathered certain data that could be helpful to DABS management for future analysis. This information is included in the Appendix section of this report. We do not express any opinion, conclusion, or recommendation on this information.

We appreciate the cooperation of DABS management and staff throughout the audit process and are available to provide clarification or further guidance as DABS implements these recommendations.

Sincerely,

Tina M. Cannon
Utah State Auditor

Findings & Recommendations

Finding 1. Bailment Inventory Program Lacks Formal Policy and Financial Transparency

DABS does not have a formal, centralized policy governing its bailment inventory program. Bailment inventory is liquor product that is stored at the DABS warehouse but is still owned by a vendor. When DABS is ready to use these products, it purchases the bailment and ships it to liquor stores for sale to the public. The use of bailment is common among other liquor control states. While DABS does not physically separate bailment inventory from its State-owned inventory, DABS tracks bailment in a separate module within its inventory system. Bailment accounts for approximately $61 million, or 59% of the inventory in the DABS warehouse.

Currently, bailment operations are managed based on historical practice and institutional knowledge, rather than a standardized policy framework. Effective governance requires formal policies, defined oversight structures, and clear objectives to ensure that operational practices do not deviate from their intended purpose. An effective policy should include a well-defined purpose, strategic objectives, clearly established roles and responsibilities for the oversight of bailment inventory, and provide standardized guidance for managing bailment inventory. Doing so will help ensure that bailment operations align with organizational objectives and the public interest.

In addition, DABS does not report the volume or estimated value of bailment inventory held in its warehouse. While accounting standards do not explicitly require the disclosure of bailment inventory, doing so would provide valuable information to public stakeholders and would demonstrate DABS's commitment to transparency. Further, a lack of disclosure can be misleading to the public. For example, when efficiency metrics are calculated solely on reported financial information (which excludes bailment inventory), DABS operations appear to be far more efficient than they actually are.[1] DABS may consider disclosing the volume and value of its bailment inventory in its unaudited annual report or in a footnote disclosure within the State's audited Annual Comprehensive Financial Report.[2]

Recommendations:

We recommend DABS:

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

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[1] Office of the Utah State Auditor Report No. 23-01, Finding #9

[2] An example of this from another liquor control state can be found in Virginia's 2025 Annual Comprehensive Annual Financial Report; Footnote 41 section D - Bailment Inventory

DABS' Response

DABS agrees with the recommendations. DABS has begun, as part of a holistic review of all internal policies, developing a formal policy governing bailment inventory that includes a purpose, objective, and requirements for oversight. In addition to the policy, DABS currently provides guidance to vendors on the bailment process in its publicly available Vendor Partnership Manual and utilizes bailment agreements with participating vendors. DABS will also include the volume and value of bailment inventory in its annual financial report described in Utah Code § 32B-2-204, which is provided to the governor and legislature and published on the DABS website.

Finding 2. DABS Does Not Ensure that Type 5 PAs Accurately Report Liquor Sales and DABS PA Auditing Procedures are Predictable

Type 5 Package Agencies (Type 5 PAs) are liquor manufacturers that are contractually authorized to sell their own manufactured liquor directly to the public for off-premise consumption. These liquor sales are subject to statutory earmarks[3] and an administrative fee. Type 5 PAs self-report their liquor sales to DABS through monthly sales reports. DABS then uses these sales reports to determine how much to collect for fees and earmarks. DABS does not perform procedures to ensure that this self-reported information is accurate. While DABS performs annual audits of each Type 5 PA, these audits are primarily focused on other statutory compliance. As a result, Type 5 PAs could misreport their liquor sales without detection, leading to under- or over- collection of statutory earmarks and administrative fees. This issue was identified in the prior year audit;[4] however, it has not been corrected.

During the current year's audit, we took a sample of 15 Type 5 PA sales reports to ensure that they were accurate. The total sales for one sales report were understated by $1,428 (or 21.87% of total sales) because of a mathematical error, resulting in DABS under-collecting earmark funds by $176. While the dollar impact in this instance is minimal, this issue could be significantly more impactful if it occurs within larger Type 5 PAs or across multiple reporting periods. Because earmarks fund important programs such as School Lunch, Public Safety, and Underage Drinking Prevention, it is crucial that DABS verifies sales report accuracy to ensure that these programs are receiving the proper funding.

In addition, the timing and procedures performed for DABS Type 5 PA audits are predictable. We reviewed the timing for the 32 audits that DABS had completed at the time of our audit and found that

[3] 10% of liquor sales proceeds to the Uniform School Fund (UCA 32B-2-304(6)(a)(ii))
1.695% of liquor sale proceeds to the Public Safety Fund (UCA 32B-2-304(6)(a)(i))
0.6% of liquor sale proceeds for underage drinking prevention (UCA 32B-2-304(6)(a)(iii))
[4] Office of the Utah State Auditor Report No. 25-01, Finding #6
[5] AICPA AU-C 240.29(c) and AU-C 240.A42

22 (or 68.75%) took place at the same time as the previous year's audit, with an average difference of only 12 days. This is problematic because the timing of the audit drives the procedures that DABS performs. Since DABS reviews transactions from the previous three months at the time of an audit, DABS is consistently reviewing transactions from the same time period. This predictability could allow Type 5 PAs to anticipate what DABS will review and temporarily adjust behavior for the audit. Auditing best practices emphasize incorporating elements of unpredictability, including variation in audit timing and sample selection.[5] Doing so increases audit effectiveness and reduces the risk of noncompliance occurring and remaining undetected.

Recommendations:

We recommend DABS:

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

DABS' Response

DABS agrees with the recommendations. DABS will adjust its Type 5 Package Agency audit requirements to address sales reporting and will provide additional training to the employees who are responsible for managing the Type 5 Package Agency sales reporting process. In addition, DABS will adjust its Type 5 Package Agency audit schedule and procedures , taking into account staffing.

Finding 3. Improper Separation of Duties Within the Bank Reconciliation Process

DABS does not ensure proper separation of duties within the bank reconciliation process and allowed the staff member responsible for performing bank reconciliations to also record adjusting journal entries in the accounting system. Bank reconciliations serve as the primary control to ensure that cash is handled properly. Our previous year's audit report noted that DABS's bank reconciliation process identified a likely theft, but also that a previous lack of proper bank reconciliations allowed that theft to persist for so long prior to discovery.[6]

[6] Office of the Utah State Auditor Report No. 25-01, Background for Findings #1-3, and Finding #1

An effective bank reconciliation process requires that custody of cash, recordkeeping, and authorization duties all be assigned to different individuals, or instead establish mitigating control procedures. Because the staff member maintains control of recordkeeping and authorization, this individual could potentially record unauthorized or fraudulent transactions which would not be detected through the bank reconciliation process. DABS should separate these responsibilities among different individuals. In addition, our previous year's audit recommended that DABS implement a required approval to post entries to the accounting system.[7] DABS has not yet fully implemented this recommendation, but doing so could help mitigate the risk of undetected fraudulent or erroneous entries.

Recommendations:

We recommend DABS:

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

DABS' Response

DABS agrees with the recommendations. DABS has reassigned bank reconciliation process duties to separate individuals within its finance team. In addition, as part of its rollout of cash control and inventory management modules in its enterprise resource planning system, Microsoft D365, approvals will be required to post entries. Development on Microsoft D365 is on track to allow for implementation with the new fiscal year.

Finding 4. Change Order Deposit Duration Exceeds Timeframe in Statute and DABS Policy

DABS is not redepositing change-order funds within the timeframe specified in its policy and in statute. A change order occurs when a DABS liquor store requests small bills and change from the bank to replace large bills in its tills. DABS requires that the exact amount withdrawn be returned to the bank. Our prior year audit noted that failure to redeposit change order funds resulted in the likely theft of approximately $113,000.[8] Statute requires that state agencies, including DABS, shall "…deposit daily, if practicable, but no later than once every three banking days, all collections of state money…"[9] We

[7] Office of the Utah State Auditor Report No. 25-01, Finding #7
[8] Office of the Utah State Auditor Report No. 25-01, Finding #1
[9] UCA 51-4-1(2)

previously recommended that DABS amend its change order policy to address deposit timing and comply with statutory deposit requirements.[10] In response, DABS amended its policy to require that change order deposits be completed within five business days.[11] While this is an improvement from the previous policy, the policy is still not compliant with statute. DABS should shorten the timeframe to three banking days to match the statutory timeframe.

Further, we noted that a significant number of change order deposits were not completed even within the less stringent timeframe in DABS policy. Of the 158 change orders reviewed, 46 (29%) exceeded the five-business-day requirement, with one change order remaining undeposited for eight business days. Completing change order deposits quickly is necessary to ensure cash balances and related records accurately reflect correct information. When funds remain undeposited beyond the required timeframe, it increases the risk that change funds will not be returned appropriately and makes independent review of the change orders and cash balances more difficult.

Recommendations:

We recommend DABS:

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

DABS' Response

DABS agrees with the recommendations. The DABS policy governing change orders (09-04, Cash Control) was updated in May 2025, partially in response to OSA Report No. 25-01, and was recently updated again to ensure the timeframe for depositing change orders is three days. DABS will provide training to impacted staff to ensure policy compliance.

Finding 5. DABS Recorded Accounting Activity for a Closed Liquor Store

DABS recorded accounting activity and allocated overhead costs to an inactive liquor store that has been closed for several years. When DABS closed the store, it never restricted or deactivated the associated accounting codes. As a result, between 2023 and 2026, DABS allocated $675,311 of overhead and other similar expenses to the inactive store. While these expenses only represent accounting and budgeting treatment, rather than actual disbursement of funds, financial activity should be recorded in a manner that accurately reflects actual operations. Inaccurate expense

[10] Office of the Utah State Auditor Report No. 25-01, Finding #3
[11] DABS Cash Control Policy 09-03-11

allocation can be misleading, skewing store performance comparisons and performance reporting metrics used for decision-making and performance evaluation. This could lead to adverse impacts to budgeting, rate-setting, and future planning.

Recommendations:

We recommend DABS deactivate accounting codes associated with inactive liquor stores and ensure that costs are properly allocated to better reflect actual operations.

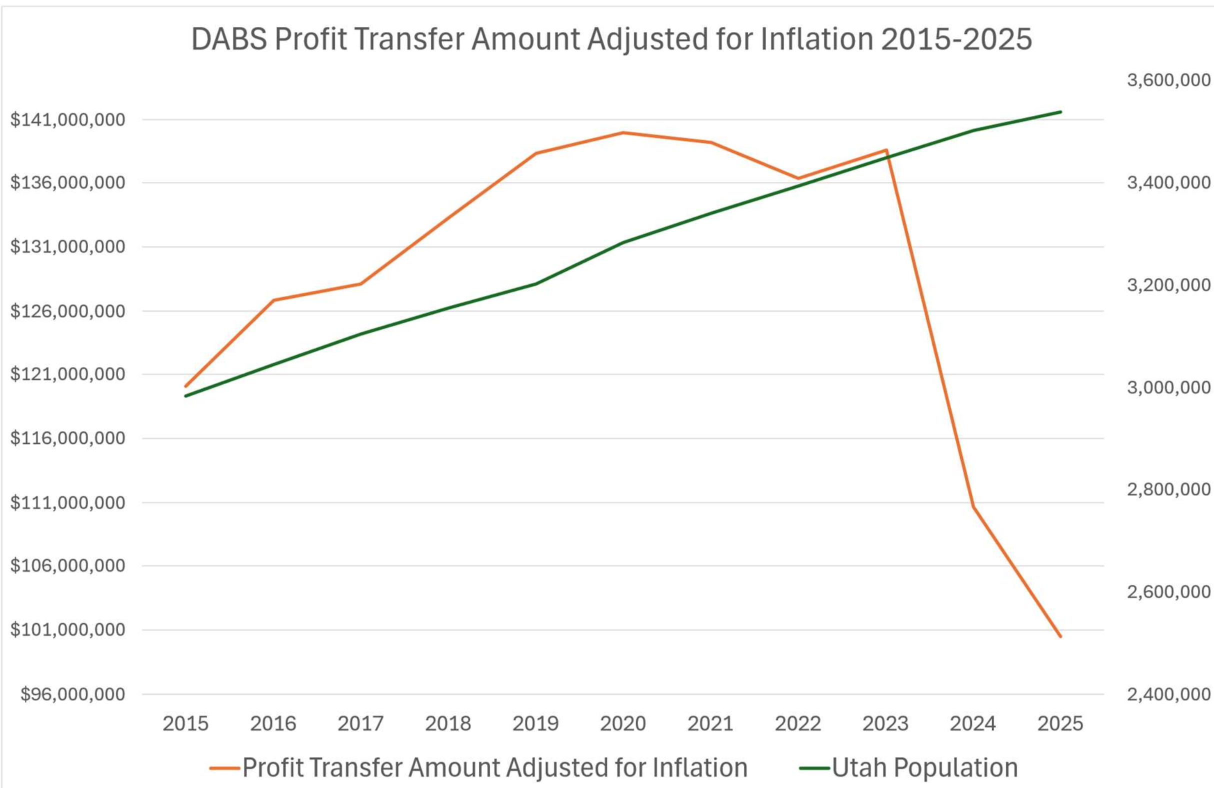
DABS' Response

DABS agrees with the recommendation. DABS will deactivate any unnecessary accounting codes associated with inactive liquor stores. DABS will also ensure that charges, including operations and maintenance costs, are appropriate for the liquor stores.

Appendix A: Profit Transfer Amounts Adjusted for Inflation 2015-2025

Statute[12] requires that DABS transfer the remainder of liquor sales proceeds to the State General Fund after funding statutory earmarks and paying DABS expenses. We compared these annual liquor profit transfers into the State General Fund for State Fiscal Year 2015 to 2025 with the State of Utah population for that same period. For comparison purposes, we adjusted the liquor profit transfers for inflation. See Figure 1 below.

Figure 1 – General Fund Profit Transfer Amounts



[12] UCA 32B-2-301(6)