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No. 2007-0011-4T

OFFICE OF THE STATE AUDITOR'S REPORT
ON INFORMATION TECHNOLOGY-RELATED CONTROLS
AT THE ALCOHOLIC BEVERAGES CONTROL COMMISSION

July 1, 2006 through June 30, 2007

**OFFICIAL AUDIT
REPORT
APRIL 25, 2008**

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INTRODUCTION

The Alcoholic Beverages Control Commission (ABCC) was established in 1933 by Massachusetts General Law (MGL) Chapter 6, Section 43. The Legislature transferred oversight of the Alcoholic Beverages Control Commission from the Executive Office of Consumer Affairs and Business Regulation to the Office of the State Treasurer (OST) in 2003. As a consequence, financial and human resource functions for the Commission are administered by the Office of the State Treasurer. The Commission has three members comprised of a chairman and two associate commissioners who are appointed by the State Treasurer.

ABCC is the sole agency in Massachusetts responsible for directly licensing or permitting specific participants in the alcoholic beverages industry in Massachusetts. According to MGL Chapter 6, Section 44 and as noted on ABCC's [website](#), "The Commission is charged with responsibility for the general supervision of the conduct of the business of manufacturing, importing, exporting, storing, transporting and selling alcoholic beverages as defined in section one of chapter one hundred and thirty eight and also the quality, purity and alcoholic contents thereof." All manufacturers of alcoholic beverages, wholesalers and importers, brokers, salesman, and out-of-state suppliers of alcoholic beverages are licensed by the ABCC. The Commission licenses all establishments and modes of transportation within which alcoholic beverages are sold and distributed in Massachusetts. This includes warehouses, ships, ship chandlers, planes, trains, and motor vehicles transporting alcoholic beverages in Massachusetts require direct licensing from the ABCC. Members of ABCC's investigative division provide oversight of the over 21,000 licensees or permittees in Massachusetts to determine whether the businesses are in compliance with the Liquor Control Act, MGL Chapter 138.

The Alcoholic Beverages Control Commission is responsible for issuing permits to retail establishments, distilleries and breweries, and distributors of alcoholic beverages, and for recording licenses for the sale and distribution of alcoholic beverages, in accordance with the Liquor Control Act. On an annual basis, there are approximately 9,000 permits issued. In addition, there are approximately 10,000 annual and 2,000 seasonal retail pouring or package store establishments that are licensed by ABCC in Massachusetts. The Commission's licensing division coordinates and processes the annual renewals of these 12,000 retail licenses.

Annual renewal applications for retail licenses are mailed to a prospective city or town, approved by the city or town, and then returned to the ABCC. Annual renewals for permits are mailed on a calendar-year basis to brokers, wholesalers, and suppliers, and are then signed by the licensee and

returned to the Commission. The Commission responds to inquiries from local licensing boards, applicants, and citizens regarding the status of appeals or the process for obtaining an application for a license or permit. In accordance with MGL Chapter 138, Section 56, the Commission's investigative unit pursues complaints and potential violations relating to an establishment's sale and distribution of alcoholic beverages.

According to ABCC, revenue generated from license fees and fines by the ABCC for calendar years 2005 and 2006 averaged \$3.6 million per year. In addition, according to the ABCC's annual report for calendar year 2005, fees collected directly by local licensing authorities are also tracked by the ABCC. As reported to the ABCC, over \$17 million in revenue is collected annually by the Commonwealth's cities and towns from retail beverage alcohol license fees.

At the time of our audit, the Alcoholic Beverages Control Commission's computer operations were supported by a file and print server and 26 microcomputer workstations. The Commission's local area network (LAN) is connected by a T-1 line to the Office of the State Treasurer. Further, the Commission uses microcomputer-based systems to process the renewal of permits and to store certificate-of-compliance data regarding companies holding permits to import alcoholic beverages into Massachusetts.

The Commission's License Tracking System, which uses a MySQL database with Microsoft Access on the front end, supports four database application systems. The first database application system maintains the system of record of new license applications and renewals. The second database maintains information regarding alcohol shipments and issues a stamp or seal for the individual shipments. The third database contains information records of the actual holders of permits, and the fourth database contains the approval log of license applications and the results of complaints received by the investigative unit.

The Office of the State Auditor's examination focused on an evaluation of certain IT-related general controls and a review of data integrity controls for the Commission's License Tracking System.

AUDIT SCOPE, OBJECTIVES, AND METHODOLOGY

Audit Scope

In accordance with Chapter 11, Section 12 of the Massachusetts General Laws, we performed an information technology audit of the Alcoholic Beverages Control Commission covering the period July 1, 2006 to June 30, 2007. The scope of our audit, which was conducted from October 10, 2006 to July 10, 2007, included an evaluation of IT-related controls pertaining to physical security, environmental protection, logical access security, business continuity planning, and on-site and off-site storage of backup copies of magnetic media. Our audit also included a review of data integrity controls for the License Tracking System. In addition, the scope of our audit included an evaluation of the degree to which corrective action had been taken to address a prior recommendation pertaining to business continuity and contingency planning, contained in our prior audit report number 99-0011-4F, issued on June 15, 1999.

Audit Objectives

The primary objective of our audit was to determine whether adequate agency-specific controls were in place and in effect for selected functions in the IT processing environment. We sought to determine whether adequate physical security and environmental protection controls were in place and in effect to provide reasonable assurance that IT-related assets would be protected from unauthorized access, damage or loss. Regarding logical access security, our objective was to determine whether adequate controls were in place to provide reasonable assurance that only authorized personnel had access to automated systems and to determine whether password administration was being actively monitored.

Regarding the continued availability of IT services and processing capabilities, we determined whether adequate business continuity and recovery controls were in place to provide reasonable assurance that IT operations could be regained within an acceptable period of time. In this regard, we determined whether corrective action has been taken to address audit results and recommendations concerning business continuity and contingency planning as noted in our prior IT audit report. In addition, with respect to business continuity, we sought to determine whether ABCC had a documented business continuity strategy in place that included user area plans to provide reasonable assurance that mission-critical business operations would be regained within an acceptable period of time should a major event render IT resources inaccessible or unavailable. In conjunction with reviewing business continuity planning, we sought to determine whether proper backup procedures

were being performed and whether back-up copies of magnetic media were stored in secure on-site and off-site locations.

With respect to the documentation of internal controls, we sought to determine whether ABCC had an agency-specific internal control plan and whether documented internal controls were sufficiently comprehensive and detailed to support the Commission's business functions, including IT-related tasks and activities. We sought to determine whether appropriate mechanisms were in place to monitor and evaluate the effectiveness of the Commission's system of internal controls.

Regarding data integrity, we sought to determine whether adequate controls were in place to provide reasonable assurance that objectives regarding data accuracy, completeness and validity for the License Tracking System would be met.

Audit Methodology

To determine the audit scope and objectives, we performed pre-audit work that included obtaining and recording an understanding of relevant operations, performing a preliminary review and evaluation of certain IT-related internal controls, and interviewing senior management. We performed a high-level risk analysis and assessed the strengths and weaknesses of the internal control system for selected activities. To obtain an understanding of the internal control environment, we reviewed the ABCC's organizational structure, primary business functions, and relevant IT-related policies and procedures. With regard to organization and management, we interviewed senior managers, and reviewed, analyzed and assessed relevant IT-related internal control documentation. To determine whether adequate disaster recovery and business continuity planning was in place, we reviewed the relative criticality of systems and whether recovery plans had been developed, documented and tested. We interviewed ABCC management and staff regarding the resolution of the prior audit results and requested documentation of policies and procedures specific to the Commission that were designed to resolve the control weaknesses disclosed in our prior audit report.

To evaluate physical security, we interviewed management, conducted physical inspections, observed security devices, and reviewed procedures to document and address security violations and/or incidents. We observed the presence of personnel at entry points, and determined whether visitor sign-in/sign-out logs were kept and audio or visual intrusion alarms were present.

To assess environmental protection, we conducted a walkthrough of ABCC's file server room and office areas. We evaluated the general housekeeping controls for the server room, determined whether air quality controls were sufficient, and whether fire prevention, detection and suppression

controls were in place. With respect to fire suppression, we determined whether there was an automatic fire suppression system and whether hand-held fire extinguishers were readily available. Regarding employee safety, we determined whether ABCC had developed an office evacuation plan.

To evaluate logical access security we obtained an understanding of access security controls through interview with the Office of the State Treasurer and ABCC staff, and by reviewing documentation of existing security policies and procedures. In addition, we reviewed prior audit work performed regarding control policies and procedures for logical access security for audit number 2005-0085-3S of the Office of the State Treasurer. We reviewed policies and procedures for authorizing access privileges to application systems and IT capabilities available on ABCC's local area network (LAN). Since the Office of the State Treasurer administers the Commission's LAN and access authorization of user accounts for ABCC, we obtained information regarding user account management from the OST. To determine whether only authorized employees were accessing the automated systems, we compared user lists from ABCC and the then most recent payroll record of employees obtained through the Commonwealth's Human Resources/Compensation Management System (HR/CMS). We reviewed control practices regarding logon ID and password administration by State Treasurer's IT Department and evaluated the extent of documented policies and guidance provided to the ABCC's personnel. We determined whether all ABCC employees authorized to access the automated systems were required to change their passwords periodically, and if so, identified the frequency of the changes. In addition, we reviewed the Office of the State Treasurer's internal control policies and procedures for granting access privileges for automated systems. Since none of the Commission's staff has access to the Commonwealth's Massachusetts Management Accounting and Reporting System (MMARS), we did not review access controls to MMARS.

Regarding controls to ensure the continued availability of automated systems and IT processing capabilities, we determined whether documented business continuity and disaster recovery plans were available and, if so, whether steps had been taken to provide adequate assurance of the viability of the plans. We interviewed the Commission and OST staff to gain an understanding of the extent to which the Office of the State Treasurer provided business continuity planning support for ABCC. We determined whether management had formally assessed the criticality of the IT systems that support the Commission's business operations. We determined whether an alternate processing site had been designated and whether sufficient provisions had been made for on-site and off-site storage of back-up copies of magnetic media required for the recovery of automated systems.

Regarding data integrity controls for the License Tracking System, we interviewed staff from the Commission and the database administrator from OST to gain an understanding of the system. From our interviews and viewing the system online we identified the IT components used to enter and store the data. We obtained a copy of the License Tracking System containing the four related databases and reviewed the content with respect to duplicate records, data completeness and expected values or information. During the audit, we analyzed a copy of the License Tracking System's data to assess the integrity and extent to which the data was maintained. We selected five hardcopy files and determined whether data contained in the source documents was accurately and completely entered into the database. We reviewed data entry controls for creating and updating records. In addition, we determined whether an adequate level of review and reconciliation was being performed regarding the recording of receivables and the processing of receipts.

Our audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States and generally accepted industry practices. Audit criteria used in the audit included management policies and procedures, and control guidelines outlined in Control Objectives for Information and Related Technology (CobIT), as issued by the Information Systems Audit and Control Association, in July 2000.

AUDIT CONCLUSION

Based on our audit, we found that adequate controls were in place and in effect at the Alcoholic Beverages Control Commission to provide reasonable assurance that IT-related control objectives would be met with respect to physical security, environmental protection, and logical access security. In addition, adequate controls were in place for the generation and on-site and off-site storage of back-up copies of magnetic media for the Commission's License Tracking System (LTS) by the Office of the State Treasurer. However, our review of IT organization and management and business continuity planning at ABCC indicated that the documentation of controls should be strengthened for agency-specific IT-related policies and procedures and that a comprehensive agency-specific business continuity strategy should be developed in conjunction with the Office of the State Treasurer. Concerning the Commission's mission-critical application, the License Tracking System, controls were not in place to adequately reconcile license and permit revenue received.

We found that the documentation of IT organization and management controls needed to be enhanced and subsequently reviewed and approved. Although control policies and practices had been documented, some were in draft form while others needed to be strengthened for physical security, environmental protection, system access security, and the reconciliation of the License Tracking System.

Although certain controls were in place regarding business continuity planning that would provide reasonable assurance that IT processing could be recovered under certain circumstances, the Commission did not have their own business continuity strategy or a business continuity user area plan to guide their recovery efforts should a major event render IT-resources inoperable or inaccessible. The Commission could be adversely impacted or delayed in reestablishing business operations if ABCC's offices were damaged or if the Office of the State Treasurer-provided IT services were lost for a significant period. Regarding back-up copies of programs and data files, we confirmed that the ABCC and the Office of the State Treasurer had taken steps to ensure that the Commission's License Tracking System's databases were backed up at secure on-site and off-site storage locations.

We found that the Commission's License Tracking System, which processes and tracks over 21,000 licenses and permits, does not have an adequate assurance function to verify the integrity of data entered and maintained in the databases, nor is there a revenue reconciliation process of license fee receipts to the Massachusetts Management, Accounting, and Reporting System (MMARS). According to ABCC staff additional information would need to be captured in the databases to

support a reconciliation process. Moreover, IT controls need to be enhanced to include policy and procedure requirements for data integrity assurance.

Concerning employee safety and environmental protection, at the time of our audit we found that there was no office evacuation plan and there were no hand-held fire extinguishers in the server room or in the office area. Massachusetts State Building Codes, Chapter 9, ([780 CMR 920.2](#)) specifies requirements for hand-held fire extinguishers and fire suppression systems within buildings. At the end of our field work, we were informed by ABCC's Interim Director that the Commission was in the process of purchasing fire extinguishers. We determined that neither the landlord of the building nor ABCC had fire evacuation procedures. Although the Commission's offices had overhead sprinklers, they had not been tested in the periods listed in 2006. The overhead sprinklers are to be tested the next time the company comes in to test the fire suppression system.

AUDIT RESULTS

1. Business Continuity Planning

We found that ABCC did not have a business continuity plan to address a loss of IT processing capabilities and access to automated systems, in particular the Commission's mission-critical application system, the License Tracking System (LTS). Because data processing capabilities for LTS are handled by both ABCC and the Office of the State Treasurer, ABCC's business continuity plans need to be coordinated with those of the State Treasurer's Office. Data processing capabilities for the License Tracking System are provided by ABCC for data entry and the Office of the State Treasurer for LAN connectivity and computer operations. Since the Office of the State Treasurer handles system operations for LTS, electronic magnetic media backup for both on-site and off-site storage is controlled and processed by the Office of the State Treasurer. In addition, the Office of the State Treasurer also provides network access connection for ABCC to access MMARS and HR/CMS.

Although ABCC would need to follow the Office of the State Treasurer's disaster recovery plan should a major event or disaster render IT equipment unavailable or inaccessible, a user area plan has not been developed for ABCC that would provide guidance to assist the Commission to continue without the IT processing capabilities provided by the State Treasurer's Office.

The Commission's main application is the License Tracking System. This system allows the ABCC to manage the annual renewal of over 12,000 retail licenses. The LTS is configured to have three copies of the system database. First, there is a database copy at ABCC that is updated on an on-line real-time basis, and there is a second database copy at the Office of the State Treasurer that is updated nightly from ABCC. The third copy of the LTS database is a backup copy located at the Massachusetts' Information Technology Division's main data center in Chelsea, referred to as MITC.

Data entry is performed on the working copy of the LTS' database by ABCC at its Causeway Street location. Through the use of the Office of the State Treasurer's LAN, the backup copy of the LTS is also stored at the Office of the State Treasurer and is further backed up to the Information Technology Division's MITC data center.

If a disaster were to occur at ABCC's offices that resulted in the loss of computer equipment and access to their office areas, ABCC would be unable to enter or access data from LTS unless they relocated to another office with connectivity to the Office of the State Treasurer. Because the Office of the State Treasurer has a backup copy of the LTS database, the adverse impact to the integrity of

the database would be minimized. Under this circumstance, the LTS database residing at the Office of the State Treasurer would not be subject to damage or loss. However, unless ABCC were able to relocate and have electronic access to the Office of the State Treasurer, the Commission would be unable to input data or make changes to the system's data files, thereby hindering the ability to maintain the LTS database. In the event of a problem that would prevent ABCC from accessing their Causeway Street location, they could still access the License Tracking System at the Office of the State Treasurer or at MITC if sufficient disaster recovery planning were performed.

In the event of a service disruption that shuts down the Office of the State Treasurer's LAN, or the Office of the State Treasurer itself, the ABCC would still be able to perform data entry into the Commission's copy of the License Tracking System's database. Under this circumstance, the LTS database residing at the Commission would not be damaged or lost. However, the nightly backup to the Office of the State Treasurer would be unavailable and electronic backup copies of the database to be stored at MITC would not be generated. Given this situation, ABCC's user area business continuity plan should require that ABCC generate backup copies for secure on-site and off-site storage. Once the Office of the State Treasurer has fully recovered its IT operations and LAN capabilities, all database copies for the LTS system will need to be synchronized.

If a service disruption were to shut down MITC, the ABCC would still be able to perform data entry into the License Tracking System, and a nightly backup to the State Treasurer's Office could still be performed, although a nightly backup from Office of the State Treasurer to MITC would be unavailable.

Although certain efforts have been made by the Office of the State Treasurer to address business continuity planning, the Treasurer's disaster recovery plan for its One Ashburton IT operations was still a draft copy that had not been finalized or modified to specifically include ABCC. For example, the Office of the State Treasurer's disaster recovery plan did not include specific instructions for ABCC or contact information for key management personnel at ABCC who would need to be notified in the event of a disaster. In addition, there is nothing listed in the Office of the State Treasurer's plan informing ABCC employees where to report in the event that a disaster left the Commission's building physically inaccessible. Our audit revealed that the audit finding on business continuity planning from our prior audit report (No. 99-0011-4F) had not been fully corrected.

According to ABCC management, it could operate manually for 24 hours before there would be any impact on its day-to-day operations. The objective of business continuity planning is to help ensure

the continuation of essential business functions enabled by technology should a disaster cause significant disruption to computer operations. Generally accepted industry practices and standards for computer operations support the need to have an ongoing business continuity planning process that assesses the relative criticality of information systems and develops appropriate contingency and recovery plans, if required.

An effective business continuity plan should identify the ways in which essential services would be provided without full use of the data processing facility or network communications. The plan should identify the policies and procedures to be followed, detailing the logical order for restoring critical data processing functions, either at the original site or at an alternate site. In addition, the plan should describe the tasks and responsibilities necessary to transfer and safeguard backup copies.

Recommendation:

We recommend that ABCC, in conjunction with Office of the State Treasurer, develop a user area plan for the Commission that documents all required operational procedures to be performed under various disaster scenarios that would adversely impact the Commission's data processing capabilities.

As part of a business continuity planning framework, we recommend that ABCC perform a risk analysis and business impact analysis to provide input for developing business continuity user area plans and addressing risk management practices. The user area plan should address data entry, data backup, and information processing capabilities for the continuity of the Commission's mission-critical and essential business functions. ABCC's business continuity user area plan should include controls for on-site and off-site storage of backup copies of systems and data files. The user area plans should identify where employees would report in the event that a disaster were to render ABCC's physical location inaccessible. The plan should include the names, telephone and cell phone numbers for key management people who would need to be notified in the event a disaster occurs.

The business continuity user area plan should be reviewed and updated on at least an annual basis, or upon major changes to the business functions or the IT environment. The plan should also be distributed to only authorized parties of interest and be backed up and kept off-site in a secure location. Once developed, the business continuity user area plan should be reviewed, tested to the extent possible, and approved by the Commission and the Office of the State Treasurer.

Auditee's Response:

ABCC Management will review the risks associated with business continuity for this agency. This information will be included in the development of a business continuity plan. Additionally, aspects that are noted in your recommendation above will be considered in the overall design of the plan for processing critical and essential business function. Management anticipates completing the assessment at the end of the fiscal year, which will be incorporated into the overall Internal Control Plan.

Auditor's Reply:

We are pleased that ABCC's management will review the risks associated with its business continuity objectives. In that regard, it is important that the Commission conduct adequate business impact analysis for its IT-enabled business processes. Understandably, business continuity planning on the part of the Commission should be coordinated with the disaster recovery and business continuity planning efforts of the Office of the State Treasurer.

2. Data Management and Revenue Reconciliation

We found that controls needed to be strengthened to ensure that data recorded in the License Tracking System would be accurate and complete for license and permit records. We found that an adequate level of review of the integrity of data contained in the system's databases was not in effect to detect data errors or omissions and to ensure that data fields contain relevant and reliable information to support business functions. There was little evidence that a formal review had been performed to determine whether the system contained appropriate information for record keeping and management decision making. With respect to database documentation, we found that system documentation for the License Tracking System could be strengthened by documenting system functions and by defining the data fields used by the system.

Based upon our review of selected data records for LTS, we found that some data fields were not always completed and that fees to be received were not always recorded. In addition, there was little evidence that the data had been reviewed and reconciled. Our review indicated that that the License Tracking System did not have a data dictionary and that reports to facilitate reconciliation of data were not generated. Our review disclosed some errors within the databases that ABCC was unaware of, however, upon notification, ABCC was able to correct the posting errors. It is likely that improved detective controls, such as review and approval and reconciliation as part of a quality assurance function, would have identified the data omissions or posting errors.

The Alcoholic Beverages Control Commission is responsible for issuing permits to retail establishments, distributors of alcoholic beverages and for recording licenses for the sale and distribution of alcoholic beverages, in accordance with Chapter 138 of the Massachusetts General Laws. There are approximately 10,000 annual and 2,000 seasonal retail pouring or package store licenses in Massachusetts. ABCC's Licensing Division coordinates and processes the annual renewals of these 12,000 retail licenses. To keep track of the licenses, ABCC maintains four databases which are the license renewal and applications database, the direct shipment database, the permits database, and the application and complaints database. There were 39,000 records within these databases as of March 2007.

From an accounting perspective, ABCC did not conduct a reconciliation of license fee and permit revenue to what should be received and recorded to the Massachusetts Management, Accounting, and Reporting System (MMARS). Although the Commission staff prepared a list of receipts as reported by the bank's lockbox function and compared the list of these amounts to the amounts recorded in MMARS by the Office of the State Treasurer as being received from the bank, this does not provide an adequate level of reconciliation of the receipts recorded by the Office of the State Treasurer on behalf of ABCC. The latter is not a reconciliation of amounts received to the amounts owed to ABCC for issued licenses. The current level of reconciliation was limited to what was received by the bank's lock box system and posted to MMARS which does not adequately verify that the amount received was, in fact, the amount that should have been received. Without a reconciliation of the databases to posted revenue, the Commission and the Office of the State Treasurer may not be aware of any discrepancies within the databases or to posted revenue.

A review of the LTS's database disclosed that although there were columns within the database to keep track of fees, the fee amounts were not entered in many instances. According to ABCC staff, the revenue process entails the posting of revenue amounts to MMARS by the Office of the State Treasurer, to which the Commission reports. ABCC staff maintains a log showing receipts that had been mailed to the bank's lock box and the postings by the Office of the State Treasurer to MMARS. Although the amounts received may be correct, without reconciling these amounts to the ABCC system that issues and renews licenses and permits, there is inadequate verification that the amounts received were the same as the amounts owed to the Commonwealth.

Revenue generated from license and permit fees and fines by the ABCC was \$3,283,971 in calendar year 2004, \$3,565,913 in calendar year 2005, and \$3,530,676 in calendar year 2006. According to ABCC staff, the control procedure of entering revenue and fee information into the databases and

reconciling to MMARS was performed in the past, but was eliminated when ABCC became part of the Office of the State Treasurer.

From a cost of services perspective, it was noted that no fees are collected by ABCC for the cost of processing license and permit renewals. Given the time and effort required by ABCC to track, review, and re-issue licenses and permits, ABCC should evaluate whether the service should be fee-based to offset at least part of the processing costs. Although initial fees vary depending on the type of license or permit, a rough estimate based on an average \$100 annual renewal fee would be \$1.2 million in increased revenue.

Recommendation:

With respect to revenue, we recommend that the license or permit fee amounts or fines levied as recorded in the License Tracking System be reconciled with revenue received and posted to MMARS. We also recommend that the Commission and the Office of the State Treasurer consider the feasibility of charging a license or permit renewal fee to offset current processing and administrative costs.

Regarding data integrity, we recommend that internal control practices be enhanced to require reconciliation of data entered to source documents and to ensure that relevant data is recorded in the License Tracking System data fields. This may involve developing some form of data quality assurance function.

Auditee's Response

ABCC Management has compared the process for cash receipts with the process for recording and issuing licensing. Historically, cash transactions are processed at a different time and on a different application as compared to the processing of new licenses. As a result of your recommendations, we have enhanced the documentation of cash receipts to reference the specific licensee. Also, monitoring procedures have been implemented to ensure data of the License Tracking System is sufficient to meet standard practices.

Additionally, the Commission will consider your recommendation to evaluate the costs for processing renewals, for which no fees are collected.

Auditor's Reply:

The enhanced documentation of cash receipts to reference the specific licensee and evaluation of the costs for processing renewals are vital steps in monitoring the license revenue flow at ABCC.

3. Internal Control Documentation, Monitoring, and Evaluation

We found that ABCC did not have an approved internal control plan that would document internal control objectives and control practices and measures. Although ABCC had developed a draft internal control plan, in conjunction with the Office of the State Treasurer, the document had not been finalized. In addition, we found that adequate control monitoring and evaluation was not being conducted of related tasks and for LTS database integrity.

Our review of the Alcoholic Beverages Control Commission's internal control documentation revealed that the Commission did have internal control procedures for the license and permit application process and the recording, issuance and maintenance of licenses and permits, and an informal draft of an internal control document supplied by the Office of the State Treasurer. However, ABCC did not have an agency-specific internal control plan that detailed internal controls in place to address ABCC's administration and business operations. We found that ABCC did maintain policies and various sets of operating procedures to cover its business functions, but that the policies and procedures were not assimilated either by content or by cross-reference into a formally-documented, comprehensive, and cohesive agency-specific internal control plan to cover ABCC's three divisions of Administration, Licensing and Enforcement. Agency-specific internal control guides from the Office of the State Comptroller require agencies to maintain their own internal control plans.

Chapter 647 of the Acts of 1989, an act relative to improving internal controls within state agencies requires "internal control systems of the agency are to be clearly documented and readily available for examination. Objectives for each of these standards are to be identified or developed for each agency activity and are to be logical, applicable, and complete. Documentation of the agency's internal control systems should include (1) internal control procedures, (2) internal control accountability systems, and (3) identification of the operating cycles. Documentation of the agency's internal control systems should appear in management directive, administrative policy, and accounting policies, procedures and manuals."

Based on our review of the existing internal control documentation and the IT-related control areas covered in this audit, it appears that ABCC did not have a comprehensive monitoring and evaluation function in effect to determine whether internal controls were operating as intended to meet established operational and control objectives. Although the ABCC did have limited internal controls to provide reasonable assurance that management and primary business objectives were in

conformity with its mission, the Commission maintained only an informal monitoring or internal control function occurring through informal meetings.

While the Commission is responsible for the development and exercise of an appropriate internal control structure, including internal control documentation, to provide reasonable assurance that operational and control objectives would be addressed, we recognize that ABCC is partially dependent on its governing agency, the Office of the State Treasurer, for internal control guidance and documentation. It appears that the Commission has used the Office of the State Treasurer's operations staff to address what were often internal audit or monitoring functions. To strengthen the overall framework of control, risk analysis should be performed and control metrics should be established for ABCC's specific business activities. The Commission should be responsible for documenting its own monitoring and evaluating activities to provide improved assurance that adequate internal controls are in place and are functioning in the manner prescribed by management.

Our audit indicated that internal control documentation was not sufficiently comprehensive and that routine monitoring and testing of the Commission's system of internal controls did not always occur or was not adequately documented. As a result, ABCC cannot be adequately assured of consistently implemented and applied policies and procedures without having a fully-integrated monitoring and evaluation activity in place. We believe that the volume of activity, (processing over 12,000 licenses and permits annually and processing various business activities with the Office of the State Treasurer), warrants implementation of a formal monitoring and evaluation process and consideration of an internal audit function to assess the efficiency and effectiveness of ABCC operations and internal controls.

Recommendation:

The ABCC, in conjunction with the Office of the State Treasurer, should strengthen their internal controls documentation by developing a comprehensive and cohesive agency-specific internal control plan. We suggest that ABCC identify all sets of documented procedures that address operational and control objectives for separate business functions. We recommend that ABCC establish a framework for its internal control plan to which existing sets of internal documentation can be cross-referenced. The internal control plan should include administrative, accounting and operational control procedures covering the business activities performed by the various divisions at ABCC

We recommend that ABCC also strengthen its internal control practices by performing risk analysis on a periodic basis sufficient to identify business and operational risks that need to be addressed by

internal controls. We recommend that ABCC, in conjunction with Office of the State Treasurer, establish appropriate mechanisms to monitor and evaluate the effectiveness of internal controls. The latter would include mechanisms to measure whether controls are operating as intended and developing control self-assessment processes where appropriate. The ABCC, in conjunction with Office of the State Treasurer, should appoint and define the responsibilities of an internal control officer as required by the Office of the State Comptroller.

Auditee's Response

ABCC Management will document an Internal Control Plan consistent with the guidance issued by the Comptroller's Office in September 13, 2007. Management anticipates completing the assessment at the end of the fiscal year.

Auditor's Reply:

The Internal Control Plan, once approved by the Commission and the Office of the State Treasurer, should be finalized and used for guidance and as reference material for internal control practices for ABCC's administrative and business operations.