

LEGISLATIVE AUDIT REPORT
WEST VIRGINIA ALCOHOL BEVERAGE
CONTROL ADMINISTRATION

AUDIT PERIOD July 1, 2014 – June 30, 2015

FINDINGS

- Lack of Procedures for GL Suites Licensing Software



WEST VIRGINIA LEGISLATIVE AUDITOR
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A REPORT TO THE WEST VIRGINIA LEGISLATURE

Post Audits Subcommittee

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The Honorable William P. Cole III
The Honorable Mike Hall
The Honorable Jeffrey V. Kessler

House Members

The Honorable Tim Armstead
The Honorable Eric Nelson, Jr.
The Honorable Timothy Miley

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Denny Rhodes
Director

The Honorable William Cole III, President
West Virginia State Senate
Post Audits Subcommittee, Co-Chair
Room 229 M, Building 1
State Capitol Complex
Charleston, WV 25305

The Honorable Timothy Armstead, Speaker
West Virginia House of Delegates
Post Audits Subcommittee, Co-Chair
Room 228 M, Building 1
State Capitol Complex
Charleston, WV 25305

Dear Mr. President and Mr. Speaker:

In compliance with the provisions of West Virginia Code, Chapter 4, Article 2, as amended, we conducted a compliance audit of the West Virginia Alcohol Beverage Control Administration (ABCA) for the period of July 1, 2014 through June 30, 2015.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained during the audit meets the requirements set forth by those standards.

The audit disclosed certain findings, which are detailed in this report. The West Virginia Alcohol Beverage Control Administration management response to the audit findings is included in Appendix B at the end of the report.

Respectfully submitted,

A handwritten signature in blue ink that reads "Denny Rhodes".

Denny Rhodes

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OBJECTIVES and CONCLUSIONS

OBJECTIVE ONE

Determine if the Alcohol Beverage Control Administration's (ABCA) GL Suites Licensing Software is functioning properly and technical problems are resolved efficiently.

Conclusion

During discussions held with various ABCA staff, we discovered some field agents may require further training with the GL Suites Licensing Software and that the ABCA lacked procedures over how problems encountered by field agents while using the GL Suites software are reported, recorded, communicated and resolved. It is our opinion these lack of procedures contributed to a strained relationship between field agents and the ABCA IT staff.

Related Findings and Recommendations

Finding 1: Lack of Procedures for GL Suites Licensing Software

- 1.1 We recommend the ABCA establish and implement the following procedures for the ABCA's IT staff:
- A procedure for determining the adequacy of field agent training regarding their use of GL Suites Software;
 - A procedure for offering supplemental training to field agents when such training is determined be warranted;
 - A procedure for ascertaining if field agents have access to adequate internet service necessary for the efficient processing of data;
 - A procedure for providing satisfactory access to internet service for field agents if current access is determined to be inadequate; and
 - A procedure for the proper reporting, recording, and logging of problems encountered by ABCA staff while using the GL Suites Licensing Software.

OBJECTIVE TWO

Determine if the Alcohol Beverage Control Administration's Bailment Inventory System accurately accounts for all liquor inventory delivered and maintained at the ABCA Distribution Center, commonly referred to as the ABCA Warehouse.

Conclusion

We selected a sample of 182 products of liquor and matched cases counted by us to those documented in the ABCA's inventory record. We noted a variance of 0.04%. The variance did not exceed our predetermined finding threshold of

0.10%; however, we did report the variance to the ABCA in a letter to management.

Related Findings and Recommendations

No findings to report.

OBJECTIVE THREE

Determine if the ABCA Distribution Center has policies and procedures to ensure adequate safeguarding of warehouse inventory, so as to:

- a. Deter the risk of theft and misuse of inventory.
- b. Mitigate the occurrence of accidental damages to inventory.
- c. Reasonably reduce the risk of monetary liability claims.

Conclusion

We assessed the building layout and observed no security issues or potential hazards. We have concluded the ABCA has taken reasonable steps to mitigate the risk of monetary claims and adequately safeguard inventory.

Related Findings and Recommendations

No findings to report.

OBJECTIVE FOUR

Determine if the Alcohol Beverage Control Administration operates on a profitable basis and generates revenue for the State in accordance with WV Code, Legislative Rules and ABCA policies:

- a. Determine if appropriate payments were remitted to authorized distillers for the inventory sold to licensed retailers during our audit period.
- b. Determine if the ABCA sold alcoholic beverages in accordance with the requirements of WV Code §60-3A-17 in regards to the wholesale prices set by the commissioner of the ABCA for liquor and the methods of payment remitted by licensed retailers for liquor purchases.

Conclusion

We determined the ABCA operates on a profitable basis and generates revenue for the State in accordance with WV Code, Legislative Rules and ABCA policies. We determined payments made to distillers for purchases of alcohol were appropriate and in accordance with laws rules and regulations. Also, we

determined the ABCA sold alcoholic beverages in accordance with WV Code §60-3A-17 in regards to the wholesale prices set by the commissioner of the ABCA for liquor and in the methods of payment remitted by licensed retailers.

Related Findings and Recommendations

No findings to report.

FINDINGS and RECOMMENDATIONS

Finding 1: Lack of Procedures for GL Suites Licensing Software

ABCA Enforcement Field Agents are responsible for investigating West Virginia businesses that sell intoxicating beverages in order to ensure compliance with licensing and other legal requirements. During our audit of the ABCA, we made inquiries of various ABCA employees regarding the performance of the GL Suites Licensing Software routinely used by Field Agents in the performance of their duties. Through these discussions, along with our assessment of the existence and relevance of ABCA's supporting documentation, it became apparent the ABCA lacked adequate procedures over how problems encountered by field agents while using the GL Suites software are reported, recorded, communicated and resolved. Issues noted are as follows:

1. The ABCA IT Department does not have an established procedure for logging problems reported by field agents in the use of the GL Suites Software. Therefore, it cannot be determined how frequently issues are reported or how many times the same issue may have been previously reported. In addition, the steps taken to resolve issues are not documented by IT staff.
2. The ABCA IT Department does not have established procedures for how and when agents are to report problems encountered with the GL Suites Software. As a result, agents do not always report problems promptly and, when they ultimately do report, are often unable to provide the necessary information in order for the IT staff to readily offer solutions. For example, agents may not document error codes and later cannot recall the error messages when reporting problems.
3. The ABCA Department does not have a procedure for determining the internet capabilities of field agents' home internet access to ensure that internet speeds are capable of processing data efficiently. Agents routinely submit completed work to the GL Software database and receive GL Software "updates" via the internet. To assist the agents in doing so, the ABCA provides wireless routers for agents' residences and pays for agents' internet service.
4. Although, in-house training was provided to field agents during the implementation stages of the GL Suites software, the ABCA does not have procedures for assessing the need field agents to receive additional software training. Our conversations with field agents, as well as other ABCA employees, strongly suggests a need for additional personalized in-house training for some field agents in the proper use of GL Suites. Such additional training would likely reduce many of the more commonly encountered user errors. In addition, such in-house training may have the added benefit of

improving the strained working relationship between IT staff and the field agents they serve.

In our opinion the aforementioned lack of procedures (1) Significantly hindered the ABCA IT Staff in effectively and efficiently addressing problems encountered by ABCA Field Agents in the use of the GL Suites Software; (2) Was detrimental to ABCA staff in determining whether such problems were systematic to the software or were related to user error due to the lack of adequate staff training; and (3) Contributed an obvious strained relationship between Field Agents and the ABCA IT Staff.

Recommendation

1.1 We recommend the ABCA establish and implement the following procedures for the ABCA's IT Staff:

- A procedure for determining the adequacy of field agent training regarding their use of GL Suites Software;
- A procedure for offering supplemental training to field agents when such training is determined be warranted;
- A procedure for ascertaining if field agents have access to adequate internet service necessary for the efficient processing of data;
- A procedure for providing satisfactory access to internet service for field agents if current access is determined to be inadequate; and
- A procedure for the proper reporting, recording, and logging of problems encountered by ABCA staff while using the GL Suites Licensing Software.

APPENDIX A

AUTHORITY

The audit was conducted pursuant to WV Code §4-2, as amended, which requires the Legislative Auditor to “make post audits of the revenues and funds of the spending units of the state government, at least once every two years, if practicable, to report any misapplication of state funds or erroneous, extravagant or unlawful expenditures by any spending unit, to ascertain facts and to make recommendations to the Legislature concerning post audit findings, the revenues and expenditures of the State and of the organization and functions of the State and its spending units.” In addition, WV Code §60-2-21, as amended, states in part, “At least every five fiscal years, the Legislative Auditor shall audit the affairs of the West Virginia Alcohol Beverage Control Commissioner...”

The Post Audit Division of the Office of the Legislative Auditor is organized under the Legislative Branch of the State and the audits are reported to the Legislative Post Audits Subcommittee. This organizational structure has historically allowed the Division to be organizationally independent when audits are performed on an agency, board, or program of the Executive Branch of the State.

This communication is intended solely for the information and use of the Post Audits Subcommittee, the members of the WV Legislature, management of the WV Alcohol Beverage Control Administration, and WV taxpayers. Once presented to the Post Audits Subcommittee this report is a matter of public record and its distribution is not limited. This report is intended to assist the Post Audits Subcommittee in exercising its legislative oversight function, to provide constructive recommendations for improving State operations, and report agency activities to the WV taxpayers.

SCOPE

The audit of the WV Alcohol Beverage Control Administration included the period of July 1, 2014 to June 30, 2015. However, the physical count audit procedure of liquor bailment inventory was conducted on June 9 and 14, 2016. The audit scope included a review of applicable internal control policies and procedures, compliance with the WV Code, Expenditure Schedule Instructions, Legislative Rules, the WV State Purchasing Division Purchasing Handbook, Statewide contracts, agency-specific contracts, the State Auditor’s Office Purchasing Card Policies and Procedures, the State Purchasing Division’s Travel Regulations, best business practices and WV Alcohol Beverage Control Administration policies and procedures applicable for the audit period.

The audit included examining, on a test basis, evidence of compliance with those requirements referred to above and performing other procedures, as necessary. The audit does not provide a legal determination of the WV Alcohol Beverage Control Administration’s compliance with those requirements.

The WV Alcohol Beverage Control Administration management is responsible to accurately and efficiently perform all duties mandated under WV Code Chapter 60, Article 2, as well as other applicable areas of WV Code, the Code of State Rules, and its own internal policies. To achieve this, the WV Alcohol Beverage Control Administration must create and maintain policies and procedures to ensure all duties mandated

are performed. Additionally, it is the duty of the WV Alcohol Beverage Control Administration to accurately track and account for all State monies.

The WV Alcohol Beverage Control Administration management is also responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding assets, and compliance with applicable laws, rules, and regulations are achieved. Due to inherent limitations in internal control, errors and fraud may nevertheless occur and not be detected.

The scope over internal controls involved only assessing controls significant to the audit objectives. To conclude on the adequacy of internal controls regarding the WV Alcohol Beverage Control Administration as a whole was not a specific objective of the audit. Any significant internal control weaknesses discovered were reported in the findings.

This report includes findings regarding significant instances of noncompliance with applicable laws, rules and regulations as related to the objectives. Instances of noncompliance deemed insignificant to warrant inclusion in the report, or instances outside the scope of the audit that still merited the attention of the WV Alcohol Beverage Control Administration management, were communicated in a letter to the agency.

EXIT CONFERENCE

A draft of the report was sent to management on December 28, 2016. The report finding, as well as other audit matters contained within the report, was discussed during a December 30, 2016 phone conversation held with the ABCA Commissioner and the Legislative Post Audit Division's Deputy Director. Therefore, a formal exit conference was not held.

OVERALL SUFFICIENCY OF EVIDENCE

All testimonial evidence obtained by the audit team was evaluated for objectivity, credibility, and reliability and was obtained under conditions in which the employee was able to speak freely without intimidation. The employees had direct knowledge of their working area and there was no evidence employees were biased. Additionally, we assessed the sufficiency and appropriateness of computer processed information regardless of whether the information was provided to us, or was independently extracted, by using an Internal Control Questionnaire, assessing the reliability and integrity of data, performing analytical reconciliations, and testing the supporting documentation.

The auditors performed and documented an overall assessment of the collective evidence used to support findings and conclusions, including the results of any specific assessments conducted to conclude on the validity and reliability of specific evidence, according to Section 6.69 of the Yellow Book, by documenting internal controls, and performing tests of an appropriate size.

The overall evidence obtained was relevant to the objectives and findings. The evidence was determined to be valid and reasonable and supported the auditor's conclusions and findings. The overall evidence was reliable when tested and can be verified and supported. In establishing the appropriateness of the evidence as a whole, the auditors tested reliability by obtaining supporting documentation, used original

documents when available, verified the credibility of testimonial evidence, evaluated analytical review, assessed risk through an analytical risk assessment, and applied auditor judgment on the overall evidence.

When assessing the sufficiency and appropriateness of evidence, the auditors evaluated the expected significance of evidence to the audit objectives, findings, and conclusions, available corroborating evidence, and the level of audit risk as described in Section 6.71 of the Yellow Book, by using professional judgment and statistical sampling to determine a sufficient quantity for the testing and to determine the type of evidence needed based on the audit objectives.

The auditors did not identify any limitations or uncertainties in evidence that were significant to the audit findings and conclusions. The evidence obtained in the course of the audit provides a reasonable basis for the findings and conclusions based on the audit objectives.

METHODOLOGIES

Objective One

Determine if there were any issues with the ABCA's GL Suites Licensing Software implemented on April 21, 2014 including any issues encountered by field agents or IT Staff.

To achieve our objective, we conducted a survey of all filed agents using the GL Suites Licensing Software to assess the efficiency of the systems and determine what, if any, issues had been encountered that could be directly attributed to the software and what other issues field agents had encountered related to their use of the new licensing software. We also held meetings and discussions with the ABCA IT Director and his staff, the ABCA Chief Financial Officer, the ABCA Procurement Officer, the ABCA Enforcement Division Director and the ABCA Director of Human Resources. We also reviewed various documents including, but not limited to, bid documentation for the licensing software purchase, the GL Solutions contract and vendor payment documents.

Applicable Laws, Policies and Agreements for Objective One

- WV Code §5A-8-9 and the State Purchasing Division's Purchasing Regulations

Objective Two

Determine if the Alcohol Beverage Control Administration's Bailment Inventory System accurately accounts for all liquor inventory delivered and maintained at the ABCA Distribution Center, commonly referred to as the ABCA Warehouse.

We selected a sample of liquor inventory products from the current ABCA inventory record and physically counted the cases of those sampled items and recorded the results of our count in our test documents. We then compared the quantities of cases listed in the ABCA's inventory record for the specific day we conducted the inventory count to the quantity of cases we recorded during our inventory count. We noted any discrepancies between the audited count and the ABCA inventory records and inquired directly with ABCA warehouse staff to confirm that these discrepancies were accurate by our count. In some instances, we were able to resolve those discrepancies during our inventory count with the assistance of

ABCA warehouse staff. The remaining unresolved discrepancies were noted as exceptions in our audit work papers.

Applicable Laws, Policies and Agreements for Objective One

- WV Code §60-2, §5A-8-9 and Legislative Rule 175CSR6

Objective Three

Determine if the ABCA Distribution Center has policies and procedures to ensure adequate safeguarding of warehouse inventory, so as to:

- a. Deter the risk of theft and misuse of inventory.
- b. Mitigate the occurrence of accidental damages to inventory.
- c. Reasonably reduce the risk of monetary liability claims.

We conducted staff interviews, a walkthrough of the ABCA warehouse, and reviewed existing policies and procedures as well as documentation concerning adjustments to inventory and lost or missing inventory to determine the sufficiency and adequacy of the ABCA's policies and procedures to safeguard warehouse inventory and to determine that these policies and procedures and internal controls were operating as described.

Applicable Laws, Policies and Agreements for Objective Three

- WV Code §60-2, §5A-8-9 and Legislative Rule 175CSR6

Objective Four

Determine if the Alcohol Beverage Control Administration operates on a profitable basis and generates revenue for the State in accordance with WV Code, Legislative Rules and ABCA policies:

- a. Determine if appropriate payments were remitted to authorized wholesalers for the inventory sold to licensed retailers during our audit period.
- b. Determine if the ABCA sold alcoholic beverages in accordance with the requirements of WV Code §60-3A-17 in regards to the wholesale prices set by the commissioner of the ABCA for liquor and the methods of payment remitted by licensed retailers for liquor purchases.

We selected a sample of payments made by the ABCA for the purchase of liquor from wholesale vendors as well as payments made to the ABCA from retailers purchasing liquor for resale. We then reviewed supporting documentation for these selected payments to ensure that the ABCA was following applicable WV Code, Legislative Rules and ABCA policies in the operation of its liquor bailment as per our audit objective.

Applicable Laws, Policies and Agreements for Objective One

- WV Code §60-2, §60-3, §60-3-17 and §5A-8-9

APPENDIX B - MANAGEMENT RESPONSE



STATE OF WEST VIRGINIA
DEPARTMENT OF REVENUE
ALCOHOL BEVERAGE CONTROL ADMINISTRATION

900 Pennsylvania Ave., 4th Floor
Charleston, West Virginia 25302

EARL RAY TOMBLIN
GOVERNOR

RONALD M. MOATS
COMMISSIONER

ROBERT S. KISS
CABINET SECRETARY

Mr. Denny Rhodes, Director
Post Audit Division
Building 1, Room, W-329
1900 Kanawha Blvd., East
Charleston, WV 25305-0610

January 4, 2017

RE: Response to January 2017 Post Audit Report

Dear Mr. Rhodes:

Thank you for providing the recent audit findings for the West Virginia Alcohol Beverage Control Administration. We have addressed Objective One outlined in this report. The results are as follows:

Finding 1: Lack of Procedures for GL Suites Licensing Software

1.1 We recommend the ABCA establish and implement the following procedures for the ABCA's IT staff:

- *A procedure for determining the adequacy of field agent training regarding their use of GL Suites Software;*

A procedure was established and outlined in ABCA Policy IT-300. This policy took effect in December, 2016. (Policy attached)

- *A procedure for offering supplemental training to field agents when such training is determined be warranted;*

Training for field agents has been held frequently over the last several years and continues to be ongoing. The most recent training involving iPads and GL forms was held in December, 2016 at the Charleston offices. Enforcement Agents will continue to be encouraged to provide input for the training agendas. This recommendation has been adopted with ABCA Policy IT-300.

- *A procedure for ascertaining if field agents have access to adequate internet service necessary for the efficient processing of data;*

This recommendation has been adopted with ABCA Policy IT-300.

- *A procedure for providing satisfactory access to internet service for field agents if current access is determined to be inadequate; and*

This recommendation has been adopted with ABCA Policy IT-300.

- *A procedure for the proper reporting, recording, and logging of problems encountered by ABCA staff while using the GL Suites Licensing Software.*

The ABCA has implemented a ticketing system procedure to track all calls and emails related to systems issues. This will allow us to better track trends over time and monitor recurring issues.

We appreciate the opportunity to review the findings and respond accordingly. If I can be of additional assistance, please let me know.

Sincerely,



Ronald M. Moats, Commissioner
WVABCA

Attachment: ABCA Policy IT-300

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL ADMINISTRATION

WVABCA Enforcement Technology Policy

I. Purpose:

To establish procedures for Enforcement Supervisors and Enforcement Agents in the use of WVABCA computer devices, training and contingency plans.

II. Definitions:

- A. Computer devices include WVABCA issued laptop computers, iPhones and iPads.
- B. Virtual Private Network (VPN) is a method of securely connecting to the state network.
- C. DoForms is the app used on the iPhones and iPads to complete forms.

III. Policy:

A. How to report problems with computer devices (laptop, iPad and iPhone)

1. If an error message is received, capture a screen shot of the error message using the power and home buttons simultaneously on your iPad or iPhone (or take a photo using another device). Include license number and/or case number.
2. Call or e-mail the WVABCA IT Help desk at 304-356-5531 or abcaithelpdesk@wv.gov. If you cannot contact IT at the time of the problem, e-mail the help desk so the problem may be addressed the first thing the following work day. Always call before travelling to the office since some problems are better addressed at the Supervisor's or Agent's home office.
3. All contacts with our WVABCA IT Help Desk will be logged using a ticketing system to ensure all calls are documented and followed through to resolution.
4. Failing equipment must be returned to WVABCA IT Department. This includes iPhone/iPad chargers and cables.

WVABCA Enforcement Technology Policy – Page 2

B. Contingency plan

1. If an iPad and iPhone both fail, utilize a paper form which can later be photographed and entered in the mobile device once the issue has been resolved. Carry back up paper forms with you.
2. Update both your iPad and iPhone daily. In the case of equipment failure the other device may serve as a backup.

C. Computing device procedures.

1. Each time you use your laptop, connect to the Virtual Private Network (VPN) so a connection is made to the state network. This will ensure all the latest antivirus, computer policy and application updates are on your device. If you do not connect with the VPN, your laptop will soon be automatically disjoined from the State Network by Office of Technology and may need to be completely reinstalled.
2. Each workday, Supervisors and Agents need to do a full update of both iPads and iPhones within the DoForms application. Updating the iPads and iPhones daily will allow each device to serve as a backup.
3. Periodically, WVABCA will request that all Supervisors and Agents perform a test of their Internet connectivity and provide the results of such test. Instructions will be provided at the time of the test and the results will allow the WVABCA IT Help Desk to assess whether your connectivity is adequate for job duties. Some parts of the state do not have adequate service available in all residential areas. If you cannot get adequate connectivity at your home office, you should be able to visit a local state office (i.e. WV State Police Detachment or DHHR office) for Internet connectivity.

WVABCA Enforcement Technology Policy – Page 3

D. Training

1. WVABCA will make training available to all Supervisors and Agents as necessary.
2. Such training will cover topics pertinent to enforcement duties.
3. Training will be provided prior to any new introduction of hardware or software.
4. Supervisors and Agents may request training topics by contacting the Enforcement Director.
5. All training must be completed by all Supervisors and Agents. If a training session is missed, it is the responsibility of the Supervisor or Agent to contact the Enforcement Director to arrange for a makeup date.
6. Supervisors and Agents are encouraged call the WVABCA IT Help Desk with questions or training concerns.

- IV. Effective Date: 12/1/2016**
V. Revision Date: 01/04/2017
VI. Policy Number: IT-300

