

A Systemic Performance Audit of the Department of Alcoholic Beverage Services

Improving Management, Inventory Controls,
Risk Assessment, and Business Efficiency

Office of the Legislative
Auditor General

Report to the UTAH LEGISLATURE



LEGISLATIVE AUDITOR GENERAL



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October 14, 2025

TO: THE UTAH STATE LEGISLATURE

Transmitted herewith is our report:

“A Systemic Performance Audit of the Department of Alcoholic Beverage Services” [Report #2025-18].

An audit summary is found at the front of the report. The scope and objectives of the audit are included in the audit summary. In addition, each chapter has a corresponding chapter summary found at its beginning.

[Utah Code 36-12-15.3\(2\)](#) requires the Office of the Legislative Auditor General to designate an audited entity’s chief officer. Therefore, the designated chief officer for the Department of Alcoholic Beverage Services is Executive Director Ericka Evans. Director Evans has been notified that they must comply with the audit response and reporting requirements as outlined in this section of *Utah Code*.

We will be happy to meet with appropriate legislative committees, individual legislators, and other state officials to discuss any item contained in the report in order to facilitate the implementation of the recommendations.

Sincerely,

Kade R. Minchey, CIA, CFE

Auditor General

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SYSTEMIC PERFORMANCE AUDIT

AUDIT REQUEST

The Legislative Audit Subcommittee requested and prioritized a systemic performance audit of the Department of Alcoholic Beverage Services (DABS). This type of audit begins with a review of the whole agency and is reduced in scope as risks are identified.

BACKGROUND

The Department of Alcoholic Beverage Services operates 51 liquor stores and a warehouse to reasonably satisfy the public demand for alcohol and protect the public interest. DABS also oversees package agencies and the licensing and regulation of the sale of alcoholic beverages.

DEPARTMENT OF ALCOHOLIC BEVERAGE SERVICES



KEY FINDINGS

- ✓ **1.1** DABS Current and Past Problems with Management, Oversight, and Controls Highlight the Need for Change
- ✓ **1.2** DABS Lack of Internal Controls Has Led to Inaccurate Financial Reporting, Theft and Overspending
- ✓ **2.2** DABS Management Can Strengthen Its Oversight of Retail Stores
- ✓ **3.3** DABS Internal Audit Effectiveness Limited by Gaps in Coordination
- ✓ **4.1** DABS Should Have Provided Additional Information When Securing Funding for Warehouse Expansion



RECOMMENDATIONS

- ✓ **1.1** The Department of Alcoholic Beverage Services management should implement changes that are clearly documented, effectively executed, and specifically designed to correct past problems.
- ✓ **2.6** The Department of Alcoholic Beverage Services should prioritize identifying and addressing inventory variance process issues as timely as possible and inform all levels of management for support and oversight to reduce unnecessary loss of inventory at stores.
- ✓ **3.4** The Department of Alcoholic Beverage Services should use internal audit more effectively by increased collaboration with the Alcoholic Beverage Services Commission to prioritize and accurately address high-risk areas.
- ✓ **4.1** The Legislature should consider if adjustments to the warehouse expansion funding are needed, provided the new information presented in Chapter 4.



REPORT SUMMARY

Management and Oversight of Operations Should Be Strengthened

DABS management has not fully resolved long-standing issues with financial misreporting, IT systems, and inventory loss in a timely manner. With recent leadership changes, new management must prioritize addressing these risks to prevent further problems.

DABS Inventory Processes Need Stronger Internal Controls

DABS needs to strengthen its inventory controls and accountability measures, as deficiencies in these areas led to losses exceeding one million dollars in fiscal year 2024. DABS management can improve processes and the accountability of inventory variances.

DABS Needs to Improve Internal Controls to Address Deficiencies

The Government Accountability Office's *Green Book* outlines five key components for effective internal control systems. These best practices can guide new DABS leadership in strengthening oversight.

The findings throughout our report indicate a significant lack of management oversight. We believe these issues warrant greater attention and a more proactive approach from leadership than has been demonstrated in the past.

DABS Can Strengthen the Risk Assessment and Internal Audit Function to More Effectively Address and Reduce High-Risk Issues

DABS has the opportunity to improve its risk assessment process and internal audit function to more effectively identify and address high-risk issues. DABS's ineffective oversight of the risk assessment process has led to continued internal control gaps. Internal audit failed to address one of the most critical systems in the organization that had known problems.

DABS Should Improve Business Analysis to Become More Efficient with State Resources

DABS management should improve the use of data to ensure that complete information is presented to key stakeholders. DABS has not consistently used KPIs to measure operational performance, which has limited its ability to operate efficiently.

Five Principles For Effective Internal Control: GAO Green Book

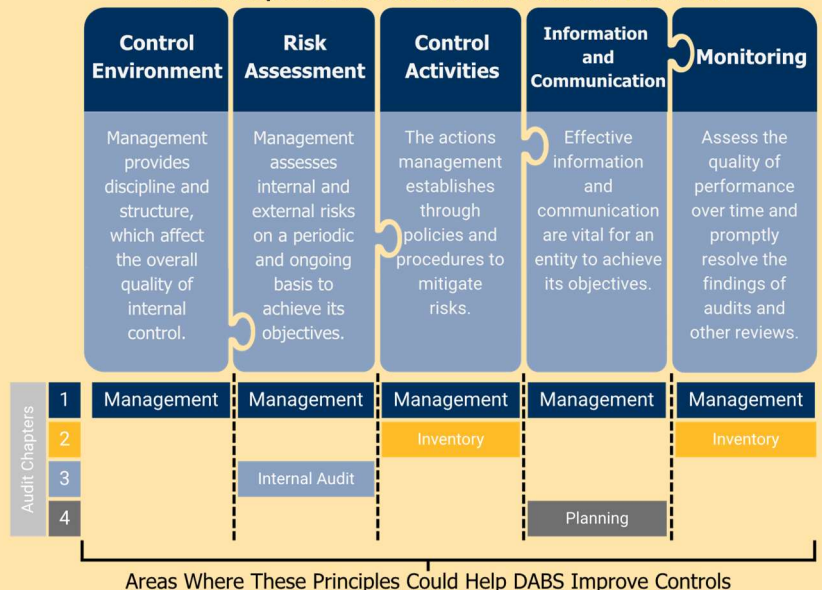


Table of Contents

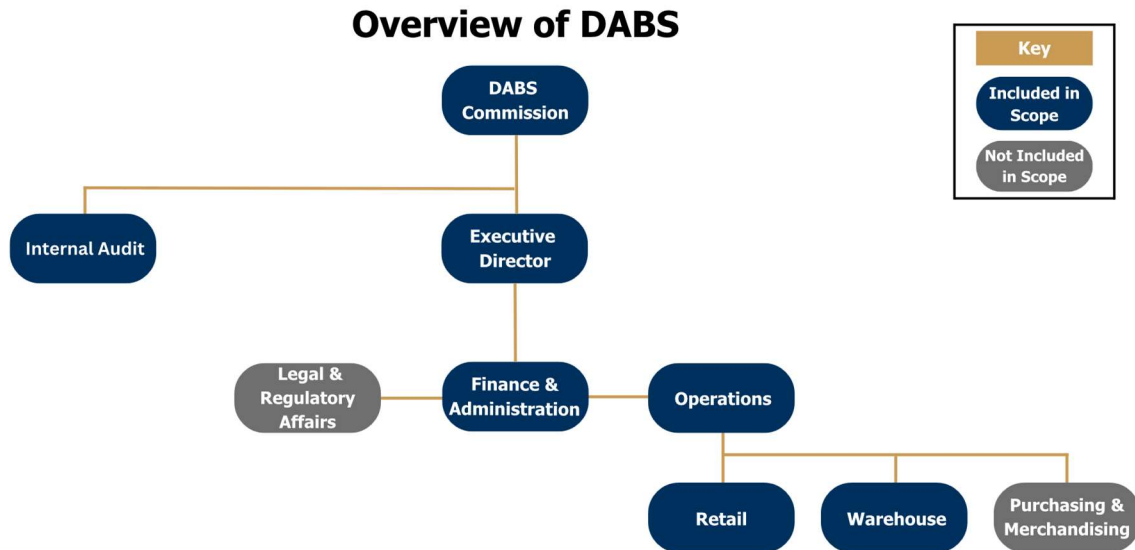
Introduction	1
Chapter 1 Management and Oversight of Operations Should Be Strengthened.....	7
1.1 DABS Current and Past Problems Highlight the Need for Change	7
1.2 DABS Lack of Internal Controls Has Led to Inaccurate Financial Reporting, Theft, and Overspending.....	10
1.3 The Alcoholic Beverage Services Commission’s Visibility on Controls Needs to Be Strengthened	14
Chapter 2 DABS Inventory Processes Need Stronger Internal Controls and Accountability.....	19
2.1 Inadequate Inventory Controls Allow Retail Employees to Impact the State’s Revenue Without Review.....	20
2.2 DABS Management Can Strengthen Its Oversight of Retail Stores.....	22
2.3 Unexplained Variances of \$400,000 in Liquor Inventory Highlights Oversight Gaps.....	28
Chapter 3 DABS Can Strengthen the Risk Assessment and Internal Audit Function to more Effectively Address and Reduce High-Risk Issues	33
3.1 DABS Management Does Not Effectively Mitigate Risk Because Risk Assessment Has Not Been Prioritized	33
3.2 DABS Internal Audit Delayed a High-Risk Audit on the D365 System Despite Being Aware of Continued Issues.....	35
3.3 DABS Internal Audit Effectiveness Is Limited by Gaps in Coordination	37
Chapter 4 The Department of Alcoholic Beverage Services Should Improve Business Analysis to Become More Efficient with State Resources	43
4.1 DABS Should Have Provided Additional Information When Securing Funding for Warehouse Expansion.....	43
4.2 Business Analysts Have Been Underutilized in Driving Process Improvement.....	46
Complete List of Audit Recommendations	51
Appendix	57
A. DABS Survey Results	59
Agency Response Plan	65





Introduction

We conducted a systemic audit of the Department of Alcoholic Beverage Services to identify areas with the most significant concerns. The graphic below shows a general overview of DABS and the areas we audited.



Source: Auditor Generated Based off DABS Organizational Chart

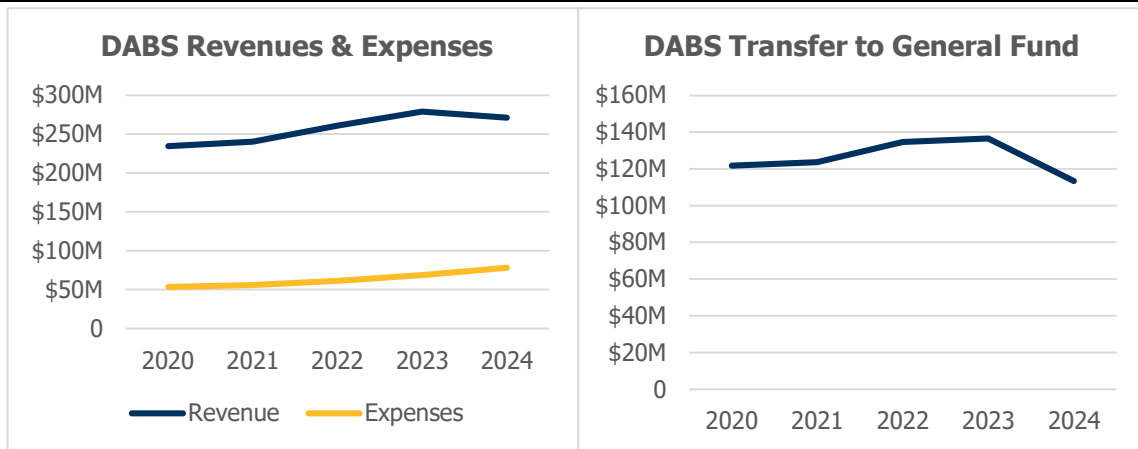
In this audit, we provide recommendations that can help DABS improve its management (Chapter 1), inventory controls (chapter 2), internal audit (chapter 3), and business analysis (chapter 4). The improvements we recommend can help ensure that DABS more efficiently provide services and manage the Department’s risks.

Overview of DABS Revenues and Expenses

Every year, DABS generates millions of dollars of revenue from alcohol sales in Utah. DABS revenue has statutory earmarks that fund alcohol education, school lunch, and public safety. After these earmarks, DABS’s remaining profit is transferred to the State’s General Fund. In FY2024, the amount that was sent to the general fund was \$113 million dollars.



Figure 1.1 DABS Revenue Has Decreased. The chart on the left shows revenues and expenses from fiscal year 2020-2024. The chart on the right shows transfers to the General Fund from 2020-2024. Revenues and transfers to the General Fund decreased in fiscal year 2024.



Source: Auditor Generated Based on DABS Financial Statements

Summary of DABS Organizational Changes

DABS recently implemented significant changes to its management structure to strengthen internal controls and oversight within the department. The recent restructuring includes creating new leadership roles and new appointments for finance, operations, deputy directors, and the executive director.

DABS Leadership Changes



Source: Auditor Generated Based on DABS Organizational Chart



Audit Found DABS Needs Substantial Improvements

We found that several critical areas within DABS including finance, inventory, and internal audit lacked key controls and oversight. This contributed to financial loss. As DABS continues to navigate its organizational changes, it is vital that new management prioritize the audit's recommendations and improve its strategy in managing the department.





BACKGROUND

It is the responsibility of the leadership of the Department of Alcoholic Beverage Services (DABS) and the Alcoholic Beverage Services Commission to ensure the agency operates under sound management principles.

FINDING 1.1

DABS Current and Past Problems Highlight the Need for Change

RECOMMENDATION 1.1

The Department of Alcoholic Beverage Services management should implement changes that are clearly documented, effectively executed, and specifically designed to correct past problems. These changes should not only address prior instances of noncompliance but also ensure that the intended improvements take root throughout the organization—eliminating the conditions that have allowed noncompliance issues to persist.

FINDING 1.2

DABS Lack of Controls Has Led to Inaccurate Financial Reporting, Theft, and Overspending

RECOMMENDATION 1.2

The Department of Alcoholic Beverage Services should ensure all system requirements are thoroughly mapped out prior to the development or funding of any Request for Proposal. This should help ensure systems are not developed without necessary capabilities and controls.

RECOMMENDATION 1.3

The Department of Alcoholic Beverage Services should ensure that plans are created to implement all audit recommendations, including: a timeline, who is responsible, and follow-up processes to ensure that responsible staff are held accountable and recommendations are implemented.

RECOMMENDATION 1.4

The Department of Alcoholic Beverage Services management should create and implement a policy to perform line-item level tracking and analysis of the budget regularly to ensure overspending does not occur.

FINDING 1.3
The Alcoholic Beverage Services Commission's Visibility on Controls Needs to Be Strengthened

RECOMMENDATION 1.5

The Department of Alcoholic Beverage Services should provide key performance indicators for key operational goals to the Alcoholic Beverage Services Commission to allow the Commission more effective oversight of operations.



CONCLUSION

With recent leadership changes, new management must address systemic issues prevent further problems. Strengthened oversight, supported by key performance indicators, could enable the Alcoholic Beverage Services Commission to better identify risk areas and hold DABS leadership accountable.



Chapter 1

Management and Oversight of Operations Should Be Strengthened

The Department of Alcoholic Beverage Services (DABS) and the Alcoholic Beverage Services Commission (Commission) are responsible for ensuring the agency operates under sound management principles.

However, DABS management has not fully resolved long-standing issues with financial misreporting, IT systems, and inventory loss in a timely manner. With recent leadership changes, new management must prioritize addressing these risks to prevent further problems.

Because of the failure to resolve long-standing issues, DABS needs better oversight from the Commission. DABS should track and report key performance indicators (KPIs) to the Commission. With KPIs providing transparency on performance in key areas, the Commission can better spot risks and hold DABS leaders accountable.



DABS management has failed to resolve longstanding issues with financial reporting, IT systems, and internal controls in a timely manner.

1.1 DABS Current and Past Problems Highlight the Need for Change

For over a decade, DABS has faced persistent issues with noncompliance. These issues have consistently involved failures to adhere to laws, policies, and best practices—particularly in areas such as conflicts of interest, business planning, financial management, inventory control, and oversight.

We acknowledge the dedication and hard work of many employees within the department. We also recognize that positive changes have been initiated. However, it remains the responsibility of management to ensure that a culture of noncompliance does not persist. Leadership must take proactive steps to continue to reinforce accountability, transparency, and adherence to standards across all levels of the organization.

Between 2010 and 2019, audits by our office and the State Auditor revealed repeated and serious mismanagement.

Examples of findings from our office's audits during that period include:

- The Department has been incompetently managed.
- The Department's actions contributed to increased losses to the State.
- Department management failed to ensure oversight of financial affairs.



- The Department needs to address system problems to ensure inventory accuracy.
- Control and oversight of retail operations can improve.

Examples of findings from the Office of the State Auditor during that period include:

- Troubled implementation of IT system caused multi-million dollar errors.
- Inadequate separation of duties over financial operations.
- Employee expertise can be strengthened.

Many of the current findings mirror issues identified in those earlier reports, as shown in the following graphic.

Our Key Findings From This Report Are Also Described In Audits of DABS From 2010-2019

Concern:	 Management	 Oversight	 Inventory Controls	 IT System Implementation	 Governance	 Planning
# of Related Audits 2010-2019	7	7	4	4	3	2
Related Chapters from this Report	Chapter 1	Chapter 1 Chapter 2 Chapter 3	Chapter 2	Chapter 1	Chapter 1	Chapter 4

 **The pattern of inaction described in past audits continues with current audit findings** 

Source: Auditor summary of OLAG and OSA audits from 2010-2019.

We believe DABS' history of management and compliance concerns underscores the urgent need to implement our recommendations. Doing so will help strengthen controls, enabling DABS to better achieve its core objectives. Given the nature of repeated findings for over a decade, DABS leadership needs to implement change to address the culture of noncompliance.

Given the recurring issues of noncompliance identified over more than a decade, it is critical that DABS leadership ensures that current reforms are not superficial. Improvements must reach all levels of the organization—addressing culture, training, staffing, and compliance—to eliminate noncompliance and establish



lasting accountability. We are encouraged with the progress that has already been started.

Recent Changes Show Progress Towards Fixing Systemic Issues

Starting with the previous Executive Director, both management and the Commission have demonstrated a strong commitment to implementing key reforms aimed at enhancing oversight and control. During that time, the Executive Director also initiated several leadership changes. Specifically, key leadership from areas such as finance, purchasing and merchandising, licensing and compliance, operations, and executive leadership have changed.

Along with those changes, DABS management has developed an improvements blueprint to direct staff across the organization in the changes that need to be made to help ensure controls and oversight are working effectively. Some of the changes included in that plan include:

- Strengthening internal controls for inventory, finances, and store operations.
- Improved risk assessment and policy review.
- Leadership development.
- Operations reporting, including key performance indicators.

We believe these efforts, along with tracking them through dashboards DABS has developed, can help new leadership in continuing to make the sustained changes the organization needs.

RECOMMENDATION 1.1

The Department of Alcoholic Beverage Services (DABS) management should implement changes that are clearly documented, effectively executed, and specifically designed to correct past problems. These changes should not only address prior instances of noncompliance but also ensure that the intended improvements take root throughout the organization—eliminating the conditions that have allowed noncompliance issues to persist.



1.2 DABS Lack of Internal Controls Has Led to Inaccurate Financial Reporting, Theft, and Overspending

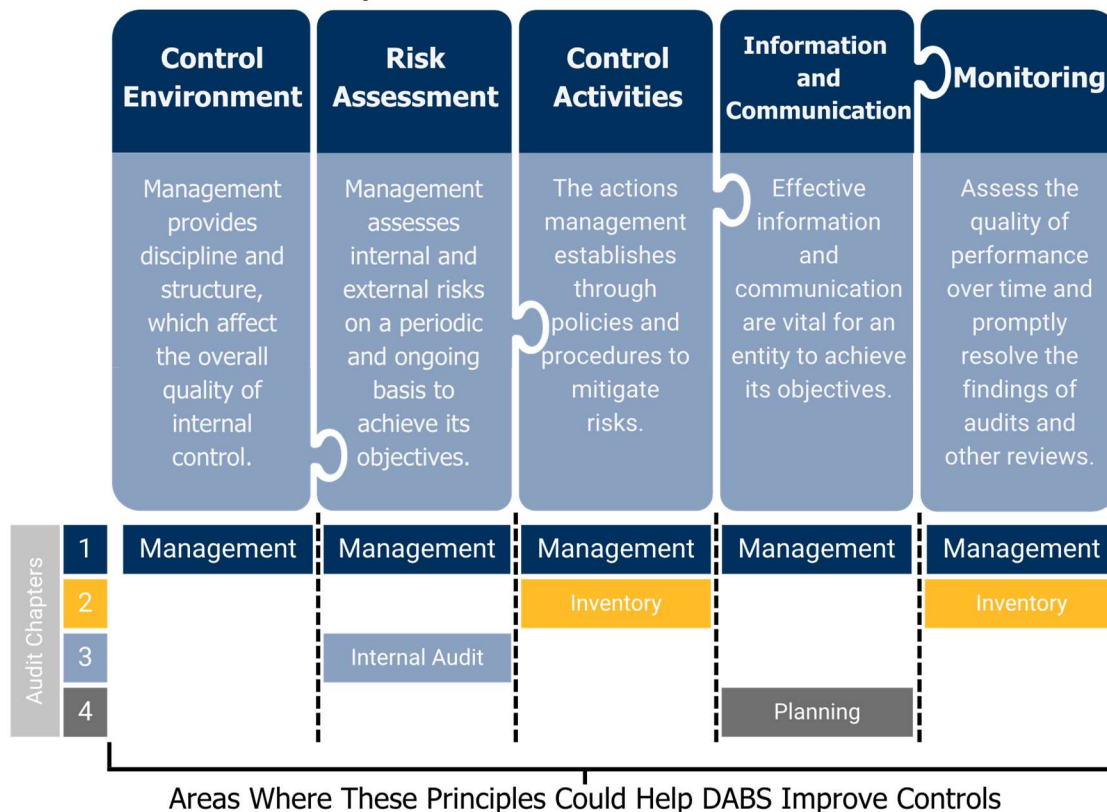


A lack of oversight and weak internal controls have resulted in inaccurate financial reporting, theft, and overspending.

DABS leadership’s lack of oversight, weak internal controls, and poor implementation of the DABS core IT system have resulted in inaccurate financial reporting, theft, and overspending. It is management’s responsibility to establish and monitor effective controls. By failing to do so in a timely manner, DABS leadership has allowed critical risks to go unaddressed.

The Government Accountability Office’s *Green Book* outlines five key components for effective internal control systems. These best practices can guide new DABS leadership in strengthening oversight and achieving the department’s operational, reporting, and compliance objectives. We believe following these best practices for controls could have limited the issues occurring at DABS. The following graphic illustrates the five components of an internal control system from the GAO *Green Book* and areas where they can help DABS improve controls.

Five Principles For Effective Internal Control: GAO Green Book



Source: Auditor compilation of GAO Green Book five components.



The findings throughout our report, and particularly those related to inventory management, indicate a significant lack of management oversight. We believe these issues warrant greater attention and a more proactive approach from leadership than has been demonstrated in the past.

Persistent Red Flags From the Office of the State Auditor Reflect Oversight Deficiencies

Over the past three years, the Office of the State Auditor (OSA) has issued multiple audit findings highlighting DABS's failure to implement adequate financial controls. One of the audit findings recurred in three audits from 2023-2025. These findings demonstrate a pattern of inaction that has compromised the department's financial integrity. Key findings included in OSA Audits:

- DABS operations were not accurately recorded in the State's accounting system.
- Missing change order and store sales revenue funds came as the result of theft.
- A lack of approval for accounting entries allows staff to make changes with no oversight and the previous fiscal year was not closed out. This could have allowed staff to make changes after audits were completed.

A central issue cited in DABS's audit responses is the implementation of the Dynamics 365 (D365) system. The D365 enterprise resource planning system enables DABS's warehouse, retail, and financial operations. D365 is used as the retail point of sale system, inventory tracking system, and financial system. However, its rollout in October 2022 was poorly planned and executed. Following the audits, DABS management did not identify the cause of the issues, which left critical audit findings unaddressed. We observed that D365 has been blamed for systemic problems within the department, however, until recently sufficient resources were not allocated to rectify the issues.



Poor IT system implementation has cost the state millions of dollars and



Poor IT system implementation has cost the state millions of dollars and resulted in a lack of financial controls and reporting.

resulted in a lack of financial controls and reporting. The D365 system requires detailed planning, business process mapping, and user acceptance testing to implement. DABS management and IT staff reported that these steps were not followed effectively, resulting in persistent system issues that have contributed to audit findings and millions in additional spending.

System configuration delays contributed to the conditions that enabled over \$100,000 in theft, as documented in the OSA's most recent audit. A single store employee was able to steal change order funds because of the lack of controls. Over \$8000 in store sales revenues were also missing because of these controls issues. More timely improvements to the D365 system as well as following simple accounting procedures such as bank reconciliations could have caught these concerns. This shows the need for timely remediation of audit findings to ensure further control issues do not occur, as described in the *Green Book*.



System configuration delays contributed to the conditions that enabled over \$100,000 in theft over several years, as documented in the OSA's most recent audit.

To enhance the effectiveness and accountability of future system implementations, we recommend that DABS ensure all system requirements are thoroughly mapped out prior to the development or funding of any Request for Proposal. This proactive approach will help align project goals with operational needs and reduce the risk of costly revisions or misaligned outcomes. Additionally, when audit findings include recommendations, DABS management should establish a structured follow-up process. This process should include setting a clear timeline for implementation, assigning responsibility to a specific individual and creating a follow-up schedule to monitor progress. These steps will help ensure that audit recommendations are not only acknowledged but also effectively implemented.



RECOMMENDATION 1.2

The Department of Alcoholic Beverage Services should ensure all system requirements are thoroughly mapped out prior to the development or funding of any Request for Proposal. This should help ensure systems are not developed without necessary capabilities and controls.

RECOMMENDATION 1.3

The Department of Alcoholic Beverage Services should ensure that plans are created to implement all audit recommendations, including: a timeline, who is responsible, and follow-up processes to ensure that responsible staff are held accountable and recommendations are implemented.

Management Lacked Adequate Financial Oversight, Which Enabled Overspending

In FY24, DABS exceeded its budget by over \$300,000. This overspending occurred because department leadership did not implement effective controls to ensure proper oversight of appropriations and expenditures. Historically, budget oversight within the department did not include detailed, line-item level information. As a result, management and finance staff failed to catch an accounting error that included a double appropriation mistakenly provided to DABS by the Legislature. The double appropriation of nearly \$4 million had been removed by the Legislature but was mistakenly included in the FY24 budget.



Limited financial oversight led to overspending DABS budget by over \$300,000.

This issue was not identified by DABS finance or management staff until late in the fiscal year. By the time it was reported to DABS management, there was limited time to reduce spending, and the department was unable to adjust quickly enough to remain within its actual appropriation. Consequently, DABS appeared before the Board of Examiners and absorbed the overspending in the FY25 budget.

To prevent future overspending, DABS can adopt three best practices for budget monitoring¹, shown in the following graphic.

¹ Government Finance Officers Association (GFOA) *Best Practices for Budget Monitoring*



Governments need to carefully analyze sources of funds with particular attention to...changes in policy/practice of overarching governments involved in disbursement of revenues.



Governments need to carefully monitor all expenditures.

Governments should move beyond just identifying deviations from budget versus actuals and work towards analyzing and articulating why deviations occurred in order to move towards resolution.



Source: Auditor compilation of three Government Finance Officers Association Best Practices for Budget Monitoring.

Because budget issues can happen if proper monitoring does not occur, we recommend DABS management ensure that line-item level tracking and analysis of the budget is completed regularly. Recently, the new DABS Finance Director has implemented new tracking systems that provide management with visibility into budgeting at the line-item level. We believe this type of tracking, if continued, can help DABS mitigate risk of overspending in the future.

RECOMMENDATION 1.4

The Department of Alcoholic Beverage Services management should create and implement a policy to perform line-item level tracking and analysis of the budget regularly to ensure overspending does not occur.

1.3 The Alcoholic Beverage Services Commission’s Visibility on Controls Needs to Be Strengthened

The Alcoholic Beverage Services Commission (Commission) has oversight authority over DABS, however in practice this oversight on controls is limited. As mentioned previously, GAO’s *Green Book* provides best practices for establishing an effective control system. Among those, two best practices address the oversight body of the organization, including:



- The oversight body and management should demonstrate a commitment to integrity and ethical values.
- The oversight body should oversee the entity's internal control system.

The Commission has followed the first principle by demonstrating a commitment to integrity and ethical values. A recent example is how the Commission reacted to the 2025 OSA audit findings. The Commission shared appreciation for the findings, an interest in continuous improvement, and support for every recommendation made by the State Auditor. DABS recently developed a new dashboard to track the implementation of those recommendations, and the Commission has asked to be updated on the status.

Based on the second *Green Book* best practice, the Commission's oversight of DABS's internal control system could be improved. Currently, oversight consists of a subcommittee report to three Commission members and a summary of recent operational changes presented during regular meetings. Unlike the financial report, which includes comparative data on revenues and expenses, DABS does not routinely provide data on key operational areas such as inventory loss, warehouse and store performance, or product demand. This lack of reporting limits the Commission's ability to monitor trends or identify potential issues in these areas.

To enable the Commission to oversee the DABS internal control system, DABS should provide the Commission with key performance indicators (KPIs). KPIs would allow the Commission to analyze and discuss information related to the achievement of the Department's objectives.

These KPIs should be designed to measure progress toward key operational goals, including areas such as:

- inventory management
- store performance
- warehouse distribution efficiency
- product demand
- the implementation status of audit recommendations

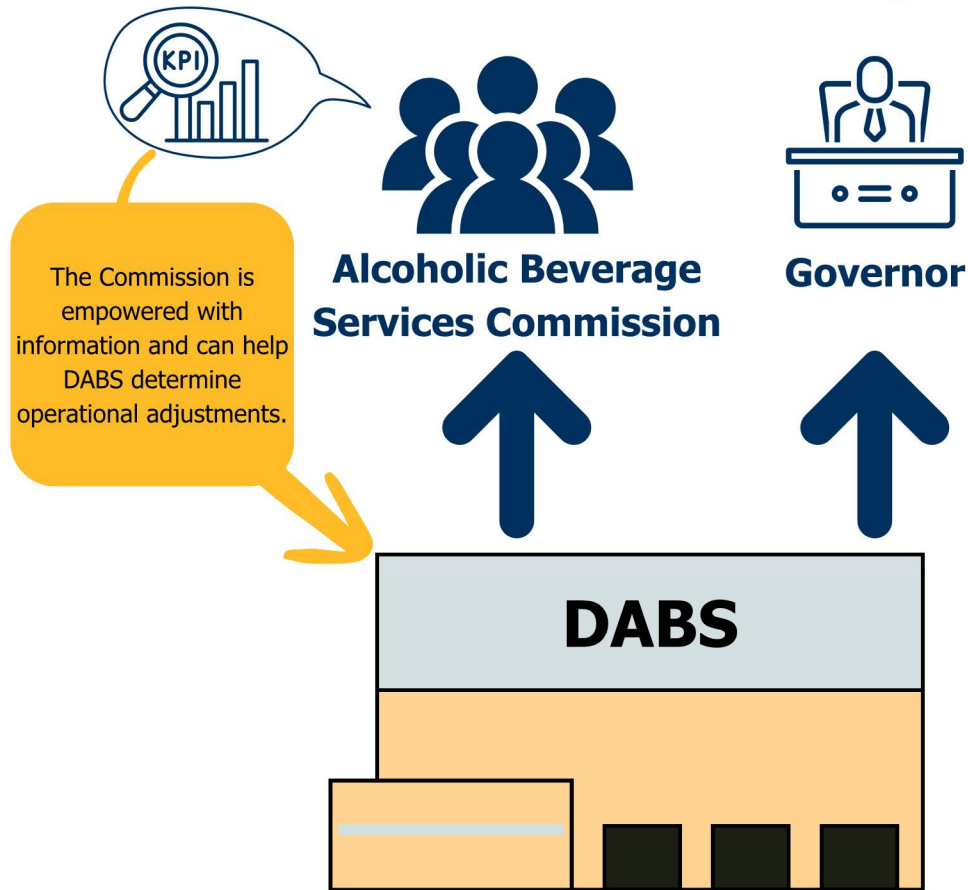


KPIs can help strengthen the Liquor Commissions ability to oversee DABS internal control system.

With current operational concerns at DABS, we believe that more Commission oversight, strengthened by KPIs, will help DABS operations improve.



Enhanced Commission Oversight



Source: Auditor generated.

Ensuring that KPI data and information are presented to the commission would also provide visibility for DABS leadership on these KPIs. Many key operational areas—such as inventory management, warehouse distribution, and product demand—are not consistently tracked by DABS leadership. Tracking recommendation implementation only began recently following the latest OSA audit. As discussed further in Chapter 4, we believe business analysts could be more effectively utilized to develop KPI dashboards or other tracking tools. These tools would help ensure that critical performance indicators are regularly reviewed and used to inform necessary operational adjustments.

RECOMMENDATION 1.5

The Department of Alcoholic Beverage Services should provide key performance indicators for key operational goals to the Alcoholic Beverage Services Commission to allow the Commission more effective oversight of operations.



BACKGROUND

A large part of the Department of Alcoholic Beverage Service is to provide the distribution and sale of alcohol and ensure its inventory is properly accounted for. DABS must have strong internal controls in place to oversee and account for its inventory.

FINDING 2.1

Inadequate Inventory Controls Allow Retail Employees to Impact the State's Revenue Without Review

RECOMMENDATION 2.1

The Department of Alcoholic Beverage Services should implement approval requirements within the Microsoft Dynamics 365 for inventory processes to ensure the accuracy and integrity of variance entries into the system.

RECOMMENDATION 2.2

The Department of Alcoholic Beverage Services should create and implement digital variances reports, including documentation of investigation of variances, to strengthen the oversight of reported variances and trigger verification processes as necessary. Management should ensure variances are properly investigated and reviewed.

FINDING 2.2

DABS Management Can Strengthen Its Oversight of Retail Stores

RECOMMENDATION 2.3

The Department of Alcoholic Beverage Services should address variances at all levels of the organization and develop more robust policies and procedures to strengthen the oversight of variances

RECOMMENDATION 2.4

The Department of Alcoholic Beverage Services should develop and implement policies to heavily weight variances during retail and management evaluations. Retail management should monitor these variances to increase focus on inventory controls.

RECOMMENDATION 2.5

The Department of Alcoholic Beverage Services should implement a clear threshold for variances and require notating investigation of variances at the warehouse to strengthen inventory accountability. This should include carefully tracking and reviewing investigation of variances to ensure DABS can minimize loss.

FINDING 2.3
Unexplained Variances of Over
\$400k in Liquor Inventory
Highlights Oversight Gaps

RECOMMENDATION 2.6

The Department of Alcoholic Beverage Services should prioritize identifying and addressing variance process issues as timely as possible and inform all levels of management for support and oversight to reduce unnecessary loss of inventory at stores.



CONCLUSION

There is a lack of internal controls and accountability at the Department of Alcoholic Beverage Services (DABS) which has led to significant and unnecessary loss year to year. Implementing inventory as a key performance indicator and developing robust inventory process controls will enable DABS to have strong oversight and accountability by promptly identifying, monitoring, and addressing risk.



Chapter 2

DABS Inventory Processes Need Stronger Internal Controls and Accountability

The Department of Alcoholic Beverage Services (DABS) needs to strengthen its inventory controls and accountability measures, as deficiencies in these areas led to losses exceeding one million dollars in fiscal year 2024. This loss occurred because of negative inventory variances² which can limit revenue and sometimes results in a loss of inventory. With the cost of liquor sold in fiscal year 2024 being \$317 million, this loss is only a small portion of the inventory that DABS sold in that year. However, the stores we reviewed were above the threshold in DABS policy, with some stores being significantly outside the threshold. DABS must strengthen its inventory processes to maintain state assets and accurately report its revenues.³



DABS Management must strengthen internal controls.

DABS does not effectively evaluate its operations and hold individuals accountable for their internal control responsibilities. These principles are two necessary controls provided in GAO's Green Book.⁴

DABS management can improve processes and accountability of inventory variances. As a result of poor processes, DABS lost close to \$1 million at the retail level in fiscal year 2024. This is especially concerning as we found that one store in particular showed \$400,000 in inventory loss without adequate response from DABS management to resolve its inventory issues. In 2024, the loss at this store was 10 times the standard set in DABS policy. The recommendations in this chapter address core issues of inventory controls across the agency.

² An inventory variance occurs when the product in the store or warehouse does not match what the computer system is tracking.

³ Excess revenues beyond earmarks for alcohol education, school lunches, and public safety are transferred to the General Fund.

⁴ The Green Book best practices are more fully explained in Chapter 1.



2.1 Inadequate Inventory Controls Allow Retail Employees to Impact the State’s Revenue Without Review

A DABS retail employee mistyped a variance resulting in a \$600,000 fluctuation in the State’s General Fund. A variance is when the amount of product reported by the system does not match what is available in a store. The following graphic describes what a variance is.



A DABS retail employee typo resulted in a \$600,000 fluctuation to the State’s General Fund.



Source: Auditor generated.

Variances occur for several reasons including theft, miscounts, misplacement, and clerical errors. As will be discussed further, poor oversight and controls of variances have resulted in losses to the General Fund.

DABS Inadequate Review of Variance Report Caused \$600,000 of State Revenue Fluctuation

DABS retail employees use the inventory management system to enter variances that arise within their respective stores. At the end of fiscal year 2023, a retail employee mistyped a positive \$600,000 variance into the inventory management system. The typo went undetected until the beginning of fiscal year 2024. We recognize human error occurs. Our concern is that DABS did not have an adequate oversight review process in place to identify the error. Variance reports should be carefully reviewed to ensure errors are corrected.

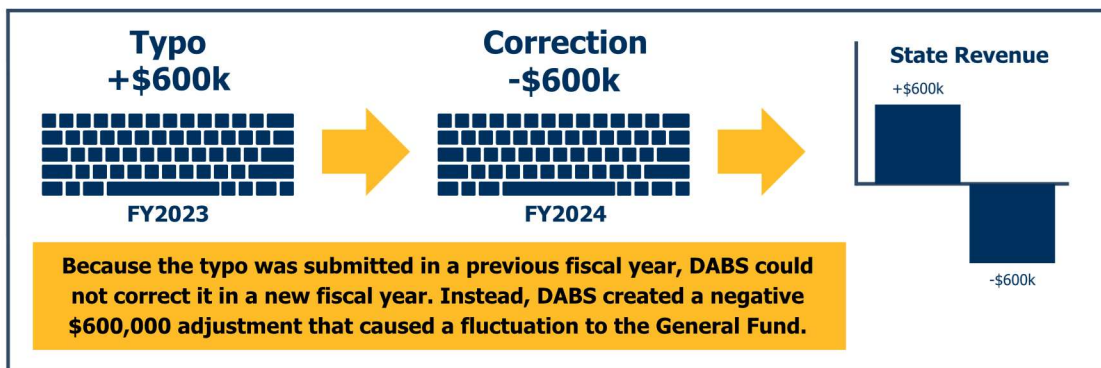


A lack of strong internal controls can impact the General Fund from both loss and human error.

Because the typo was submitted in a previous fiscal year, DABS could not correct it in a new fiscal year. Instead, DABS created a negative \$600,000 adjustment in fiscal year 2024 that caused a fluctuation to the general fund.



\$600,000 Typo Created Fluctuations in State Revenue



Source: Auditor generated.

This significant adjustment could have been avoided if DABS had required the review of variance reports before submission into official records. While state funds were not lost in this circumstance because it was caught in the following fiscal year, it did change the position of the general fund for two years.

The inventory management system⁵ allows for the configuration of approval processes for inventory management. These configurations can be set to require secondary authorization by another specified employee to verify and authorize data entries. Additionally, the approval process may also be customized to flag entries that exceed an established threshold to identify unusual data entries. DABS did not implement approval processes because they did not establish them in previous inventory management systems. This is concerning as management failed to prioritize internal controls for its inventory.

Industry Standards Support Strong Internal Controls and Oversight

From our review of similar alcohol control states, we found examples of how systems in Alabama and Pennsylvania provide strong variance oversight practices.



DABS should implement stronger internal controls to its inventory processes to strengthen oversight and minimize loss.

Both Alabama and Pennsylvania have reported that management receives digital variance reports and externally audit every variance promptly. These practices ensure strong inventory oversight. In contrast, DABS uses physical variance reports stored at individual stores, limiting management oversight. This is concerning as DABS shows no proactive

⁵ Inventory management system refers to Microsoft Dynamics D365 that DABS uses as its core financial system.



effort in addressing variances. Making reports digital would allow DABS to effectively verify and manage variances.

To strengthen its own controls, we recommend DABS should implement improved policies and procedures that provide timely, layered verification processes before official submission into the inventory management system. We believe a tiered approach to monitoring variances will strengthen inventory oversight, improve data accuracy, and reduce unnecessary financial risk to the state.

RECOMMENDATION 2.1

The Department of Alcoholic Beverage Services should implement approval requirements within the Microsoft Dynamics 365 for inventory processes to ensure the accuracy and integrity of variance entries into the system.

RECOMMENDATION 2.2

The Department of Alcoholic Beverage Services should create and implement digital variances reports, including documentation of investigation of variances, to strengthen the oversight of reported variances and trigger verification processes as necessary. Management should ensure variances are properly investigated and reviewed.

2.2 DABS Management Can Strengthen Its Oversight of Retail Stores



Many retail stores have been out of compliance for multiple years.

DABS retail stores had a total inventory loss of nearly \$1 million in fiscal year 2024. Additionally, 11 out of 51 DABS retail stores were not in compliance with variance standards. Many of these stores have been out of compliance for multiple years. A lack of accountability from store, regional, division, and executive levels has allowed these issues to continue. DABS management must prioritize inventory controls by implementing stronger measures and use them as a key performance indicator.



Many Poor Performing Stores Do Not Investigate Inventory Loss

According to DABS policy, retail store variances must not exceed 0.1% of annual gross sales. Store managers are required to note their investigation into the cause of variances that occur. The following graphic shows stores that were not meeting this standard, as well as our review of store employee documentation versus DABS review.

Variance Documentation Review of the Ten Lowest-Performing Stores

Store	Cost of Product Loss (Variances)	DABS Review of Investigation Notes	OLAG Review of Investigation Notes
A	-\$628,618.48	✓	✗
B	-\$208,311.38	✓	✗
C	-\$19,667.74	✓	✓
D	-\$17,167.30	✓	—
E	-\$11,071.12	✓	✗
F	-\$9,057.95	✓	✗
G	-\$8,832.01	✓	✓
H	-\$7,607.52	✓	✓
I	-\$7,328.19	✓	✗
J	-\$5,444.75	✓	—
A-J Total	-\$923,106.44	-	-
Retail Total	-\$990,962.49	-	-
Warehouse	-\$322,707.76	-	-
Grand Total	-\$1,313,670.25	-	-

Key: OLAG Review

✓
Frequent documentation throughout

—
Some documentation throughout

✗
Minimal documentation throughout

Source: Auditor generated from variance report reviews.



Our review of store variance reports found that most stores with high variances do not thoroughly investigate and document the cause of variances. In contrast, top performing stores investigated variances and provided adequate documentation demonstrating their accountability to follow procedure and highlighting how sufficient documentation minimizes variances. We found that poor performing stores did not investigate variances but were rewarded by regional managers as if they did.



Poor performing stores did not investigate variances but were rewarded by regional managers as if they did.

We believe investigating all variances and ensuring management has access to digital documentation could better align DABS inventory processes with industry standards and strengthen variance oversight and accountability.

DABS Retail and Upper Management are Not Held Accountable for Inventory Loss

DABS management lacks oversight of variances and controls. Management uses a standardized checklist to assess individual store performance. The checklist



DABS does not prioritize inventory during performance evaluations.

includes categories such as building maintenance, office management, and inventory. Stores receive points as they qualify for items on the checklist.

We found that inventory is underemphasized during quarterly evaluations as inventory relates to only 3 of 46 items on the checklist. Instead, we observed more emphasis on building cleanliness in the evaluations. Another part of the checklist emphasizes areas that are outside of retail employees' ability to remedy. The inventory items on the checklist do assess whether stores have documented their investigation of variances and if they remain within the 0.1% variance threshold when compared to gross sales. However, because inventory is not a major focus in evaluations stores may receive higher overall scores without acceptable inventory outcomes.

When assessing if stores were within the DABS standard of 0.1% for variances, we also found that regional managers failed to accurately assess store variance rates in 30% of quarterly evaluations. In many cases, stores that exceeded the 0.1% threshold were credited as if they were compliant with DABS standards. This helps illustrate DABS management's failure to manage non-compliant stores. These inaccurate assessments by regional managers distort the performance of stores regarding variances, weaken oversight, and allow for chronic inventory loss issues to persist without effective operational corrections.



DABS inaccurately assesses variances which distorts store performance.



This demonstrates a lack of focus from regional managers in overseeing whether stores effectively investigate and document the cause of variances thus contributing to continual loss and a culture where controls are undervalued. During evaluations for individual store managers, we also observed that regional managers inconsistently emphasized the importance of effective inventory.

Performance Reviews Do Not Evaluate Inventory Outcomes

Inventory is not included in evaluations for regional managers and the division director. Therefore, upper-level management is not being held accountable for inventory control issues. This is concerning as higher levels of management must prioritize inventory as a key performance indicator to hold stores accountable for variances and minimize loss.

The retail division assesses variances on a net basis, which is not a reliable method to determine all operational issues. This approach masks significant issues as some stores showed high amounts of positive and negative variances but appeared to comply with policy due to net variances. As a result, unaccounted inventory is not addressed. DABS should review both positive and negative variances to address core issues and improve accountability in variance reporting.



DABS should analyze variances with a granular approach to better understand inventory process issues.

DABS Must Take Accountability for Its Full Inventory

While inventory oversight has been poor, DABS recently conducted a full inventory count with RGIS⁶—an independent contractor—to verify its inventory levels in the warehouse and retail stores. In the stores we observed, we found that the count was not effective and accurate due to:

- **Lack of Independence** – In some stores, DABS employees counted and confirmed variances on their own.
- **Lack of Blind Counts** – In some stores, store counts were visible to RGIS during its count.
- **Lack of Adequate Training** – In some stores, RGIS and DABS employees received poor training on correct procedures.

⁶ RGIS is a private company that specializes in inventory solutions for retail stores including inventory accuracy.



DABS should implement inventory as a key performance indicator to strengthen accuracy and oversight.

The GAO's *Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property* report prioritize these best practices to effectively oversee inventory. Other states have also implemented these best practices.

DABS is considering implementing annual full inventory counts and improving the overall process.

We believe implementing and using full inventory counts as a consistent key performance indicator will help DABS determine accurate inventory levels, strengthen oversight of inventory, and align its practices with industry standards.

Retail Industry Best Practices Prioritize Inventory Controls

Industry leaders like Amazon as well as control states prioritize proactively addressing operational issues. Many of the states we reviewed report robust inventory controls to mitigate variances. DABS needs to improve by implementing similar practices from other states. The chart below compares other state practices to DABS.

Reported Inventory Practices	Pennsylvania	Alabama	New Hampshire	Idaho	Virginia	Utah
Full Inventory Counts						
Variance Investigation						
High-Level Report Review						
Inventory KPI						

Source: Auditor generated from out-of-state inventory practices.

To promote strong inventory accountability, Virginia uses a unique incentive program through bi-weekly bonuses for employees who maintain acceptable variance rates. The examples shown above offer options to strengthen accountability by prioritizing inventory control as a key performance indicator.



DABS Needs Stronger Warehouse Inventory Controls

While the retail division is our primary focus of this chapter, we are also concerned that the warehouse does not have adequate inventory controls. We found that the warehouse has similar processes to the retail division but lacks a specific threshold when evaluating its variance rate. As a result, the warehouse's variances for the last three years are as follows:

Warehouse Cost of Product Loss (Variances)

FY2023	FY2024	FY2025
-\$90,168.55	-\$322,707.76	-\$49,712.97

Stronger inventory controls could have minimized inventory loss at the warehouse.

Source: Auditor generated from warehouse inventory variances.

We believe the warehouse should implement a clear threshold for variances and note its investigation of variances to stay accountable for inventory.

With inventory being a primary operation as well as a state asset, it is vital that DABS leadership strengthens its management of inventory controls and oversight. DABS has not consistently prioritized inventory because management has not viewed it as a key area of concern. We believe prioritizing inventory as a key performance indicator and implementing strong controls will 1) hold all levels of DABS accountable for inventory, 2) help DABS retail store achieve agency accepted variance rates, and 3) increase oversight and transparency of inventory management.

RECOMMENDATION 2.3

The Department of Alcoholic Beverage Services should address variances at all levels of the organization and develop more robust policies and procedures to strengthen the oversight of variances.



RECOMMENDATION 2.4

The Department of Alcoholic Beverage Services should develop and implement policies to heavily weight variances during retail and management evaluations. Retail management should monitor these variances to increase focus on inventory controls.

RECOMMENDATION 2.5

The Department of Alcoholic Beverage Services should implement a clear threshold for variances and require notating investigation of variances at the warehouse to strengthen inventory accountability. This should include carefully tracking and reviewing investigation of variances to ensure DABS can minimize loss.

2.3 Unexplained Variances of \$400,000 in Liquor Inventory Highlights Oversight Gaps

Between fiscal year 2023 and fiscal year 2024, a DABS retail store accounted for \$400,000 of unexplained inventory loss⁷ despite it functioning as a store that only serves licensee orders and is not open to the public. This loss may stem from both actual inventory loss and unresolved issues within the inventory management system, leading to inaccurate inventory reports. Regardless, DABS management has not taken sufficient action in overseeing and addressing this store's inventory challenges to reduce loss.



A DABS retail store accounted for \$400,000 of unexplained inventory loss.

Identified Inventory Process Issues Remain Unaddressed and Continue to Affect Inventory

Store 33 was credited for proper documentation despite it having minimal documentation for investigating variances. While the regional manager acknowledged inventory as a concern in an evaluation, DABS management has failed to take effective action to address the store's inventory issues.

DABS policy requires that regional managers monitor inventory issues and report them to higher management until a store is in compliance. These problems were not resolved for several years. This reflects a serious failure of

⁷ In 2024, this store lost \$208,311.38 in inventory, making up 16% of the over \$1 million lost by DABS in 2024.



accountability that contributes to continuous loss. DABS must prioritize resolving identified inventory issues to protect state assets and strengthen oversight and accountability.

RECOMMENDATION 2.6

The Department of Alcoholic Beverage Services should prioritize identifying and addressing variance process issues as timely as possible and inform all levels of management for support and oversight to reduce unnecessary loss of inventory at stores.





BACKGROUND

It is the responsibility of the leadership of the Department of Alcoholic Beverage Services (DABS) and the Alcoholic Beverage Services Commission to ensure the agency operates under sound management principles.

FINDING 3.1
DABS Management Does Not Effectively Mitigate Risk Because Risk Assessment Has Not Been Prioritized

RECOMMENDATION 3.1

The Department of Alcoholic Beverage Services should create and implement more robust policies and procedures to strengthen the planning, managing, and documentation of the risk assessment process. Management should ensure that critical risks are mitigated and documented in a timely manner.

FINDING 3.2
DABS Internal Audit Delayed a High-Risk Audit on the D365 System Despite Being Aware of Continued Issues

RECOMMENDATION 3.2

The Department of Alcoholic Beverage Services should effectively use internal audit and hold internal audit accountable to approved audit plans and timelines. This should ensure that critical risks are audited and resolved.

FINDING 3.3
DABS Internal Audit Effectiveness Limited by Gaps in Coordination

RECOMMENDATION 3.3

The Department of Alcoholic Beverage Services Internal Audit should implement an exit conference with Department of Alcoholic Beverage Services management to resolve discrepancies and provide accurate reports to the Alcoholic Beverage Services Commission.

RECOMMENDATION 3.4

The Department of Alcoholic Beverage Services should use internal audit more effectively by increased collaboration with the Alcoholic Beverage Services Commission to prioritize and accurately address high-risk areas.



CONCLUSION

There is a lack of effective risk assessment processes and coordination with the internal audit function at the Department of Alcoholic Beverage Services. This has led to the neglect of critical risks from both DABS management and internal audit. Approaching the risk-assessment process with systemic long-term risks and strengthening coordination with internal audit will enable DABS to promptly identify, analyze, and respond to high-risk issues.



Chapter 3

DABS Can Strengthen the Risk Assessment and Internal Audit Function to more Effectively Address and Reduce High-Risk Issues

DABS has the opportunity to improve its risk assessment process and internal audit function to more effectively identify and address high-risk issues. DABS's ineffective management and oversight of the risk assessment process has led to continued internal control gaps. Internal audit failed to address one of the most critical systems in the organization that had known problems. DABS management did not hold internal audit accountable and allowed for the delay of an audit, resulting in continued problems. DABS leadership has an opportunity to resolve critical issues sooner. We believe more robust risk assessment and effective use of internal audit could help DABS more proactively address systemic issues.

3.1 DABS Management Does Not Effectively Mitigate Risk Because Risk Assessment Has Not Been Prioritized

DABS continues to experience operational issues that could have been addressed by a quality risk assessment process. Internal audit standards, including DABS's



The DABS risk assessment fails to address high-risk areas.

own policy manual, emphasize the need for organizations to identify, analyze, and respond promptly to risk through effective mitigation plans.⁸ To have better mitigation, management should assign individuals to manage risk and follow up to track

progress. The DABS risk committee does at times identify and analyze high-risk areas, but management fails to prioritize and address them, allowing for operational issues to continue. This failure stems from a pattern of inadequate prioritization in overseeing and managing risk.

DABS Identifies Critical Risks But Fails to Mitigate Them

The DABS risk committee meets to discuss current risks and document them in a shared report. However, it appears that management prioritized short-term issues at the expense of addressing systemic, long-term risks. DABS staff reported that risk committee members often came up with risks in the moment, leading to a lack of long-term planning.

⁸ GAO's *Green Book* and *Yellow Book* and *IIA Internal Audit Standards*



DABS initially identified critical risks like inventory, the D365 system, and financial processes as high-risk but later changed them to low-risk without evidence of mitigation. We believe that the D365 system and financial processes should remain identified as high-risk because of ongoing system issues and its central role in DABS’s operations. This suggested high-risk rating is based on findings surrounding inventory (discussed in Chapter 2) and the findings addressed in the recent OSA reports (discussed in Chapter 1).



DABS management neglected identified high-risk areas.

The following graphic summarizes when risks were identified, analyzed, and removed from the risk assessment process. It also shows that DABS raised, lowered, and removed the same risks with little documentation. Risk levels are represented by color: dark blue for high-risk, light blue for medium-risk, and light grey for low-risk.

DABS Risk Analysis Timeline

RISK AREAS	2023					2024					2025	
	Feb	May	Jul	Sep	Nov	Feb	Apr	Jun	Sep	Nov	Jan	Apr
Inventory				Low	Low	Medium		High			Medium	
D365	High	Medium	High	High	Low	Medium						Low
Finance			High		Low	High	High	High	Medium			
Facilities and Safety	Medium		High	High	Medium	Medium	Low	Low	Medium	High	High	Medium
Fleet and Logistics	Medium	Medium		Low	Low	Low	Low	Low	Low			
Policy and Compliance	Medium	Low	High	Low		Low						
Project Management		Medium	High	Medium	Low	Medium	Low	Medium	Medium	High	High	

Risk levels are raised, lowered, or removed with little documentation.

Source: Auditor generated based on DABS risk analysis documentation.

We are encouraged that new DABS leadership has updated training that can help staff improve in identifying, analyzing, and managing risks. During the audit, they have also revised the risk assessment process and documentation. Going forward, DABS should ensure the risk assessment process targets systemic long-term risk and fully addresses identified risks so that systemic issues do not go unaddressed.



RECOMMENDATION 3.1

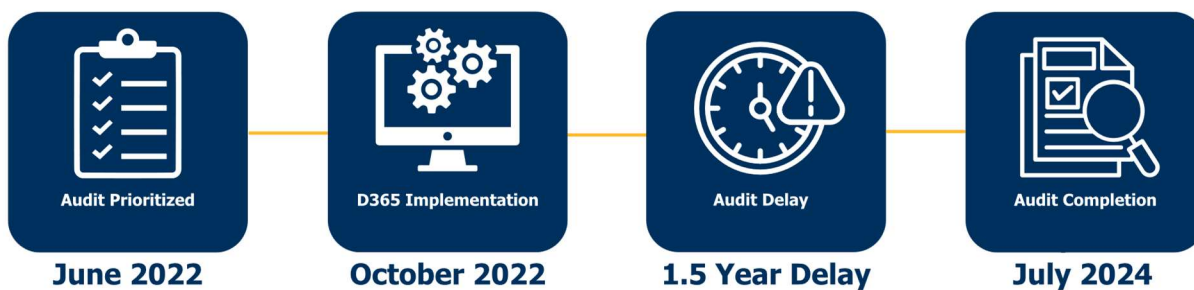
The Department of Alcoholic Beverage Services should create and implement more robust policies and procedures to strengthen the planning, managing, and documentation of the risk assessment process. Management should ensure that critical risks are mitigated and documented in a timely manner.

3.2 DABS Internal Audit Delayed a High-Risk Audit on the D365 System Despite Being Aware of Continued Issues

DABS internal audit delayed a critical audit on the D365 system, prolonging a lack of financial and inventory controls within the system. DABS management did not hold internal audit accountable, allowing the delay to extend beyond reasonable expectations. Critical weaknesses in the D365 system could have been addressed earlier if internal audit and management had effectively prioritized and conducted the audit. In June 2022, internal audit prioritized an audit of the D365 system after implementation. Internal audit requested a six-month delay citing system development issues that would have affected the accuracy of data used in the audit. DABS management approved the delay, but internal audit continued to postpone and did not complete the audit until July 2024. If the audit had been completed soon after the implementation of D365, it could have identified system weaknesses earlier.



DABS internal audit delayed a critical audit on the D365 system despite continued issues.



Source: Auditor generated.



The D365 Audit Failed to Address Key Issues

The approved audit plan intended to “provide assurance of the process flow and controls in the new D365 software.” Our review found that the completed audit did not address these key issues. Instead, the audit focused on contracts between the D365 vendor and DABS. Given the ongoing system issues with D365, internal audit should have prioritized assessing its functionality and relevant risks instead of contracts between



The D365 audit did not address the core issues with the system and instead focused on the contract with the vendor.



DABS management should hold internal audit accountable to approved audit plans.

DABS and the vendor. This misalignment resulted in insufficient controls that internal audit could have identified. Both our audit and a recent audit conducted by the Office of the State Auditor (OSA) identified the lack of internal controls in the D365 system. Basic process controls—like requiring secondary approvals for financial and operational

activities—could have been identified if the original audit scope had been properly followed. If internal audit had identified these key control issues, it may have limited financial loss to the state.

While the DABS Internal Audit Charter allows adjustments to audit plans when risk changes, it is vital that management ensures high-risk areas are reviewed. The D365 system has been a critical risk since its implementation. As mentioned in Chapter 1, DABS management has reported poor D365 implementation as the cause of financial findings from OSA. This is concerning as it shows DABS management and internal audit’s failure to address high-level risks in a timely manner. DABS management should ensure high-risk areas are audited before it makes changes to audit plans. We recommend that DABS management adhere to risk management plans and timelines, hold internal audit accountable in addressing critical risks, and strengthen its oversight of critical risks.

RECOMMENDATION 3.2

The Department of Alcoholic Beverage Services should effectively use internal audit and hold internal audit accountable to approved audit plans and timelines. This should ensure that critical risks are audited and resolved.

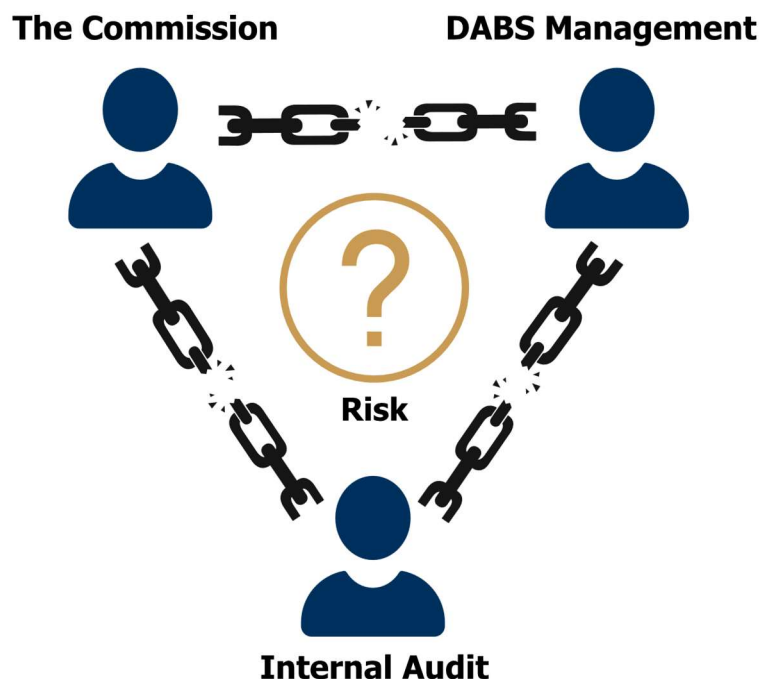


3.3 DABS Internal Audit Effectiveness Is Limited by Gaps in Coordination

DABS's internal audit does not address operational risks due to poor coordination with the Commission and DABS management. According to DABS's Internal Audit Charter, the Commission and DABS management coordinate with internal audit to evaluate DABS's operational risks for the internal audit plan. Currently, there is limited coordination between the Commission, DABS management, and internal audit, resulting in audit plans and reports that miss systemic issues. Increased coordination between the Commission and DABS management can increase the effectiveness of internal audit.



There is a disconnect between DABS management, the Commission and internal audit resulting in unaddressed risks.



Source: Auditor generated.

Internal Audit Does Not Effectively Coordinate with DABS Management

DABS management may provide input to internal audit to identify and evaluate organizational risk while still upholding internal audit independence. However, many internal audit reports focus on minor compliance issues while neglecting critical operational areas. This shows a lack of coordination. Additionally, some



audits reported inaccurate conclusions that internal audit did not correct, despite receiving feedback from DABS. As a result, the final reports remain published with the errors included in the audit. DABS management response in the audit described the inaccurate conclusions, including:

- Citing outdated policy and wrongly concluding DABS was not in compliance.
- Concluding inappropriate use of a subcontractor for the D365 project when the subcontractor was working on a different technology project.



DABS internal audit should implement an exit conference with DABS management to ensure accurate reports.

This highlights the need for exit conferences to help internal audit, and DABS management resolve discrepancies and provide accurate reports to the Commission. Increased oversight from the Commission can also ensure accountability and effectiveness of internal audit.

Internal audit works remotely which may also limit visibility into DABS operational risks. Our office follows audit standards that support on-site work to increase understanding of critical risks within an agency. Additionally, internal audit reports administratively to DABS management but does not submit travel mileage records, limiting transparency from internal audit to management. This highlights the need for DABS internal audit to strengthen its coordination and quality control standards with management.

The Commission Needs Stronger Oversight of Internal Audit.

The Commission is statutorily required to oversee internal audit. This ensures audit independence from DABS management. However, DABS management may communicate with the Commission to ensure internal audit accountability to audit plans and quality assurance. DABS management has not provided sufficient information to the Commission to help it oversee the audit function. DABS management has recently recommended that the Commission conduct performance evaluations for internal audit. By coordinating with DABS management to receive ongoing concerns related to the internal audit function, the Commission will be better positioned to provide effective and independent oversight. We believe this will help ensure the internal audit function can help the department better meet its objectives.

We recognize that DABS management plans to add an additional internal auditor to conduct on-site audits.



The Commission should strengthen its oversight of internal audit to increase effectiveness in addressing operational risk.



However, additional staff will not resolve the deeper management issues. DABS must strengthen coordination between internal audit, the Commission, and management to target core operational risks. Further, we recommend that DABS management review our upcoming report on internal audit best practices to improve the effectiveness of internal audit.

RECOMMENDATION 3.3

The Department of Alcoholic Beverage Services Internal Audit should implement an exit conference with Department of Alcoholic Beverage Services management to resolve discrepancies and provide accurate reports to the Alcoholic Beverage Services Commission.

RECOMMENDATION 3.4

The Department of Alcoholic Beverage Services should use internal audit more effectively by increased collaboration with the Alcoholic Beverage Services Commission to prioritize and accurately address high-risk areas.





BACKGROUND

The Department of Alcoholic Beverage Services and the Alcoholic Beverage Services Commission determine the location and number of liquor stores in the state to help meet the demand for alcohol. Currently, DABS has 51 stores and a warehouse to meet this objective.

FINDING 4.1
DABS Should Have Provided Additional Information When Securing Funding for Warehouse Expansion

RECOMMENDATION 4.1

The Legislature should consider if adjustments to the warehouse expansion funding are needed, provided the new information presented in this chapter.

FINDING 4.2
Business Analysts Have Been Underutilized in Driving Process Improvement

RECOMMENDATION 4.2

The Department of Alcoholic Beverage Services management should ensure key performance indicators are used and efficiencies are evaluated by allowing Business Analysts to provide dashboards and actionable insights to management regularly. Department leadership should use this information to make decisions that make the Department more efficient.



CONCLUSION

The Department could better utilize state resources by using better data. The business analysts are a key piece of this effort to develop key performance indicators that accurately measure demand and utilization. Once data is made available to management, DABS can make more data driven decisions.





Chapter 4

The Department of Alcoholic Beverage Services Should Improve Business Analysis to Become More Efficient with State Resources

DABS Management should improve the use of data to ensure that correct information is presented to key stakeholders. The analysis DABS used to request over 80 million dollars for the warehouse was based on insufficient data. While DABS intends to proceed with the project based on other anticipated benefits of a new warehouse, we raise this issue to help the Legislature assess the future of the project.

We found ways that DABS business analysts have not been used to their full potential to help the Department have quality information.

Enhancing their ability to define and monitor key performance indicators (KPIs), break down information silos, and deliver actionable insights can help improve DABS's operational efficiency. DABS has not consistently used KPIs to measure operational performance, which has limited its ability to operate efficiently.



DABS has not consistently used KPIs to measure operational performance, which has limited its ability to operate efficiently.

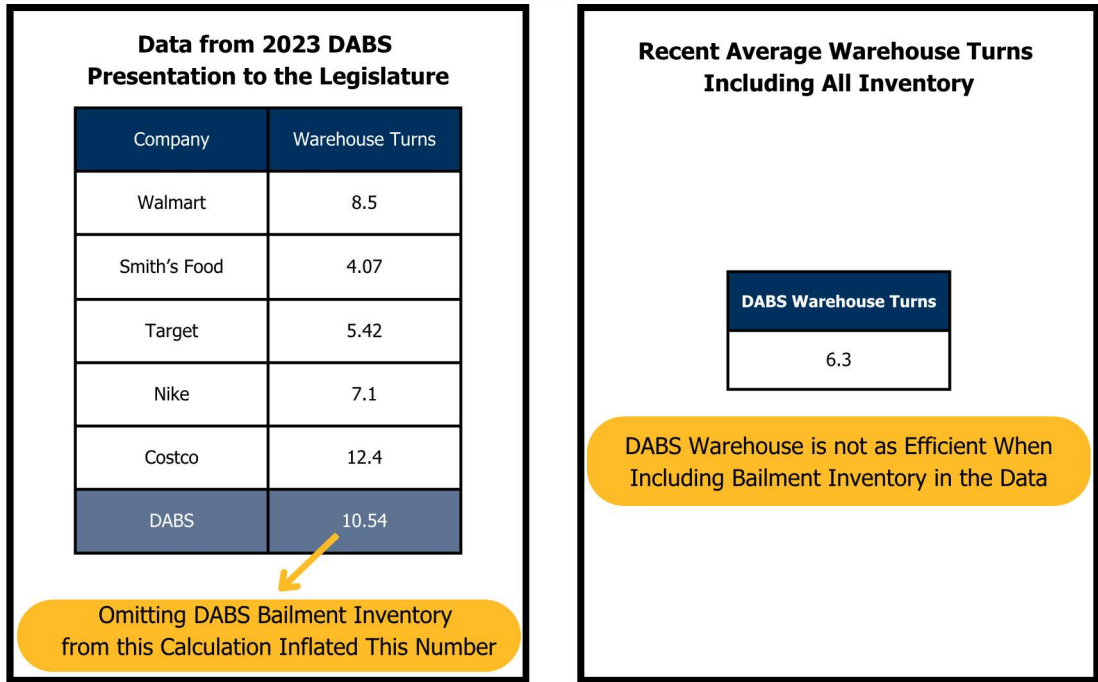
One key area for improvement is store staffing. As new stores opened, older locations saw a decline in efficiency. If business analysts can help provide actionable data, management can act on good information.

4.1 DABS Should Have Provided Additional Information When Securing Funding for Warehouse Expansion

In 2023, DABS presented data to the Legislature claiming that its warehouse would reach peak capacity and that sales would suffer without expansion. The presentation included a graphic suggesting that DABS warehouse was more efficient than many major retailers, as shown in the following graphic.



DABS Presented Insufficient Data, Making the Warehouse Look More Efficient Than Major Retailers



Source: Auditor generated based on DABS presentation and recent warehouse turns⁹ data.

The data DABS presented did not include bailment inventory¹⁰, which accounts for a large portion of the warehouse’s total inventory.

In 2023, after DABS had presented the data to the Legislature, the State Auditor alerted DABS to this omission and noted that the missing data significantly affected the warehouse turns calculation. The audit suggested that if the Legislature had seen the complete data—including bailment inventory—it may have affected the funding for the expansion. Including bailment inventory currently lowers the warehouse turns to an average of 6.3 per year. This would have placed DABS below some of the retailers it used for comparison and below what DABS reported as alcohol industry standard. We believe DABS should have updated the Legislature with the revised data.

DABS was aware of the omission of data but did not update the Legislature to help reassess the need for expansion.

⁹ A warehouse turn shows how often inventory turns over. The higher the warehouse turns are, the more efficient the warehouse is.

¹⁰ Bailment inventory is owned by the distributor and stored in DABS warehouse. DABS pays for these items after they are sent to a liquor store.



Warehouse Capacity, While Important, Is Not the Only Reason for Expansion



Beyond capacity, warehouse expansion could help increase DABS efficiencies in important areas.

There are other measures of warehouse distribution that are important factors both DABS leadership and the Legislature should continue to consider when deciding to make warehouse expansion a priority. These factors were not all presented to the Legislature when the project was funded. Some ways DABS reported the warehouse could increase DABS

efficiency and effectiveness include:

- Enabling state-run delivery to licensees
- Replacing the central licensee store
- Allowing greater testing of new products through special orders
- Strengthening e-commerce offerings
- Increasing product availability
- Updating outdated infrastructure
- Minimizing risk of poor picking, creating less variances
- Minimizing work required for stores receiving shipped products

These factors can help the Legislature determine whether DABS should continue with the proposed expansion. Previously appropriated funding was pulled back from DABS for this project in the 2025 legislative session. However, the legislature still provided intent language which directed DABS to bond for the cost of the warehouse expansion. With this updated information, we recommend that the Legislature consider working with DABS to determine if any changes should be made to the funding for the warehouse expansion given the information presented in this chapter.



These factors can help the Legislature determine whether DABS should continue forward with the proposed expansion.

RECOMMENDATION 4.1

The Legislature should consider if adjustments to the warehouse expansion funding are needed, provided the new information presented in this chapter.



4.2 Business Analysts Have Been Underutilized in Driving Process Improvement

We found that DABS business analysts are often tasked with administrative duties rather than providing actionable insights to improve operations. To address systemic issues in oversight and internal controls, DABS leadership needs high-quality information to support informed decision-making. We believe business analysts could be used as key staff to help strengthen data driven decisions.

The GAO Green Book explains what quality information is and how management uses it:

Quality information is appropriate, current, complete, accurate, accessible, verifiable, retained as appropriate, and provided on a timely basis...Management uses the quality information to make informed decisions and evaluate the entity's performance in achieving key objectives, addressing risks, and fulfilling internal control responsibilities.

Current Trends Show a Need to Ensure DABS is more Efficient

With alcohol sales flattening nationwide since fiscal year 2024, DABS and the National Alcohol Beverage Control Association remain uncertain about the future of alcohol sales. We believe DABS is at an important point to reevaluate its operations to be as efficient and effective as possible.

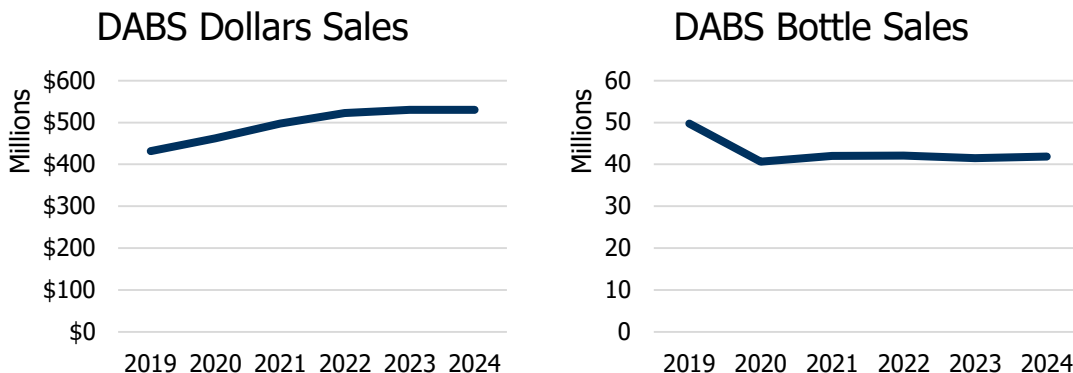
Over the past five years, the growth in alcohol sales has been driven mainly by an increase in the average price per bottle, rather than by a rise in the number of bottles sold. DABS should analyze these trends to ensure that the Department is more efficient by being responsive to changes in demand.



DABS is at an important point to reevaluate its operations to be as efficient and effective as possible.



Figure 1.1 DABS Demand Has Flattened Over the Past Five Years. The chart on the left shows sales from 2019-2024. The chart on the right shows bottle sales (demand) from 2019-2024. Bottle sales flattened in 2020 before sales did in 2024.



Source: Auditor generated based on DABS sales data.

With these trends and continued store and warehouse growth, we believe that DABS management needs to have good data and information to make decisions on how to be more efficient.

Demand is a key performance indicator used by other states, such as Pennsylvania, Idaho, and Virginia. Idaho’s annual report includes 5 years of bottle (by the case) sales and the comparison between years that can help visualize trends. If DABS had determined that bottle sales were flattening after 2020, management could have taken steps to make stores more efficient by evaluating bottle sales.

Business Analysts Could Help Overcome Silos Between Divisions

Interviews and surveys with DABS staff revealed that poor communication between divisions creates operational silos. This lack of coordination makes it difficult to implement improvements.



A lack of coordination between divisions makes it difficult to implement improvements.

DABS leadership has recently introduced an improvement plan. A key part of this plan includes weekly meetings led by the new managing director of operations with key staff to review accountability and address supply chain issues. Empowering business analysts to generate actionable data and KPIs could further support these efforts.



Early Success in the Finance Division Shows the Value of Business Analysts

Near the start of our audit, DABS created a business analyst position within the finance division to address persistent accounting system issues. Management reported that the analyst’s ability to map system problems and provide insights enabled DABS to successfully close out fiscal year 2025. This was the first time successfully closing the fiscal year since the IT system was implemented in 2022. Utilizing business analysts in this way across other areas in the department could help make DABS practices more effective overall.

With Actionable Data Like Bottles Per Associate Hour, Management Can Make Decisions to Make DABS More Efficient

DABS business analysts already have access to valuable data that can be used to improve efficiency. One example is the bottles per associate hour (the number of bottles sold per hour store employees work) metric, which can help determine staffing needs at retail stores.

As bottle sales have flattened and associate hours have increased, DABS stores have become less efficient. We found that when a new store opens, sales at nearby stores often decline as customers shift locations.



As bottle sales have flattened and associate hours have increased, DABS stores have become less efficient.

The following graphic illustrates how a new store can affect bottles per associate hour in surrounding locations:

Bottles Per Associate Hour				
Year	Store A	Store B	Store C	New Store
2019	75	66	40	
2020	71	53	45	
2021	62	48	46	35
2022	58	42	49	40
2023	51	36	38	39
2024	45	42	38	37
Change Since New Store	-26	-11	-7	

New Store Begins Sales

With the loss of efficiency at these stores, management should determine if less staffing is needed at these stores.

Source: Auditor generated based on DABS sales and associate hours data.



Adjusting staffing levels in response to these changes could help DABS reduce costs or shift staffing to areas with increased demand.

Actionable insights like this could help make business operations more efficient and could determine where resources could be taken from an inefficient store or process and given to an area with higher need. This is why we recommend that DABS management determine new ways that the business analysts can be used to help drive efficiencies.

RECOMMENDATION 4.2

The Department of Alcoholic Beverage Services management should ensure key performance indicators are used and efficiencies are evaluated by allowing Business Analysts to provide dashboards and actionable insights to management regularly. Department leadership should use this information to make decisions that make the Department more efficient.





Complete List of Audit Recommendations



Complete List of Audit Recommendations

This report made the following seventeen recommendations. The numbering convention assigned to each recommendation consists of its chapter followed by a period and recommendation number within that chapter.

Recommendation 1.1

The Department of Alcoholic Beverage Services management should implement changes that are clearly documented, effectively executed, and specifically designed to correct past problems. These changes should not only address prior instances of noncompliance but also ensure that the intended improvements take root throughout the organization—eliminating the conditions that have allowed noncompliance issues to persist.

Recommendation 1.2

The Department of Alcoholic Beverage Services should ensure all system requirements are thoroughly mapped out prior to the development or funding of any Request for Proposal. This should help ensure systems are not developed without necessary capabilities and controls.

Recommendation 1.3

The Department of Alcoholic Beverage Services should ensure that plans are created to implement all audit recommendations, including: a timeline, who is responsible, and follow-up processes to ensure that responsible staff are held accountable and recommendations are implemented.

Recommendation 1.4

The Department of Alcoholic Beverage Services management should create and implement a policy to perform line-item level tracking and analysis of the budget regularly to ensure overspending does not occur.

Recommendation 1.5

The Department of Alcoholic Beverage Services should provide key performance indicators for key operational goals to the Alcoholic Beverage Services Commission to allow the Commission more effective oversight of operations.

Recommendation 2.1

The Department of Alcoholic Beverage Services should implement approval requirements within the Microsoft Dynamics 365 for inventory processes to ensure the accuracy and integrity of variance entries into the system.

Recommendation 2.2

The Department of Alcoholic Beverage Services should create and implement digital variances reports, including documentation of investigation of variances, to strengthen the oversight of reported variances and trigger verification processes as necessary. Management should ensure variances are properly investigated and reviewed.

Recommendation 2.3

The Department of Alcoholic Beverage Services should address variances at all levels of the organization and develop more robust policies and procedures to strengthen the oversight of variances.

Recommendation 2.4

The Department of Alcoholic Beverage Services should develop and implement policies to heavily weight variances during retail and management evaluations. Retail management should monitor these variances to increase focus on inventory controls.

Recommendation 2.5

The Department of Alcoholic Beverage Services should implement a clear threshold for variances and require notating investigation of variances at the warehouse to strengthen inventory accountability. This should include carefully tracking and reviewing investigation of variances to ensure DABS can minimize loss.

Recommendation 2.6

The Department of Alcoholic Beverage Services should prioritize identifying and addressing variance process issues as timely as possible and inform all levels of management for support and oversight to reduce unnecessary loss of inventory at stores.

Recommendation 3.1

The Department of Alcoholic Beverage Services should create and implement more robust policies and procedures to strengthen the planning, managing, and documentation of the risk assessment process. Management should ensure that critical risks are mitigated and documented in a timely manner.

Recommendation 3.2

The Department of Alcoholic Beverage Services should effectively use internal audit and hold internal audit accountable to approved audit plans and timelines. This should ensure that critical risks are audited and resolved.

Recommendation 3.3

The Department of Alcoholic Beverage Services Internal Audit should implement an exit conference with Department of Alcoholic Beverage Services management to resolve discrepancies and provide accurate reports to the Alcoholic Beverage Services Commission.

Recommendation 3.4

The Department of Alcoholic Beverage Services should use internal audit more effectively by increased collaboration with the Alcoholic Beverage Services Commission to prioritize and accurately address high-risk areas.

Recommendation 4.1

The Legislature should consider if adjustments to the warehouse expansion funding are needed, provided the new information presented in this chapter.

Recommendation 4.2

The Department of Alcoholic Beverage Services management should ensure key performance indicators are used and efficiencies are evaluated by allowing Business Analysts to provide dashboards and actionable insights to management regularly. Department leadership should use this information to make decisions that make the Department more efficient.





Appendix



A. DABS Survey Results



How likely would you be to recommend your organization to someone seeking employment? (..	DABS		6.5
	Other Ag..		6.5

Statement	Agency	Response Distribution			
		Strongly Disagr..	Disagree	Agree	Strongly Agree
My organization has a positive culture.	DABS	8%	26%	52%	14%
	Other Agencies	11%	26%	47%	15%
Currently, employee morale is high in my organization.	DABS	10%	30%	46%	14%
	Other Agencies	16%	32%	39%	12%
Over the last year, employee morale has improved in my organization.	DABS	15%	36%	40%	9%
	Other Agencies	19%	32%	35%	11%
A spirit of teamwork exists in my workgroup.	DABS	9%	17%	43%	31%
	Other Agencies	13%	13%	46%	34%
I am treated with respect.	DABS	9%	13%	49%	28%
	Other Agencies	11%	11%	47%	36%
I feel appreciated.	DABS	11%	25%	40%	24%
	Other Agencies	10%	20%	40%	29%
I feel passionate about the work I do.	DABS	15%	15%	47%	36%
	Other Agencies	9%	9%	43%	44%
I know what is expected of me at work.	DABS	1%	1%	52%	40%
	Other Agencies	1%	1%	51%	40%
My current workload is manageable.	DABS	13%	13%	56%	27%
	Other Agencies	7%	17%	54%	21%
I feel connected to the overall organization of the Offi..	DABS	8%	8%	45%	20%
	Other Agencies	8%	26%	45%	20%
In the past year, have you been actively looking for other employment?	DABS	0%	0%	67%	33%
	Other Agencies	0%	0%	71%	29%
I receive clear information about changes being made within my organization.	DABS	13%	25%	47%	14%
	Other Agencies	12%	27%	42%	17%
My day to day work impacts the goal(s) of my organization.	DABS	8%	8%	58%	31%
	Other Agencies	9%	9%	53%	36%
My direct supervisor values my ideas.	DABS	9%	17%	42%	32%
	Other Agencies	9%	9%	39%	47%
Overall, strategies and goals are shared with staff.	DABS	10%	22%	52%	17%
	Other Agencies	9%	24%	46%	19%
There is a clear process for sharing new ideas.	DABS	13%	31%	43%	13%
	Other Agencies	11%	29%	40%	17%

Legend	No		Yes	
	Strongly Disagr..	Disagree	Agree	Strongly Agree

Leadership

Hiring, raises, and promotion decisions are based on clear criteria.	DABS	15%	26%	44%	15%
	Other Agencies	17%	27%	39%	14%
I feel comfortable bringing up issues to my supervisor.	DABS	12%	18%	32%	38%
	Other Agencies	8%	9%	34%	48%
Management decisions align with the organization's strategic plan and mission.	DABS	8%	18%	56%	18%
	Other Agencies	8%	21%	50%	19%
Management hires employees who have the necessary experience and skills.	DABS	9%	27%	50%	15%
	Other Agencies	12%	23%	48%	15%
My immediate supervisor models: Accountability	DABS	12%	16%	33%	39%
	Other Agencies	7%	37%	51%	
My immediate supervisor models: Empathy	DABS	9%	13%	42%	36%
	Other Agencies	7%	36%	51%	
My immediate supervisor models: Innovation	DABS	9%	16%	42%	33%
	Other Agencies	12%	39%	43%	
My immediate supervisor models: Integrity	DABS	7%	14%	41%	38%
	Other Agencies	36%	55%		
My immediate supervisor models: Leadership	DABS	10%	16%	35%	39%
	Other Agencies	10%	36%	49%	
My immediate supervisor models: Professionalism	DABS	8%	15%	40%	37%
	Other Agencies	38%	53%		
My immediate supervisor models: Respect	DABS	8%	14%	39%	40%
	Other Agencies	36%	55%		
My organization is driven by goals.	DABS	26%	50%	20%	
	Other Agencies	21%	49%	22%	
My organization is driven by performance measures.	DABS	8%	21%	51%	20%
	Other Agencies	9%	21%	45%	22%
My supervisor(s) has the necessary knowledge about my programs.	DABS	10%	52%	32%	
	Other Agencies	7%	10%	44%	39%
My supervisor(s) has the necessary management skills needed to lead my program.	DABS	9%	14%	39%	39%
	Other Agencies	7%	9%	41%	42%
Senior leadership models ethical behavior.	DABS	8%	25%	45%	22%
	Other Agencies	10%	16%	49%	24%
Senior leadership strives for excellence and innovation.	DABS	10%	22%	45%	23%
	Other Agencies	9%	17%	49%	23%

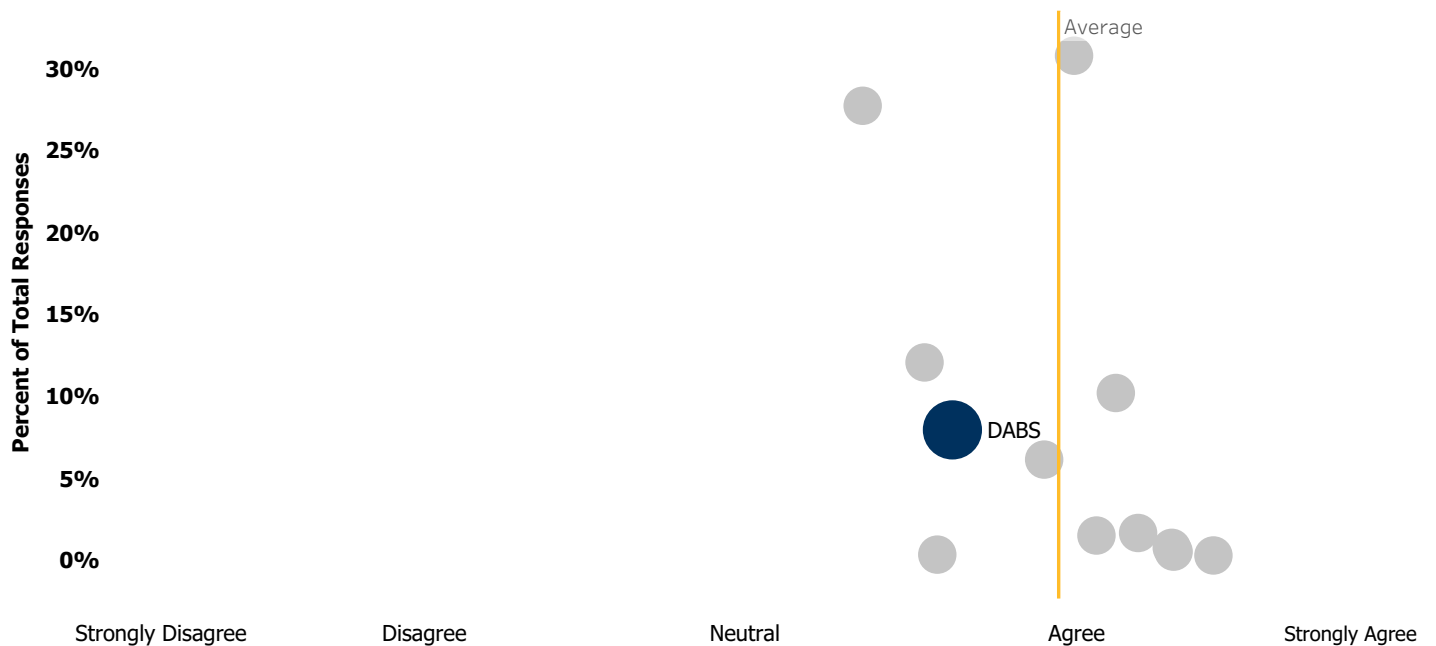
Legend

No		Yes	
Strongly Disagr..	Disagree	Agree	Strongly Agree

Professional Behavior	Statement	Agency	Response Distribution			
			Strongly Disagree	Disagree	Agree	Strongly Agree
	Are you aware of the procedure for filing grievances (i.e. complaints that could include violations of policy, ..	DABS	33%		67%	
		Other Agencies	26%		74%	
	To the best of my knowledge, senior leadership is held accountable when they behave inappropriately.	DABS	13%	23%	49%	14%
		Other Agencies	13%	19%	53%	16%
	To the best of my knowledge, staff are held accountable when they behave inappropriately.	DABS	8%	15%	59%	19%
		Other Agencies	7%	15%	58%	19%
	To the best of my knowledge, supervisors and managers are held accountable when they behave ina..	DABS	11%	19%	53%	17%
		Other Agencies	9%	17%	55%	17%
Professional Development	Do you receive a performance evaluation annually?	DABS			95%	
		Other Agencies	9%		91%	
	I am able to get the training I need to do my job effectively.	DABS	14%		58%	23%
		Other Agencies	15%		54%	25%
	I am given opportunities to innovate to improve current practices inside my organization.	DABS	14%	33%	39%	14%
		Other Agencies	9%	22%	45%	23%
	I am provided with the appropriate resources to complete my job duties.	DABS	19%		57%	21%
		Other Agencies	16%		54%	25%
	I am given feedback from my supervisor on a regular basis to help improve my job performance.	DABS	7%	19%	51%	22%
		Other Agencies	14%		48%	32%
	I find my performance evaluation feedback valuable	DABS	9%	19%	52%	20%
		Other Agencies	9%	14%	54%	24%
	Mistakes are met with corrective, rather than punitive, action.	DABS	11%	19%	49%	21%
		Other Agencies	8%	15%	49%	26%
My organization is dedicated to my professional development.	DABS	12%	28%	44%	15%	
	Other Agencies	9%	22%	45%	22%	
Training is ongoing.	DABS	12%		60%	23%	
	Other Agencies	13%		56%	26%	



Overall Survey Score







Agency Response Plan





State of Utah

SPENCER J. COX
Governor

DEIDRE M. HENDERSON
Lieutenant Governor

ERICKA EVANS
Executive Director

September 30, 2025

Kade R. Minchey, CIA, CFE, Auditor General
Office of the Legislative Auditor General
Utah State Capitol Complex
Rebecca Lockhart House Building, Suite W315
PO Box 145315
Salt Lake City, UT 84114-5315

Dear Mr. Minchey,

Thank you for the opportunity to respond to the recommendations in A Systemic Performance Audit of the Department of Alcoholic Beverage Services (Report #2025-18). We appreciate the effort and professionalism of you and your staff in this review and your willingness to communicate with the DABS team throughout the audit process.

The department concurs with all recommendations in this report and outlines the plan of action to address each recommendation below. Notably, and in part due to mirrored concerns raised in a report from the State Auditor earlier this year, our team has already begun taking aggressive steps to remedy some of the issues referenced in the audit report. Many of those actions are fully operationalized and already creating better safety and accountability measures. To summarize those actions, the department notes the following in response to the audit report's key findings:

- Need for Systemic Change: The department is under almost entirely new leadership committed to building on previous leadership's efforts to effect operational improvements at every level.
- Previous Financial Reporting Inaccuracies, Theft, and Overspending: The department identified and reported the theft noted in the audit report to the State Auditor in 2024. The department continues to build on processes that led to that discovery while also resetting budget approval processes and tracking mechanisms to prevent future inaccuracies and overspending.
- Retail Store Oversight Gaps: The department has addressed each of the instances of inventory "loss" noted in the audit report by taking proper personnel and process correction steps. Additional safeguards to monitor store inventory are in place and subject to continued review.
- Internal Audit Coordination Gaps: The department and Alcoholic Beverage Services Commission are in the process of jointly reevaluating the structure, reporting lines, and policies and procedures that apply to internal audit to ensure effective identification of department risk.

- Warehouse Distribution Center Funding Request: The department is willing to provide information necessary for the Legislature to reevaluate funding provided for a warehouse distribution center in 2022 that was modified earlier this year.

We believe that implementation of the additional recommendations identified by you and your team in this report will make the department more efficient and better equipped to serve its important role in supporting crucial government services, local businesses, and the economy, and prioritizing prevention education for the health and safety of all Utahns. We appreciate the opportunity to improve and look forward to reestablishing a strong operations framework for the department going forward.

Sincerely,



Ericka Evans (Sep 30, 2025 11:04:45 MDT)

Ericka Evans, Executive Director



Stephen Handy (Sep 30, 2025 14:22:54 MDT)

Stephen Handy, Chair

CHAPTER 1

Recommendation 1.1: The Department of Alcoholic Beverage Services management should implement changes that are clearly documented, effectively executed, and specifically designed to correct past problems. These changes should not only address prior instances of noncompliance but also ensure that the intended improvements take root throughout the organization—eliminating the conditions that have allowed noncompliance issues to persist.

Department Response: The department concurs. The Executive Director’s Office (EDO) will make every effort to improve internal operations and compliance at all levels of the department and build upon the proactive steps taken by previous management over the last several years to do so.

- **What:** DABS is in an active “improvement” phase. The department has and continues to look holistically at department policies, procedures, staffing, structure, training, and goals to correct past problems and set the tone for operational improvements going forward.
- **How:** The following actions have been taken to address department culture and expectations:
 - New Strategic Plan: The department has completed a new strategic plan, which is set to launch in October 2025. Its development, based on focus groups and surveys of department staff and other stakeholders, resets goals and initiatives to support the department’s mission over the next several years. In particular, the strategic plan highlights the development of improved internal controls through updated processes, policies, and procedures.
 - DABS Improvements Blueprint: In spring 2025, after finding process issues within its finance and operations teams and proactively disclosing the issues to audit staff, the department launched a blueprint for operational improvement (blueprint). As mentioned in the audit report, the blueprint includes six projects intended to revamp and improve the following:
 - Internal Controls: Financial
 - Internal Controls: Inventory
 - Internal Controls: Store Operations
 - Risk Assessment and Policy Review
 - Operations Reset: Good Governance Leadership Development
 - Operational Reporting

The blueprint, based on the Office of Legislative Auditor’s Best Practice Handbook and the GAO Green Book, includes for each project: an objective, strategic steps to accomplish the objective, a timeline for completion, and the staff members responsible. The department provides ongoing updates and a monthly presentation to the Alcoholic Beverage Services Commission (commission) on blueprint progress.

- Policies and Procedures Review: In accordance with the blueprint, the department began developing a more robust structure and process for policy review in April 2025, and launched an official review of all internal policies and procedures in August 2025. In addition to those policies specifically identified in this response, policies and procedures related to retail state stores are first in-line to be updated.
- Management Restructuring: As mentioned in the audit report, significant changes have been made to executive leadership within the department with almost every member of

the executive leadership team being new this year. This followed significant restructuring of the Division of Licensing and Compliance (not included in this audit report) over the last several years, which has shown positive impact on license application workflow, administrative action efficiency, and team morale.¹ Specifically, the department made structural and personnel changes within the operations team in recent months to better support clear reporting lines and oversight. The department will continue to look at structural improvements over the next year, tracking closely the impact of the significant and recent personnel changes.

- **When:** The above actions have been taken or are in process. The strategic plan, the blueprint, and the policies and procedures review have separate timelines for completion to be followed.
- **Documentation:** The department will use the following documents to monitor the above action items:
 - Strategic Plan dashboard
 - Operations Improvement Blueprint dashboard
 - Policies and procedures outline and timeline
- **Contact:** Ericka Evans, Executive Director

Recommendation 1.2: The Department of Alcoholic Beverage Services should ensure all system requirements are thoroughly mapped out prior to the development or funding of any Request for Proposal. This should help ensure systems are not developed without necessary capabilities and controls.

Department Response: The department concurs.

- **What:** The department has implemented an internal policy that dictates the approval process for information technology projects and requires a designated project planning team to develop a detailed project plan before a request for proposals for technology products or services is issued. The department is also currently working with a new contractor to assist with functional implementation of Microsoft D365 (D365), the department's enterprise resource planning software, and mapped out a detailed plan prior to soliciting the contractor's services.
- **How:** The department included the following in the policy:
 - the requirement that the executive director determine, for all information technology projects with an estimated cost of \$1,000 or more, who should be assigned to a project planning team to develop a project plan that includes:
 - the objectives and goals of the project;
 - the estimated budget for the project;
 - the estimated timeline for completion of the project; and
 - the staffing requirements for the project development; and
 - the requirement that the project plan be approved by the deputy director of finance and administration, and subsequently, the executive director before a request for proposals may be made or funding provided; and
 - the requirement that upon approval, the executive director identifies a project manager who is responsible for managing the project plan for implementation.

¹ The Division of Licensing and Compliance is responsible for the administrative oversight and processing of all alcohol licenses and permits (over 25 types) and processes approximately 2,950 license applications, 3,900 license renewals, 2,000 event permits, and 3,200 audits for license compliance per year.

The department is also following the detailed D365 plan described above.

- **When:** The department completed implementation of the policy and, prior to receipt of this audit report, began engaging with its new D365 contractor.
- **Documentation:** The completed policy is validation of completion of the recommendation.
- **Contact:** Todd Darrington, Deputy Director of Finance and Administration; Brian Swan, Deputy Director of Legal and Regulatory Affairs

Recommendation 1.3: The Department of Alcoholic Beverage Services should ensure that plans are created to implement all audit recommendations, including: a timeline, who is responsible, and follow-up processes to ensure that responsible staff are held accountable and recommendations are implemented.

Department Response: The department concurs.

- **What:** The department plans to track and monitor implementation of all audit recommendations using a dashboard and regular touchpoints with responsible staff to determine progress. The dashboards identified in response to Recommendation 1.1 will also serve as valuable tracking tools to determine implementation of audit recommendations.
- **How:** The department plans to track and monitor implementation of all audit recommendations as follows:
 - Business analysts will develop a dashboard tracking tool that details the timelines and responsible staff, as described in these responses to the audit report.
 - The EDO will:
 - hold monthly meetings to discuss the dashboard and audit progress; and
 - work with the supervisors of the responsible staff to ensure regular follow-up with the responsible staff on the status of implementation.
- **When:** The department will complete the audit response dashboard by November 30, 2025, and conduct regular check-ins with responsible staff until completion.
- **Documentation:** The completed dashboard will be validation of completion of the recommendation.
- **Contact:** Ericka Evans, Executive Director; Todd Darrington, Deputy Director of Finance and Administration; Janet Long, Senior Business Analyst

Recommendation 1.4: The Department of Alcoholic Beverage Services management should create and implement a policy to perform line-item level tracking and analysis of the budget regularly to ensure overspending does not occur.

Department Response: The department concurs and will bolster its current line-item tracking and analysis process with a formal internal policy and procedure to ensure future compliance.

- **What:** The department has begun the drafting of a formal policy and procedure that requires line-item level tracking and analysis of the budget at regular intervals.

- **How:** The department will identify in its policy and procedure a process for review of line-item level tracking and intervals at which the tracking and analysis must be completed. In addition, the department is exploring inclusion of the following in the policy, some of which is already current practice:
 - Recurring meetings with division directors to discuss division budgets and expenditure requests; and
 - Bi-weekly EDO meetings to discuss the overall department budget.
- **When:** While the department is already performing line-item level tracking and analysis, the department will complete the draft policy and procedure by October 31, 2025.
- **Documentation:** The completed policy will be validation of completion of the recommendation.
- **Contact:** Brian Swan, Deputy Director of Legal and Regulatory Affairs; Todd Darrington, Deputy Director of Finance and Administration

Recommendation 1.5: The Department of Alcoholic Beverage Services should provide key performance indicators for key operational goals to the Alcoholic Beverage Services Commission to allow the Commission more effective oversight of operations.

Department Response: The department concurs.

- **What:** As part of the previously mentioned blueprint, the department has, in coordination with commissioners, developed an engagement format and process for providing key performance indicators (KPIs) to the commission.
- **How:** In addition to ongoing reports to the commission on the dashboards identified above in response to Recommendation 1.1, the department revamped the format of the longstanding weekly operations report provided to the commission to include:
 - sales performance;
 - the number and name of delisted and listed products;
 - receiving and shipping productivity at the warehouse distribution center;
 - inventory variance notes;
 - the progress on construction of new state retail stores;
 - the number of license applications, violations, and event permits processed; and
 - the status of crucial IT system development and updates.
- **When:** The department has been providing much of the above-identified information to the commission since June 2025, and continues to examine and improve reporting metrics to the commission on an ongoing basis.
- **Documentation:** The completed reports will be validation of completion of the recommendation.
- **Contact:** Ericka Evans, Executive Director; Jeremy Sommerlath, Managing Director of Operations

CHAPTER 2

Recommendation 2.1: The Department of Alcoholic Beverage Services should implement approval requirements within the Microsoft Dynamics 365 for inventory processes to ensure the accuracy and integrity of variance entries into the system.

Department Response: The department concurs.

- **What:** The department is working with its contractor to enhance approval requirements for inventory processes within D365.²
- **How:** The department is exploring with its D365 contractor inclusion of the following workflow and approval process for inventory processes, keeping in mind necessary information security:
 - Approval 1: Business line approval by the staff responsible for the inventory process management
 - Approval 2: Primary approval by the appropriate division director or designee
 - Approval 3: EDO approval if the variance entry exceeds a certain threshold set dependent on the type of transaction (e.g., cash, payable, adjustments, journal vouchers)
- **When:** The department, in coordination with its contractor, anticipates implementation of the approval requirements for inventory processes in D365 by June 30, 2026.
- **Documentation:** The completed approval process within D365 will be validation of completion of the recommendation.
- **Contact:** Todd Darrington, Deputy Director of Finance and Administration; Jeremy Sommerlath, Managing Director of Operations

Recommendation 2.2: The Department of Alcoholic Beverage Services should create and implement digital variances reports, including documentation of investigation of variances, to strengthen the oversight of reported variances and trigger verification processes as necessary. Management should ensure variances are properly investigated and reviewed.

Department Response: The department concurs.

- **What:** While variance reports are currently digital entries in the department’s D365 system, the department will evaluate how to better track variance investigations through its review of the retail store-related policies and procedures as described in response to Recommendation 1.1. The department has also updated the store audit checklist used by retail division leadership and store management to ensure inventory variances are checked at each state store on a regular basis.
- **How:**
 - **Internal Policies and Procedures:** The department will ensure the process for investigation, review, and verification of variances is addressed in the retail store-related policies and procedures, including timelines for completion of an investigation, and examine whether the policy thresholds that trigger variance investigation make sense within the department’s current operational framework. In addition, the department will determine through this review the best way to digitize variance investigation documentation going forward.
 - **Store Audit Checklist:** Retail division leadership conducts a quarterly audit of retail state stores to ensure proper operations and policy compliance. The department has redeveloped the audit checklist used during retail state store audits to include store

² See also the department’s response to State Auditor’s 2025 Agreed-Upon Procedures for the year ended June 30, 2025, Report No. 25-01 (2025 State Auditor’s Report) regarding D365 enhancements.

receiving processes, cycle counting expectations, inventory variance reconciliation, and segregation of duties to prevent fraud and errors.

- **When:** Updates to the store audit checklist are complete. The department will complete the review of the policies and procedures by November 30, 2025, and implement any changes to the policies and procedures by June 30, 2026.
- **Documentation:** The completed policies, procedures, and store audit checklist forms will be validation of completion of the recommendation.
- **Contact:** Jeremy Sommerlath, Managing Director of Operations; Brian Swan, Deputy Director of Legal and Regulatory Affairs

Recommendation 2.3: The Department of Alcoholic Beverage Services should address variances at all levels of the organization and develop more robust policies and procedures to strengthen the oversight of variances.

Department Response: The department concurs.

- **What:** As noted in response to Recommendations 2.2 and 2.5, the department will review and update as necessary internal policies and procedures related to inventory variances at both the retail stores and warehouse distribution center. As noted in response to Recommendation 2.2, the department has updated the store audit checklist used by retail division leadership and store management to check inventory variances at each state store. The department is also examining improvements to its inventory counting practices to ensure regular checks and data integrity. Finally, and in accordance with the blueprint described in response to Recommendation 1.1, the department has updated the annual performance measures for retail and warehouse distribution center staff members to address inventory integrity.
- **How:**
 - **Internal Policies and Procedures:** The specific changes intended to be included in the internal policies and procedures are described in response to Recommendations 2.2 and 2.5.
 - **Store Audit Checklist:** The specific changes included in the updated store audit checklist are described in response to Recommendation 2.2.
 - **Inventory Counting Practices:** The department has increased the frequency of inventory cycle counting at retail stores and is evaluating options for additional third-party full-inventory counts going forward.
 - **Annual Performance Measures:** The department has modified retail division and warehouse distribution center performance measures to address inventory control expectations, including expectations related to investigation and documentation. Performance measures are evaluated annually with quarterly check-ins and feedback provided throughout the year.
- **When:** Updates to the annual performance measures and the store audit checklist are complete. Review of inventory counting practices is ongoing. The department will complete the policy and procedures review within the timeframes described in Recommendations 2.2 and 2.5.

- **Documentation:** The completed policies, procedures, performance measure forms, and store audit checklist forms will be validation of completion of the recommendation.
- **Contact:** Jeremy Sommerlath, Managing Director of Operations; Brian Swan, Deputy Director of Legal and Regulatory Affairs

Recommendation 2.4: The Department of Alcoholic Beverage Services should develop and implement policies to heavily weight variances during retail and management evaluations. Retail management should monitor these variances to increase focus on inventory controls.

Department Response: The department concurs.

- **What:** As noted in response to Recommendations 2.2 and 2.3, the department has updated the annual performance measures for retail division staff members to address inventory integrity and updated the store audit checklist to ensure better inventory variance checks at state stores.
- **How:** The specific changes included in the annual performance measures and store audit checklist are described in response to Recommendations 2.2 and 2.3.
- **When:** Updates to the annual performance measures and store audit checklist are complete.
- **Documentation:** The completed performance measure forms and store audit checklist forms will be validation of completion of the recommendation.
- **Contact:** Jeremy Sommerlath, Managing Director of Operations

Recommendation 2.5: The Department of Alcoholic Beverage Services should implement a clear threshold for variances and require notating investigation of variances at the warehouse to strengthen inventory accountability. This should include carefully tracking and reviewing investigation of variances to ensure DABS can minimize loss.

Department Response: The department concurs.

- **What:** The department will review and update as necessary internal policies and procedures related to inventory variance thresholds at the warehouse distribution center following the retail store-related policy review described in response to Recommendation 2.2. In addition, business analysts are in the process of updating a dashboard that tracks where and when certain inventory variance reports may have originated within the warehouse distribution center to support better inventory variance review.
- **How:**
 - **Internal Policies and Procedures:** As noted in response to Recommendations 2.2, the department is in the process of reviewing all internal policies and procedures, with retail store-related policies first in-line to be updated; warehouse distribution center-related policies will follow those updates and use the changes to the policies related to retail stores as a springboard. Taken together, the policies will detail investigation, review, and verification of inventory variances at all levels.
 - **Variance Dashboard:** Business analysts are in the process of updating a dashboard that tracks inventory variances reported by retail state stores and package agencies to ensure

the dashboard shows where and when any inventory variances within the warehouse distribution center originated. This data will better inform variance investigations.

- **When:** The department will complete the review of the warehouse distribution center-related policies and procedures by January 31, 2026, and any necessary changes to the policies and procedures by June 30, 2026. The department will complete the variance dashboard by November 30, 2025.
- **Documentation:** The completed policies, procedures, and dashboard will be validation of completion of the recommendation.
- **Contact:** Jeremy Sommerlath, Managing Director of Operations; Brian Swan, Deputy Director of Legal and Regulatory Affairs; Janet Long, Senior Business Analyst

Recommendation 2.6: The Department of Alcoholic Beverage Services should prioritize identifying and addressing inventory variance process issues as timely as possible and inform all levels of management for support and oversight to reduce unnecessary loss of inventory at stores.

Department Response: The department concurs.

- **What:** As noted in response to Recommendations 2.2 and 2.5, the department will review and update as necessary internal policies and procedures related to inventory variances at both the retail state stores and warehouse distribution center to ensure robust inventory variance processes.
- **How:** The specific changes intended to be included in the internal policies and procedures are described in response to Recommendations 2.2 and 2.5.
- **When:** The department will complete the policy and procedures review within the timeframes described in Recommendations 2.2 and 2.5.
- **Documentation:** The completed policies and procedures will be validation of completion of the recommendation.
- **Contact:** Jeremy Sommerlath, Managing Director of Operations; Brian Swan, Deputy Director of Legal and Regulatory Affairs

CHAPTER 3

Recommendation 3.1: The Department of Alcoholic Beverage Services should implement more robust policies and procedures to strengthen the planning, managing, and documentation of the risk assessment process. Management should ensure that critical risks are mitigated and documented in a timely manner.

Department Response: The department concurs.

- **What:** The department has rebooted its internal Risk Assessment Committee to better identify department risks on an ongoing basis and include commission representation. Strategic goals of the Risk Assessment Committee are identified in the blueprint described in response to Recommendation 1.1. The department will also review and update as necessary its policy related to risk assessment to formally identify the role, duties, and processes of the Risk Assessment Committee.

- **How:** The Risk Assessment Committee holds monthly meetings. Commissioner Falyn Owens has joined the Risk Assessment Committee to represent the commission’s viewpoint in the discussions alongside representatives from each division within the department, including internal audit. The Risk Assessment Committee identifies risks based on the following categories scoring the severity of the risk based on its potential impact and likelihood:
 - Strategic;
 - Operational;
 - Financial;
 - Compliance and Legal;
 - Security and Cybersecurity;
 - Health and Safety; and
 - Environmental.

At the monthly meetings, the Risk Assessment Committee discusses, scores, and begins tracking risks newly identified over the previous month, and reviews mitigation strategies and the status of any strategies already implemented for risks not fully addressed. All risks and strategies to address risks are tracked using a risk assessment dashboard. The department will ensure the above process is formalized in the policy related to risk assessment.

- **When:** The department launched a renewed Risk Assessment Committee meeting in May 2025. The department will continue convening the committee and will draft any changes to the policy related to risk assessment by December 31, 2025.
- **Documentation:** The blueprint is validation of completion of the recommendation, as is the dashboard used to track risks identified and the process for addressing the risks. The updated policy will be further validation of completion of the recommendation.
- **Contact:** Todd Darrington, Deputy Director of Finance and Administration; Brian Swan, Deputy Director of Legal and Regulatory Affairs

Recommendation 3.2: The Department of Alcoholic Beverage Services should effectively use internal audit and hold internal audit accountable to approved audit plans and timelines. This should ensure that critical risks are audited and resolved.

Department Response: The department concurs and will work with the commission to ensure policies and procedures are in place for better oversight of the Internal Audit Office (IAO), which reports directly to the commission by statute.

- **What:** The department and commission are in the process of jointly reevaluating the structure, reporting lines, and policies and procedures that apply to the IAO. The department hopes to use the recommendations in the Legislative Auditor’s Best Practices for Internal Audit report that is currently underway to inform any changes that may be necessary.
- **How:** As the department and the commission work together to evaluate the structure and reporting lines of the IAO, they will review and update as necessary the internal audit policies and procedures to ensure the following are addressed:
 - the process for approval of internal audit plans;
 - the required contents of internal audit plans;
 - the timelines for completion of internal audit plans;

- the format and processes to be followed when conducting an internal audit, including an exit conference and details regarding commission oversight; and
- the performance management of the IAO.
- **When:** The department and commission will complete evaluation of the structure and reporting lines of the IAO by December 31, 2025. The commission will review and have a vote for approval of any changes to the policies and procedures related to the IAO by June 30, 2026.
- **Documentation:** Any policies and procedures approved by the commission will be validation of completion of the recommendation.
- **Contact:** Ericka Evans, Executive Director; Stephen Handy, Chair of the Commission

Recommendation 3.3: The Department of Alcoholic Beverage Services Internal Audit should implement an exit conference with Department of Alcoholic Beverage Services management to resolve discrepancies and provide accurate reports to the Alcoholic Beverage Services Commission.

Department Response: The department concurs.

- **What:** As noted in response to Recommendation 3.2, the department and commission are in the process of reevaluating the structure, reporting lines, and policies and procedures that apply to the IAO.
- **How:** As noted in response to Recommendation 3.2, the department and the commission will ensure the policies and procedures applicable to the IAO include implementation of an exit conference. As review of the policies and procedures may take time to complete, the department and commission have discussed implementing an exit conference with the IAO before completion of the review.
- **When:** As noted in response to Recommendation 3.2, the department and commission will complete evaluation of the structure and reporting lines of the IAO by December 31, 2025, and the commission will review and have a vote for approval of any changes to the policies and procedures related to the IAO by June 30, 2026.
- **Documentation:** Any policies and procedures approved by the commission will be validation of completion of the recommendation.
- **Contact:** Ericka Evans, Executive Director; Stephen Handy, Chair of the Commission

Recommendation 3.4: The Department of Alcoholic Beverage Services should use internal audit more effectively by increased collaboration with the Alcoholic Beverage Services Commission to prioritize and accurately address high-risk areas.

Department Response: The department concurs.

- **What:** As noted in response to Recommendation 3.2, the department and commission are in the process of reevaluating the structure, reporting lines, and policies and procedures that apply to the IAO.
- **How:** As noted in response to Recommendation 3.2, the department and commission will ensure the policies and procedures applicable to the IAO include internal audit plan processes, topics,

and reporting requirements to ensure high-risk areas are properly addressed. As review of the policies and procedures may take time to complete, the department and commission will ask the IAO to implement any vital processes before completion.

- **When:** As noted in response to Recommendation 3.2, the department and commission will complete evaluation of the structure and reporting lines of the IAO by December 31, 2025, and the commission will review and have a vote for approval of any changes to the policies and procedures related to the IAO by June 30, 2026.
- **Documentation:** Any policies and procedures approved by the commission will be validation of completion of the recommendation.
- **Contact:** Ericka Evans, Executive Director; Stephen Handy, Chair of the Commission

CHAPTER 4

Recommendation 4.1: The Legislature should consider if adjustments to the warehouse expansion funding are needed, provided the new information presented in this chapter.

Department Response: As the Legislature determines whether to implement funding changes, the department will provide any requested or additional information the Legislature finds necessary to inform the determination.

- **What:** The department acknowledges the request for additional information regarding the warehouse distribution center funding in the audit report and appreciates the opportunity to reevaluate under new department leadership. The department is willing to provide information regarding the warehouse distribution center through all appropriate channels and at the request of the Legislature. To date, the department has not received a request to address a committee of the Legislature regarding the previously provided funding.³

For additional context, the following summarizes certain steps leading to the warehouse distribution center funding in 2022:

- The department completed two feasibility studies regarding the need for expansion of the warehouse distribution center, one in 2020 and one in 2023. The second feasibility study was actioned by the former executive director based on potential changes to warehouse and distribution needs following COVID-19. Both feasibility studies supported the need for expansion of the warehouse distribution center.
- The department discussed the possibility of a warehouse distribution center expansion with stakeholders representing prevention-focused and alcohol industry groups at several meetings convened by legislators to discuss alcohol-related topics.
- In addition to presenting information to the Infrastructure and General Government Appropriations Subcommittee on warehouse “turns” as explained in the audit report, and as highlighted in the department’s response to the State Auditor’s Agreed-Upon Procedures for the Year Ended June 30, 2023, Report No. 23-01 (2023 State Audit Report), the department provided information on shipping, receiving, and the service improvements provided by an expanded warehouse distribution center, including product

³ It should be noted, the Executive Appropriations Committee must review any plan to proceed with the warehouse distribution center in accordance with language passed in the 2025 General Session in [SB 9](#).

delivery directly to businesses licensed to sell alcohol, split casing capabilities, and diversified product selection capabilities.⁴

- **How:** The department will conduct a review of the following with current department operations in mind to best be able to inform the Legislature of warehouse distribution center needs going forward:
 - the two feasibility studies regarding the need for expansion of the warehouse distribution center described above;
 - warehouse distribution center inventory “turns,” both with and without bailment inventory; and
 - current and past warehouse distribution center inventory amounts and capacity.

While bailment will be included in the analysis described above, it is important to note, as the audit report does, that bailment inventory is inherently different from other inventory because bailment inventory is not owned by the department until sold. Additional information on the bailment process and the benefits to the state can be found in the department’s response to the 2023 State Audit Report.

- **When:** The department will conduct the review described above as soon as practicable to be able to inform the Legislature upon request.
- **Documentation:** NA
- **Contact:** Ericka Evans, Executive Director

Recommendation 4.2: The Department of Alcoholic Beverage Services management should ensure key performance indicators are used and efficiencies are evaluated by allowing Business Analysts to provide dashboards and actionable insights to management regularly. Department leadership should use this information to make decisions that make the Department more efficient.

Department Response: The department concurs.

- **What/How:** As noted in Recommendations 1.1, 1.3, 2.5, and 3.1, the department, with the help of its business analysts, has developed or is in the process of developing the following dashboards or tracking mechanisms to better inform department management decisions regarding operations⁵:
 - Strategic Plan dashboard
 - Operations Improvement Blueprint dashboard
 - Policies and procedures review outline and timeline
 - OLAG audit response dashboard (related to this audit)
 - Weekly and monthly reports to the commission
 - Inventory variance dashboard
 - Risk Assessment Committee dashboard
- **When:** The department will complete the dashboards and tracking mechanisms within the timeframes described in Recommendations 1.1, 1.3, 2.5, and 3.1.

⁴ See also the funding request found in the Legislature’s Compendium of Budget Information ([COBI](#)).

⁵ The department has other live dashboards to track department projects, including: 2025 State Audit Report dashboard; license renewal dashboards; event permit submission dashboard; beer label approval dashboard; and violations count dashboard.

- **Documentation:** The completed dashboards and tracking mechanisms will be validation of completion of the recommendation.
- **Contact:** Todd Darrington, Deputy Director of Finance and Administration; Jeremy Sommerlath, Managing Director of Operations; Janet Long, Senior Business Analyst







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