



Department of Commerce

Liquor Control Licensing Audit

Audit Period: July 2015 through June 2016

Results Summary:

Objective	Conclusion
Issuance of Liquor Permits	Improvement Needed
Renewal of Liquor Permits	Improvement Needed

* Please refer to Appendix A for classification of audit objective conclusions.

Report number: 2017-COM-04

Issuance date: 9/22/2016



Executive Summary

Background

The Department of Commerce (COM) is a multi-functional regulatory agency that performs a wide array of regulatory duties. The Department is organized into seven operating divisions, including the Liquor Control Division. The Liquor Control Division is responsible for licensing the operations of more than 24,000 privately owned and operated manufacturers, distributors and retailers of alcoholic beverages. During fiscal year 2016, the Liquor Control Licensing Section issued, renewed, or transferred 35,019 licenses.

During fiscal year 2015, a record number of liquor sales occurred totaling \$983.2 million, an increase of \$66.5 million, or 7.3%, from the prior year. Of the more than \$40.2 million collected for permit fees, \$38.9 million was distributed to various local and state entities. These distributions included local taxing districts (per Ohio Revised Code 4301.30) receiving \$13.6 million to enforce liquor laws, \$17.5 million in the state's Liquor Regulatory Fund (\$10 million of which was contributed to the Ohio General Revenue Fund), and in order to fund treatment and education, the Ohio Department of Mental Health and Addiction Services received \$7.8 million.

During the audit, OIA identified opportunities for COM to strengthen internal controls and improve business operations. This audit conforms to the *International Standards for the Professional Practice of Internal Auditing*. OIA would like to thank COM staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.

Scope and Objectives

OIA staff was engaged to perform an assurance audit related to the controls over the agency's Liquor Control permitting processes. This work was completed June through September 2016. The scope of this audit included the following areas:

- Issuance of liquor permits
- Renewal of liquor permits

The scope did not include the distribution of permit fees.

The following summarizes the objectives of the review:

- Evaluate the design and effectiveness of controls over issuance of liquor permits
- Evaluate the design and effectiveness of controls over renewal of liquor permits

The audit period was July 2015 through June 2016.



Detailed Observations and Recommendations

The Observations and Recommendations include only those risks which were deemed high or moderate. Low risk observations were discussed with individual agency management and are not part of this report. However, the low risk observations were considered as part of the audit objective conclusions.

Observation 1 – Security of Confidential Personal Information

Ohio Revised Code (ORC) § 1347.15 indicates each agency adopt rules regulating access to the confidential personal information (CPI) the agency keeps, whether electronically or on paper. Agencies should develop controls to address the protection of information deemed as personally identifiable from intentional or unintentional disclosure or misuse. A department-wide CPI policy states that “employees should consider how information they work with should be handled, and what measures need to be taken to safeguard CPI. Records including CPI and other confidential information should be maintained electronically or in lockable filing cabinets or locked rooms when not in use.”

The Division of Liquor Control receives CPI (social security numbers) from permit applicants. At the end of each work day, division employees lock applications in safes to retrieve the following day for processing. However, division employees do not consistently safeguard CPI contained in paper documents. For instance, employees routinely do not secure applications containing CPI when away from desks during the workday. Additionally, after an application is processed, the application and any accompanying documentation are stored in boxes on the division’s floor, sometimes for several months, before they are ultimately sent to storage.

Failure to properly secure CPI can result in loss, theft, or unauthorized disclosure. Permit applications and CPI may be accessible to anyone on the floor, including employees from other divisions or maintenance and cleaning staff, while left out on employees’ desks or in unsecured storage boxes. A single incident of compromised CPI can result in reputational damage to COM and to the State of Ohio.

Recommendation

Develop and implement procedures to adequately safeguard CPI on paper documents in accordance with the department-wide CPI policy. Consider maintaining the paper copies of permit applications that have been processed and are awaiting transfer to storage in a locked area to prevent unauthorized access. Additionally, lock paper files in cabinets when employees are away from their desks for extended periods during the workday.

As a long term solution, devise plans to receive applications in an electronic format to eliminate or reduce paper documentation containing CPI.



Management Response

The Division of Liquor Control has voluminous amounts of records that are in paper format related to the issuance and processing of liquor permits because all permit applications are processed in hard copy (paper) forms. As a result of a recent warehouse fire earlier this year that required extensive repairs to the area where the paper documents are normally stored, during the period of this audit there were more boxes than normal stored in the work processing/scanning areas that were not able to be housed in the secured warehouse location because the access to the warehouse was determined to be unsafe by the State Fire Marshal. In order to address the audit issue and secure CPI on our paper documents now that repairs have been completed, our support staff will be required to pick up and secure the boxes each week or more often as necessary. Because of the need to correct scanned images or review certain documents in their original form, the boxes not sent to the warehouse will be stored in a locked room on the floor during non-working hours. Boxes that are required to be maintained near the areas where work will be processed during the day will be limited in number and under the control of the supervisor. During work hours when staff are away from their desks for extended periods they will be required to lock their files that contain CPI in storage cabinets that will be placed in specific work areas. These new procedures in the work area should be adequate safeguards to prevent unauthorized access to the documents.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Division of Liquor Control, Licensing Section Chief	November 2016

Observation 2 – Monitoring of Application Status

The Division of Liquor Control issues permits for the manufacture, distribution, transportation, and sale of beer and intoxicating liquor and the sale of alcohol in accordance with ORC § 4301.10. The License Issuance and Tracking System (LITS) is a workflow and document management system utilized by COM. COM utilizes a workflow in LITS to process applications for new permits and for permit transfers.

However, for renewal and temporary permit applications, COM utilizes the Customer Information Control System (CICS), which is the mainframe database that provides permit status, historical permit information, citations and rejections. However, CICS is not designed to provide aggregate reports on the current status of applications for monitoring purposes. Instead, COM management has to individually look up applications to determine the current status. CICS also



does not provide updates when a change in status may allow COM to resume application processing. For example, COM must halt processing an application with a tax violation until the violation is cleared. Such applications are kept in a drawer and periodically viewed to look up each in CICS to determine if the Ohio Department of Taxation has cleared the violation so that COM management may resume processing. The system’s reporting limitations also resulted in OIA limiting audit testing to applications that resulted in issued permits rather than also testing applications that resulted in denials or were still in process.

Failure to monitor the status of all applications due to limited reporting functionality increases the likelihood that applications are not processed timely or at all without detection. Manual processes due to limited system functionality result in inefficiencies and further increases the likelihood that applications are not processed without timely detection.

Recommendation

In the short-term, consider utilizing another methodology for a workflow for renewal and temporary permit applications in order to track and monitor to ensure the numerous applications received are fully and appropriately processed.

In the long-term, consider a system upgrade with the functionality to run additional standard and ad-hoc reports for various time periods and to ensure that all applications received are processed timely and completely. Additionally, if considering a system upgrade, request a dashboard for monitoring the various statuses of all applications to reduce the number of manual and inefficient processes. Enhanced reporting functionality and dashboards will assist COM management in evaluating performance of the division over time.

Management Response

The Division of Liquor Control’s computer legacy systems technology for licensing is a sizeable challenge to efficient business operations management. The division recognizes the extent that the current limitations affect the ability to track and monitor the status of applications. As a result, the current system of manual processing of applications require both a first and second review (examination) of each application prior to issuance and a final review by a supervisor prior to issuance of permits in all Licensing Section units.

Because of the shorter timeframes and specific statutory requirements associated with temporary and renewal applications these areas are not included in the LITS software workflow. In order to address the issues raised in this audit it is necessary to address items separately related to the Renewal and Temporary permit processing units.

In the short-term, in the Renewal Unit, we will request that our Information Technology Unit develop a program in the CICS data base to match the permit number records that are subject to tax renewal holds with the “release” data received electronically from the Department of Taxation



to automatically release permit holders from the tax hold order from the Commissioner of Taxation. This program should allow each tax hold to be released (cleared) based on receipt of data that indicates the permit holder is in compliance with the Department of Taxation requirements. This will eliminate the manual process of requiring a staff member to research the pending permit files to determine if a “tax hold” has been lifted.

In the Temporary Unit, supervisors and lead workers will develop a methodology for random selection of a percentage of permits to review prior to the final review and issuance of the liquor permit. The documentation of the permits reviewed will be maintained separately from the CICS and LITS systems. Metrics to address the review findings will also be developed and analyzed to address any issues found during this process. Once the final review is performed by a staff member, the Supervisor will review the permit again prior to submission of a print request for the permit, and mailing it to the customer.

As a short-term solution, LITS software is not available for use for development of a workflow methodology for temporary or renewal applications because the software design is not adaptable for the current business environment and the work involved to make large scale changes would be too extensive and costly.

As our long term solution, we are currently developing business requirements for a comprehensive business technology solution to replace both LITS and CICS that will be a robust, adaptable technology. It is our intent to implement technology that will allow “real time” monitoring of the status of applications, run various ad-hoc reports, allow customers to receive more efficient service and simplify our regulatory compliance procedures.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Division of Liquor Control, Licensing Section Chief	January 2017

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist your department in achieving improvements in internal controls, compliance, and operational efficiencies.



Appendix A – Classification of Conclusions and Observations

Classification of Audit Objective Conclusions

Conclusion	Description of Factors
Well-Controlled	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
Well-Controlled with Improvement Needed	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
Improvement Needed	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
Major Improvement Needed	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.

Classification of Audit Observations

Rating	Description of Factors	Reporting Level
Low	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
Moderate	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	Agency Management and State Audit Committee
High	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Agency Management and State Audit Committee