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STATE COMPTROLLER



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STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

September 30, 2020

Mr. Vincent G. Bradley  
Chairman  
New York State Liquor Authority  
80 South Swan Street, 9th Floor  
Albany, NY 12210

Re: Internal Controls Over Selected  
Financial Operations  
Report 2019-S-69

Dear Mr. Bradley:

According to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law, we audited the State Liquor Authority and Division of Alcoholic Beverage Control's internal controls over selected financial operations.

**Background**

In 1934, the New York State Legislature enacted the Alcoholic Beverage Control Law (Law), creating the State Liquor Authority and the Division of Alcoholic Beverage Control (both commonly and hereafter referred to as SLA). SLA promotes the health, welfare, and safety of the people of the State, and – to the extent possible – supports economic growth, job development, and the State's alcoholic beverage production, tourism, and recreation industries.

SLA has locations – or zones – in New York City, Albany, and Buffalo and consists of a chairperson and two commissioners. Its responsibilities include:

- Issuing licenses and permits for the manufacture, wholesale distribution, and retail sale of alcoholic beverages;
- Inspecting premises where alcoholic beverages are manufactured or sold;
- Investigating licensees in connection with violations of the Law, and working with local law enforcement to ensure compliance with the Law; and
- Conducting disciplinary proceedings and hearings, and revoking, cancelling, or suspending for cause any license or permit and/or imposing monetary penalties.

SLA issues on- and off-premises licenses (such as for bars and grocery stores, respectively) as well as manufacturing and wholesale licenses. It also issues special event and brand label permits as well as miscellaneous permits such as those for brewery tastings. In total, there are more than 280 license types and more than 30 permit types, with application and fee requirements depending on license or permit type and location. For the State Fiscal Year

ended March 31, 2020, SLA generated almost \$67 million in revenue from licenses and fees, as shown in the table below.

### **SLA Revenue From Licensing for State Fiscal Year Ended March 31, 2020**

<b>License Type</b>	<b>Original Licenses</b>	<b>License Renewals</b>	<b>Total Revenues</b>	<b>Percent of Total Revenue</b>
On-Premises	\$10,502,198	\$34,846,195	\$45,348,393	67.9%
Off-Premises	2,653,986	5,275,565	7,929,551	11.9%
Brand Label Permits	894,320	3,881,700	4,776,020	7.1%
Wholesale/Manufacturing	1,408,813	3,289,207	4,698,020	7.0%
Miscellaneous Permit Fees	1,013,430	1,274,164	2,287,594	3.4%
Special Events Permits	1,776,545	–	1,776,545	2.7%
<b>Totals</b>	<b>\$18,249,292</b>	<b>\$48,566,831</b>	<b>\$66,816,123</b>	<b>100%</b>

Effective in 2012, SLA entered into a Service Level Agreement (Agreement) with the Office of General Services' (OGS) Business Services Center (BSC), the State's shared services center that provides transactional processing for State agencies, employees, and vendors. BSC standardizes select finance and human resources processes through policies implemented in coordination with guidelines and policies of the Department of Civil Service, the Division of the Budget, and the Office of the State Comptroller (OSC). Under the terms of the Agreement, BSC performs a variety of services for SLA, including those related to finance, human resources, and payroll administration. Additionally, SLA follows the New York State Procurement Guidelines issued by the State Procurement Council pursuant to State Finance Law. For functional areas outside the scope of the Agreement, such as revenue collection, investigations, enforcement, and vehicle usage, SLA has developed its own policies and procedures.

#### **Results of Audit**

We reviewed SLA's internal controls in the areas of revenues, payroll, procurement and procurement card expenditures, asset management, and travel expenses, and generally found the controls to be adequate to ensure its assets and information are properly managed and safeguarded.

#### ***Revenues***

We reviewed ten revenue transactions totaling \$304,650 – five approved new liquor licenses and five assessed civil penalties – and found SLA appropriately accounted for these transactions, including collecting and depositing the relevant fee amounts based on license type and penalty.

#### ***Payroll***

We found that selected payroll transactions, including payment of regular and overtime wages, were accurately processed. We also found that SLA appropriately processed new hires and employee separations, which resulted in employees' timely addition and removal from the State payroll.

#### ***Procurement and Procurement Card Expenditures***

We determined that SLA followed appropriate procurement guidelines in its \$1.1 million contract for brand labeling registration. SLA requires all alcoholic beverages sold in the State to have an SLA-approved brand label affixed or imprinted on the container. SLA provided

justification for a sole source vendor and requested and received an exemption from advertising in the New York State Contract Reporter, which is the official publication of procurement activity for all New York State agencies, public authorities, and public benefit corporations. We also reviewed ten procurement card transactions totaling \$21,700, and found that the purchases were properly approved, the goods or services were documented as having been received, and the payment amounts were supported by appropriate documentation, such as receipts.

### ***Asset Management***

Since February 2018, SLA spent more than \$350,000 to purchase 19 new vehicles to use for its enforcement and administrative functions. SLA provided an appropriate business case for the acquisition, citing its need to replace its aging fleet of vehicles with more fuel-efficient ones, especially for investigators who need to travel across the State. We reviewed 86 transactions from the vehicle logs for the period February 1, 2020 to April 30, 2020, and found that vehicles were appropriately requested and assigned and that the mileage was reasonable given the logged destinations.

### ***Travel Expenses***

As part of its Agreement with SLA, BSC provides travel card tracking and reconciliation services on behalf of SLA, and notifies SLA employees and their supervisors of outstanding travel card charges to ensure the submission of travel vouchers. Travel vouchers provide accountability for employees' use of travel cards and support for reimbursement of out-of-pocket costs. They also provide information necessary to reconcile the travel card bill and identify and challenge incorrect and potentially fraudulent charges.

Per the OSC Travel Manual, which SLA uses for its travel procedures, employees should submit travel vouchers within 30 days of the end of the travel event detailing all expenses, including both travel card and out-of-pocket expenses. We reviewed 33 travel card transactions totaling just over \$3,700, and found that the charges were for business purposes and most were supported. However, there were six travel card charges totaling \$738 for two SLA employees – one current and one former employee – for which SLA lacked employee travel vouchers. The two charges for the former employee, who separated from SLA service in July 2019, were for train tickets that totaled \$230 and were incurred in March 2018 and July 2018, one year or more prior to their departure. Four charges for the current employee, also for train tickets, totaled \$508 and were incurred between four months and one year prior to our review.

According to both BSC and SLA officials, the BSC notifications did not include all outstanding travel card charges for these two employees. SLA should work with BSC to ensure that its notifications provide timely and accurate information about outstanding travel card charges so that SLA officials can take appropriate action. SLA officials stated that they are taking steps to obtain the information needed to reconcile these outstanding charges.

### **Recommendations**

1. Take steps in coordination with BSC to ensure timely and accurate receipt of information about outstanding travel card charges.
2. Take appropriate follow-up action on outstanding charges.

## **Audit Scope, Objective, and Methodology**

The objective of our audit was to determine whether SLA has adequate controls over selected financial operations to provide reasonable assurance that State assets and information are appropriately managed and safeguarded. The audit covered the period April 1, 2016 to June 5, 2020.

To achieve our audit objective and assess relevant internal controls, we reviewed laws, regulations, and SLA policies and procedures related to selected financial operations. We also met with SLA and the New York State Office of Information Technology Services to gain an understanding of how selected internal controls work in practice. Additionally, we reviewed the Agreement, effective September 27, 2012, between OGS and SLA to better understand the role OGS has in administering certain functions on behalf of SLA, such as payroll, accounts payable, travel reimbursements, procurement, and travel card reconciliations.

We obtained data from SLA, the Statewide Financial System (SFS), and the State payroll system, and selected judgmental and random samples to test controls related to the collection of license fees and civil penalties, payroll transactions, procurement card charges, asset acquisitions, and travel expenses. To test SLA's controls over revenue transactions, we reviewed SLA Board materials for meetings between January 9, 2019 and November 6, 2019, and judgmentally selected 5 of 54 approved liquor licenses totaling \$12,650 of \$132,863 in license fees received plus 5 of 277 assessed civil penalties totaling \$292,000 of about \$2 million in penalty revenue received. Our license selections were based on geographic location of the premises, and our penalty selections were based on dollar value.

To test SLA's controls over time records, we identified 89 individuals – including both salaried and hourly employees – who had been paid overtime during the pay periods from January 11, 2017 to December 11, 2019. We judgmentally selected a sample of 10 individuals who were among the highest overtime earners and who represented varying job titles. We reviewed records for these individuals that totaled \$11,225 of the \$276,490 in overtime paid during the period. We also selected a sample of 10 of 61 hourly employees who were not paid overtime during the period but who were among the highest-paid hourly employees and who represented varying job titles. We reviewed records for these individuals that totaled \$24,687 of the \$2.5 million paid to hourly earners for the testing period. Within each sample of 10, we replaced employees with duplicate job titles with employees having other job titles to result in 20 unique employees and a mix of job titles. To determine if additions to and deletions from the payroll were appropriately reflected in the payroll records, we selected three random samples from the period April 1, 2016 to March 13, 2020: 10 of 92 payroll additions; 10 of 55 payroll deletions; and 5 of 27 payroll transfers out of SLA.

To determine whether SLA was following applicable procurement policies, we identified three contracts it entered into during our audit scope period that totaled \$1.8 million, and reviewed one sole source contract valued at \$1.1 million. We also judgmentally selected 10 of 1,834 procurement card transactions incurred during the period April 1, 2016 to March 12, 2020, based on transaction amount and description. The sample transactions totaled \$21,723 of the \$805,979 incurred. For each transaction, we reviewed documentation supporting the purchase approval, the receipt of goods or services, and payment receipt.

To determine the appropriateness of SLA's travel expenses, we judgmentally selected a sample of 10 of 1,646 travel card transactions incurred by 10 SLA employees (one transaction for each employee) during the period April 1, 2016 to March 12, 2020, based on transaction

amount and merchant location (e.g., out-of-state vendor). The sample transactions totaled \$1,906 of the \$122,249 incurred during the period. To determine the appropriateness of each charge, we compared it with the submitted travel voucher, which we obtained from travel expense information totaling \$208,206 that was posted in SFS during the period April 1, 2016 to April 30, 2020. We also reviewed other travel expenses that appeared on the vouchers. In total, we reviewed 33 travel card transactions totaling \$3,793 for the 10 employees, comparing the payments against source documents such as receipts and approval forms.

To test SLA's controls over asset management, we reviewed expenditures totaling \$26.7 million posted in SFS for the period April 1, 2016 to May 31, 2020 to identify large equipment and/or asset purchases, and obtained SLA's asset inventory record as of May 19, 2020. The scope of our asset review included 21 State-owned vehicles, including 19 that SLA purchased between February 2018 and February 2020 at a cost of approximately \$350,000. To determine whether the 19 recently acquired vehicles were used for business-related purposes and their vehicle mileage was reasonable based on recorded destinations, we reviewed usage logs and vehicle approval requests for 86 transactions for the period February 1 through April 30, 2020 for these vehicles. We also judgmentally selected two of the five 2020 model year vehicles based on geographical location and compared their physical location to the vehicle logs.

None of our sample results can be projected – and we did not project our results – to the entire population of transactions or items we considered in our testing.

We conducted our performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

### **Reporting Requirements**

We provided a draft copy of this report to SLA officials for their review and formal written response. We considered their response in preparing this report and have included it in its entirety at the end of this report.

Within 180 days after the final release of this report, as required by Section 170 of the Executive Law, the SLA Chairman shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and, where the recommendations were not implemented, the reasons why.

Major contributors to this report were Scott Heid, Kathy Garceau, Jackie Keeys-Holston, and Lisa Whaley.

We wish to thank SLA management and staff for the courtesies and cooperation extended to our auditors during this audit.

Very truly yours,

Sharon Salembier, CPA, CFE  
Audit Manager

cc: Kimberly Ciccone, Director of Administration

# Agency Comments



**ANDREW M. CUOMO**  
Governor

**VINCENT G. BRADLEY**  
Chairman

**LILY M. FAN**  
Commissioner

**GREELEY FORD**  
Commissioner

September 22, 2020

Sharon Salembier  
Audit Manager  
Office of the State Comptroller  
Division of State Government Accountability  
110 State Street – 11<sup>th</sup> Floor  
Albany, NY 12236-0001

Re: Internal Controls Over Selected Financial Operations  
Report 2019-S-69

Dear Ms. Salembier:

Thank you for providing your draft report resulting in the findings from the above referenced audit.

Per your request within the draft report, we have no additional comments that we ask to be considered in your findings and/or recommendations.

In accordance with the "Reporting Requirements", within 180 days after the final release of this report, I will report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, steps that our agency has taken to implement the recommendations contained in the report.

We thank you and your audit team for working with our staff so patiently during these unprecedented times.

Sincerely,

A handwritten signature in black ink that reads "Vincent G. Bradley".

Vincent Bradley  
CHAIRMAN

Cc: Kimberly Ciccone, Director of Administration  
Sharif Kabir, Executive Deputy Commissioner  
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