

Office of the Secretary of State

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Audits Division

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November 9, 2020

Steven Marks, Executive Director
Oregon Liquor Control Commission
9079 SE McLoughlin Blvd.
Portland, Oregon 97222

Dear Mr. Marks:

We have completed audit work of selected financial accounts at your department for the year ended June 30, 2020. This audit work was not a comprehensive financial audit of the commission but was performed as part of our annual audit of the State of Oregon's financial statements. We audited accounts that we determined to be material to the State of Oregon's financial statements.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements of the State of Oregon as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, we considered the commission's internal control over financial reporting as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements of the State of Oregon, but not for the purpose of expressing an opinion on the effectiveness of the commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the commission's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

Significant Deficiencies

Ensure Timely Completion of Agent Inventory Audits

The Oregon Liquor Control Commission controls all sales of liquor in Oregon. Oregon's 282 liquor stores are operated by contracted agents that sell liquor on behalf of the state. Liquor sales, including information on inventory sold, are submitted by the agent to the Commission weekly. Management is required to implement and maintain internal controls to ensure agent reported information includes all liquor sales. We were unable to obtain a written policy, but according to management an important part of this control is achieved by performing an inventory audit at each liquor store every 6-12 months.

Management stated that inventory audits were put on hold from mid-March 2020 through May 2020 due to safety concerns related to Covid-19. The Commission resumed inventory audits in June. As of the end of fiscal year 2020, management identified 72 liquor agents that had not received an inventory audit within the last 12 months.

Liquor sales at stores spiked during the last few months of the year following the mandatory shut down of restaurants and bars due to COVID-19. The increase in sales under the pandemic situation increases the risk reported sales might not be accurate. The timely completion of agent inventory audits is important to ensure any discrepancies between Commission records and agent sales are identified and corrected as soon as possible. As the cause of discrepancies may range from timing issues to intentional misrepresentations made by the agent, the completion of agent audits also helps serve as a deterrent to agent malfeasance.

We recommend management complete agent inventory audits for all stores that haven't had one in the last 12 months as soon as possible. We also recommend management ensure control processes for agent audits are documented in formal written procedures.

Strengthen Controls over System Access

The Oregon Liquor Control Commission uses various computer applications to perform their day to day operations. These systems are used for activities such as, but not limited to: tracking the ownership of inventory, recording liquor agent sales, calculating and recording compensation to liquor agents, recording payments to liquor vendors, and calculating the amount of net profit that is available to be transferred to the General Fund. According to the Oregon Accounting Manual, access to programs and data files should be limited to the extent required by individual job duties. In addition, management must periodically review the Commission's internal controls over information technology.

Commission management implemented a policy at the beginning of fiscal year 2020 requiring system access reviews be performed on a monthly basis. During the year, management decided quarterly reviews would meet their control objectives. However, management did not perform system access reviews as intended. An audit finding from 2017, that remained outstanding in each subsequent year, similarly noted that system access was not regularly reviewed for appropriateness by the Commission.

During our fiscal year 2020 audit, we were not able to verify that OLCC employees were assigned an appropriate level of access to each system. Management was unable to provide us with a listing of system users and their level of access. As a result, an unknown number of users may have system access that does not align with their job duties. With this access, a user may be able to perform

inappropriate activities using Commission applications, such as the unauthorized creation, modification, or deletion of information. Inappropriate activities could be performed inadvertently, or to perform or conceal fraud.

We recommend management perform regular, periodic system access reviews to ensure the continued appropriateness of assigned user access. We also recommend management update their policy to align with their decisions for meeting the control objectives.

The above significant deficiencies, along with your response for each finding, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2020. Please prepare a response to each finding and include the following information as part of your corrective action plan:

- 1) Your agreement or disagreement with the finding. If you do not agree with the audit finding or believe corrective action is not required, include in your response an explanation and specific reasons for your position.
- 2) The corrective action planned.
- 3) The anticipated completion dates.
- 4) The name(s) of the contact person(s) responsible for corrective action.

Please provide a response to Julianne Kennedy by November 13, 2020 and provide Rob Hamilton, Statewide Accounting and Reporting Services (SARS) Manager, a copy of your Corrective Action Plan.

The purpose of this letter is solely to describe the scope of our testing of internal control and the result of that testing, and not to provide an opinion on the effectiveness of the commission's internal control. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the commission's internal control. Accordingly, this letter is not suitable for any other purpose.

We appreciate your staff's assistance and cooperation during this audit. Should you have any questions, please contact Michael Yamamoto, Senior Auditor at (503) 986-2255, or Julianne Kennedy, Audit Manager at (971) 283-1888.

Sincerely,

Office of the Secretary of State, Audits Division

cc: Will Higlin, Deputy Director
Bill Schuette, Chief Financial Officer
Christina Owen, Financial Services Director
Cathy Watson, Financial Services Assistant Director
Paul Rosenbaum, Commissioner Chairman
Katy Coba, Director, Department of Administrative Services
Robert Hamilton, SARS Manager, Department of Administrative Services