



**Travis County Tax Office  
Review of Beer & Wine Licenses  
and Liquor Permits  
#14-31**

**March 3, 2015**

TRAVIS COUNTY  
AUDITOR'S OFFICE

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To: Bruce Elfant  
Travis County Tax Assessor-Collector

From: Nicki Riley, CPA  
Travis County Auditor

Date: March 3, 2015

Subject: Review of the Beer & Wine Licenses and Liquor Permits

The Risk Evaluation & Consulting Division (REC) of the Travis County Auditor's Office has performed a limited review of the Travis County Tax Assessor-Collector's Beer & Wine Licenses and Liquor Permits. This report details areas of concern from this review.

## **BACKGROUND**

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The Texas Alcoholic Beverage Code (Code) provides the Texas Alcohol Beverage Commission (TABC) with the authority to regulate all aspects of alcoholic beverage manufacture, distribution, and consumption in the State of Texas. Per this code, the TABC requires alcoholic beverage manufacturers, distributors, and retailers to apply for licenses and permits before operating in the state.

The purpose of this code is to exercise the police power of the state for the protection of the welfare, health, peace, temperance, and safety of the public. Section 61.36 of the Code states that the commissioner's court of a county may levy and collect a fee equal to one-half of the state fee for each license and permit issued for premises located within the county. Because of this, the Travis County Tax Assessor-Collector collects County fees on several types of beer and wine licenses and liquor permits. See Attachment B on page seven for more information

## **SCOPE OF EXAMINATION**

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The scope of this review included a limited assessment of the adequacy and effectiveness of the overall system of financial controls in place for the Tax Office's Beer & Wine Licenses and Liquor

Permits during the period February 1, 2014 to September 30, 2014. Specifically, we observed and documented the controls in place for handling collections of beer and wine licenses and liquor permit fees including receipting funds, recording payments, and billing unpaid permit holders. In addition, we documented the adequacy of controls in place for the information system used in this area (OccTax database). While we conducted reviews of accounting-related procedures, this review did not include specific testing of controls or transactions.

## EXAMINATION METHODOLOGY

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Our work was based on observing and documenting procedures to office records and on verbal and written representations from this office. The use of these techniques would not necessarily disclose all control issues related to the Beer & Wine Licenses and Liquor Permits. In regards to the written and verbal representations made by this office, unless otherwise noted in this report, office management maintains that the assertions we relied upon in the review were correct to the best of their knowledge.

## SUMMARY OF AREAS OF CONCERN AND RECOMMENDATIONS

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We noted that the Tax Office's Beer & Wine Licenses and Liquor Permits internal controls are particularly weak in the user functions of the OCCTax database. The database does not generate sequentially numbered receipts for the beer and wine license collections and the user must manually enter a number. The database also has the capability for users to manually manipulate the "Paid" field (See Attachment C for more information.)

Overall, we recommend that Tax Office Management review this area's database access levels, receipting capabilities, and levels of management oversight. We also recommend a full review of the cash controls for this area, as they do not appear to be sufficient.

## OPINION OF INTERNAL CONTROL SYSTEM

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Based upon our examination, we gave the overall system of financial controls for Beer & Wine Licenses and Liquor Permits a rating of "Requires Improvement," indicating internal control weaknesses exist that moderately impact the overall system of internal controls.

## ATTACHMENTS

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**Attachment A:** This attachment contains descriptions for each of the ratings we use to describe the effectiveness of the internal controls environment for the functional area under review.

**Attachment B:** This attachment contains an overview of the processes in place for Beer & Wine Licenses and Liquor Permits.

**Attachment C:** This attachment contains details of our areas of concern noted during the review.

## EXAMINATION TEAM

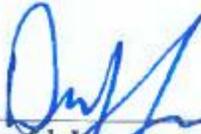
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Lisa Denton, CFE, Senior Auditor  
Woody Whitten, Staff Auditor

## CLOSING

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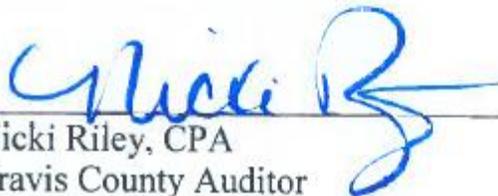
This report is intended solely for the information and use of your office and the Commissioners Court. We greatly appreciate the cooperation and assistance received from the management and staff of the Travis County Tax Office during this review. Please contact us if you have any questions or concerns regarding this report.



David Jangerman, CIA  
Chief Assistant County Auditor I - REC  
Division



Patti Smith, CPA  
First Assistant County Auditor



Nicki Riley, CPA  
Travis County Auditor

## **REPORT DISTRIBUTION**

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## ATTACHMENT A – INTERNAL CONTROLS RATING KEY

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A good internal control system reduces the risk of errors, defalcations, and misappropriations of funds. Weak internal control systems provide an environment in which errors, defalcations, and misappropriations of funds can go undetected. The following details the various grades we assign to internal control systems:

<b>RATING</b>	<b>RATING DESCRIPTION</b>
Good	Well-established internal controls with few, if any, minor weaknesses noted
Adequate	The overall solid system of internal controls is sufficient to outweigh noted weaknesses
Requires Improvement	Internal control weaknesses exist that moderately impact the overall system of internal controls
Requires Significant Improvement	Significant internal control weaknesses exist that negatively impact the overall system of internal controls
Inadequate	The existing system of internal controls is materially ineffective

## ATTACHMENT B – OVERVIEW OF PROCESSES

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Section 61.36 of the Texas Alcoholic Beverage Code (the Code) states that the commissioner's court of a county may levy and collect a fee equal to one-half of the state fee for each license and permit issued for premises located within the county. Because of this, the Travis County Tax Assessor-Collector collects county fees on several types of beer and wine licenses and liquor permits. Effective February 1, 2014, legislative changes required counties to only collect their portion of beer and wine license and liquor permit fees. Prior to this change, the County collected all fees, including the State fees, remitting the State's portion to them on a monthly basis.

The Administration Division of the Tax Office is tasked with billing, collecting, and safeguarding the County's beer and wine licenses and liquor permits revenue. These tasks are managed in the OccTax database, which is a Tax Office-created database used to track data related to license and permit holders and issue receipts for payments received. The Texas Alcohol Beverage Commission (TABC) publishes on their website a monthly statement listing new applicants who have paid their state fees. This data is downloaded from the TABC's website into the OccTax database, including all the information about the permit holder (e.g. name, address, permit number, issue date, expiration date, etc.).

Once the monthly data is downloaded, a manual reconciliation is performed to compare the TABC report to the County payments posted in OccTax, to determine if the new permit holders have paid their county fees. Permit holders that have not paid their county fees are referred to as unpaid accounts. These unpaid accounts are sent a "first notice" letter notifying them of the county fees that are due within 10 days of the letter date. If these funds are not received, a second and third notice is sent, after which delinquent accounts are reported to the TABC. The TABC then sends a demand letter stating that unpaid fees must be paid immediately or the party's license will be revoked.

The OccTax database is also utilized to post payments and issue receipts for county beer and wine license and liquor permit fees. Payments for these fees may be made in person or by mail. For payments made in person, the Administrative Associates review the documentation presented by the individual to determine the type of permit and the appropriate county fee. The permit number is entered into OccTax to verify if there is a current record on file for the permit holder or if a new account needs to be set up. The payment is then accepted, posted, and two copies of the receipt are created. One copy is for the customer and one copy is attached to the payment support for reconciliation at the end of the day.

At the end of the day, the Tax Specialist reconciles all payments received for the day, including beer and wine license fees, liquor permit fees, and other miscellaneous fees (e.g. notary fees, map fees, NSF fees, etc.). Each payment is entered into an Excel spreadsheet and reconciled to the total funds on hand (checks, credit cards, and cash slips from the vault). Once reconciled, the checks, cash slips, receipts, and spreadsheet are turned over to vault personnel and included in the daily deposit performed by these personnel. All funds are deposited daily into the Motor Vehicle Clearing account.

The Accounting Division performs the remittance of this fee revenue to the Treasurer's Office, which is done on a monthly basis. During fiscal year 2014, the County's portion of beer and wine licenses and liquor permits revenue totaled approximately \$149,213.

## ATTACHMENT C – AREAS OF CONCERN

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### **1. OccTax Database Issues**

The OccTax database is a Tax Office-created database that is utilized by Administration staff to track data related to beer and wine licenses and liquor permit holders, and issue receipts for payments received. The following areas of concern were noted:

1. The database, as currently configured, generates sequentially numbered receipts for the liquor permit collections that cannot be overridden by the user. However, the database does not generate sequential receipt numbers for the beer and wine license collections. The user can enter a number to be used as the receipt number and we noted that they generally just input “1” in this field for each payment receipted. Sequentially numbered receipts help ensure that collections are properly recorded and tracked. It is a necessary internal control feature that may help prevent or detect misappropriation of funds.
2. Once a payment has been posted in the database, the “Paid” field is checked to indicate that the payment has been received. This field can be manually changed by the user to indicate that the payment has not been received. Also, the staff member responsible for performing the reconciliation of daily collections has access to the “Paid” field in the database as well as access to issue receipts. To help prevent and detect the misappropriation of funds, the database should not have the capability for a user to manually manipulate the “Paid” field. Also, duties such as receipting payments and performing daily reconciliations should be segregated in order to ensure proper internal controls.
3. The database allows any user to delete license and permit holders data records and these records can only be recovered if it was part of the previous day’s backup. A record created and deleted in the same day cannot be recovered. For example, a record could be created, have a payment posted, and be deleted all by the same user. There appeared to be no functions that would allow the user or system administrator to run reports that would identify deleted records. To limit possible misappropriation of funds, only database administrators with no accounting duties should have the ability to delete client accounts. This should only occur with management authorization.

### **2. Revenue Remittance**

The Accounting Division performs the remittance of beer and wine license and liquor permit fee revenue to the Treasurer’s Office, which is done on a monthly basis. In regard to remitting fees to the Treasurer, Section 113.022 of the Texas Local Government Code states the following:

*A county officer who receives funds shall deposit the funds with the county treasurer on or before the next regular business day after the date on which the funds are received. If this deadline is not met, the officer must deposit the funds, without exception, on or before the fifth business day after the day on which the funds are received.*

We recommend that the Tax Office remit collections to the Treasurer by the next business day after receipt. If this is not possible, this office should make every effort to remit the funds collected by the fifth business day after collection.

Management Response:

The beer and wine license and liquor permit fees are deposited into a Tax Office bank account the business day of collection. The funds related to these collections are held for safekeeping in the bank account until a thorough reconciliation process can be completed prior to disbursing the funds. Although the collection amount is immaterial compared to property tax and motor vehicle collections, the reconciliation process prior to the disbursement of collections is time consuming. However, beginning February 1, 2015, the Tax Office will alter the reconciliation and disbursement processes in order to remit the beer and wine license and liquor permit fees on or before the fifth business day after collection.