



DEPARTMENT OF BUSINESS & PROFESSIONAL REGULATION
OFFICE OF INSPECTOR GENERAL

CHARLIE CRIST
GOVERNOR

CHARLES W. DRAGO
SECRETARY



MEMORANDUM

TO: Charles W. Drago, Secretary

FROM: Ron Ferguson, Acting Inspector General *RF*

SUBJECT: Six-month Status of Corrective Actions, Auditor General Report
No. 2008-182, Cigarette Tax Stamps

DATE: November 3, 2008

In accordance with the provisions of s. 20.055(5)(h), Florida Statutes, we have reviewed the status of corrective actions taken by the Division of Alcoholic Beverages and Tobacco in response to recommendations made by the Auditor General in the above-referenced report. A copy of the original Auditor General report is included for your review.

The findings, recommendations, and the current status of actions as of October 2008 are attached.

Please contact me if you have any questions.

Thank you.

RF/rf

cc: Charlie Liem, Chief of Staff
Jerry Geier, Director of Alcoholic Beverages and Tobacco
Legislative Auditing Committee

Attachment

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Finding No. 1:

The Division did not adequately monitor its contractor's manufacture, storage, and destruction of tax stamps.

Recommendation:

We recommend that the Department monitor Meyercord's tax stamp production process. Monitoring procedures should include:

- Periodic site visits by Department personnel to Meyercord, and
- Performance of periodic reconciliations of production data and related analyses and investigations of significant variances.

Agency Response:

We agree with this finding.

The Bureau of Auditing has not made a site visit to the Meyercord stamp manufacturing plant, and has not reconciled their production records with stamp receipts. Our procedures are being revised to include the audit and analysis necessary to reconcile production data certified by Meyercord to the stamps received by the department. These procedures should be completed and the reconciliation practices in place by June 30, 2008. A site visit is planned for this fiscal year, and costs for such visits will be included in future budget allotments.

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The Division is scheduled to perform a site visit on November 14, 2008 at the Meyercord stamp manufacturing plant. Prior to the site visit, a reconciliation of production data and received stamps will be performed in order to complete the analysis and audit of stamp production by Meyercord for Florida cigarette excise tax stamps.

Finding No. 2:

Controls over the Division's district office tax stamp inventory vaults could be improved.

Recommendation:

We recommend that the Department implement policies and procedures to enhance vault security at its district offices.

Agency Response:

We agree with this finding.

All of our district offices do not currently have the capabilities of accessing a vault access log, and those that do have the capabilities have not utilized the logs to monitor access to

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the stamp vaults. The Bureau of Auditing is working with the three different alarm companies for the various district stamp vaults to obtain the vault access logs. The cost of upgrading the security services to include the access logs is being determined, and the capability for monitoring the access is being implemented. Written policies and procedures are being revised to include the proper issuance, use, and maintenance of vault security codes and the review of vault access logs. Field office inspections are being revised to include inspections and reviews of the cigarette vault access procedures to ensure that vault security is enhanced in each district office. The revised procedures and the office inspections will be fully implemented by June 30, 2008.

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All Division offices with cigarette excise tax stamp vaults now have vault access monitoring capabilities. Each office log is maintained by the Auditing supervisor. Field office inspections have been revised to include review of the vault access procedures and security. Every office has received an inspection with favorable results.

Finding 3:

District offices did not always perform required observations of the physical inventory counts of stamping agents.

Recommendation:

We recommend the Division perform inventory observations as required by Division procedures.

Agency Response:

We agree with this finding.

Instate cigarette wholesalers are audited on a semi-annual basis, with a physical inventory taken at each warehouse. Unlike Florida based distributors, cigarette stamping agents located outside of Florida do not normally carry a stamped inventory of cigarettes for Florida. The cigarettes are stamped as needed for sales into Florida. With this lack of stamped inventory, and ever present budget constraints, the Bureau of Auditing has placed a lower priority on performing physical inventory observations at the out of state locations. However, the Bureau is now scheduling field visits to several of these locations within the fourth quarter of this fiscal year, and will schedule periodic visits in the future. During these audits, procedures for stamping Florida taxed cigarettes will be observed, and a review of their records will be conducted to assure that all cigarettes sold in Florida are being taxed and that the appropriate taxes are being submitted to the division. As these audits are performed, a determination will be made as to the frequency of future audits necessary to assure compliance by out of state wholesalers with Florida tax laws.

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As budget permits, out-of-state audits are being scheduled for various cigarette stamping entities. Five trips are being planned for the second quarter, with others to be scheduled as funds are identified. The Division has submitted a budget request for needed funds to perform the out-of-state audits. Should these funds be approved, all out-of-state locations will be audited for the cigarette and tobacco permitted wholesalers and manufacturers.

Finding 4:

Subsidiary records maintained to account for credit sales to stamping agents were not always complete.

Recommendation:

We recommend the Bureau take steps to ensure all transactions are accurately recorded in stamping agent subsidiary records.

Agency Response:

We agree with this finding.

Our cigarette stamp accounting system is a manual system of logging in cigarette stamp sales and then posting the sales to individual account ledger cards. The Division does not have a computerized system that will record, track, and account for our cigarette stamp inventories or sales. While training a new employee to sell cigarette stamps, some postings to the applicable ledger cards were overlooked by our Jacksonville office. The postings have now been recorded and the resulting miss-payment corrected. Internal procedures will be reviewed to assure that steps are taken to prevent any future errors. In addition, during the processing of monthly reports and payments, the ledger cards will be verified to the reports, and unrecorded sales should be revealed. During an audit, the payments will be verified in the FLAIR system, again reconciling payments to amounts due. Field office inspections are being revised to include inspections and reviews of the cigarette sales recording procedures, which will ensure that all transactions are accurately recorded in the stamping agent subsidiary records. The new office inspection procedures will be fully implemented by June 30, 2008.

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Procedures have been revised to assure all stamp sales are recorded accurately and timely. Review procedures have been revised and implemented to verify the accuracy of the transactions. Office review procedures also now include a review of the entire procedure, and all offices have been through one review cycle successfully.

Finding 5:

Tax refunds, credits, and stamp destruction were not always appropriately documented.

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Recommendation:

We recommend that adequate descriptions of destroyed stamps be recorded and that destruction of stamps be witnessed and documented with an appropriately worded, signed affidavit.

Agency Response:

We agree with this finding.

The credit/refund form used by the Division to process credit or refund requests for cigarette tax stamps destroyed or returned to the manufacturer can be confusing. The form has signature spaces for both the licensee and the division representatives, which are used to support either the licensee's claim for returned product, or the licensee and Division's affirmation of the stamps destroyed. However, without specific wording, it can be confusing as to what is being confirmed. We have revised the form to include specific spaces for the different scenarios, including a descriptive area for any destruction, and a signature area that will give the licensee and the division representative's attestation to their particular areas. Our procedures are being revised to include the approval of the district supervisor for the destruction of stamps, and should be implemented by June 30, 2008. The form has been placed on our Internet site, and the auditors and supervisors will be instructed in the use of the new form in our May supervisors and auditors meetings.

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The revised form is currently in place and is being used. Office inspections include reviews of the form, and credit/refund approval procedures include review of the forms for accuracy and completeness.

Finding 6:

Subsidiary records relating to tax refunds paid to stamping agents were not routinely reconciled to general ledger accounting records.

Recommendation:

We recommend that the Division account for all refund log control numbers and periodically reconcile the refund log to corresponding payment amounts recorded in FLAIR.

Agency Response:

We agree with this finding.

Our refund log was created about ten years ago by a casual user of Microsoft Access, to assist in our refund process. It does not have all the controls in place that a professionally

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developed application should have, including the proper treatment of records that are not valid. Until the database can be revised, our staff members have been instructed to maintain a documented accounting of all refund log control numbers. On April 17th, the Bureau of Auditing was provided access to an area of FLAIR that will allow us to verify that all refunds issued are subsequently paid by the Treasurer's Office. Written procedures will be developed encompassing all aspects of the refund process, including the requirements for the new form and monthly reconciliation of refund applications to refund payments. The estimated completion date for implementation of the written procedures is June 30, 2008.

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The newly revised form is in place and is being used. Approval procedures now include a review of the form for accuracy and completeness. All refund applications are recorded when received, with approvals or denials documented. The paid refunds are being reconciled to the FLAIR payments to verify payment by the Treasurer's Office each month.