

**Fort Worth**



**1964 • 1993 • 2011**

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**Alcoholic Beverage Permits  
Audit**

September 2, 2016



**City of Fort Worth  
Department of Internal Audit**

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Fort Worth, Texas 76102

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**The Alcoholic Beverage Permits Audit was conducted as part of the Department of Internal Audit's Fiscal Year 2016 Annual Audit Plan.**

### **Audit Objectives**

The objectives of this audit were to ensure that:

- businesses were billed as required by City Ordinance; and
- alcoholic beverage permit revenue is accounted for and properly recorded.

### **Audit Scope**

Our audit included a review for the period October 1, 2013 to September 30, 2015. Activity prior to FY2014 and beyond FY2015 was reviewed when deemed necessary.

### **Opportunities for Improvement**

- Bill businesses as required
- Issue City alcoholic beverage permit after TABC's permit issuance
- Strengthen systematic internal controls
- Develop written policies and procedures
- Update City Ordinance

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## **Executive Summary**

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As a part of our FY2016 Annual Audit Plan, the Department of Internal Audit conducted an Alcoholic Beverage Permits Audit that covered FY2014 and FY2015.

Internal audit results indicated that the City of Fort Worth (CFW) collected a majority of the alcoholic beverage permit fees (approximate 90% each year) that were due to the City. However, internal control weaknesses (operational and systematic) resulted in some non-billings.

The CFW's non-levying, non-assessment and non-collection of alcoholic beverage permit and license fees, from over 200 Fort Worth alcoholic beverage permit and license holders, resulted in uncollected revenue totaling approximately \$275,000. This \$275,000 represents alcoholic beverage permitting fees due only from businesses included in our sample, and from the period in which the alcoholic beverage permits were initially issued through the current permitting year. Weak internal controls within the alcoholic beverage permitting/licensing software, contributed to some of the non-billings.

Although the City Code requires that the CFW's alcoholic beverage permit be issued subsequent to the Texas Alcoholic Beverage Commission's (TABC) permit issuance, the City's process resulted in the issuance of alcoholic beverage permits prior to that of the TABC.

There were no written policies and procedures to provide guidance regarding the alcoholic beverage permitting process. Also, the City's Code of Ordinances was not updated to properly reflect the permit fees that were to be charged to alcoholic beverage permit holders.

The Department of Internal Audit worked with management within the Financial Management Services Department (FMS) throughout this audit. FMS, therefore, made efforts throughout the audit to improve operations and to bill and begin collecting the missed revenue. These findings are discussed in further detail within the [Detailed Audit Findings](#) section of this report.

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## Background

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The Texas Alcoholic Beverage Commission (TABC) is the state agency that regulates all phases of the alcoholic beverage industry in Texas. The duties of the Commission include regulating sales, taxation, importation, manufacturing, transporting, and advertising of alcoholic beverages. Section 11.38(a) of the Texas Alcoholic Beverage Code authorizes governing bodies of cities and towns to levy and collect a fee not to exceed one-half of the state fees for each permit/license issued to a business located within the city or town. Section 61.36(a) of the Texas Alcoholic Beverage Code authorizes the same, but excludes a temporary or agent's beer license.

As authorized by the Texas Alcoholic Beverage Code, the City of Fort Worth (CFW) assesses, levies, and collects alcoholic beverage fees. Alcoholic beverage fees collected by the CFW are recorded within the General Fund. As of September 30, 2015, TABC records indicated that the following number of Fort Worth businesses had alcoholic beverage permits issued by the TABC, all of which are specified within section 4-1 of the Fort Worth City Code.

TABC Permit Count	Permit Type
536	Mixed Beverage *
414	Wine and Beer Retailer's Off-Premises
365	Mixed Beverage Late Hours
212	Wine Only Package Store
203	Beverage Cartage
199	Wine and Beer Retailer's
77	Caterer's
70	Package Store
20	Local Distributor's
7	Winery
6	Brewer's
6	Distiller's and Rectifier's
6	Wholesaler's
5	Private Club Late Hours
4	General Class B Wholesaler's
2	Nonresident Seller's
1	Nonresident Brewer's
1	Bonded, Warehouse
0	Wine Bottlers
0	Local Class B Wholesaler's
0	Daily Temporary Mixed Beverage

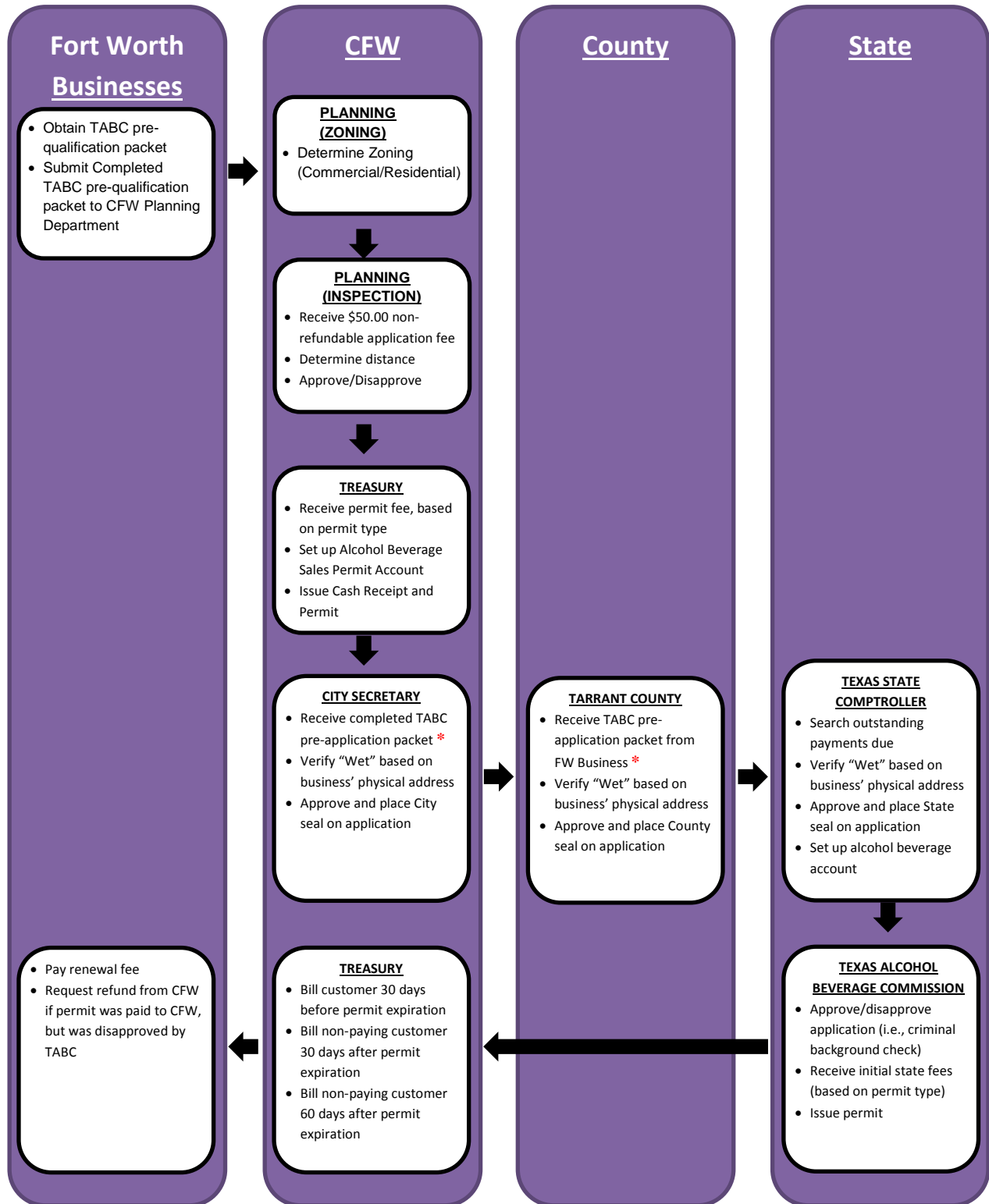
\* includes Mixed Beverage and Restaurant Mixed Beverage

Source: TABC

The CFW collected \$282,072.50 and \$255,925.00 during FY2014 and FY2015, respectively, in alcoholic beverage permit and license fees.



Several parties are involved in the CFW’s alcoholic beverage permitting process, as noted in the following illustration.



\* Includes CFW Zoning and Distance Determinations and Evidence of Payment



## Objectives

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The objectives of this audit were to ensure that agencies were billed as required by City Ordinance and that permit revenue is accounted for and properly recorded.

## Scope

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The scope of this audit covered the period from October 1, 2013 to September 30, 2015 (FY2014 & FY2015). Activity prior to FY2014 and beyond FY2015 was reviewed when deemed necessary. Alcoholic beverage sales tax was not within the scope of this audit.

## Methodology

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To achieve the audit objectives, the Department of Internal Audit performed the following:

- reviewed the City Code and TABC guidelines for CFW alcoholic beverage permitting and licensing requirements;
- interviewed personnel within the Financial Management Services, Information Technology Solutions, and Planning and Development Departments, the City Secretary's Office and the City Attorney's Office to obtain an understanding of the City's alcoholic beverage process;
- reconciled alcoholic beverage permit revenue captured within TaxCash/Micro Focus (software used by the CFW to capture alcoholic beverage permit billing and revenue collection activity) to the general ledger;
- compared alcoholic beverage permits/licenses issued by the TABC to those issued by the CFW;
- sent confirmation letters to businesses regarding alcoholic beverage permit non-payment to the City; and,
- verified alcoholic beverage payment refunds per TaxCash/Micro Focus to Buy Speed, the City's procurement software.

We conducted this audit in accordance with generally accepted government auditing standards, except for peer review<sup>1</sup>. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

<sup>1</sup> Government auditing standards require audit organizations to undergo an external peer review every three years. A peer review is planned in 2017 for the three-year period ending December 31, 2016.



## Audit Results

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We concluded that the majority of Fort Worth businesses were billed for alcoholic beverage permits/licenses as was required. However, based on our audit procedures, we concluded that weaknesses within the internal control structure resulted in non-billings or inaccurate billings to some Fort Worth businesses. We also concluded that there were no written policies and procedures to govern the alcoholic beverage permit billing, collection and tracking process.

### ***Non-Billings***

When comparing alcoholic beverage permits/licenses issued to Fort Worth businesses by the CFW, to those issued by the TABC, we found that the CFW had not billed over 200 businesses for alcoholic beverage permits. These non-billings totaled approximately \$275,000. Included within this \$275,000 were 23 instances (accounting for approximately \$17,250) where Fort Worth businesses were billed for one permit type when they should have been billed for more than one permit. While this \$275,000 represents non-billings in our audit sample, data analysis results identified an additional 84 businesses (non-sampled mixed beverage and restaurant mixed beverage permits/licenses) that were billed by TABC, but were not in the CFW's alcoholic beverage permitting system. Potential revenue from those additional businesses could equate to approximately \$60,000.

### ***Permit Issuance***

The City Code requires that CFW alcoholic beverage permits be issued after the TABC has issued alcoholic beverage permits. However, since the City's cash receipt also serves as the alcoholic beverage permit, the City issued the permit upon receipt of payment, which was prior to the TABC issuing an alcoholic beverage permit.

### ***System Issues***

The system used to record alcoholic beverage permitting is absent of necessary internal controls. For example, master file (not payment history) data can be deleted. Also, multiple vendors can be assigned the same alcoholic beverage account number.

### ***Inaccurate Billings***

Legislative changes resulted in increased fees for "Beer Retailer's On Premise Licenses" and "Wine and Beer Retailer's Permits", based on the county's population. Although the intent of the City Code is to bill Fort Worth businesses one-half of the state alcoholic beverage rate, fees levied and assessed for these specific licenses/permits are based on state alcoholic beverage permitting fees for counties *other than* Bexar, Dallas, Harris and Tarrant. This oversight resulted in lost revenue totaling \$210,350.

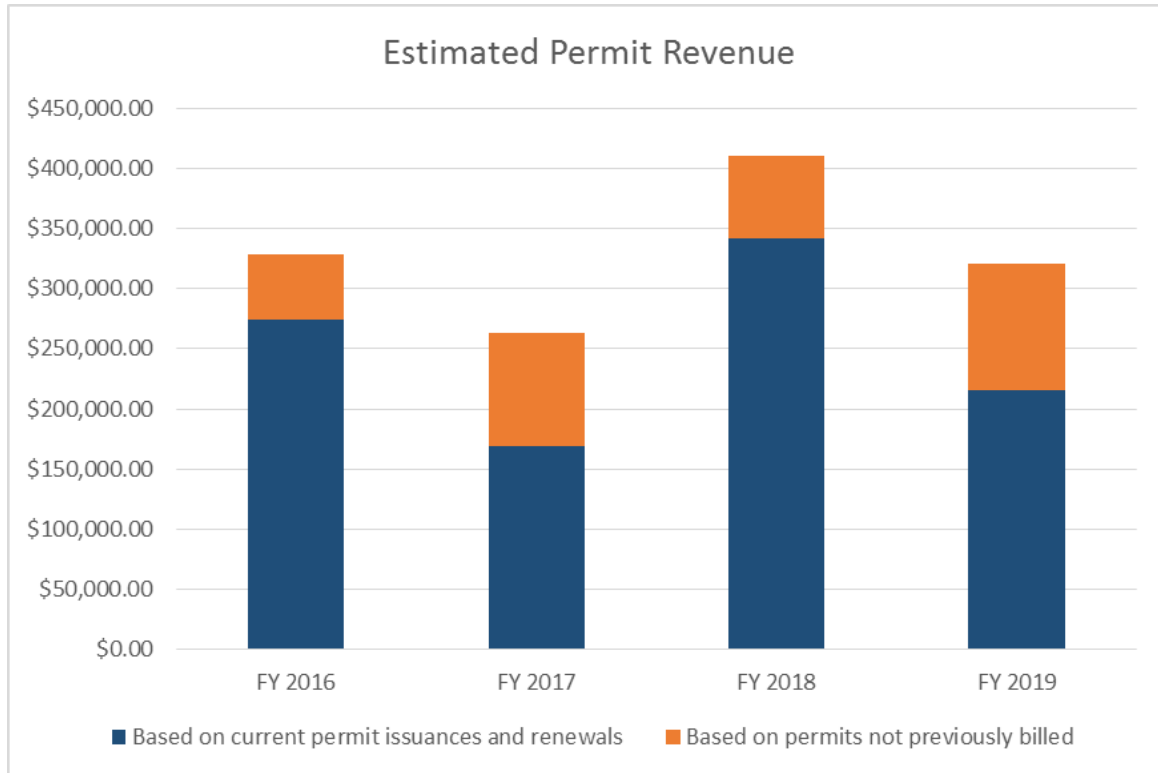
### ***Written Directives***

There are currently no written procedures to govern the CFW's alcoholic beverage permitting process.

The financial impact of our audit findings totaled approximately \$275,000, excluding the additional \$210,350 that resulted from the assessment of fees based on TABC's non-Tarrant county rate. It should be noted, however, that the approximate \$275,000 does not represent recurring revenue on an annual basis.



The following chart depicts estimated revenue increases, each fiscal year, taking into account findings noted within this report. Estimated revenue peaks are due to permit fees being due every other year (versus annually) and a potential increase in newly established businesses. The noted increases do not take into account additional revenue that could result when the CFW charges one-half of the TABC rate for the Beer Retailer's On Premise License and the Wine and Beer Retailer's Permit.







## Overall Evaluation

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High	Medium	Low
<a href="#">Reconciliation of alcoholic beverage permits/licenses issued by the TABC to those issued by the CFW</a>		
<a href="#">City of Fort Worth alcoholic beverage permits/licenses issuance prior to TABC permit issuance</a>		
<a href="#">Effective systematic internal controls</a>		
<a href="#">Written policies and procedures</a>		
	<a href="#">Updated City Code of Ordinances</a>	



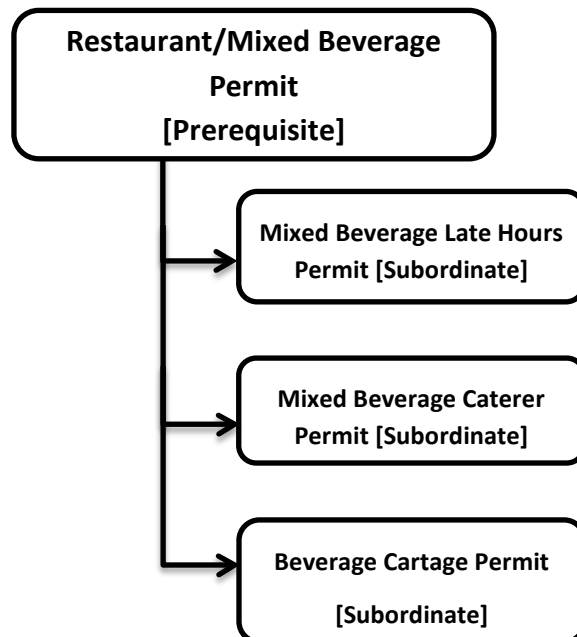
## Detailed Audit Findings

### 1. Some businesses were not invoiced and did not pay alcoholic beverage permitting fees to the City of Fort Worth.

The City of Fort Worth’s Code of Ordinances requires that fees for the sale of alcoholic beverage permits be levied, assessed and collected as noted in the [Background](#) section of this report. However, the Department of Internal Audit noted alcoholic beverage permit fees had not been levied, assessed, nor collected for over 200 Fort Worth businesses, over a span of multiple years. Because City staff did not perform a routine reconciliation of permits issued by the TABC to those issued by the CFW, the City was not aware that the businesses had not been billed.

The Department of Internal Audit sent confirmations to a sample<sup>2</sup> of 146 Fort Worth businesses that were required to have alcoholic beverage permits, but had not paid for a permit, per City records. In most cases, sampled businesses responded that they were unaware that alcoholic beverage permitting and licensing fees were due to the CFW. There were isolated instances where businesses stated they were aware that fees were due. However, when they contacted the City, CFW representatives responded that money could not be accepted until the businesses were invoiced by the City. Per these businesses, they were never invoiced.

In addition to businesses not being invoiced by the CFW, we also noted that in some instances, the CFW either billed businesses for the wrong type of permit or billed businesses for one permit, when billing for multiple permits was required. For example, the holder of a Mixed Beverage Late Hours permit is required to have a Mixed Beverage permit as a prerequisite. We found instances where only the late hours permit was issued by the CFW. Examples of permits that are prerequisites of another are noted in the following illustration.

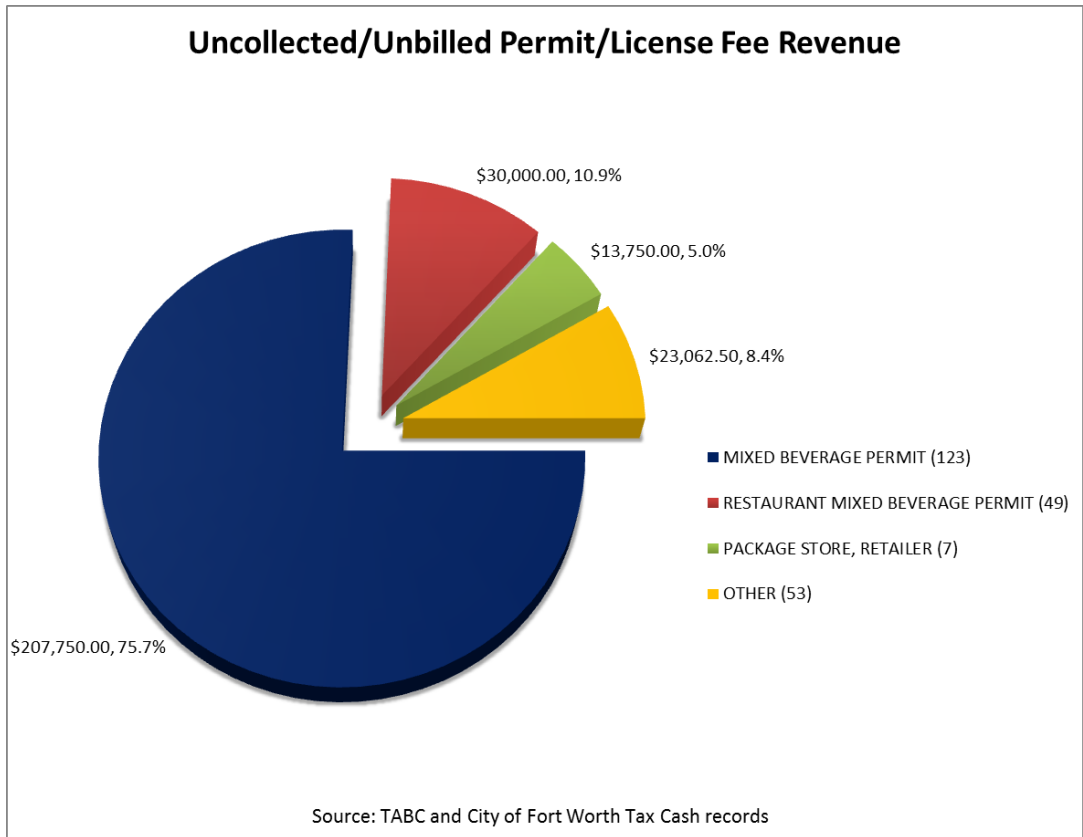


<sup>2</sup> The sample included permitting categories which ensured 90% audit coverage of the City’s alcoholic beverage permitting revenue, per TABC records. Sample permit types included winery, brewery, beer off premise, wine only package store, beer and wine off premise, package store retailer, restaurant mixed beverage and mixed beverage.



We also noted that, according to Treasury Division staff, alcoholic beverage businesses (that are in TaxCash/Micro Focus) are sent invoices approximately 30 days prior to the permit/license expiration date. Additional invoices (which are systematically generated) are sent to non-paying businesses that are 30, 60 and 90 days beyond the permit/license expiration date. However, no collection efforts are made after the 90 days have elapsed. Billings also did not occur when problem flag indicators were erroneously input onto a license record. For example, in instances where a file was erroneously flagged with an “s”, that business was not invoiced because the “s” signified that the business had been sold.

Based on our review of City records and feedback from sampled Fort Worth businesses, approximately \$275,000 was not invoiced or paid prior to this audit.



NOTE: The “OTHER” category consists of permit types such as brewery, winery, wine only package store, beer & wine off premise and beer off premise. These permit types ranged from \$120.00 (beer off premise) to \$3,750.00 (package stores) in unbilled and uncollected permit and license fee revenue.

The Department of Internal Audit also identified, through data analysis, non-sampled businesses (within the permitting categories not reviewed as a part of this audit) that were in TABC’s database but not in TaxCash/Micro Focus. A total of 84 businesses were identified, approximating \$60,000 in additional potential revenue.

Throughout this audit, the Department of Internal Audit worked closely with the Financial Management Services Department (FMS) regarding our audit results. Information related to these businesses was communicated to FMS for follow-up and subsequent billing, as deemed appropriate.



**Recommendation 1A:** *The Chief Financial Officer should require a routine reconciliation between active alcoholic beverage permits within the City’s records to those reported by the Texas Alcoholic Beverage Commission.*

**Auditee’s Response:** Concur. In April 2016, the Revenue/Collections Team conducted a reconciliation of all City of Fort Worth (“the City”) records of permits/licenses with the Texas Alcoholic Beverage Commission (TABC), with the goal of identifying any businesses that were not appropriately licensed by the City. There was a second reconciliation done the second week of July 2016. Going forward, there will be an ongoing quarterly reconciliation with TABC.

**Target Implementation Date:** Completed

**Responsibility:** Treasury Supervisor

**Recommendation 1B:** *The Chief Financial Officer, in conjunction with the Chief Technology Officer, should ensure that businesses permitted to serve alcoholic beverages within the Fort Worth city limits are invoiced as required.*

**Auditee’s Response:** Concur. Beginning in May 2016, the process for businesses attaining an alcoholic beverage handling license has been as follows:

- a) A “distance check” of the business location is requested by the business from the Planning and Development group.
- b) Once this check is performed and the business is in compliance with this requirement, the business owner then must pay for the appropriate license(s)/permit(s) at the Finance Revenue and Collections office. A receipt is provided to the business which serves as the temporary license.
- c) With the copy of the payment receipt in hand, the business then contacts the City Secretary’s Office to determine the “wet/dry” designation for the business location. If this requirement is met, the City Secretary’s Office signs off on the TABC license application for the business. The business then submits their application to the TABC.
- d) When the business provides proof they have been approved by the TABC for their license, the business is instructed to provide the Finance Revenue/Collections Team with this information (either in writing or email with verification) and the Finance Revenue/Collections Team then sends the original receipt for payment to the business and this final receipt serves as their license. As an alternative, if the business does not notify the Finance Revenue/Collections Team with their approval of a TABC license, the Finance Revenue/Collections Team will verify a permit has been issued through the reconciliation of the TABC reports to the City’s licensees conducted on a quarterly basis.
- e) If the business is not approved by the TABC for their license, the business is instructed to notify the Finance Revenue/Collections Team of such outcome from the TABC. Arrangements are then made to refund monies paid to the City for the license previously obtained.

**Target Implementation Date:** Completed

**Responsibility:** Treasury Supervisor



**Recommendation 1C:** *The Chief Financial Officer, in conjunction with the Chief Technology Officer, should consider conspicuously including information on the City's website regarding alcoholic beverage permit fees that are due to the City of Fort Worth.*

**Auditee's Response:** Concur. The Treasury Division will work to have a full listing of alcohol licenses/permits available on the City's website to determine what permits/licenses are required for particular situations. In addition, the Treasury Division will post information regarding gas nozzle permits.

**Target Implementation Date:** February 1, 2017

**Responsibility:** Assistant Director of Finance-Treasury and the ITS Department

**Recommendation 1D:** *The Chief Financial Officer should continue efforts to bill for and collect from businesses who owe the City Fort Worth for un-billed fees associated with alcoholic beverage permits.*

**Auditee's Response:** Concur. This recommendation has been implemented. Current collection efforts (through August 19, 2016) show 76 businesses have not responded to requests for payment, while 153 businesses have either paid for their licenses/permits or have agreed to a payment plan to pay their fees. Of the \$581,342.50 originally past due, the Treasury Division has collected a total amount of \$310,513. The total amount outstanding is \$279,850, or 48.1% of the past due total. The final step in this process will be to report delinquent entities to the TABC and work with the State on potential collection activities.

**Target Implementation Date:** November 1, 2016

**Responsibility:** Assistant Director of Finance-Treasury

**Recommendation 1E:** *The City Manager should determine which department is the most appropriate for accepting ownership (or collaboration to improve processes, etc.) of the alcoholic beverage permitting process (billing, collecting and routine monitoring) and should reassign the alcoholic beverage permitting function if and as deemed necessary.*

**Auditee's Response:** Concur. Thorough review of the permitting/licensing process has identified areas of operational concerns that have been addressed and will continue to be addressed. As the billing for permits/license renewals is an Accounts Receivable (A/R) function citywide, it is felt the responsibility for the billing and collection of these funds is properly placed with the Revenue/Collections Team in the Financial Management Services (FMS) Department.

**Target Implementation Date:** Completed

**Responsibility:** City Manager



2. City of Fort Worth alcoholic beverage permits and licenses were issued before such permits and licenses were issued by the Texas Alcoholic Beverage Commission.

Section 4.3 of the CFW’s Code of Ordinances, “ISSUANCE OF PERMIT”, states that “Upon the payment of the applicable tax or fee prescribed in this chapter to the city assessor and collector and exhibition to him or her of a permit duly issued by the state to the applicant or person paying such tax or fee, the city assessor and collector shall, in the name of the city, issue and deliver to such applicant or person a permit to engage in the business in the city of the character described in the permit from the state.....” However, our audit results indicated that the CFW issued alcoholic beverage permits before such permits were issued by the TABC.

The CFW attests as to whether the applicant’s address meets zoning requirements (i.e., proximity to schools), and whether the applicant’s address is in an area that is designated as “wet”, etc. After the CFW and Tarrant County have indicated compliance with local regulations, TABC reviews the applicants’ background and conducts other research to detect things such as previous criminal history or tax indebtedness to the state. TABC’s issuance of the alcoholic beverage permit, prior to the City’s issuance, is critical in that it helps ensure that persons who have been convicted of certain crimes are prohibited from obtaining alcoholic licenses or permits.

The CFW’s cash receipting process contributed to the City issuing permits prior to TABC. Upon receipt of the certified alcoholic beverage permit application and payment, the CFW issues the submitting business a cash receipt to evidence receipt of payment. However, the CFW’s cash receipt also serves as the alcoholic beverage permit. Upon payment to the City (which is before the business presents its application to the TABC), the permit was issued by the City of Fort Worth. The following image depicts the CFW’s cash receipt, which serves dual purposes -- receipt of payment and permit issuance.

**FORT WORTH**  
CITY OF FORT WORTH, TEXAS

REMIT TO: REVENUE OFFICE  
1000 THROCKMORTON  
FORT WORTH, TX 76102

CASH  CHECK  CREDIT CARD  COUNTER  MAIL  BY [REDACTED]

ACCOUNT NUMBER: [REDACTED]-19 STATEMENT DATE: 02-17-14

VALUE: [REDACTED] GP CODE 53

NOTICE FOR: **MIXED BEVERAGE PERMIT**

PROPERTY DESCRIPTION: [REDACTED]

TAX	PER	9	YEAR	TRANSACTION DATE
	750.00			
COLUMN TOTAL	COLUMN TOTAL	TOTAL DUE		
750.00		750.00		

TOTAL PAID \$ 750.00

VALID FOR 2 (TWO) YEARS, EFFECTIVE 10-1-09

FOR DEPOSIT ONLY  
CITY OF FORT WORTH REVENUE OFFICE  
02/18/14 0345 304363 00010 750.00

THIS PERMIT WILL EXPIRE ON - 03-10-16  
DUPLICATES PROVIDED \$3.00 EACH  
A CANCELLED CHECK IS REQUIRED

POST IN A CONSPICUOUS PLACE

By issuing a city permit prior to the state, the CFW could issue alcoholic beverage permits to businesses that have been denied by the TABC due to state prohibitions or could issue



permits to businesses that did not submit city and/or county certifications to the TABC for license/permit consideration.

**Recommendation 2A:** *The Chief Financial Officer, in conjunction with the Chief Technology Officer, should determine whether it is feasible to modify the current system to generate a cash receipt separate from the actual alcoholic beverage permit.*

**Auditee's Response:** Concur. While it is not possible to modify the existing technology, it has been determined that the current process (see Recommendation 1B) will address current concerns. Going forward, the Finance Department/Treasury Division will evaluate the ability to have separate functionality between generating a cash receipt evidencing payment and the actual issuance of an alcoholic beverage permit with the PeopleSoft Accounts Receivable Implementation.

**Target Implementation Date:** Complete

**Responsibility:** Assistant Director of Finance-Treasury

**Recommendation 2B:** *The Chief Financial Officer should ensure that a process is in place to ensure that businesses desiring to sell alcoholic beverages within the City of Fort Worth are not issued an alcoholic beverage permit or license until after the Texas Alcoholic Beverage Commission has issued such permit or license.*

**Auditee's Response:** Concur. It has been determined that the current process (see Recommendation 1B) will address current concerns.

**Target Implementation Date:** Completed.

**Responsibility:** Assistant Director of Finance-Treasury

### **3. Systematic internal controls are inadequate.**

Systems used to record revenue should include adequate controls that ensure accountability and reporting that is both timely and accurate. Such controls should include, but not be limited to, user access controls and application controls. User access controls help ensure that access to certain data fields is restricted to those who are authorized to have such access. Application controls help ensure the accuracy and completeness of records, and thus reliability. Application controls also help establish the validity of entries made to the record by ensuring that transactions have been properly authorized and that an audit trail exists to track activity by user, date and time.

The following information technology control weaknesses were noted during our audit of the CFW's alcoholic beverage permit process.

- We identified instances where alcoholic beverage permit holders were not included in the TaxCash/Micro Focus Masterfile. The CFW has a practice of purging TaxCash/Micro Focus files on a monthly basis. Since October 1, 2015, approximately 500 master file records (from all revenue sources accounted for within TaxCash/Micro Focus) had been deleted or had been marked for deletion by City staff. When master file records are deleted, system end-users cannot access the associated payment history through





TaxCash/Micro Focus. Instead, the associated payment history (*which is not deleted and remains stored in the TaxCash payment history table*) can only be accessed by Information Technology Solutions (ITS) staff or by other staff granted access by ITS.

- The current system allows the reassignment of alcoholic beverage account/permit or license numbers. During our audit, we noted that active alcoholic beverage businesses were sometimes assigned alcoholic beverage accounts/permit or license numbers that had been previously assigned to permit holders that were no longer in business. When account/permit or license numbers are reassigned, historical data of both companies becomes commingled.
- The CFW recently migrated the entire TaxCash system, including programs and data, to Micro Focus. No changes to the functionality of the TaxCash system were made during the course of or as a result of the migration. Internal control weaknesses that existed within TaxCash, therefore, still exist within Micro Focus.

**Recommendation 3A:** *The Chief Financial Officer should require that staff discontinue deleting master records for those businesses that change ownership, names, etc.*

**Auditee's Response:** Concur. The deletion of any old records related to the alcohol permitting/licensing and all other licenses issued by the Finance Department / Revenue and Collection Division has been suspended. The process currently in place now requires staff to identify if an account is Inactive ("I" entered into spreadsheet). Any ownership change in the records is denoted with an "S" for "Sold" on the old account and a new account is then created for the new owner.

**Target Implementation Date:** Completed.

**Responsibility:** Treasury Supervisor

**Recommendation 3B:** *The Chief Financial Officer should require that each alcoholic beverage permit holder be issued a unique account/permit or license number, based on business location.*

**Auditee's Response:** Concur. The current business practice provides a unique receipt number for each issued alcoholic [beverage] permit / license. Many businesses have more than one license for different needs, all of which are tracked by the receipt number when the license was issued. With the upcoming implementation of the A/R module in PeopleSoft, the Revenue/Collections Team as well as FMS Management will review the ability to issue a permit/license based on business location.

**Target Implementation Date:** Completed

**Responsibility:** Treasury Supervisor

**Recommendation 3C:** *The Chief Financial Officer, in conjunction with the Chief Technology Officer, should consider gradually moving functions and data from TaxCash/Micro Focus to PeopleSoft.*





**Auditee's Response:** Concur. As mentioned in response 2A, the upcoming implementation of the Accounts Receivable module within PeopleSoft is intended to replace the MicroFocus system currently in use.

**Target Implementation Date:** In progress.

**Responsibility:** Assistant Director of Finance-Treasury

**Recommendation 3D:** *The Chief Financial Officer should require that staff consult with the City Secretary's Office to ensure adherence with the state's records retention regulations.*

**Auditee's Response:** Concur. The Finance Department / Revenue and Collections Team has confirmed that the record retention process is in compliance with the state's records retention regulations.

**Target Implementation Date:** Completed

**Responsibility:** Assistant Director of Finance - Treasury

**4. No written policies and procedures exist to govern the alcoholic beverage permitting process.**

Within the Government Finance Officers Association's (GFOA) recommended best practices, communication is noted as an essential component of a comprehensive framework of internal controls. One method of communication that is particularly effective for controls over accounting and financial reporting, per GFOA, is the formal documentation of accounting policies and procedures. A well-designed and properly maintained system of documenting accounting policies and procedures enhances both accountability and consistency. The resulting documentation can also serve as a useful training tool for staff.

The CFW has no written policies and procedures governing the processing of alcoholic beverage permits. Without written policies and procedures, the authority and responsibility of employees may be unknown and/or unclear.

**Recommendation 4:** *The Chief Financial Officer should ensure that policies and procedures related to the accounting for alcoholic beverage permits and related revenue is documented within departmental policies and procedures. Any changes in policies and procedures, that occur between periodic policy reviews, should be promptly updated in the documentation as those changes occur.*

**Auditee's Response:** Concur. In an ongoing effort to document all Finance related activities, the documentation of the policies and procedures of the alcohol beverage licensing/permitting process is being developed and is targeted for full implementation no later than November 1, 2016.

**Target Implementation Date:** November 1, 2016

**Responsibility:** Treasury Supervisor



## 5. The City Ordinance is not updated.

Sec. 11.38 of the Texas Alcoholic Beverage Code states that the governing body of a city or town may levy and collect a fee not to exceed one-half the state fee for each permit issued for premises located within the city or town. Section 4-1 of the City's Code of Ordinances authorizes the City of Fort Worth to levy, assess and collect alcoholic beverage permit fees. Annual alcoholic beverage permitting fees within the Fort Worth City Code are authorized at one-half of the TABC fee.

- Legislative action during the 2005 legislative session resulted in higher fees for original and renewal applications for Wine and Beer Retailer's Permits and Retail Dealer's On-Premise Licenses in certain counties, including Tarrant. However, the Department of Internal Audit noted that the CFW did not revise its Ordinance to reflect the 2005 fee increase, which specified fees based on the county's population.

The CFW's fee for the "Beer Retailer's On Premise License" and the "Wine and Beer Retailer's Permit" is assessed at one-half of TABC's fees for counties *other than* Bexar, Dallas, Harris and Tarrant. As a result, the CFW levied, assessed and collected initial and renewal permit fees for the "Beer Retailer's On Premise License" and "Wine and Beer Retailer's Permit" at amounts lower than intended and as shown in the following chart. Since the CFW's billings were based on fees designated for smaller counties (i.e., other than Bexar, Dallas, Harris and Tarrant), City billings resulted in lost revenue totaling \$210,350.

- In 2007, Senate Bill 1217 amended the Alcoholic Beverage Code to allow the TABC to issue a license or permit for a period of two years (versus one year). This legislative action was implemented in phases, based on specific permit/license types. The first phase of implementation began on October 1, 2008; the second on January 1, 2009 and the third on September 1, 2009. To ensure alignment with TABC's 2007 guidelines, annual fees authorized by the Mayor and Council were now billable on a biennial basis. As a result, the City's billing amount was doubled.

Outdated Code of Ordinances, combined with a lack of written policies and procedures, resulted in lost revenue to the CFW.



LICENSE/PERMIT TYPE	CFW FEE, per City Code	TABC FEE		Amount Billed by CFW during Audit Period
		Prior to 9/1/09 (1-year billing requirement)	Effective 9/1/09 (2-year billing requirement)	
Wine and Beer Retailer's Permit – <u>Original</u> (TABC permit type "BG")	\$87.50	\$1,000.00	\$2,000.00	\$87.50 / \$175.00 biennial billing
Wine and Beer Retailer's Permit – <u>Renewal</u> for Bexar, Dallas, Harris and Tarrant Counties (TABC permit type "BG")	\$87.50	\$750.00	\$1,500.00	\$87.50 / \$175.00 biennial billing
Beer Retailer's On Premise License – <u>Original</u> (TABC license type "BE")	\$75.00	\$1,000.00	\$2,000.00	\$75.00 / \$150.00 biennial billing
Beer Retailer's On Premise License – <u>Renewal</u> for Bexar, Dallas, Harris and Tarrant Counties (TABC license type "BG")	\$75.00	\$750.00	\$1,500.00	\$75.00 / \$150.00 biennial billing

**Recommendation 5:** *The Chief Financial Officer, in conjunction with the City Attorney's Office, should ensure that action is taken to properly update the City's Code of Ordinances to reflect the intended alcoholic beverage fee and billing frequency/interval. Rather than listing a specific fee per permit, management should consider simply stating that the City's fee shall be one-half of the state fee, as intended by the Ordinance.*

**Auditee's Response:** Concur. The City Ordinance will be revised with a recommendation that the City's fee shall be one-half of the state fee.

**Target Implementation Date:** January 1, 2017

**Responsibility:** Assistant Director of Finance-Treasury and the City Attorney's Office



## Acknowledgements

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The Department of Internal Audit would like to thank local businesses, the Financial Management Services Department, Information Technology Solutions Department, Planning and Development Department, City Secretary's Office and the City Attorney's Office for their cooperation and assistance during this audit.