Arizona Department of Liquor Licenses and Control

36-Month Followup of Sunset Review Report 22-105

The July 2022 Arizona Department of Liquor Licenses and Control (Department) performance audit and sunset review found that the Department did not handle cash receipts as required, comply with some State- and Department-specific conflict-of-interest requirements, and investigate all complaints within established time frames, and had not fully implemented the cocktails and alcohol to-go programs that became effective in September 2021. We made **26** recommendations to the Department. Our December 2023 Initial Followup Report found the Board had implemented 2 of these recommendations at 12 months.

Department's status in implementing 26 recommendations at 36 months

Implementation status	Number of recommendations
Implemented	6 recommendations
Partially implemented	1 recommendation
In process	16 recommendations
Not implemented	**3 recommendations**

We will conduct another followup with the Department in calendar year 2027 on the status of the recommendations that have not yet been implemented.

Recommendations to the Department

Finding 1: Department did not protect public monies, increasing risk of loss or theft and delaying State's use of monies.

1. The Department should record cash on the day received and deposit as soon as practicable, as required by the SAAM.

- Status: **Implementation in process.**

  In September 2025, the Department finalized a new, updated cash-handling and mail log policy and associated procedures. The policy requires cash to be recorded on the day received and that cash be deposited by close of the next business day, or the same day if $1,000 or more is to be deposited.[1] In July 2026, we observed the Department's processes for opening mail and the initial logging of the payments it received. Although we found that the Department's processes aligned with SAAM requirements, its processes did not fully align with its written procedures. For example, the procedure outlines the process for 2 staff members to open the incoming mail and log each payment received, and that their email addresses will automatically populate on the log to capture which staff members were present. However, the process we observed included 2 staff members opening the mail and signing a mail log, and a different staff member logging each payment received in a separate cash log. The process we observed was similar to the Department's reported findings from an internal audit it completed in December 2025 in which it found that in practice, its staff's cash-handling processes did not align with its written procedure requirements. Absent written procedures that reflect its current process, the Department risks not consistently or sustaining implementation of this recommendation.

  Additionally, the Department has implemented a process for reviewing the checks it receives each week to assess whether it has deposited cash within 3 business days, which it reported is its internal goal for depositing cash. For example, according to Department documentation, for 1 week in July 2026, it found that 71 of the 80 checks it deposited that week were deposited within 1 business day. The other 9 checks were deposited within 2 or 3 business days. However, the Department's process does not assess or consider the amounts of the checks it deposited to ensure it is depositing checks in line with SAAM requirements (see footnote 1 for more information on the SAAM requirements). We will further assess the Department's implementation of this recommendation, including its revision of its written procedures to align with its current processes, during our next followup.

[1] SAAM 20.10.2 requires monies to be recorded on the day received. Additionally, SAAM 20.10.7 requires monies to be deposited as soon as practicable and, in most cases, on the day received. SAAM 20.10.7 also states that if making a deposit on the day of collection is impracticable, deposits must be made by the end of day after monies total $1,000 or more and within 5 days for monies totaling $50 or more.

2. The Department should continue its efforts to develop and implement an accurate mail log that includes:

- Signatures from 2 employees not responsible for accounting records and who are present when the mail is opened.
- Name of remitter; purpose of the remittance; amount of remittance; and form of remittance, such as cash, check, or money order.

Status: **Implementation in process.**

Our July 2026 observation of Department staff opening mail and logging payments received found that, consistent with the SAAM, Department employees opened the mail, both signed the mail log, and a third Department staff member logged the checks received on a cash log that included the name of the remitter, purpose of the remittance, amount of remittance, and form of remittance. However, as discussed in recommendation 1, the Department's written procedures describe its process as using 1 log for mail and cash received rather than the 2 logs we observed staff using. Absent written procedures that reflect its current process, the Department risks not consistently or sustaining implementation of this recommendation. We will further assess the Department's implementation of this recommendation, including its revision of its written procedures to align with its current processes, during our next followup.

3. The Department should reconcile the mail log to amounts recorded and deposited and maintain documentation of the reconciliations, ensuring all cash received is recorded and deposited and discrepancies are investigated and resolved by employees who are not responsible for logging, recording, or depositing receipts, as required by the SAAM.

Status: **Not implemented.**

The Department reported that it was not reconciling its mail log to the amounts recorded and deposited. The Department stated it had not done so because it planned to implement a new mail and cash receipt tracking mechanism. We will assess the Department's implementation of this recommendation during our next followup.

4. The Department should develop and/or revise and implement written policies and procedures to help ensure staff comply with cash-handling requirements in the SAAM, including those outlined in recommendations 1 through 3.

Status: **Implementation in process.**

See explanations for recommendations 1, 2, and 3.

Finding 2: Department did not comply with some State- and Department-specific conflict-of-interest requirements, increasing risk that employees and public officers had not disclosed substantial interests that might influence or could affect their official conduct.

5. The Department should update its conflict-of-interest disclosure form to include the additional requirements specified in A.R.S. §4-114 that are applicable to Department employees and Board members, and continue to ensure that its conflict-of-interest disclosure form addresses both financial and decision-making conflicts of interest for employees/Board members and their relatives, as required by statute.

Status: **Implementation in process.**

Although this recommendation was reported as implemented during the initial followup, the Department subsequently revised its conflict-of-interest disclosure form for its Board members, and this recommendation is no longer fully implemented. Specifically, since the initial followup in December 2023, the Department reported it started to require Board members to complete a disclosure form for each Board meeting, and it developed a new disclosure form specific for Board members. Although the disclosure form asked members to identify whether they have a substantial interest in any decisions or cases that will be heard, it did not require an affirmative no or disclosure of substantial interests of Board members' relatives, and it did not specifically reference the additional requirement in A.R.S. §4-114, which prohibits Board members—except for the member appointed from the industry—to be financially interested directly or indirectly in any business licensed to deal in spirituous liquors. In contrast, the Department's employee conflict-of-interest disclosure form outlines the additional requirements specified in A.R.S. §4-114; addresses both financial and decision-making conflicts, as required by statute; and includes an affirmative no, in line with recommended practices and the Arizona Department of Administration disclosure form.

In June 2026, after we completed our work for this followup, the Department updated its Board member disclosure form to require Board members to complete the form each month prior to each scheduled Board meeting or any time their circumstances change. The updated disclosure form also requires Board members to identify whether they and/or a relative have a substantial interest, requires an affirmative no, and specifically references the additional requirements outlined in A.R.S. §4-114. We will assess the Department's implementation of its new Board member disclosure form during our next followup.

6. The Department should develop and implement conflict-of-interest policies and procedures to help ensure compliance with all State conflict-of-interest requirements, including A.R.S. §4-114, that require:

a. All Department employees and Board members to complete a conflict-of-interest disclosure form upon hire or appointment, including attesting that no conflicts exist, if applicable, and reminding them at least annually to update their disclosure form when their circumstances change, consistent with State requirements and recommended practices.

- Status: **Implementation in process.**

The Department updated its conflict-of-interest policy in May 2025 to require all employees to complete a disclosure form upon hire or appointment, or when circumstances change. The Department's employee conflict-of-interest disclosure form states that employees should also complete it annually. Additionally, although the Department's policy continues to lack a requirement to provide employees with an annual reminder to update their form when circumstances change, the Department sent an email to employees in January 2025 to require them to complete the disclosure form. Our review of all Department employees as of November 2025 found that all 50 had completed a disclosure form.

The Department's conflict-of-interest policy also does not specifically require Board members to complete a disclosure form or outline its process for collecting Board members' disclosure forms. However, as discussed in recommendation 5, the Department updated its Board member disclosure form in June 2026 to require Board members to complete a disclosure form monthly before each scheduled Board meeting and any time their circumstances change. We will assess the Department's implementation of its new Board member disclosure form during our next followup.

b. Using the updated conflict-of-interest disclosure form as recommended in recommendation 5.

- Status: **Implementation in process.**

See explanations for recommendations 5 and 6a.

c. Storing all substantial interest disclosures, including disclosure forms and meeting minutes, in a special file available for public inspection, as required by statute.

- Status: **Not implemented.**

Similar to the initial followup, the Department's conflict-of-interest policies and procedures do not include information for storing all substantial interest disclosures, including disclosure forms and meeting minutes, in a special file available for public inspection as required by statute. The Department reported that under its current administration, a substantial interest disclosure has not occurred, which aligns with our review of employee conflict-of-interest disclosure forms and Board meeting minutes. Specifically, based on our review of the conflict-of-interest disclosure forms submitted by the 50 Department employees as of November 2025, 16 had disclosed potential conflicts relating to secondary employment, relatives employed at the Department, or 1 employee who owned a business that does not sell liquor, but all 50 forms had been signed by the employees' supervisors to indicate they had been reviewed. Additionally, we reviewed the meeting minutes for all 11 Board meetings that occurred in calendar year 2025 and found that none of the minutes included a disclosed conflict by a Board member. We will continue to assess the Department's further development of and compliance with its policies and procedures during our next followup.

d. Establishing a process to review and remediate disclosed conflicts, consistent with recommended practices.

- Status: **Implementation in process.**

The Department updated its conflict-of-interest policy in May 2025 to include some information on a review and remediation process for disclosed conflicts. For example, the policy states that the Department director makes the final decisions regarding any disclosed conflicts, and it states that disclosure statements should be reviewed prior to assigning staff to specific tasks, such as when forming a team to provide advice regarding contracting. Further, although not specified in its policy, the Department's employee disclosure form requires the employee's supervisor to sign the form, and we found that the supervisors signed the disclosure form for all 50 employees as of November 2025, indicating that they had been reviewed. Similarly, the Department's new Board member disclosure form developed in June 2026 also requires the Department's Board administrator or their designee to review and sign all Board member disclosure forms. As previously discussed in recommendation 6c, the Department reported that under its current administration, a substantial interest disclosure has not occurred. As a result, we will further assess the Department's implementation of its policies and procedures for reviewing and remediating disclosed conflicts during our next followup.

7. The Department should develop and provide periodic training on its conflict-of-interest requirements, process, and disclosure form, including providing training to all employees and Board members on how the State's conflict-of-interest requirements and A.R.S. §4-114 relate to their unique programs, functions, or responsibilities.

- Status: **Implementation in process.**

The Department has developed Department-specific training on its conflict-of-interest requirements, process, and disclosure form, including the additional requirements in A.R.S. §4-114. The Department requires Department employees and Board members to sign a training completion statement to attest that they understand the requirements and that they completed the training. As of November 2025, all 50 employees and all 6 Board members had attested to completing the training in calendar year 2025. However, as previously discussed, the Department's process for Board members is not outlined in its policies and procedures, and it updated its Board member disclosure form in June 2026 to align with recommended practices and include the additional requirements in A.R.S. §4-114. As such, the Department's training for Board members may require updates to sufficiently outline its processes. We will further assess the Department's development of its conflict-of-interest training during our next followup.

Sunset Factor 2: The extent to which the Department has met its statutory objective and purpose and the efficiency with which it has operated.

8. The Department should establish alcohol delivery contractor registration requirements and develop and implement rules and policies and procedures outlining these registration requirements and updating its registration application as needed. As part of the policies and procedures, the Department should include guidance for its staff on reviewing registration applications to help ensure applicants meet registration requirements.

- Status: **Implementation in process.**

The Department developed updated policies and procedures for registering alcohol delivery contractors in September 2025 that include registration procedures, application submission requirements, and renewal requirements. However, similar to the initial followup, the Department's policies and procedures do not include requirements for maintaining and checking against a list of registered alcohol delivery contractors that are otherwise in penalty status, as required by statute. The Department reported that it did not include this requirement in its policies and procedures because as of November 2025, there were only 7 registered contractors, and none were in penalty status. We will assess the Department's compliance with its policies and procedures during our next followup.

9. The Department should conduct a workload/cost analysis to evaluate whether its funding and staffing level is appropriate for administering the cocktails and alcohol to-go programs and work with the Legislature to revise the appropriations, as needed.

- Status: **Not implemented.**

The Department reported it has not conducted a workload/cost analysis to evaluate whether its funding and staffing level is appropriate for administering the programs because of changes to the programs. As discussed in the initial audit, Laws 2021, Ch. 375, established the cocktails and alcohol to-go programs, which included provisions to modify or add privileges for existing licensees. Specifically, it allowed bars and liquor stores to sell mixed cocktails to go and required these licensees to lease their privilege to restaurant licensees. Restaurants had to apply with the Department, and upon approval, the Department was required to randomly select and assign a bar or liquor store's cocktail to-go privilege to the restaurant on a 1-year lease.[2]

Beginning January 1, 2026, Laws 2021, Ch. 375, required the Department to make a permit available for restaurant licensees to purchase to sell mixed cocktails to go, ending the leasing program for cocktails to go. A.R.S. §4-203.07 still allows restaurant licensees to enter into leases with bars, beer and wine bars, and liquor stores to offer alcohol to go. According to the Department, for the alcohol to-go program, restaurant licensees are allowed to negotiate the leases directly with a bar, beer and wine bar, or liquor store licensee, but stated that in fiscal year 2026, there were no alcohol to-go leases. Additionally, although, the Department reported during the audit that it received annual funding of $825,000 to pay for 6 full-time equivalent (FTE) positions that it received when the cocktails and alcohol to-go programs were first introduced, the Department's fiscal year 2027 legislative appropriation includes 59.2 FTEs, including the 6 FTE, but does not allocate these 6 FTEs to any specific Department positions, programs, or functions.[3]

Further, beginning January 1, 2028, Laws 2026, Ch. 124, requires the Department to license and regulate entities that manufacture and distribute alternative nicotine products, and the Department reported that the 6 FTEs are needed to fulfill this new requirement. However, absent a workload analysis, the Department lacks documentation demonstrating whether the 6 FTEs and funding originally provided for the cocktails and alcohol to-go programs are still needed or how the 6 FTE are now being used.

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2 Restaurants would send lease payments to the Department, which the Department was required to then pay the selected bar or liquor store directly.

3 Laws 2026, Ch. 124.

10. The Department should develop and implement policies and procedures for periodically reviewing the appropriateness of its fees by analyzing the costs of its regulatory processes, comparing these costs to the associated fees, determining the appropriate licensing fees and surcharges, and then working with the Legislature to revise its fees as needed.

- Status: **Partially implemented at 36 months.**

  The Department developed a process for periodically reviewing its fees and reported working with stakeholders to discuss fee changes. Specifically, the Department reviewed its fees in November 2023, including its authority for charging and updating the fees, the amount of the fee, the revenues from the fees, and when the fee was last updated. In February 2026, the Department reported that its director has made verbal and email requests with the Governor's Office to increase fees that have not been approved. The Department reported it plans to review its fees again in November 2026.

11. The Department should develop a written action plan for developing and implementing ASET-required IT and data security procedures. The Department should then use this action plan to guide its efforts in developing and implementing written IT and data security procedures in line with ASET requirements and credible industry standards, focusing on the IT security areas with the highest security risks first. The action plan should include specific tasks, the status of those tasks, and their estimated completion dates, as well as a process for regularly reviewing and updating the plan based on its progress.

- Status: **Implementation in process.**

  As of July 2026, the Department has developed a written action plan to develop and implement some Arizona Department of Homeland Security (AZDOHS)-required IT and data security procedures. Specifically, the Department's action plan outlines its specific tasks, who is responsible for implementation, and approximate dates for the development and implementation of procedures in 4 different IT and data security areas. The Department also provided 3 draft procedures it has developed as of July 2026, and according to its action plan, it plans to finalize and implement these procedures in October 2026. We will continue to assess the Department's progress in implementing this recommendation during our next followup.

12. The Department should develop and implement procedures for identifying records eligible for destruction and deleting original paper and electronic documents that contain sensitive information, as required by recommended practices.

- Status: **Implementation in process.**

  The Department developed an updated records retention and destruction policy in May 2025. The updated policy states the Department will utilize the general retention schedules published by the Arizona State Library, Archives and Public Records and states that records should be promptly and orderly disposed of at the end of their retention period. Further, the policy recognizes that keeping records longer than the approved retention period increases financial, legal, audit, and investigative risks. Additionally, as of July 2026, the Department reported it was working with the Arizona

Department of Administration to deploy a tool that will further help it identify records eligible for destruction and comply with its records retention destruction policy. We will further assess the Department's implementation of its records retention and destruction policy procedures during our next followup.

13. The Department should follow Arizona State Library, Archives and Public Records document retention schedules.

- Status: **Implementation in process.**

  See explanation for recommendation 12.

14. The Department should develop and implement policies and procedures for offering quota licenses to the public, including procedures for:

- Documenting public interest for quota licenses.
- Determining the number of quota licenses that will be offered, including factors considered when making this determination.
- Conducting a supervisory review of the process for determining the number of quota licenses that will be offered through the lottery.

- Status: **Implemented at 36 months.**

  The Department revised its policy and procedures in February 2025 for offering quota licenses to the public and began implementing them for its 2025 lottery. Our review found and the Department provided documentation demonstrating that it followed its policies and procedure for the key steps outlined in its policy and procedures, including determining the total number of quota licenses that will be offered by using factors such as population counts and the number of licenses revoked or reverted in the last year and requiring a supervisory review process. Additionally, when the public shows interest in a quota license, the Department reported that its lottery coordinator directs the individual to complete an application on the Department's website, and the Department provided to us its tracking spreadsheet that it uses to document these applications as they are submitted.

15. The Department should evaluate and revise its practices for ensuring that out-of-State license applicants meet all license requirements by verifying that these applicants have undergone a fingerprint-based criminal history records check.

- Status: **Implemented at 36 months.**

  The Department finalized its policies and procedures in May 2025, which require out-of-State applicants to complete a fingerprint-based criminal history records check. The Department's procedures outline responsibilities for its licensing coordinator to submit fingerprints to the Arizona Department of Public Safety (DPS) and to finalize the application process once investigation staff receive results. The Department also reported and included guidance on its website for how applicants can submit fingerprints directly to DPS electronically. The Department provided a copy of its fingerprint tracking log from September 2025 to October 2025, which tracks the dates in which specific applicants' fingerprints are submitted to DPS and when the results are received, which included 11 out-of-State applicants during the time frame.

Sunset Factor 4: The extent to which rules adopted by the Department are consistent with the legislative mandate.

16. The Department should work with its Assistant Attorney General to seek an exemption from the rulemaking moratorium and adopt rules in accordance with A.R.S. §4-112(G).

- Status: **Implementation in process.**

After our audit report was issued, the rulemaking moratorium expired in September 2022. Consequently, the Department no longer needs to seek an exemption from the rulemaking moratorium. However, the Legislature enacted A.R.S. §41-1039, which requires State agencies to obtain prior written approval from the Governor to conduct any rulemaking.

The Department obtained approval from the Governor's Office in July and November 2025 to conduct rulemaking and filed the Notice of Rulemaking Docket Opening and Notice of Proposed Rulemaking in the Arizona Administrative Register in April 2026. Its draft rules included changes to its requirements for on-sale retailer basic training and on-sale retailer management training to include procedures for security personnel assigned to monitor admission of patrons, interaction with patrons, calls to law enforcement, and strategies for the use of force and de-escalation techniques, as required by A.R.S. §4-112(G). According to the Department, its *Notice of Final Rulemaking* will be reviewed by the Governor's Regulatory Review Council in August and September 2026.

17. The Department should continue its rulemaking process to develop rules related to the cocktails and alcohol to-go programs.

- Status: **Implemented at 12 months.**

The Department completed its development of and published rules for the cocktails and alcohol to-go programs in November 2022.

Sunset Factor 5: The extent to which the Department has encouraged input from the public before adopting its rules and the extent to which it has informed the public as to its actions and their expected impact on the public.

18. The Department should develop and implement open meeting law policies and procedures to help ensure the Board's continued compliance with open meeting law requirements.

- Status: **Implemented at 36 months.**

  As discussed during our initial audit, the Department has developed policies and procedures in accordance with open meeting law requirements. We found that the Department complied with open meeting law requirements for its November 2025 meeting that we reviewed. For example, the Department posted Board meeting notices and agendas on its website at least 24 hours in advance, and recordings of the meeting minutes were made available within 3 working days after the meetings.

Sunset Factor 6: The extent to which the Department has been able to investigate and resolve complaints that are within its jurisdiction and the ability of the Department to timely investigate and resolve complaints within its jurisdiction.

19. The Department should investigate complaints within 35 days, as required by its policies and procedures.

- Status: **Implementation in process.**

  Since the initial followup, the Department further revised its complaint-investigation policies in June 2025 and approved the policy in November 2025 to establish 4 levels of complaints, each with specific investigation time frames. Specifically, the Department's policies require:

  - Level 1 complaints to be investigated within 20 days.
  - Level 2 complaints to be investigated within 30 days.
  - Level 3 and covert underage buyer complaints to be investigated within 45 days.

  The policy states that there may be circumstances that are outside of an investigator's control that may impact compliance with these time frames, such as needing to issue subpoenas, and indicates that the reasons why complaints exceed required time frames should be documented in the complaint system and that supervisors should be notified beforehand. The Department also developed a list of specific statutory and rule violations in October 2025 to outline which level of complaint an allegation would be classified under. Because the Department finalized its policies and guidance for time frames in November and October 2025, respectively, we will assess its compliance with the policies and guidance during our next followup.

20. The Department should revise and implement its policies and procedures to require its staff to identify and monitor complaint investigations that may need to exceed the 35-day time frame to investigate, such as complaint investigations involving serious injuries, death, or that require the receipt of subpoenaed information and/ or police reports, and document the reasons for complaint investigations exceeding the 35-day time frame requirement.

- Status: **Implementation in process.**

  See explanation in recommendation 19.

21. The Department should develop and implement time frames in its policies and procedures for resolving complaint cases referred to its compliance unit for disciplinary action.

- Status: **Implementation in process.**

  During our initial followup, the Department had developed a policy that established a time frame of 60 calendar days for resolving complaints forwarded to its compliance unit for disciplinary action. However, the Department updated its complaint-handling policies and procedures in June 2025 to reflect its new processes, but it no longer included a time frame requirement for resolving complaint cases referred to its compliance unit for disciplinary action. Not implementing time frames for resolving complaint cases referred for disciplinary action risks delays in resolving cases and taking disciplinary action against licensees who may have violated State liquor laws, potentially allowing noncompliant licensees to continue operating without timely enforcement action. The Department updated its policies and procedures in February 2026 to require its compliance officer to resolve compliance cases within 60 calendar days. The policy also identifies specific instances when the time frame does not apply, such as in cases that require complex legal negotiations as designed by the Department's general counsel. We will assess the Department's compliance with its time frames for resolving complaint cases referred to its compliance unit for disciplinary action during our next followup.

22. The Department should continue to implement its new process for ensuring that all complaint allegations are investigated, either by investigating all allegations and/or forwarding applicable allegations to the appropriate authority for investigation, and revise its investigation policies and procedures accordingly.

- Status: **Implemented at 36 months.**

  The Department updated its complaint-handling policies and procedures in February 2026 to specify that allegations related to gaming, tobacco, and some other regulatory concerns will be forwarded to the appropriate agency, such as the Arizona Department of Gaming or the Arizona Attorney General's Office. The Department provided documentation for 2 complaints it received in February and May 2026 to demonstrate how it splits complaint allegations in its complaint system to allow it to investigate the allegations related to liquor violations while forwarding the other allegations to other agencies. For example, in May 2026, the Department received an allegation that an unlicensed business was selling liquor and allowed gambling on-site. The Department forwarded the gambling allegations to the Arizona Department of Gaming and conducted its own investigation into the allegations related to selling liquor.

23. The Department should document explanations for all deviations from its established penalty guidelines as required by its policy.

- Status: **Implemented at 36 months.**

The Department's penalty guidelines require deviations from the guidelines to be documented in its consent agreements, and the Department reported that between January 2023 to December 2025, it deviated from its penalty guidelines in 50 cases. Our review of 4 of these cases found that the Department outlined in the consent agreements the specific facts of each case to support the penalty imposed and the reason the Department deviated from its penalty guidelines. Three of the 4 cases included aggravating circumstances, including death, and the fourth case involved an unlicensed retailer.