

STATE OF WEST VIRGINIA
AUDIT REPORT
OF

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL COMMISSIONER
FOR THE YEAR ENDED
JUNE 30, 1988



OFFICE OF LEGISLATIVE AUDITOR
CAPITOL BUILDING
CHARLESTON 5, WEST VIRGINIA

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL COMMISSIONER
FOR THE YEAR ENDED
JUNE 30, 1988

West Virginia



LEGISLATIVE AUDITOR

CHARLESTON

The Joint Committee on Government and Finance:

In compliance with the provisions of the West Virginia Code, Chapter 60, Article 2, Section 21, as amended, we have examined the accounts of West Virginia Alcohol Beverage Control Commissioner.

Our examination covers the year ended June 30, 1988. The results of this examination are set forth on the following pages of this report.

Respectfully submitted,

Theodore L. Shanklin
Theodore L. Shanklin, CPA, Director
Legislative Postaudit Division

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WEST VIRGINIA ALCOHOL BEVERAGE CONTROL COMMISSIONER

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WEST VIRGINIA ALCOHOL BEVERAGE CONTROL COMMISSIONER
EXIT CONFERENCE

We held an exit conference on November 1, 1989 with the West Virginia Alcohol Beverage Control Commissioner and all findings and recommendations were reviewed and discussed. The above official's responses are included in italics in the Summary of Findings, Recommendations and Responses and after our recommendations in the General Remarks sections of this report.

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL COMMISSIONER

INTRODUCTION

The 21st Amendment of 1933 repealed national prohibition and gave each state the right to make and enforce its own laws governing alcoholic beverages.

In 1934 the people of West Virginia repealed an amendment to the State's constitution which, since July 1, 1914, had made absolute prohibition a part of their law. The West Virginia Legislature on February 22, 1935, repealing Chapter 60 providing for the State control of alcoholic liquors, and as subsequently amended by Senate Bill No. 294 passed March 8, 1935, created the West Virginia Liquor Control Commission.

The purpose of this act is to give effect to the mandate of the people expressed in the repeal of the State prohibition amendment; and to assure the greatest degree of personal freedom that is consistent with the health, safety and good morals of the people of the State. To these ends the police power of the State is pledged to the sound control and the temperate use of alcoholic liquors.

The West Virginia Liquor Control Commission was abolished by acts of the 1957 Legislature, C.5, which created the office of the West Virginia Liquor Control Commissioner and transferred to him all powers and authority vested in the former Commissioner.

All forms of alcoholic beverages whose whole alcoholic contents exceeds 3.2% by weight was under the Commissioner's jurisdiction during our audit period. Alcoholic beverages may be transported into and within West Virginia only by the holders of transportation permits issued by the Commissioner and only when consigned to the West Virginia Alcohol Beverage Control Commissioner or when transported or shipped directly to persons licensed to purchase and receive alcoholic beverage at wholesale. They may be transported through the State, for delivery outside the State, only by holders of transportation permits issued by the Commissioner.

The statement of purposes as interpreted by the Commissioner is to make alcoholic beverages a good quality, obtainable under decent conditions, available to the consuming public at a fair price, but that it must not encourage the sale or consumption. This is done through establishment of State stores and agencies throughout the State.

These stores do not encourage patronage. The sole purpose is to stand ready to serve consumers only when those consumers enter the doors uninvited.

The main office and warehouse of the West Virginia Alcohol Beverage Control Commissioner are located at 310 57th Street, Charleston, West Virginia.

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL COMMISSIONER
IMPLEMENTATION OF PRIOR AUDIT RECOMMENDATIONS

In the prior audit covering the period from July 1, 1985 through June 30, 1987, there were ten recommendations. During the current audit period, we noted that four of the recommendations had not been fully implemented. These recommendations are listed below.

1. Excess amount of time lag in the payment of liquor purchase.
(See pages 11-12.)
2. In some cases, receipts were not being deposited within 24 hours.
(See pages 12-14.)
3. Provisions of the Commissioner's Special Sales Policy dealing with verification of receipt of merchandise by the customer who placed a special sale order were not being complied with in all cases and provisions dealing with the collection of a 25% deposit on all special sale orders was not always complied with. (See pages 16-17.)
4. Telephone toll slips documenting long-distance telephone calls were not available for audit purposes. (See page 19.)

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL COMMISSIONER

ADMINISTRATIVE OFFICERS AND STAFF

JUNE 30, 1988

Ralph N. Steele Commissioner
L. Yeager, Jr. Assistant Commissioner, Accounting and Administration
Guy Givens Assistant Commissioner, Marketing/Operations/Sales
Jack Lavender Director, Enforcement Division
Vacant Director, Stores Division
Carl Linville Director, Warehouse Division
Ellen Harless Director, Purchasing
Patricia Holtsclaw Director, Accounting/Inventories
Lynn Schillings Director, Personnel/Payroll Division
William James Communications

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL COMMISSIONER
SUMMARY OF FINDINGS, RECOMMENDATIONS AND RESPONSES

COMPLIANCE MATTERS

Informational Summary - Warehouse Theft

1. A theft of liquor occurred at the Alcohol Beverage Control Commissioner's Warehouse on September 8, 1988. The liquor involved was valued at \$652.08 and was recovered at the scene of the crime. The employee involved in the theft was apprehended at the scene and subsequently plead guilty to the crime of grand larceny on February 3, 1989.

This was discovered by ABCC personnel and all proper steps were taken to prosecute the party responsible as well as to recover the stolen property. Additionally, safeguards were effected within the warehouse to prevent reoccurrence of this theft. (See pages 10-11.)

Purchase of Liquor

2. Based on our examination of liquor purchases, we noted an excessive amount of lag time in the payment of liquor purchases by the Alcohol Beverage Control Commissioner, apparently in noncompliance with Chapter 60, Article 2, Section 11 of the West Virginia State Code, as amended.

We recommend that the Alcohol Beverage Control Commissioner institute measures to ensure compliance with Chapter 60, Article 2, Section 11 of the West Virginia State Code, as amended.

We are now in the process of complying with this audit recommendation. (See pages 11-12.)

Deposits With State Treasury

3. We noted during our examination of cash receipts, the West Virginia Alcohol Beverage Control Commissioner did not comply, in all instances, with Chapter 12, Article 2, Section 2 of the West Virginia Code, as amended, and internal policy regarding deposit of collections.

We recommend the West Virginia Alcohol Beverage Control Commissioner comply with Chapter 12, Article 2, Section 2 of the West Virginia Code, as amended, and internal policy regarding deposits.

We will comply with this audit recommendation. (See pages 12-14.)

Equipment Inventory

4. During our examination of equipment, we could not trace 5 items of 21 tested to the location indicated on the inventory of the headquarters. We were able to locate the items after a search of the headquarters. Also, our review of the inventory report for the various stores showed many items of equipment which are not identified by State tag numbers and/or serial numbers.

We recommend the Commissioner comply with Chapter 5A, Article 3, Section 42 of the West Virginia Code, as amended.

We are in the process of complying with this audit recommendation.

(See pages 14-15.)

Special Sales

5. We were unable to determine from the records maintained for special sale merchandise whether in all cases, the customers who placed special sale orders actually took receipt of the merchandise after it was delivered to

the applicable store from the Commissioner's main warehouse. Also, we noted 4 special sale transactions out of 31 tested where the 25% deposit requirements was not complied with.

We recommend the Commissioner comply with provisions regarding verification of receipt of merchandise by customers and deposit requirements as set forth in his Special Sales Policy.

We will comply with this audit recommendation. (See pages 16-17.)

Disposal of Records

6. Various records needed for audit purposes were not retained by the Commission. We were unable to locate the telephone toll slips that document long-distance phone calls at the store level; accordingly, we could not review for telephone abuse. We could not locate the post-mark dates that indicated when Wine Gallonage Tax Returns were submitted to the Commission; accordingly, we could not confirm that applicable penalties were being assessed. Lastly, we could not locate records which documented lottery pay-outs for the period July 1987 through February 1988.

We recommend the Commissioner comply with Chapter 5, Article 8, Section 17 of the West Virginia Code, as amended.

We are now in compliance with this audit recommendation.

(See pages 17-18.)

INTERNAL CONTROLS AND ACCOUNTING SYSTEM

Telephone Toll Slips

7. The telephone toll slips which document long-distance telephone calls were not retained. If these records are not retained and reviewed, the agency could experience unauthorized use of telephones at the expense of the department.

We recommend the Commissioner strengthen internal control procedures concerning telephone toll slips at the store level.

We are now in compliance with the audit recommendation. (See page 19.)

Equipment

8. We found several instances during our examination of equipment where we could not locate inventory items in their assigned locations. This would indicate the equipment inventory is not being updated timely.

We recommend the Commissioner strengthen internal controls over equipment.

We are in the process of complying with this audit recommendation. (See pages 19-20.)

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL COMMISSIONER

GENERAL REMARKS

INTRODUCTION

We have completed a financial and compliance audit of the West Virginia Alcohol Beverage Control Commissioner. The audit covered the year ended June 30, 1988.

SPECIAL REVENUE ACCOUNTS

All expenditures required for the general operation of the West Virginia Alcohol Beverage Control Commissioner are made from the following special revenue accounts:

<u>Number</u>	<u>Description</u>
6350-80	Transfer of Liquor Profits
6350-83	Wine Gallonage Tax - General Revenue
8591-06	Wine License Special Fund
9270-05	Refunds
9270-06	Purchase of Liquor
9270-07	Transfer of Liquor Profit and Taxes
9270-11	Imprest Cash Fund
9270-22	Purchase of Lottery Tickets
9270-34	Unclassified
9270-79	Claims Against the State
9270-99	Cash Control

COMPLIANCE MATTERS

Chapter 60 of the West Virginia Code generally governs the West Virginia Alcohol Beverage Control Commissioner. We tested applicable sections of the above, plus general State regulations and other applicable chapters, articles and sections of the West Virginia Code as they pertain to fiscal matters. Our findings are listed below.

Informational Summary - Warehouse Theft

Subsequent to the date of the financial statement (June 30, 1988) a theft of liquor occurred at the Alcohol Beverage Control Commissioner's warehouse in Kanawha City. The theft, which occurred on September 8, 1988, involved one case of Crown Royal Whiskey valued at \$218.46 and one case of Remy Martin Cognac

valued at \$433.62 or a total of \$652.08 of inventory. The employee responsible for the theft was apprehended at the scene and subsequently plead guilty to the crime of grand larceny on February 3, 1989. The liquor was returned to the Alcohol Beverage Control Commissioner following the conclusion of the legal proceedings.

This was discovered by ABCC personnel and all proper steps were taken to prosecute the party responsible as well as to recover the stolen property. Additionally, safeguards were effected within the warehouse to prevent reoccurrence of this theft.

Purchase of Liquor

During our examination of liquor purchases, we noted, as in our prior audit report, an excessive amount of time lag in the payment of liquor purchases by the Alcohol Beverage Control Commissioner. The vendor invoices applicable to our examination revealed that payment was required within 30 calendar days, which appears to be an industry standard. Only those invoices paid outside the specified 30 days were considered for determining late payments.

We examined a total of 21 transactions paid in fiscal year 1988, of which 17 transactions proved to have been paid at least one to five months after the end of the 30-day period allowed on the vendor invoice. Therefore, the instances noted below indicate the Alcohol Beverage Control Commissioner had been in possession of the liquor at least 60 calendar days. The results of our examination are summarized as follows:

<u>Number of Transactions</u>	<u>Processing (Lag Time) in Months</u>					<u>Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	
4	0	0	0	0	4	\$ 73,329.78
1	0	0	0	1	0	10,220.10
8	0	0	8	0	0	83,010.58
2	0	2	0	0	0	158,289.61
2	2	0	0	0	0	3,400.40
<u>17</u>	<u>2</u>	<u>2</u>	<u>8</u>	<u>1</u>	<u>4</u>	<u>\$328,250.47</u>

This would appear to be in noncompliance with Chapter 60, Article 2, Section 11 of the West Virginia Code, as amended, dealing with the powers and duties of the Alcohol Beverage Control Commissioner, which states in part, ". . . (3) Supervise the fiscal affairs and responsibilities of the department; . . . (8) Exercise any other power that may be necessary or proper for the orderly conduct of the business and the effective discharge of the duties of the commission (commissioner);" The timely payment of accounts payable, in the area of liquor purchases, would appear to be covered by the aforementioned sub-sections of the Code.

We recommend the Commissioner comply with Chapter 60, Article 2, Section 11 of the West Virginia Code, as amended.

In the period July 1, 1987 through June 30, 1988, the ABCC's net profit was 7.2 million dollars and transfers to the General Revenue Fund were 8.5 million dollars. During that period, the decision was made to transfer funds to General Revenue rather than to pay liquor bills in a timely manner. In January, 1989, this decision was reversed and 15 million dollars in liquor bills were paid between January 1, and June 30, 1989. General Revenue transfers were held at 2.05 million dollars to allow the ABCC to eliminate a deficit balance of 1.5 million dollars and bring the Accounts Payable balance to an acceptable level.

Deposits With State Treasury

During our examination of compliance regarding deposit of daily cash receipts, we noted, as in our prior audit report, that the West Virginia Alcohol Beverage Control Commissioner did not comply, in all cases, with Chapter 12, Article 2, Section 2 of the West Virginia Code, as amended.

Chapter 12, Article 2, Section 2 of the West Virginia Code, as amended, states, "All officials and employees of the State authorized by statute to accept moneys due the State of West Virginia shall keep a daily itemized record of such moneys so received for deposit in the state treasury and shall deposit within

twenty-four hours with the state treasurer all moneys received or collected by them for or on the behalf of the State for any purpose whatsoever." Specifically, we noted during our testing of fiscal year 1988 deposits, that monies collected from (a) the sale of alcohol and lottery tickets by certain stores and agencies; (b) Wine Liter Tax Returns and (c) the issuance of various licenses and permits were not being deposited according to the regulations governing deposits as described in Chapter 12, Article 2, Section 2 of the West Virginia Code, as amended. The results of our findings are listed by category as follows:

(a) Alcohol and Lottery Ticket Sales

<u>Store/Agency Number</u>	<u>Location</u>	<u>Number of Late Deposits</u>	<u>Total Amount of Deposits</u>	<u>Processing (Lag Time) in Days</u>				
				<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>
71	Northfork	3	\$ 2,487.06	3	0	0	0	0
97	Martinsburg	2	4,317.18	2	0	0	0	0
110	Grant Town	7	944.49	5	1	1	0	0
130	Summersville	2	3,633.32	2	0	0	0	0
162	Harper's Ferry	6	6,626.86	2	3	1	0	0
170	Hundred	14	2,156.53	2	4	5	2	1
			<u>\$20,165.44</u>					

(b) Court Hearing Fees

<u>Transactions Tested</u>	<u>Number of Late Deposits</u>	<u>Total Amount of Deposits</u>	<u>Processing (Lag Time) in Days</u>		
			<u>N/A</u>	<u>1</u>	<u>2</u>
15	7	\$2,100.00	8	6	1

The failure to deposit collections in accordance with the provisions of the West Virginia Code could result in their temporary conversion to unauthorized personal use, and loss of interest income to the State General Revenue Fund.

We recommend the Commissioner comply with Chapter 12, Article 2, Section 2 of the West Virginia Code, as amended, and internal policy regarding deposits.

It is the policy of the ABCC to periodically remind all employees, in the ABCC stores and in the central office, of the requirement of Section 12-2-2 of the West Virginia State Code, and their responsibilities concerning all monies collected for the state. Deposit tickets are checked for timeliness when they are

received in the central office. District Managers and/or Auditors are sent to investigate when ABCC stores or agencies show any deposit time-lags. Internal deposits should never be late, with exception to holidays and weekends. If the accounting staff is provided with an itemized list of late deposits, and investigation and any action necessary will be taken to assure timely deposits within the central office. However, since collections of all fees in the central office consist of checks, cashiers checks, certified checks and/or money orders, the possibility of unauthorized personal use is unlikely.

Equipment Inventory

Our examination of equipment showed that 5 items of 21 items or approximately 24% selected for the equipment inventory of the headquarters could not be traced to their physical location as shown in the inventory. A description of the items involved along with their assigned state tag number and location is shown below:

<u>Description of Item</u>	<u>State Tag Number</u>	<u>Assigned Location</u>
Desk	4430	Assistant Commissioner Accounting/Administration
Desk	4660	Warehouse
Electric Heater	4892	Warehouse - Hospital
Jasper Wood Chairs	4719	Warehouse - Checker 1 and 2
Addressograph	4240	Copyroom

We were able to locate the items after a search of the headquarters. A review of the inventory report for the various stores shows numerous items of equipment which are not identified by State tag numbers and/or serial numbers. Chapter 5A, Article 3, Section 42 of the West Virginia Code, as amended, states, "The head of every department of the state government shall, on or before July fifteenth of each year, file with the director an inventory of all real and personal property, and of all equipment, supplies and commodities in its possession as of the close of the last fiscal year." Based on the aforementioned findings and our subsequent

inquiries, it is our opinion that the equipment inventory is not being updated on an annual basis as required by Chapter 5A, Article 3, Section 42 of the West Virginia Code, as amended.

We recommend the Commissioner comply with Chapter 5A, Article 3, Section 42 of the West Virginia Code, as amended.

TO: Pat Holtsclaw
FROM: Tom Mullins
SUBJECT: Equipment Inventory
DATE: October 30, 1989

Upon my employment date of July 11, 1988 I was assigned the task of maintenance of the ABC equipment inventory.

At that time I began and equipment inventory of all areas of ABC operations. All equipment was physical inventoried by myself within the office building areas. All ABC stores, agencies and the warehouse were sent computer printouts of equipment assigned to their respective locations. They were instructed to mark through any items which they did not have and add any items they did have that were not listed. After these inventories were returned each tagable item was assigned a tag number if they had not previously been tagged and tags returned to these locations with instructions as to which tags were to be placed on which items.

All of the appropriate entries were made to update and correct any discrepancies on these inventories at this time. This inventory was completed approximately September 30, 1989.

As of July 7, 1989 an equipment inventory was begun and all ABC store auditors were assigned the responsibility for the equipment inventory for all stores within their particular audit areas. These inventories have now been completed and correcting adjustments have been entered to the computer system for approximately 60% of those returned. I estimate total completion of all inventory adjustments known, to be completed by December 31, 1989

I wish to inform you that a trip was made to surplus property around June 30, 1989 to obtain a print out of equipment owned by the ABCC which is suppose to be maintained by them. The purpose of this was to compare our inventory to theirs and determine if discrepancies existed. I was given a three page printout showing what they had as property owned by the ABCC. Our equipment inventory consists of approximately 250 pages of equipment.

Special Sales

From our testing of special sale merchandise, we were unable to ascertain, from the records retained at the Special Sales Office and supplied to us for examination, whether in all cases the customers that placed the orders actually took receipt of the merchandise after it was delivered to the applicable store from the Commissioner's main warehouse. The condition was disclosed in our prior audit report. This would appear to be in noncompliance with the Alcohol Beverage Control Commissioner's Special Sales Policy which states in paragraph 17, "When the merchandise is picked up by the customer, whether it be at the Charleston Warehouse or an ABCC Store, the customer should sign for the receipt of the merchandise on the line designated 'consignee'."

Also the examination of Special Sale Items indicated that the Commissioner did not, in all instances, follow the deposit requirements on ordered merchandise as specified in the Alcohol Beverage Control Commissioner's Special Sales Policy. The Alcohol Beverage Control Commissioner's Special Sales Policy states in paragraph 6, "If the dollar amount is \$500.00 or less, a deposit in the amount equal to 25% of the total purchase price on the merchandise will be due prior to the placement of the order. If the dollar amount is in excess of \$500.00, a deposit in an amount equal to 10% of the purchase price of the merchandise will be due prior to the placement of the order."

Specifically, we noted 4 of 31 special sale transactions where the actual deposit was in apparent noncompliance with the deposit requirements as set forth in paragraph six of the Alcohol Beverage Control Commissioner's Special Sale Policy. The instances of noncompliance are set forth below:

<u>Amount of Sale</u>	<u>Date</u>	<u>Deposit Required</u>	<u>Actual Deposit</u>	<u>Difference</u>
\$150.18	7/29/87	\$37.55	\$30.00	\$ 7.55
223.44	9/24/87	55.86	44.00	11.86
208.26	12/21/87	52.07	50.00	2.07
66.36	3/08/88	16.59	16.00	0.59

We recommend the Commissioner comply with provisions regarding verification of receipt of merchandise by customers and deposit requirements as set forth in his Special Sales Policy.

The specific sales in question, as outlined in the attached report, were the result of human error and the full Purchase Order amounts were collected from the customers before delivery of the merchandise.

Additionally, ABCC stores will be notified of their responsibility to obtain customer signatures before releasing special sales merchandise to them.

Disposal of Records

During the course of our examination of the Alcohol Beverage Control Commissioner, we noted that various records needed in the performance of certain audit procedures were unavailable resulting in noncompliance with Chapter 5, Article 8, Section 17 of the West Virginia Code, as amended, which states, "No record shall be destroyed or otherwise disposed of by any agency of the state unless it is determined by the administrator and the director of the division of archives and history of the department of culture and history that the record has no further administrative, legal, fiscal, research, or historical value."

In testing for telephone abuse, we were unable to locate the telephone toll slips that document long-distance phone calls at the store level. These would be used to ascertain unauthorized use of spending unit resources. We were able to obtain the telephone bills for the stores and our review showed the majority of calls could be identified as business-related. Accordingly, in our opinion, the amount of expenditures in question was not sufficient to warrant qualification of our opinion on the entity's financial statement.

We recommend the Commissioner comply with Chapter 5, Article 8, Section 17 of the West Virginia Code, as amended.

The ABCC records retention policy is that which is prescribed by the Records Management Section, Revolving Fund Division, of the Department of Finance

and Administration. No records have been intentionally destroyed in conflict with Chapter 5, Article 8, Section 17 of the West Virginia State Code. Any destruction of records must be signed and approved by the ABCC department director or supervisor. Telephone toll slips are being filed in Stores Division after auditing is completed.

INTERNAL CONTROLS AND ACCOUNTING SYSTEM

As a part of our examination, we reviewed and tested the system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. Under these standards, the purpose of such evaluation is to establish a basis for reliance thereon in determining the nature, timing and extent of other auditing procedures that are necessary for expressing an opinion on the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect either to the execution and recording of transactions or with respect to the estimates and judgments required in the

preparation of financial statements. Further projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal accounting control for the period July 1, 1987 to June 30, 1988, which was made for the purpose set forth in the first paragraph above, would not necessarily disclose all weaknesses in the system. However, such study and evaluation disclosed conditions that we believe to be weaknesses. These weaknesses are discussed below.

Telephone Toll Slips

As disclosed in our prior audit report, our evaluation and documentation of the existing system of internal control of the Alcohol Beverage Control Commissioner shows that telephone toll slips documenting long-distance phone calls at the store level were not available for audit purposes. As a result of this lack of record maintenance, the spending unit could experience unauthorized personal use of telephones at the expense of the department.

We recommend the Commissioner strengthen internal control procedures concerning telephone toll slips at the store level.

Telephone toll slips are being filed in Stores Division after auditing is completed.

Equipment

We found several instances during our examination where we could not locate inventory items in their assigned locations. Although we were able to locate the items after a search of the headquarters, this would indicate the equipment inventory is not being updated timely. The possibility for loss of equipment is increased when inventory is not updated periodically.

We recommend the Commissioner strengthen internal controls over equipment.

All of the appropriate entries were made to update and correct any discrepancies on these inventories. This inventory was completed approximately September 30, 1989.

As of July 7, 1989 an equipment inventory was begun and all ABC store auditors were assigned the responsibility for the equipment inventory for all stores within their particular audit areas. These inventories have now been completed and correcting adjustments have been entered to the computer system for approximately 60% of those returned. I estimate total completion of all inventory adjustments known, to be completed by December 31, 1989.

INDEPENDENT AUDITORS' OPINION

The Joint Committee on Government and Finance:

We have audited the Statement of Cash Receipts, Disbursements and Changes in Cash Balance of the West Virginia Alcohol Beverage Control Commissioner for the year ended June 30, 1988. The financial statement is the responsibility of the management of the West Virginia Alcohol Beverage Control Commissioner. Our responsibility is to express an opinion on the financial statement based on our audit.

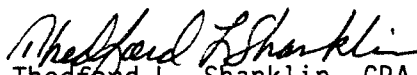
We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note A, the financial statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenue collected and expenses paid of the West Virginia Alcohol Beverage Control Commissioner for the year ended June 30, 1988, on the basis of accounting described in Note A.

Our examination was made for the purpose of forming an opinion on the basic financial statement taken as a whole. The supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statement. Such information has been subjected to the auditing procedures applied in the examination of the basic financial statement and, in our opinion, is fairly stated in all material respects in relation to the basic financial statement taken as a whole.

Sincerely yours,


Theodford L. Shanklin, CPA, Director
Legislative Postaudit Division

January 6, 1989

Auditors: Michael E. Sizemore, CPA, Supervisor
Randal L. Thomas, Auditor-in-Charge
Steven E. Gunter

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL COMMISSIONER

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND

CHANGES IN CASH BALANCE

	<u>Year Ended June 30,</u>	
	<u>1988</u>	<u>1987</u>
Cash Receipts:		
Liquor Sales	\$59,092,383.75	\$62,278,021.00
Less:		
Purchase of Liquor	<u>30,296,168.68</u>	<u>33,571,434.74</u>
	28,796,215.07	28,706,586.26
Private Club License Sales	1,477,500.00	1,570,267.07
Wine Gallonage Tax	1,219,966.25	1,364,484.29
Miscellaneous Collections	121,710.31	67,652.07
Wine Licenses and Labels	255,631.00	250,588.00
Commissions and Bonus Income - Lottery Sales	<u>61,980.20</u>	<u>80,968.60</u>
	31,933,002.83	32,040,546.29
Disbursements:		
Personal Services	8,380,939.10	9,183,634.18
Current Expenses	7,272,880.27	7,658,148.06
Repairs and Alterations	40,434.77	89,438.46
Equipment	25,301.27	100,593.98
Claims Against the State	210.00	294.16
Refunds	48,207.56	18,757.42
Imprest Cash Fund	-0-	9,750.00
Transfers to General Revenue Fund of West Virginia	9,719,288.87	10,714,484.29
Transfers to West Virginia State Tax Department	<u>5,403,298.98</u>	<u>5,740,695.79</u>
	30,890,560.82	33,515,796.34
Cash Receipts Over (Under) Disbursements	1,042,442.01	(1,475,250.05)
Beginning Balance	<u>2,868,896.07</u>	<u>4,344,146.12</u>
Ending Balance	<u>\$ 3,911,338.08</u>	<u>\$ 2,868,896.07</u>

See Notes to Financial Statement

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL COMMISSIONER

NOTES TO FINANCIAL STATEMENT

Note A - Accounting Policies

Accounting Method: The cash basis of accounting is followed. Therefore, certain revenue and the related assets are recognized when received rather than when earned and certain expenses are recognized when paid rather than when the obligation is incurred. Accordingly, the financial statement is not intended to present financial position and results of operation in conformity with generally accepted accounting principles.

Note B - Pension Plan

All eligible employees are members of the West Virginia Public Employees' Retirement System. Employee contributions are 4½% of this compensation and employees are vested under certain circumstances. The West Virginia Alcohol Beverage Control Commissioner matches contributions at 9½% of the compensation on which the employee made contributions.

<u>Year Ended June 30,</u>	
<u>1988</u>	<u>1987</u>
<u>\$764,500.26</u>	<u>\$814,066.19</u>

Note C - Lottery Sales

The West Virginia Alcohol Beverage Control Commissioner acts as a sales agent for the West Virginia Lottery Commission. As compensation, the Alcohol Beverage Control Commissioner is allowed to retain 5% of annual lottery sales. The lottery sales were \$1,588,372.00 and \$1,231,984.00 for fiscal years 1987 and 1988, respectively. The amounts recognized as liabilities related to amounts subject to transfer to the West Virginia Lottery Commission and reserves for anticipated payouts totaled \$91,276.00 on June 30, 1987 and \$76,106.85 on June 30, 1988. These amounts are not included in the cash balance on the basic financial statement.

SUPPLEMENTAL INFORMATION

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL COMMISSIONER
 STATEMENTS OF CASH RECEIPTS AND DISBURSEMENTS
 GENERAL REVENUE

<u>Transfer of Liquor Profits -</u> <u>Account 6350-80</u>	<u>Year Ended June 30,</u> <u>1988</u> <u>1987</u>	
Beginning Balance: State Treasury	\$ -0-	\$ -0-
Cash Receipts: Miscellaneous Collections	<u>8,500,000.00</u>	<u>9,350,000.00</u>
TOTAL CASH TO ACCOUNT FOR	<u>\$8,500,000.00</u>	<u>\$9,350,000.00</u>
Disbursements: Transfers to General Revenue Fund of West Virginia	\$8,500,000.00	\$9,350,000.00
Ending Balance: State Treasury	<u> -0-</u>	<u> -0-</u>
TOTAL CASH ACCOUNTED FOR	<u>\$8,500,000.00</u>	<u>\$9,350,000.00</u>
<u>Wine Gallonage Tax -</u> <u>Account 6350-83</u>		
Beginning Balance: State Treasury	\$ -0-	\$ -0-
Cash Receipts: Wine Gallonage Tax	<u>1,219,966.25</u>	<u>1,364,484.29</u>
TOTAL CASH TO ACCOUNT FOR	<u>\$1,219,966.25</u>	<u>\$1,364,484.29</u>
Disbursements: Transfers to General Revenue Fund of West Virginia Refunds	\$1,219,288.87 677.38	\$1,364,484.29 -0-
Ending Balance: State Treasury	<u> -0-</u>	<u> -0-</u>
TOTAL CASH ACCOUNTED FOR	<u>\$1,219,966.25</u>	<u>\$1,364,484.29</u>

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL COMMISSIONER

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS

SPECIAL REVENUE

<u>Wine License Special Fund - Account 8591-06</u>	<u>Year Ended June 30,</u>	
	<u>1988</u>	<u>1987</u>
Beginning Balance:		
State Treasury	\$323,139.84	\$329,835.82
Cash Receipts:		
Wine Licenses and Labels	<u>255,631.00</u>	<u>250,588.00</u>
TOTAL CASH TO ACCOUNT FOR	<u>\$578,770.84</u>	<u>\$580,423.82</u>
Disbursements:		
Personal Services	25,029.30	21,374.30
Current Expenses	13,888.04	144,926.84
Repairs and Alterations	6,592.30	21,551.59
Equipment	-0-	67,506.25
Refunds	<u>2,387.50</u>	<u>1,925.00</u>
	47,897.14	257,283.98
Ending Balance:		
State Treasury	<u>530,873.70</u>	<u>323,139.84</u>
TOTAL CASH ACCOUNTED FOR	<u>\$578,770.84</u>	<u>\$580,423.82</u>

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL COMMISSIONER

STATEMENTS OF APPROPRIATIONS AND EXPENDITURES

	<u>Year Ended June 30,</u>	
	<u>1988</u>	<u>1987</u>
<u>Personal Services - Account 9270-00</u>		
Appropriations	\$ -0-	\$9,684,683.00
Reduction of Appropriations - Senate Bill No. 594	-0-	(80,453.00)
	<u>-0-</u>	<u>9,604,230.00</u>
Expenditures	-0-	8,973,981.11
	<u>-0-</u>	<u>630,248.89</u>
Transmittals Paid After June 30	-0-	5,207.92
	<u>-0-</u>	<u>5,207.92</u>
Balance	<u>\$ -0-</u>	<u>\$ 635,456.81</u>
 <u>Current Expenses - Account 9270-01</u>		
Appropriations	\$ -0-	\$5,359,158.00
Reduction of Appropriations - Senate Bill No. 594	-0-	(25,486.00)
	<u>-0-</u>	<u>5,333,672.00</u>
Expenditures	-0-	5,053,911.32
	<u>-0-</u>	<u>279,760.68</u>
Transmittals Paid After June 30	-0-	398,600.16
	<u>-0-</u>	<u>398,600.16</u>
Balance	<u>\$ -0-</u>	<u>\$ 678,360.84</u>
 <u>Repairs and Alterations - Account 9270-02</u>		
Appropriations	\$ -0-	\$ 72,800.00
Supplemental Appropriations - Senate Bill No. 594	-0-	152,200.00
	<u>-0-</u>	<u>225,000.00</u>
Expenditures	-0-	89,169.03
	<u>-0-</u>	<u>135,830.97</u>
Transmittals Paid After June 30	-0-	29,841.23
	<u>-0-</u>	<u>29,841.23</u>
Balance	<u>\$ -0-</u>	<u>\$ 165,672.20</u>

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL COMMISSIONER

STATEMENTS OF APPROPRIATIONS/CASH RECEIPTS

AND EXPENDITURES/DISBURSEMENTS

	<u>Year Ended June 30,</u>	
	<u>1988</u>	<u>1987</u>
<u>Equipment - Account 9270-03</u>		
Appropriations	\$ -0-	\$ 109,000.00
Supplemental Appropriations - Senate Bill No. 594	-0-	136,000.00
	<u>-0-</u>	<u>245,000.00</u>
Expenditures	-0-	51,763.92
	<u>-0-</u>	<u>193,236.08</u>
Transmittals Paid After June 30	-0-	28,589.69
	<u>-0-</u>	<u>28,589.69</u>
Balance	<u>\$ -0-</u>	<u>\$ 221,825.77</u>
 <u>Refunds - Account 9270-05</u>		
Cash Receipts	\$ 46,065.93	\$ 16,832.42
Disbursements	<u>46,065.93</u>	<u>16,832.42</u>
Balance	<u>\$ -0-</u>	<u>\$ -0-</u>
 <u>Purchase of Liquor - Account 9270-06</u>		
Cash Receipts	\$30,296,168.68	\$33,571,434.74
Disbursements	<u>30,296,168.68</u>	<u>33,571,434.74</u>
Balance	<u>\$ -0-</u>	<u>\$ -0-</u>
 <u>Transfer of Liquor Taxes and Profit - Account 9270-07</u>		
Cash Receipts	\$13,903,298.98	\$15,090,695.79
Disbursements	<u>13,903,298.98</u>	<u>15,090,695.79</u>
Balance	<u>\$ -0-</u>	<u>\$ -0-</u>

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL COMMISSIONER
 STATEMENTS OF APPROPRIATIONS/CASH RECEIPTS
 AND EXPENDITURES/DISBURSEMENTS

<u>Social Security Matching Fund -</u> <u>Account 9270-08</u>	<u>Year Ended June 30,</u>	
	<u>1988</u>	<u>1987</u>
Appropriations	\$ -0-	\$714,025.00
Reduction of Appropriations - Senate Bill No. 594	-0-	(5,800.00)
	<u>-0-</u>	<u>708,225.00</u>
Expenditures	<u>-0-</u>	<u>655,474.83</u>
	-0-	52,750.17
Transmittals Paid After June 30	<u>-0-</u>	<u>467.85</u>
Balance	<u>\$ -0-</u>	<u>\$ 53,218.02</u>
<u>Imprest Cash Fund -</u> <u>Account 9270-11</u>		
Cash Receipts - (Refunds)	\$ 450.00	\$ 9,750.00
Disbursements	<u>450.00</u>	<u>9,750.00</u>
Balance	<u>\$ -0-</u>	<u>\$ -0-</u>
<u>Public Employees' Retirement Matching -</u> <u>Account 9270-16</u>		
Appropriations	\$ -0-	\$948,705.00
Reduction of Appropriations - Senate Bill No. 594	-0-	(7,706.00)
	<u>-0-</u>	<u>940,999.00</u>
Expenditures	<u>-0-</u>	<u>814,066.19</u>
	-0-	126,932.81
Transmittals Paid After June 30	<u>-0-</u>	<u>65,778.57</u>
Balance	<u>\$ -0-</u>	<u>\$192,711.38</u>

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL COMMISSIONER

STATEMENTS OF APPROPRIATIONS/CASH RECEIPTS

AND EXPENDITURES/DISBURSEMENTS

<u>Public Employees' Health Insurance -</u> <u>Account 9270-17</u>	Year Ended June 30,	
	<u>1988</u>	<u>1987</u>
Appropriations	\$ -0-	\$1,342,000.00
Reduction of Appropriations - Senate Bill No. 594	-0-	(168,755.00)
Cash Receipt - Refunds	<u>473.25</u>	<u>-0-</u>
	473.25	1,173,245.00
Expenditures	<u>-0-</u>	<u>1,035,540.49</u>
	473.25	137,704.51
Transmittals Paid After June 30	<u>-0-</u>	<u>-0-</u>
Balance	<u>\$ 473.25</u>	<u>\$ 137,704.51</u>
 <u>Purchase of Lottery Tickets -</u> <u>Account 9270-22</u>		
Cash Receipts	\$ 559,315.38	\$ 925,370.60
Disbursements	<u>559,315.38</u>	<u>925,370.60</u>
Balance	<u>\$ -0-</u>	<u>\$ -0-</u>
 <u>Unclassified - Account 9270-34</u>		
Appropriations	\$14,945,089.00	\$ -0-
Supplemental Appropriations - Governor	<u>1,400,000.00</u>	<u>-0-</u>
	16,345,089.00	-0-
Expenditures:		
Personal Services	8,355,923.86	-0-
Current Expenses	7,258,992.23	-0-
Repairs and Alterations	33,842.47	-0-
Equipment	<u>25,301.27</u>	<u>-0-</u>
	15,674,059.83	-0-
	<u>671,029.17</u>	<u>-0-</u>
Transmittals Paid After June 30	<u>511,789.71</u>	<u>-0-</u>
Balance	<u>\$ 1,182,818.88</u>	<u>\$ -0-</u>

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL COMMISSIONER
STATEMENTS OF APPROPRIATIONS AND EXPENDITURES

<u>Annual Increment -</u> <u>Account 9270-66</u>	<u>Year Ended June 30,</u>	
	<u>1988</u>	<u>1987</u>
Appropriations	\$ -0-	\$220,356.00
Expenditures	-0-	188,424.00
	<u>-0-</u>	<u>31,932.00</u>
Transmittals Paid After June 30	<u>-0-</u>	<u>-0-</u>
Balance	<u>\$ -0-</u>	<u>\$ 31,932.00</u>
<u>Claims Against the State -</u> <u>Account 9270-79</u>		
Appropriations	\$ -0-	\$ 504.16
Reappropriations - FY 1987	210.00	-0-
	<u>210.00</u>	<u>504.16</u>
Expenditures	210.00	294.16
	<u>-0-</u>	<u>210.00</u>
Transmittals Paid After June 30	<u>-0-</u>	<u>-0-</u>
Balance	<u>\$ -0-</u>	<u>\$ 210.00</u>

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL COMMISSIONER

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS

CASH CONTROL - ACCOUNT 9270-99

	<u>Year Ended June 30,</u>	
	<u>1988</u>	<u>1987</u>
Beginning Balance:		
Cash in Bank	\$ 1,911,531.94	\$ 2,228,057.81
Store Change Funds	92,125.00	82,827.00
State Treasury	633,375.29	1,756,296.49
	<u>2,637,032.23</u>	<u>4,067,181.30</u>
Cash Receipts:		
Liquor Sales	59,092,383.75	62,278,021.00
Private Club License Sales	1,477,500.00	1,570,267.07
Miscellaneous Collections	121,710.31	67,652.07
Commissions and Bonus Income - Lottery Sales	61,980.20	80,968.60
Lottery Sales (Net of Commissions and Payouts)	544,146.23	963,775.60
	<u>61,297,720.49</u>	<u>64,960,684.34</u>
TOTAL CASH TO ACCOUNT FOR	<u>\$63,934,752.72</u>	<u>\$69,027,865.64</u>

	<u>Year Ended June 30,</u>	
	<u>1988</u>	<u>1987</u>
Ending Balance:		
Cash in Bank	\$ 1,844,298.79	\$ 1,911,531.94
Store Change Funds	89,825.00	92,125.00
State Treasury	1,505,737.67	633,375.29
	<u>3,439,861.46</u>	<u>2,637,032.23</u>
Disbursements:		
Personal Services	8,355,923.86	8,973,981.11
Current Expenses	7,258,992.23	5,053,911.32
Repairs and Alterations	33,842.47	89,169.03
Equipment	25,301.27	51,763.92
Refunds	45,142.68	16,832.42
Purchase of Liquor	30,296,168.68	33,571,434.74
Transfers to General Revenue of West Virginia	8,500,000.00	9,350,000.00
Transfers to State Tax Department	5,403,298.98	5,740,695.79
Social Security Matching Fund	-0-	655,474.83
Imprest Cash Fund	-0-	9,750.00
Public Employees' Retirement Matching	-0-	814,066.19
Public Employees' Health Insurance	-0-	1,035,540.49
Transfers to West Virginia Lottery Commission - Purchase of Lottery Tickets	559,315.38	925,370.60
Annual Increment	-0-	188,424.00
Claims Against the State	210.00	294.16
	<u>60,478,195.55</u>	<u>66,476,708.60</u>
Add Transmittals Paid July 1-31 Beginning; and (Less) Transmittals Paid July 1-31 Ending:		
Personal Services	5,207.92	5,062.69
(Personal Services)	(5,221.98)	(5,207.92)
Current Expenses	398,600.16	241,776.84
(Current Expenses)	(498,340.70)	(398,600.16)
Repairs and Alterations	29,841.23	8,559.07
(Repairs and Alterations)	(6,677.81)	(29,841.23)
Equipment	28,589.69	9,913.50
(Equipment)	(1,549.22)	(28,589.69)
Social Security Matching Fund	467.85	25,770.97
(Social Security Matching Fund)	-0-	(467.85)
Public Employees' Retirement Matching	65,778.57	63,302.37
(Public Employees' Retirement Matching)	-0-	(65,778.57)
Public Employees' Health Insurance	-0-	88,224.79
(Public Employees' Health Insurance)	-0-	-0-
	<u>16,695.71</u>	<u>(85,875.19)</u>
TOTAL CASH ACCOUNTED FOR	<u>\$63,934,752.72</u>	<u>\$69,027,865.64</u>

STATE OF WEST VIRGINIA

OFFICE OF LEGISLATIVE AUDITOR, TO WIT:

I, Thedford L. Shanklin, CPA, Director, Legislative Postaudit Division, do hereby certify that the report appended hereto was made under my direction and supervision, under the provisions of the West Virginia Code, Chapter 60, Article 2, Section 21, as amended, and that the same is a true and correct copy of said report.

Given under my hand this 14th day of November,
1989.

Thedford L. Shanklin

Thedford L. Shanklin, CPA, Director
Legislative Postaudit Division

Copy forwarded to the Commissioner of the Department of Finance and Administration to be filed as a public record. Copies forwarded to the West Virginia Department of Tax and Revenue; the West Virginia Alcohol Beverage Control Commissioner; Governor; Attorney General; and State Auditor.