

# STATE OF WEST VIRGINIA

## AUDIT REPORT

OF

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL COMMISSIONER

FOR THE YEAR ENDED

JUNE 30, 1989



**OFFICE OF LEGISLATIVE AUDITOR**

**CAPITOL BUILDING**

**CHARLESTON, WEST VIRGINIA 25305**

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL COMMISSIONER  
FOR THE YEAR ENDED  
JUNE 30, 1989

**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 the West Virginia Alcohol Beverage Control Commissioner.

Our examination covers the year ended June 30, 1989. 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

TLS/ela

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL COMMISSIONER

TABLE OF CONTENTS

Exit Conference . . . . .	1
Introduction . . . . .	2
Implementation of Prior Audit Recommendations . . . . .	4
Administrative Officers and Staff . . . . .	5
Summary of Findings, Recommendations and Responses . . . . .	6
General Remarks . . . . .	11
Independent Auditors' Opinion . . . . .	22
Statement of Cash Receipts, Disbursements and Changes in Cash Balance . . . . .	23
Notes to Financial Statement . . . . .	24
Supplemental Information . . . . .	25
Certificate of Director, Legislative Postaudit Division . . . . .	33

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL COMMISSIONER  
EXIT CONFERENCE

We held an exit conference on November 19, 1990 with the Director of Accounting and the West Virginia Alcohol Beverage Control Commissioner and all findings and recommendations were reviewed and discussed. The above-named officials' 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The 21st Amendment of 1933 repealed national prohibition and gave each state the right to make and enforce its own laws governing alcoholic beverages.

In 1934 the people of West Virginia repealed an amendment to the State's constitution which, since July 1, 1914, had made absolute prohibition a part of their law.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.

In February of 1990, the main office location was moved from 310 57th Street, Charleston, West Virginia to 322 70th Street, Charleston, West Virginia. In December of 1989, the warehouse was moved from 310 57th Street, Charleston, West Virginia to Nitro, West Virginia.

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL COMMISSIONER  
IMPLEMENTATION OF PRIOR AUDIT RECOMMENDATIONS

In the prior audit covering the year ended June 30, 1988, there were seven recommendations. During the current audit period, we noted that three of these recommendations had not been fully implemented. These recommendations are listed below.

1. The agency did not always deposit collections within 24 hours in accordance with the provisions of the West Virginia Code. (See pages 12-14.)
2. 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 always enforced. (See page 18.)
3. Records documenting long-distance telephone calls made at various stores were not retained and internal control procedures in this area were weak. (See page 20.)



WEST VIRGINIA ALCOHOL BEVERAGE CONTROL COMMISSIONER

ADMINISTRATIVE OFFICERS AND STAFF

JUNE 30, 1989

E. E. Bryan . . . . . Commissioner  
Ronald Moats . . . . . Administrative Assistant  
Lynn Schillings . . . . . Personnel Officer  
Patricia Holtsclaw . . . . . Director of Accounting  
Ellen Harless . . . . . Director of Purchasing  
Randy Stanley . . . . . Acting Manager, Data Processing  
Bill Adkins . . . . . Director of Enforcement  
Carl Linville . . . . . Warehouse Director  
Benny Eplin . . . . . Stores Director

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

COMPLIANCE MATTERS

Informational Summary-Employee Theft

1. A shortage of \$94.67 occurred at Store Number 7 in Parkersburg. The shortage was discovered by spending unit personnel and the employee responsible for the shortage was identified. The employee was suspended by the Alcohol Beverage Control Commissioner and subsequently tendered his resignation effective October 31, 1988. The employee agreed to make restitution and the restitution was achieved by withholding \$95.00 from the employee's lump sum payment for accrued annual leave. The Alcohol Beverage Control Commissioner referred the matter to the Wood County Prosecuting Attorney's Office.

*The ABCA has utilized internal controls which enabled us to detect the employee theft within a short period of time as was noted in your audit report. (See pages 11-12.)*

Deposits With State Treasury

2. We noted the agency did not always deposit collections within 24 hours as required by the West Virginia Code. In particular, two stores and three agencies showed a significant pattern of late deposits which resulted in an approximate loss of \$770.00 in potential interest earnings. Any failure to deposit collections in accordance with the provisions of the West Virginia Code could result in the temporary conversion of these funds to unauthorized personal use and would result in a 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.

*We currently have the necessary control procedures in place to enforce the Code provisions regarding deposits. (See pages 12-14.)*

#### Annual Increment

3. We recalculated the annual increment payments made on July 14, 1988 to ten employees of the Alcohol Beverage Control Commission. We believe these employees were collectively underpaid \$177.90 regarding their accrued annual increment. Subsequently, we noted three of these employees terminated their employment during fiscal 1989, but received no accrued annual increment payment upon termination. We believe these three employees were underpaid by a total of \$1,001.36. All underpayments are based on the Attorney General's Opinion dated August 17, 1988.

We recommend the Commissioner comply with Chapter 5, Article 5, Section 2 of the West Virginia Code, as amended, and the Attorney General's Opinion dated August 17, 1988.

*Effective July 31, 1990, we began calculating annual increment payments prorated on the basis of exact length of service. (See pages 14-16.)*

#### Possible Sick Leave Abuse

4. Our examination identified 38 employees who appeared to exhibit a high usage of sick leave. In turn, we performed a detailed analysis of the sick leave usage of 11 of these 38 employees and determined that each of these employees showed evidence of sick leave abuse. Of a total of 150.5 days of sick leave taken by the 11 employees, 130.7 days was not supported by a doctor's excuse. The 11 employees were paid \$7,753.25 for unexcused

sick leave. Assuming the sick leave pattern of the sample group is indicative of the remaining 27 employees, the State paid approximately \$26,784.00 in unexcused sick leave pay for the 38 employees.

We recommend the Commissioner review employees' sick leave records for possible abuse and if abuse is indicated, apply the provisions of Section 16.05 of the Civil Service System Rules and Regulations.

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

#### Payment of Salary Before Services Were Rendered

5. We noted an error in the recording of annual leave used by an employee resulted in her being overpaid for accrued annual leave upon retirement. We calculated the overpayment amounted to \$61.10. We believe the overpayment would be in noncompliance with Chapter 12, Article 3, Section 13 of the West Virginia Code.

We recommend the Commissioner comply with Chapter 12, Article 3, Section 13 of the West Virginia Code, as amended, and seek to recover the overpayment of \$61.10.

*This is an isolated incident and can be contributed to employee error. (See pages 17-18.)*

#### Special Sales

6. As disclosed in our prior audit report, we were unable to determine from the records maintained by the special sales office whether the customer who placed a special sale order actually took receipt of the merchandise after it was delivered to the applicable store from the Commissioner's warehouse. It appears the Commissioner's Special Sales Policy requires

the customer sign showing receipt of the merchandise and no provisions are present allowing deviations from the policy.

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

*We are now in compliance with this audit recommendation. (See page 18.)*

#### INTERNAL CONTROLS AND ACCOUNTING SYSTEM

##### Telephone Toll Slips

7. We were unable to perform procedures to identify unauthorized use of the telephone because the agency did not retain toll slips supporting long-distance telephone calls made at the various stores. This condition which was present in the prior audit period results in the possibility for State funds to be used for the payment of personal telephone calls.

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

*The recommended changes in procedures have been implemented. (See page 20.)*

##### Equipment

8. We were unable to locate ten items of equipment in their assigned locations. We located all of the equipment items after a search of the headquarters; however, we believe procedures are not in place to ensure that transfers of equipment within the spending unit are recorded timely in the equipment records.

We recommend the Commissioner strengthen internal controls over equipment transfers.

*We are now in compliance with this audit recommendations. (See page 20.)*

Leave Records

9. We examined the leave records for 11 employees for fiscal year 1989 and noted two instances where the leave taken as recorded on the individual's monthly time sheet did not correspond with the leave amounts recorded on the annual and sick leave record cards.

We recommend the Commissioner strengthen internal controls over leave records.

*Cases cited are isolated incidents of employer error and have been corrected. (See pages 20-21.)*

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, 1989.

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
9270-00 . . . . .	Personal Services
9270-05 . . . . .	Refunds
9270-06 . . . . .	Purchase of Liquor
9270-07 . . . . .	Transfer of Liquor Profits and Taxes
9270-11 . . . . .	Imprest Cash Fund
9270-22 . . . . .	Purchase of Lottery Tickets
9270-34 . . . . .	Unclassified
9270-66 . . . . .	Annual Increment
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 as follows.

Informational Summary - Employee Theft

Our audit disclosed a shortage, in the amount of \$94.67, occurred at Store Number 7 in Parkersburg. We discovered the shortage during our examination of deposits when October 18, 1988 sales at Store Number 7 were \$2,839.61, but the

deposit totaled \$2,744.94, a difference of \$94.67. We told spending unit personnel about the shortage and learned they had discovered this particular shortage through procedures routinely performed by store auditors and the reconciliation process for liquor sales.

We requested all available information concerning the shortage. We learned an investigation was conducted by spending unit personnel and the employee responsible for the shortage was identified. The employee was suspended by the Alcohol Beverage Control Commissioner and subsequently tendered his resignation effective October 31, 1988. The employee agreed to make restitution and the restitution was achieved by withholding \$95.00 from the employee's lump sum payment for accrued annual leave. The Alcohol Beverage Control Commissioner referred the matter to the Wood County Prosecuting Attorney's Office.

*The ABCA has utilized internal controls which enabled us to detect the employee theft within a short period of time as was noted in your audit report.*

#### Deposits With State Treasury

We noted, as in our prior audit report, the Alcohol Beverage Control Commission apparently did not always comply with the provisions of the West Virginia Code regarding the deposit of monies received from liquor sales and other miscellaneous collections. Chapter 12, Article 2, Section 2 of the West Virginia Code, as amended, states in part,

"All officials and employees of the State authorized by statute to accept moneys due the State of West Virginia shall . . . deposit within twenty-four hours with the state treasurer all moneys received or collected by them for or on behalf of the State for any purpose whatsoever. . . ."

We examined the deposit of monies received from (a). the sale of alcohol and lottery tickets and (b). Wine Liter Tax Returns and the issuance of various licenses and permits as well as special sales by certain stores and agencies. The following sections of the audit finding detail the results of our examination of late deposits.



(a) Alcohol, Lottery Tickets and Special Sale

Initially, we conducted an extensive examination of deposits of alcohol, lottery ticket and special sales collections. We examined 10,374 deposits made by 158 stores or agencies during fiscal year 1989 and found 161 deposits were not made within the required 24 hours. These 161 deposits which were deposited between two and eight days late totaled \$181,101.43 and resulted in a loss of interest totaling \$157.09.

Upon further review of these test results, we noted that two stores and three agencies accounted for 55% of the aforementioned late deposits. Accordingly, we decided to examine all deposits made by these five sale units during fiscal year 1989. The results of the additional procedures are shown below:

<u>Store/Agency Number</u>	<u>Store Location</u>	<u>Number of Late Deposits</u>	<u>Amount of Deposits</u>	<u>Total Amount of Lost Interest at 9%</u>
121	Mason	204	\$115,347.15	\$104.95
130	Summersville	146	266,661.41	197.78
162	Harper's Ferry *	198	225,285.28	290.27
180	Keyser *	159	88,155.80	72.45
181	Petersburg *	140	142,886.49	104.67
		<u>847</u>	<u>\$838,336.13</u>	<u>\$770.12</u>

\* Denotes Agencies

(b) Special Sales, Wine Liter Tax Returns,  
Permits and Miscellaneous Receipts

Our examination of deposits of fees collected for licenses, permits, special sales, wine liter taxes, and other miscellaneous receipts showed 115 deposits totaling \$102,504.40 which were deposited between two to 13 days late. We estimated the loss of interest at 9% annually to the State General Revenue Fund to total \$113.35.

Any failure to deposit collections in accordance with the provisions of the West Virginia Code could result in the temporary conversion of these funds to

unauthorized personal use and would result in a loss of interest income to the State General Revenue Fund. The penalty provisions for violations of Chapter 12, Article 2 of the West Virginia Code are set forth in Chapter 12, Article 2, Section 6 of the West Virginia Code, as amended, which states,

"Any person violating any of the provisions of the article shall be guilty of a misdemeanor, and, upon conviction thereof, shall be fined not exceeding one thousand dollars or confined in jail not exceeding one year, or both, in the discretion of the court, and in addition thereto shall forfeit whatever office or position he holds in connection with the state government."

We recommend the Commissioner comply with Chapter 12, Article 2, Section 2 of the West Virginia State Code, as amended.

Store and Agency Sales: Procedures are in effect that will identify and correct late deposits of Alcohol Beverage Sales to the assigned stores banks within three business days. Twenty-four hour detection is not always possible due to weekends, holidays and mail delivery.

Miscellaneous Receipts: Control procedures have been effected to assure that all Central Office receipts are deposited to the State Treasury within 24 hours.

#### Annual Increment

We recalculated the annual increment payments made on July 14, 1988 to ten employees of the Alcohol Beverage Control Commissioner. We believe all of these employees were underpaid regarding their accrued annual increment. Subsequently, we noted three of these employees terminated their employment during fiscal year 1989, but received no accrued annual increment payment upon termination.

Annual increment payments for employees are authorized by Chapter 5, Article 5, Section 2 of the West Virginia Code, as amended, which states in part,

"Effective for the fiscal year beginning the first day of July, one thousand nine hundred eighty-five, every eligible employee with three or more years of service shall receive an

annual salary increase equal to thirty-six dollars times the employees' years of service, not to exceed twenty years of service. In each fiscal year thereafter and on the first day thereof, each such employee shall receive an annual increment increase of thirty-six dollars for such fiscal year: . . ."

In calculating the annual increment payments, the spending unit based these payments on full years of service completed as of July 1, 1988. For example, an employee with ten years and six months of service as of July 1, 1988 was paid \$360.00 (\$36 x 10) instead of \$378.00 (\$36 x 10.5). Further, if an employee terminated their employment at any time during fiscal year 1989, the employee received no annual increment payment. The spending unit's rationale was the employee had to be working on July 1, 1989 to receive an annual increment payment. We believe these methods of computing annual increment payments are incorrect.

An Attorney General's Opinion dated August 17, 1988 states in part,

". . . In answer to the second part of the question posed by your request for an opinion, Code 5-5-3 specifies that the lump sum settlement is to be based upon the employee's usual rate of pay at the time of his or her termination from employment for any reason. Words used in a statute are to be given their plain meaning. . . . Accordingly, an employee's usual rate of pay is that employee's salary inclusive of that employee's entitlement to annual increment at the time of the employee's termination from employment, with such annual increment to be prorated on the basis on which the employee is paid, whether hourly, bimonthly, monthly, or otherwise. . . ."

Based on the Attorney General's Opinion, we calculate the underpayments of annual increment to the ten employees examined by us totaled \$177.90. In addition, we believe the three employees who left the spending unit during fiscal year 1989 were underpaid as follows:

<u>Employee Number</u>	<u>Length of Service</u>	<u>Annual Increment Earned</u>	<u>Annual Increment Paid</u>	<u>Underpayment of Annual Increment</u>
1	10 yrs, 11 mths.	\$ 393.00	\$0.00	(\$ 393.00)
2	11 yrs, 9.5 mths.	335.36	0.00	(335.36)
3	15 yrs, 2 mths.	273.00	0.00	(273.00)
		<u>\$1,001.36</u>	<u>\$0.00</u>	<u>(\$1,001.36)</u>

We recommend the Commissioner comply with Chapter 5, Article 5, Section 2 of the West Virginia Code, as amended, and the Attorney General's Opinion dated August 17, 1988.

*Based on documentation received 07/31/90, the ABCA is now calculating annual increment payments prorated on the basis of exact length of service.*

Possible Sick Leave Abuse

In order to identify employees who may have abused their sick leave privileges, we reviewed the sick leave record of every employee for fiscal year 1989. In conducting this type of review, we attempt to identify employees who use a high percentage of sick leave without submitting a doctor's excuse or an employee showing a pattern of taking sick leave before or after a holiday, weekend, or a scheduled day off.

Our review identified 38 employees who appeared to exhibit a high usage of sick leave. In turn, we performed a detailed analysis of the sick leave usage of 11 of these 38 employees and determined that each of these employees showed evidence of sick leave abuse. The results of our testing are summarized below:

<u>Number of Employee Tested</u>	<u>Average Daily Pay Rate</u>	<u>Total Sick Leave Taken (in Days)</u>	<u>Total Excused Sick Leave Taken (in Days)</u>	<u>Total Unexcused Sick Leave Taken (in Days)</u>	<u>Total Pay-roll cost of Unexcused Sick Leave</u>
11	\$59.72	150.5	19.8	130.7	\$7,753.25

The Commissioner's options for addressing possible sick leave abuse are set forth in Section 16.05 of the Civil Service System Rules and Regulations which states,

"When an employee appears to have a pattern of leave abuse, the appointing authority may request appropriate substantiation of the employee's claim for leave, for example, verification of illness of less than three days."

In summary, the 11 employees used an average of 11.89 days of unexcused sick leave in fiscal year 1989. Based on an average pay rate of \$59.72 per day, each employee was paid an average of \$704.84 for unexcused sick leave. If these

averages are projected to the total population of 38 possible sick leave abusers, we estimate the number of unexcused sick leave days totaled approximately 451 days, during fiscal year 1989. Utilizing an average daily rate of pay of \$59.72, the State paid approximately \$26,784.00 in unexcused sick leave pay for the 38 employees.

We recommend the Commissioner review employees' sick leave records for possible abuse and if abuse is indicated, apply the provisions of Section 16.05 of the Civil Service System Rules and Regulations.

*We have reviewed the patterns of sick leave noted and have advised all supervisors to investigate all possible employee abuse and if proven necessary apply the provisions of Section 16:05 of the Civil Service rules and regulations.*

#### Payment of Salary Before Services Were Rendered

In conducting our examination of annual and sick leave, we noted an error in the recording of annual leave used by an employee resulted in her being overpaid for accrued annual leave upon retirement. The error occurred in October 1988 when the employee reporting taking 36.3 hours of annual leave while 26.3 hours was posted to the employee's summary record card. The error was not discovered and the employee was paid for ten extra hours when she retired on May 23, 1989.

Chapter 12, Article 3, Section 13 of the West Virginia Code, as amended, states,

"No money shall be drawn from the treasury to pay the salary of any officer or employee before his services have been rendered."

Based on the records examined by us, it appears the employee was overpaid \$61.10 as determined by multiplying the employee's pay rate of \$6.11 per hour by the number of overpaid hours. We believe the overpayment would be in noncompliance with the aforementioned provision of the West Virginia Code.

We recommend the Commissioner comply with Chapter 12, Article 3, Section 13 of the West Virginia Code, as amended, and seek to recover the overpayment of \$61.10.

*This is an isolated incident and can be contributed to employee error.*

#### Special Sales

As disclosed in our prior audit report, we were unable to determine from the records maintained by the special sales office whether the customer who placed a special sale order actually took receipt of the merchandise after it was delivered to the applicable store from the Alcohol Beverage Control Commissioner's warehouse. This situation occurs because the customer is not always required to sign the merchandise receipt.

Paragraph 17 of the Alcohol Beverage Control Commissioner's Special Sales Policy states,

"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'."

It appears the policy requires the customer's signature showing receipt of the merchandise and no provisions are present allowing deviations from the policy.

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

*It is now the policy of the Agency to have customers sign for the special sales merchandise at the time of delivery.*

#### 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, 1988 to June 30, 1989, 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, the Alcohol Beverage Control Commissioner did not retain all telephone toll slips which document long-distance telephone calls made at the various stores. During fiscal year 1989, the telephone expenses totaled \$202,177.57; however, we were unable to perform procedures to identify unauthorized use of the telephone due to the aforementioned lack of records. The possibility exists for State funds to be used for the payment of personal telephone calls.

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

*Store telephone usage is now monitored and checked for abuse through the use of the toll slips and verification of Dain monthly usage reports.*

### Equipment

During our examination of equipment, we were unable to locate ten items of equipment in their assigned locations. After a search of the headquarters, we were able to locate all of the equipment; however, we believe procedures are not in place to ensure that transfers of equipment within the spending unit are recorded timely in the equipment records. Accordingly, the probability of equipment becoming lost or converted to personal use is increased.

We recommend the Commissioner strengthen internal controls over equipment transfers.

*Procedures are in effect to control the movement of equipment. All transfer orders are entered into the system as received in the accounting department.*

### Leave Records

We examined the leave records for 11 employees for fiscal year 1989 and noted two instances where the leave taken as recorded on the individuals' monthly time sheet did not correspond with the leave amounts recorded on the annual and



sick leave record cards. The agency's internal control procedures should have detected these errors because all employee's monthly time sheets, annual and sick leave record cards and compensatory time cards are supposed to be reconciled on a monthly basis. The results of our examination are listed below:

<u>Employee Number</u>	<u>Type of Leave</u>	<u>Month</u>	<u>Per Annual &amp; Sick Leave Record Card (Hours)</u>	<u>Per Monthly Record Time Sheets (Hours)</u>	<u>Difference</u>
1	Sick	August	0 Hours Sick	16 Hours Sick	-16
	Annual	August	24 Hours Annual	8 Hours Annual	16
	Annual	June	12 Hours Annual	20 Hours Annual	-8
2	Annual	October	26.3 Hours Annual	36.3 Hours Annual	-10

Undetected errors in the annual and sick leave records could result in employees being overcompensated or undercompensated upon termination of their employment at the spending unit.

We recommend the Commissioner strengthen internal controls over leave records.

*Cases cited are isolated incidents of employer error and have been corrected.*

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, 1989. 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, 1989, on the basis of accounting described in Note A.

Our audit was conducted 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 audit 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,



Thedford L. Shanklin, CPA, Director  
Legislative Postaudit Division

March 12, 1990

Auditors: Michael E. Sizemore, CPA, Supervisor  
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>1989</u>	<u>1988</u>
Cash Receipts:		
Liquor Sales	\$58,744,298.00	\$59,092,383.75
Less:		
Purchase of Liquor	<u>36,119,006.86</u>	<u>30,296,168.68</u>
	22,625,291.14	28,796,215.07
Private Club Licenses	1,443,331.00	1,477,500.00
Wine Gallonage Tax	1,105,551.83	1,219,966.25
Wine Licenses and Labels	216,939.00	255,631.00
Commissions and Bonus-State Lottery	58,745.55	61,980.20
Miscellaneous	<u>109,991.36</u>	<u>121,710.31</u>
	<u>2,934,558.74</u>	<u>3,136,787.76</u>
	25,559,849.88	31,933,002.83
Disbursements:		
Personal Services	7,991,798.39	8,380,939.10
Current Expenses	7,034,439.28	7,239,386.15
Repairs and Alterations	40,644.77	63,598.19
Equipment	5,181.97	52,341.74
Refunds	33,687.59	48,207.56
Claims Against the State	<u>527.87</u>	<u>210.00</u>
	<u>15,106,279.87</u>	<u>15,784,682.74</u>
Cash Receipts Over Disbursements	10,453,570.01	16,148,320.09
Transfers Out:		
State General Revenue Fund	(2,405,367.79)	(9,719,288.87)
State Tax Department	(6,578,085.43)	(5,403,298.98)
Beginning Balance	<u>3,894,628.31</u>	<u>2,868,896.07</u>
Ending Balance	<u>\$ 5,364,745.10</u>	<u>\$ 3,894,628.31</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. The West Virginia Alcohol Beverage Control Commissioner's pension expenditures were as follows:

<u>Year Ended June 30,</u>	
<u>1989</u>	<u>1988</u>
<u>\$701,729.66</u>	<u>\$764,500.26</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 \$1,231,984.00 and \$1,164,711.00 for fiscal years 1988 and 1989, respectively. The amounts recognized as liabilities related to amounts subject to transfer to the West Virginia Lottery Commission and reserves for anticipated payouts totaled \$76,106.85 on June 30, 1988 and \$33,550.00 on June 30, 1989. These amounts are not included in the cash balance on the basic financial statement.

Note D - Restatement of Cash Balance

The ending cash balance reported in our prior audit report for the fiscal year ended June 30, 1988 was overstated by \$16,709.77. The ending cash balance was reported as \$3,911,338.08 and has been restated as \$3,894,628.31. The expenditures in the captions of current expenses, repairs and alterations and equipment for fiscal year 1988 have been restated. The reported amounts were \$7,272,880.27 in current expenses, \$40,434.77 for repairs and alterations and \$25,301.27 for equipment. The restated amounts are \$7,239,386.15 in current expenses, \$63,598.19 for repairs and alterations and \$52,341.74 for equipment.

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>1989</u>	<u>1988</u>
Beginning Balance:		
State Treasury	\$ -0-	\$ -0-
Cash Receipts:		
Miscellaneous Collections	<u>2,050,000.00</u>	<u>8,500,000.00</u>
TOTAL CASH TO ACCOUNT FOR	<u>\$2,050,000.00</u>	<u>\$8,500,000.00</u>
Disbursements:		
Transfers to General Revenue Fund of West Virginia	\$2,050,000.00	\$8,500,000.00
Ending Balance:		
State Treasury	<u>-0-</u>	<u>-0-</u>
TOTAL CASH ACCOUNTED FOR	<u>\$2,050,000.00</u>	<u>\$8,500,000.00</u>
 <u>Wine Gallonage Tax-General Revenue -</u> <u>Account 6350-83</u>		
Beginning Balance:		
State Treasury	\$ -0-	\$ -0-
Cash Receipts:		
Wine Gallonage Tax	<u>1,105,551.83</u>	<u>1,219,966.25</u>
TOTAL CASH TO ACCOUNT FOR	<u>\$1,105,551.83</u>	<u>\$1,219,966.25</u>
Expenditures:		
Transfers to General Revenue Fund of West Virginia	\$1,105,367.79	\$1,219,288.87
Refunds	184.04	677.38
Ending Balance:		
State Treasury	<u>-0-</u>	<u>-0-</u>
TOTAL CASH ACCOUNTED FOR	<u>\$1,105,551.83</u>	<u>\$1,219,966.25</u>

WEST VIRGINIA ALCOHOL BEVERAGE CONTROL COMMISSIONER

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS

SPECIAL REVENUE

<u>Wine License Special Fund -</u> <u>Account 8591-06</u>	<u>Year Ended June 30,</u>	
	<u>1989</u>	<u>1988</u>
Beginning Balance:		
State Treasury	\$ 530,873.70	\$ 323,139.84
Cash Receipts:		
Wine Licenses and Labels	<u>216,939.00</u>	<u>255,631.00</u>
TOTAL CASH TO ACCOUNT FOR	<u>\$ 747,812.70</u>	<u>\$ 578,770.84</u>
Expenditures:		
Personal Services	\$ 25,712.04	\$ 25,029.30
Current Expenses	14,187.14	13,888.04
Repairs and Alterations	-0-	6,592.30
Equipment	-0-	-0-
Refunds	<u>1,800.00</u>	<u>2,387.50</u>
	41,699.18	47,897.14
Ending Balance:		
State Treasury	<u>706,113.52</u>	<u>530,873.70</u>
TOTAL CASH ACCOUNTED FOR	<u>\$ 747,812.70</u>	<u>\$ 578,770.84</u>

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

	Year Ended June 30,	
	1989	1988
<u>Personal Services - Account 9270-00</u>		
Appropriations	\$8,606,008.00	\$ -0-
Expenditures:		
Personal Services	7,737,895.32	-0-
Annual Increment	46,238.29	-0-
	7,784,133.61	-0-
	821,874.39	-0-
Transmittals Paid After June 30	2,729.24	-0-
Balance	\$ 824,603.63	\$ -0-
 <u>Refunds - Account 9270-05</u>		
Cash Receipts	\$ 31,703.55	\$ 46,065.93
Disbursements	31,703.55	46,065.93
Balance	\$ -0-	\$ -0-
 <u>Purchase of Liquor - Account 9270-06</u>		
Cash Receipts	\$36,119,006.86	\$30,296,168.68
Disbursements	36,119,006.86	30,296,168.68
Balance	\$ -0-	\$ -0-
 <u>Transfer of Liquor Profits and Taxes - Account 9270-07</u>		
Cash Receipts	\$ 7,878,085.43	\$13,903,298.98
Disbursements	7,878,085.43	13,903,298.98
Balance	\$ -0-	\$ -0-



WEST VIRGINIA ALCOHOL BEVERAGE CONTROL COMMISSIONER

STATEMENTS OF APPROPRIATIONS/CASH RECEIPTS

AND EXPENDITURES/DISBURSEMENTS

	<u>Year Ended June 30,</u>	
	<u>1989</u>	<u>1988</u>
<u>Imprest Cash Fund - Account 9270-11</u>		
Cash Receipts	\$ 200.00	\$ 450.00
Disbursements	<u>200.00</u>	<u>-0-</u>
Balance	<u>\$ -0-</u>	<u>\$ 450.00</u>
 <u>Public Employees' Health Insurance -</u>		
<u>Account 9270-17</u>		
Appropriations	\$ -0-	\$ -0-
Cash Receipt - Refunds	<u>-0-</u>	<u>473.25</u>
Disbursements	<u>-0-</u>	<u>-0-</u>
Balance	<u>\$ -0-</u>	<u>\$ 473.25</u>
 <u>Transfer of Lottery Tickets -</u>		
<u>Account 9270-22</u>		
Cash Receipts	\$ 626,303.69	\$ 559,315.38
Disbursements	<u>626,303.69</u>	<u>559,315.38</u>
Balance	<u>\$ -0-</u>	<u>\$ -0-</u>
 <u>Unclassified - Account 9270-34</u>		
Beginning Balance:		
Appropriations	\$ 9,007,592.00	\$14,945,089.00
Supplemental Appropriations-Governor	<u>-0-</u>	<u>1,400,000.00</u>
	9,007,592.00	16,345,089.00
Expenditures:		
Personal Services	-0-	8,355,923.86
Current Expenses	7,056,040.50	7,258,992.23
Repairs and Alterations	41,525.02	33,842.47
Equipment	10,837.75	25,301.27
	<u>7,108,403.27</u>	<u>15,674,059.83</u>
	1,899,188.73	671,029.17
Transmittals Paid After June 30	<u>549,092.12</u>	<u>511,789.71</u>
Balance	<u>\$ 2,448,280.85</u>	<u>\$ 1,182,818.88</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>1989</u>	<u>1988</u>
Appropriations	\$200,100.00	\$ -0-
Expenditures:		
Personal Services	<u>179,460.00</u>	<u>-0-</u>
	20,640.00	-0-
Transmittals Paid After June 30	<u>-0-</u>	<u>-0-</u>
Balance	<u>\$ 20,640.00</u>	<u>\$ -0-</u>
<u>Claims Against the State -</u> <u>Account 9270-79</u>		
Appropriations	\$ 527.87	\$ 210.00
Expenditures	<u>527.87</u>	<u>210.00</u>
	-0-	-0-
Transmittals Paid After June 30	<u>-0-</u>	<u>-0-</u>
Balance	<u>\$ -0-</u>	<u>\$ -0-</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>1989</u>	<u>1988</u>
Beginning Balance:		
Cash in Bank	\$ 1,844,298.79	\$ 1,911,531.94
Store Change Funds	89,825.00	92,125.00
State Treasury	<u>1,505,737.67</u>	<u>633,375.29</u>
	3,439,861.46	2,637,032.23
Cash Receipts:		
Liquor Sales	58,744,298.00	59,092,383.75
Private Club License Sales	1,443,331.00	1,477,500.00
Miscellaneous Collections	109,991.36	121,710.31
Commissions and Bonus Income - Lottery Sales	58,745.55	61,980.20
Lottery Sales (Net of Commissions and Payouts)	<u>583,746.84</u>	<u>544,146.23</u>
	<u>60,940,112.75</u>	<u>61,297,720.49</u>
TOTAL CASH TO ACCOUNT FOR	<u>\$64,379,974.21</u>	<u>\$63,934,752.72</u>

	<u>Year Ended June 30,</u>	
	<u>1989</u>	<u>1988</u>
<b>Ending Balance:</b>		
Cash in Bank	\$ 2,025,174.47	\$ 1,844,298.79
Store Change Funds	87,025.00	89,825.00
State Treasury	<u>2,579,982.11</u>	<u>1,505,737.67</u>
	4,692,181.58	3,439,861.46
<b>Disbursements:</b>		
Personal Services	7,737,895.32	8,355,923.86
Current Expenses	7,056,040.50	7,258,992.23
Repairs and Alterations	41,525.02	33,842.47
Equipment	10,837.75	25,301.27
Refunds	31,703.55	45,142.68
Purchase of Liquor	36,119,006.86	30,296,168.68
Transfers to General Revenue Fund	1,300,000.00	8,500,000.00
Transfers to State Tax Dept.	6,578,085.43	5,403,298.98
Imprest Cash Fund	200.00	-0-
Transfers to Lottery Commission-		
Purchase of Lottery Tickets	626,303.69	559,315.38
Annual Increment	225,698.29	-0-
Claims Against the State	<u>527.87</u>	<u>210.00</u>
	59,727,824.28	60,478,195.55
<b>Add Transmittals Paid July 1-31</b>		
<b>Beginning; and (Less) Transmittals</b>		
<b>  Paid July 1-31 Ending:</b>		
Personal Services	5,221.98	5,207.92
(Personal Services)	(2,729.24)	(5,221.98)
Current Expenses	498,340.70	398,600.16
(Current Expenses)	(534,329.06)	(498,340.70)
Repairs and Alterations	6,677.81	29,841.23
(Repairs and Alterations)	(7,558.06)	(6,677.81)
Equipment	1,549.22	28,589.69
(Equipment)	(7,205.00)	(1,549.22)
Social Security Matching Fund	-0-	467.85
(Social Security Matching Fund)	-0-	-0-
Public Employees' Retirement Fund	-0-	65,778.57
(Public Employees' Retirement Fund)	-0-	-0-
	<u>(40,031.65)</u>	<u>16,695.71</u>
	<u>59,687,792.63</u>	<u>60,494,891.26</u>
<b>TOTAL CASH ACCOUNTED FOR</b>	<u>\$64,379,974.21</u>	<u>\$63,934,752.72</u>