

**Alcoholic Beverage Commission**

**For the Years Ended  
June 30, 1997, and June 30, 1996**

***Arthur A. Hayes, Jr., CPA***  
Director

***Charles K. Bridges, CPA***  
Assistant Director

***Teresa L. Hensley, CPA***  
Audit Manager

***Gregory L. Hawkins, CPA***  
In-Charge Auditor

***Ronald H. Queen***  
***Jennifer C. Paschall***  
Staff Auditors

***Leslie Bethea***  
Editor

September 18, 1998

The Honorable Don Sundquist, Governor

and

Members of the General Assembly

State Capitol

Nashville, Tennessee 37243

and

Mr. Gregory Harrison, Executive Director

Alcoholic Beverage Commission

Suite 300, Capitol Boulevard Building

Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a financial and compliance audit of selected programs and activities of the Alcoholic Beverage Commission for the years ended June 30, 1997, and June 30, 1996.

We conducted our audit in accordance with generally accepted auditing standards and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the commission's compliance with the provisions of laws, regulations, contracts, and grants significant to the audit. Management of the Alcoholic Beverage Commission is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit disclosed certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. The commission's administration has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

We have reported other less significant matters involving the commission's internal control and/or instances of noncompliance to the Alcoholic Beverage Commission's management in a separate letter.

Very truly yours,

W. R. Snodgrass

Comptroller of the Treasury

WRS/rm  
98/077

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Alcoholic Beverage Commission**  
For the Years Ended June 30, 1997, and June 30, 1996

---

## AUDIT SCOPE

We have audited the Alcoholic Beverage Commission for the period July 1, 1995, through June 30, 1997. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of revenue, equipment, confiscated liquor inventory, the Alcohol Server Training Program, and compliance with the Financial Integrity Act. The audit was conducted in accordance with generally accepted auditing standards and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

## AUDIT FINDINGS

### **Weak Controls Over Cash Receipts\***

Cash-receipting duties are not adequately segregated, prenumbered licenses are not accounted for, and licenses are not periodically reconciled with revenue (page 4).

### **Dealers' Tax Status Not Always Determined\***

The commission does not always determine whether liquor dealers owed taxes before renewing their licenses (page 5).

### **Inadequate Inventory Controls \***

Perpetual inventory records were not maintained for confiscated inventory items, and there was no evidence of independent annual physical inventory counts for confiscated inventory items (page 7).

\* This finding is repeated from prior audits.

---

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit  
1500 James K. Polk Building, Nashville, TN 37243-0264  
(615) 741-3697

---

**Audit Report**  
**Alcoholic Beverage Commission**  
**For the Years Ended June 30, 1997, and June 30, 1996**

---

**TABLE OF CONTENTS**

---

	<u>Page</u>
<b>INTRODUCTION</b>	1
Post-Audit Authority	1
Background	1
<b>AUDIT SCOPE</b>	3
<b>OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS</b>	3
Revenue	3
Finding 1 - Controls over cash receipts are weak	4
Finding 2 - The commission does not always determine dealers' tax status before renewing licenses	5
Equipment	6
Confiscated Inventory	7
Finding 3 - Controls over confiscated inventory were inadequate	7
Alcohol Server Training Program	8
Financial Integrity Act	9
<b>PRIOR AUDIT FINDINGS</b>	9
Repeated Audit Findings	9
<b>OBSERVATIONS AND COMMENTS</b>	10
Title VI of the Civil Rights Act of 1964	10
<b>APPENDIX</b>	11
Revenues by Source	11

# **Alcoholic Beverage Commission For the Years Ended June 30, 1997, and June 30, 1996**

---

## **INTRODUCTION**

---

### **POST-AUDIT AUTHORITY**

This is the report on the financial and compliance audit of the Alcoholic Beverage Commission. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

### **BACKGROUND**

The commission consists of three members, one from each grand division of the state, appointed by the Governor for terms concurrent with the Governor’s term. The executive director of the commission, a licensed attorney, is the chief administrator and is aided by an assistant director and a chief law enforcement officer. The commission also employs special agents who are authorized to enforce the provisions of the applicable criminal statutes, as well as those rules and regulations enacted by the commission. These agents are responsible for regulatory inspections and liquor and/or drug investigations which may be covert or overt.

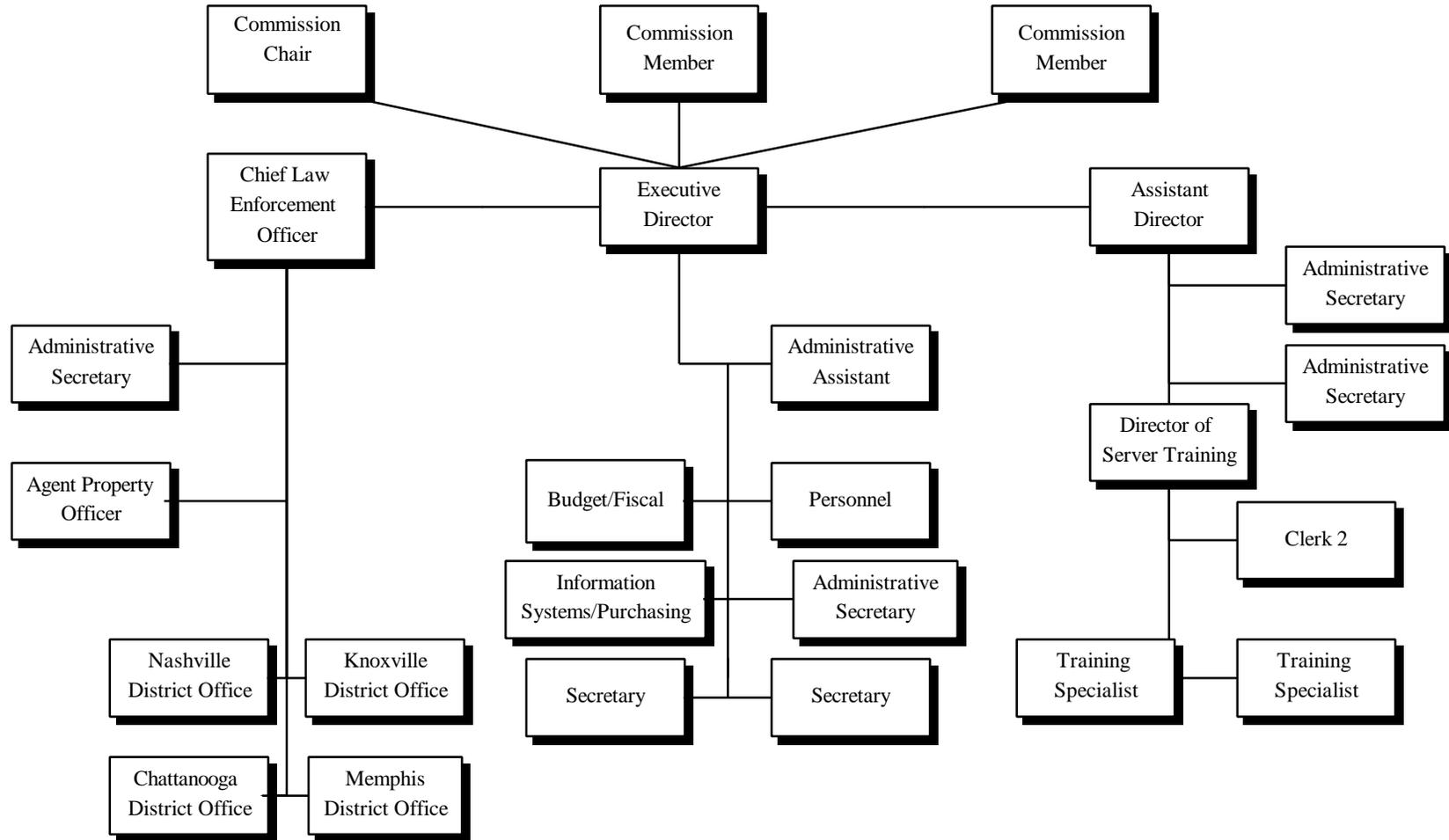
The commission’s primary responsibility is to enforce the rules and laws governing the liquor industry in Tennessee. Regulation and enforcement of alcoholic beverages less than 5 percent alcohol, i.e. beer, are handled by the local jurisdictions and vary significantly from place to place.

In 1995, the General Assembly passed legislation creating a statewide server training program and assigned the commission as the administrator. The purpose of the program is to make alcoholic beverage industry employees aware of the responsible service, sale, and dispensing of alcoholic beverages. The ultimate goal of the program is to help reduce the number of deaths and injuries caused by intoxicated drivers, reduce the numbers of intoxicated drivers on state highways, and reduce the property damage resulting from alcohol-related accidents. Servers also receive training on identifying underage drinkers and intoxicated individuals. The server training program is financed entirely by fees generated from class registration.

An organization chart of the commission is on the following page.

# ALCOHOLIC BEVERAGE COMMISSION

## Organization char



---

## AUDIT SCOPE

---

We have audited the Alcoholic Beverage Commission for the period July 1, 1995, through June 30, 1997. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of revenue, equipment, confiscated inventory, the Alcohol Server Training Program, and compliance with the Financial Integrity Act. The audit was conducted in accordance with generally accepted auditing standards and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The commission is part of the general fund of the State of Tennessee. The audit covered allotment code 316.03.

---

## OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

---

### REVENUE

Our objectives in the area of revenue were to determine whether

- cash collected during the audit period was deposited timely and recorded properly,
- physical controls over cash were adequate,
- revenues or fees had been billed or charged and recorded at the correct amount,
- petty cash or change funds had been authorized by the Department of Finance and Administration,
- records were reconciled with Department of Finance and Administration reports, and
- liquor dealers had paid their taxes before their licenses were renewed.

We interviewed key commission personnel to gain an understanding of the commission's procedures for and controls over revenue transactions and liquor dealers' licenses. We reviewed supporting documentation and tested nonstatistical samples of revenue transactions and liquor dealers' files.

We determined that controls over cash receipts were weak (see finding 1) and that the commission does not always verify that liquor dealers have paid their taxes before their licenses are renewed (see finding 2). In addition to the findings, a minor weakness was reported to management in a separate letter.

## **1. Controls over cash receipts are weak**

### **Finding**

As noted in the prior three audits, controls over cash receipts need improvement. Management concurred with the prior audit finding and outlined actions to improve cash-receipting procedures. However, a review of procedures for processing and recording cash receipts revealed the following weaknesses:

- Cash-receipting duties are still not adequately segregated. Three employees who perform licensing duties in the Nashville office each receive cash, write receipts, and issue licenses. Allowing employees who receive and receipt cash for licenses to also have physical control of the licenses increases the opportunity for errors and irregularities, some of which may not be detected.
- A periodic reconciliation of licenses issued with revenue received is not performed by someone independent of issuing and receipting, and prenumbered licenses are not accounted for. A periodic reconciliation would ensure licenses were issued only when payment was received and could detect the inappropriate issuance of licenses.

### **Recommendation**

The executive director should segregate cash-receipting duties and assign specific responsibility for the periodic independent reconciliation of licenses issued with revenue collected. Licenses should be properly accounted for and safeguarded until the time of issuance. Also, the executive director should monitor the procedures implemented to ensure the appropriate actions have been taken.

### **Management's Comment**

We concur. As noted in the report, this area has been addressed in previous audits. After each audit, the commission has noted the report's recommendations and taken steps to improve its control over cash receipts. The current report specifically states that cash-receipting duties are not adequately segregated. Although the best scenario would allow for complete segregation of receiving cash, writing receipts, and issuing licenses, the commission does not have the manpower to adequately and completely segregate these functions. However, the commission will attempt to develop new procedures concerning the cash-receipting duties which will conform to the manpower available and address the concerns set forth in the audit.

The second aspect of this finding references a periodic reconciliation of licenses issued with revenue received and accounting for the prenumbered licenses. The following procedure is currently in place for server and retail permits issued: All server and retail permits are kept in a secure location and assigned, as needed, to individuals. These individuals then maintain a log of revenue collections which is subsequently reconciled with the permits assigned. The commission has implemented the same procedure for the issuance of on-premise consumption, off-premise consumption, and wholesale licenses. It is anticipated that this will strengthen the commission's control over cash receipts.

---

## **2. The commission does not always determine dealers' tax status before renewing licenses**

### **Finding**

As noted in the prior three audits, the Alcoholic Beverage Commission does not always determine whether liquor dealers owed taxes before renewing their licenses.

Section 57-1-207(c), *Tennessee Code Annotated* states, "Any dealer delinquent in taxes shall not have that dealer's license renewed by the commission for the next calendar year until all of the delinquent taxes have been paid, and so certified to the commission by the commissioner of revenue." If the commission does not verify a dealer's payment of taxes, full compliance with the law cannot be assured.

Prior to the audit period, the Department of Revenue provided the commission, by December 1 of each year, a listing of licensed liquor dealers who owed delinquent taxes. The Department of Revenue also sent the commission copies of the monthly tax delinquency notices sent to liquor dealers. However, instead of sending the December 1 listing and copies of tax delinquency notices, the Department of Revenue began providing the commission access to the department's on-line Revenue Integrated Tax System (RITS). With this system, the commission was to be able to view information on a liquor dealer's tax status before renewing the license. However, there was no evidence in the files to indicate the dealers' tax status had been reviewed for 56 of 58 renewals tested. Commission personnel apparently do not have sufficient knowledge of RITS to locate and interpret this information.

### **Recommendation**

The executive director should take the necessary steps to obtain RITS training from the Department of Revenue, so employees can effectively use the system to determine if any liquor dealers owe delinquent taxes before renewing their licenses. Documentation of the review should be maintained in liquor dealers' files.

## Management's Comment

We concur. Until recently, the commission verified the tax status of only retail (off-premise consumption) licensees. (As the report noted, these efforts were hindered by the Department of Revenue for a time when the department did not send adequate and timely notices of delinquencies to the commission. This did result in the commission having access to the Department of Revenue's RITS system.) The report sets forth that "there was no evidence in the files to indicate the dealers' tax status had been reviewed for 56 of 58 dealers tested." Although it is believed that commission employees did review the tax status of these licensees prior to renewal, the employees did not document the review of a licensee's status for tax delinquencies. Therefore, such documentation has been implemented for each license renewal.

Further, the commission now verifies the tax status of on-premise consumption licensees prior to the renewal of the license—including the liquor-by-the-drink tax and the sales tax; documentation of such review is placed in each file. Changes in commission personnel have hindered this effort as the RITS system is extremely secure and complicated; much time is expended before a new commission employee has access to the RITS system and is competent in its operation. However, it is the commission's understanding that all necessary personnel now have access to the system, and if not already trained, have been scheduled for training in the RITS system.

It should be noted that based upon tax delinquency information received from the Department of Revenue and the RITS system, the commission will place a license on temporary void—thus, prohibiting a licensee from selling any alcoholic beverages until the delinquency is cleared. However, in numerous instances after prohibiting a licensee from selling alcohol, the information contained in the RITS system is inaccurate. Thus, the commission has penalized a licensee based on information it has received from the Department of Revenue, only to be advised soon thereafter that a mistake has been made and the delinquency does not exist.

---

## EQUIPMENT

Our objectives in reviewing controls and procedures over equipment were to determine whether

- the information on the Property of the State of Tennessee (POST) system was accurate,
- lost and missing equipment was reported to the Comptroller of the Treasury and removed from the equipment listings, and
- property and equipment were adequately safeguarded.

We interviewed key commission personnel to gain an understanding of the commission's procedures for and controls over equipment transactions. We reviewed supporting documentation and tested nonstatistical samples of equipment transactions.

We had no findings related to equipment; however, other minor weaknesses were reported to management in a separate letter.

---

## **CONFISCATED INVENTORY**

Our objectives in reviewing the confiscated inventory were to determine whether

- controls and procedures for confiscated inventory were adequate, and
- inventory recorded represented a complete listing of the commission's confiscations and such items were physically on hand.

Key commission personnel were interviewed to gain an understanding of the commission's procedures for and controls over confiscated inventory. We reviewed supporting documentation and performed inventory test counts. We determined that controls over confiscated inventory were inadequate. (See finding 3.)

### **3. Controls over confiscated inventory were inadequate**

#### **Finding**

As noted in the prior audit, the Alcoholic Beverage Commission does not have adequate controls over the inventory of evidence confiscated by its agents and other entities. This inventory consists primarily of liquor but also includes drugs, video gambling machines, and other items. These items are held as evidence until a case is closed or disposition of the evidence is determined.

Commission policy 3-3-10 requires the evidence custodian to maintain a complete inventory of all property in the evidence room. However, perpetual inventory records for the confiscated inventory are not maintained, and commission personnel could not provide evidence that someone independent of the inventory function had physically counted the confiscated inventory once a year. There was no documentation of an independent physical inventory count since July 1, 1991.

The purpose of a perpetual inventory system is to maintain control over inventory items and to detect losses promptly. The failure to maintain adequate perpetual inventory records and perform physical counts of inventory could allow errors or irregularities to occur and not be detected.

## **Recommendation**

A complete physical inventory of confiscated items should be performed immediately by someone independent of the inventory function. All variations from the inventory records should be investigated by someone independent of the inventory function. The executive director should review the results of the inventory and take corrective action, if necessary. The executive director should take appropriate steps to ensure that the evidence custodian is maintaining complete and accurate perpetual inventory records for all confiscated inventory and that independent physical counts are performed.

## **Management's Comment**

We concur. A complete physical inventory of confiscated items at each location has been performed. The commission has made improvements in this area by maintaining a more detailed and accurate accounting of items confiscated. It is anticipated that periodic reviews and reconciliations by the Special Agent-in-Charge for the region will occur to insure the accuracy of the inventory and to determine any variations which may exist. If a variation does exist, then an investigation will be immediately performed. The executive director will continue to monitor the progress of this accounting.

---

## **ALCOHOL SERVER TRAINING PROGRAM**

Our review of this program focused on determining whether

- controls and procedures for the program were adequate,
- the correct server permit and training program certification fees had been charged and collected, and
- a system is in place to ensure that programs licensed to train more than 25 servers a year post an indemnity bond.

We interviewed key commission personnel to gain an understanding of the commission's procedures for and controls over the Alcohol Server Training Program. We reviewed supporting documentation and tested nonstatistical samples of server permits and training program certifications issued.

We had no findings related to the Alcohol Server Training Program; however, other minor weaknesses were reported to management in a separate letter.

---

## **FINANCIAL INTEGRITY ACT**

The Financial Integrity Act of 1983 requires each executive agency to annually evaluate its systems of internal accounting and administrative control and report the results of its evaluation to the Commissioner of Finance and Administration and the Comptroller of the Treasury by December 31 of each year.

The objectives of our review of the commission's compliance with the Financial Integrity Act were to determine whether

- the commission's reports were filed in compliance with the Financial Integrity Act of 1983,
- documentation to support the commission's evaluation was properly maintained,
- procedures used in compiling information for the reports were adequate, and
- corrective actions have been implemented for weaknesses identified in the reports.

We interviewed key employees responsible for compiling information for the reports to gain an understanding of the procedures. We also reviewed the supporting documentation for these procedures and the reports submitted to the Comptroller of the Treasury and to the Department of Finance and Administration.

We had no findings related to the Financial Integrity Act; however, a minor weakness was reported to management in a separate letter.

---

## **PRIOR AUDIT FINDINGS**

---

Section 8-4-109, *Tennessee Code Annotated* requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Alcoholic Beverage Commission filed its report with the Department of Audit on October 24, 1996. A follow-up of all prior audit findings was conducted as part of the current audit.

## **REPEATED AUDIT FINDINGS**

The prior audit report contained findings concerning renewal of licenses, controls over cash receipts, and confiscated inventory. These findings have not been resolved and are repeated in the applicable sections of this report.

---

## OBSERVATIONS AND COMMENTS

---

### **TITLE VI OF THE CIVIL RIGHTS ACT OF 1964**

*Tennessee Code Annotated* Section 4-21-901, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30, 1994, and each June 30 thereafter. For the year ending June 30, 1997, the Alcoholic Beverage Commission filed its compliance report and implementation plan on July 3, 1997, and for the year ended June 30, 1996, on July 11, 1996.

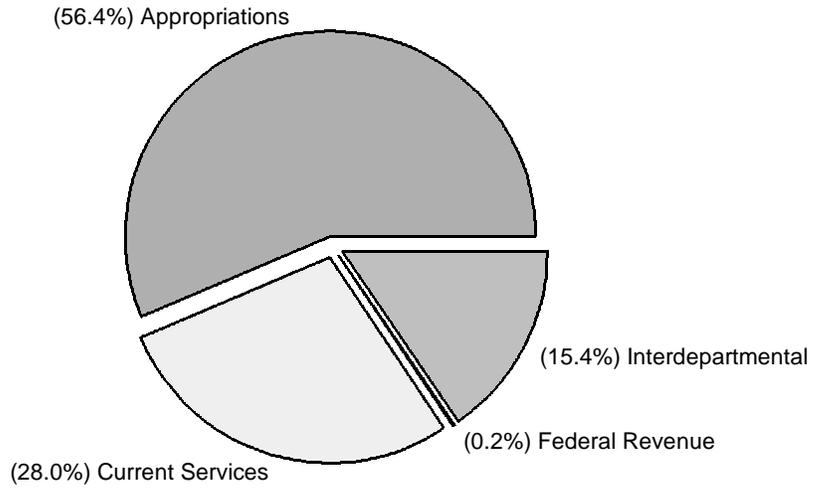
Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds.

The State Planning Office in the Executive Department was assigned the responsibility of serving as the monitoring agency for Title VI compliance, and copies of the required reports were filed with the State Planning Office for evaluation and comment. However, the State Planning Office has been abolished. The Office of the Governor is currently evaluating which office in the Executive Branch will be the new monitoring agency.

A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

## Revenue by Source

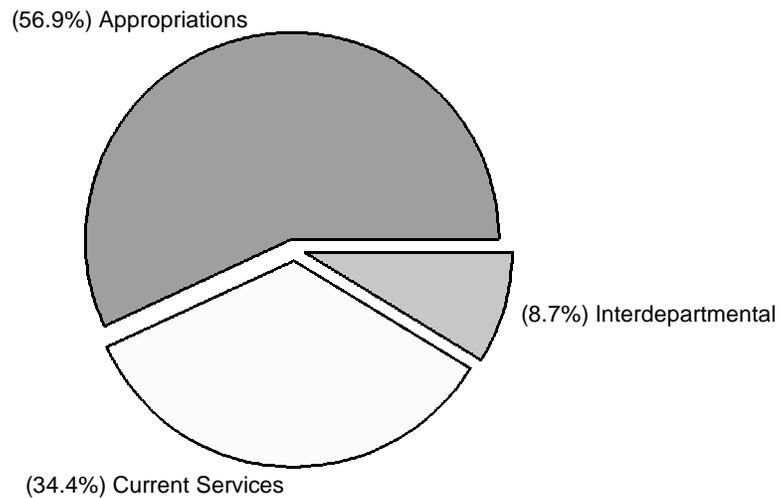
Year Ended June 30, 1997 (Unaudited)



Source: Alcoholic Beverage Commission

## Revenue by Source

Year Ended June 30, 1996 (Unaudited)



Source: Alcoholic Beverage Commission