



Joint Legislative Audit Committee
Office of the Auditor General



**FINANCIAL AUDIT REPORT
DEPARTMENT OF ALCOHOLIC
BEVERAGE CONTROL
YEAR ENDED JUNE 30, 1978**

The regulations of the Federal Office of Revenue Sharing require governments receiving revenue sharing funds to have audits of their financial statements not less than once every three years. This audit assists in fulfilling the audit requirements necessary to continue California's eligibility for federal revenue sharing funds.

Our examination was made in accordance with generally accepted auditing standards and included studying and evaluating the Department's system of internal control. This study and evaluation disclosed several conditions which we believe to be weaknesses and were considered in determining the nature, timing, and extent of our audit tests. Presentation of these conditions, however, does not modify our opinion on the financial statements.

REPORT TO THE
CALIFORNIA LEGISLATURE

REPORT F - 645

REPORT OF THE
JOINT REVENUE SHARING TASK FORCE
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE
AND THE
DEPARTMENT OF FINANCE

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FINANCIAL AUDIT REPORT
DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL
YEAR ENDED JUNE 30, 1978



California Legislature

Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

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RICHARD ROBINSON
CHAIRMAN

July 9, 1979

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The Honorable Speaker of the Assembly
The Honorable President pro Tempore of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the Auditor General's financial audit report of the Department of Alcoholic Beverage Control, Year Ended June 30, 1978.

The auditors are Curt Davis, CPA; Merrill E. Tompkins, CPA; Sandra R. McHaney; Ann Reicherter; Richard Sanchez; and Glenn Ostapeck.

Respectfully submitted,

RICHARD ROBINSON
Assemblyman, 72nd District
Chairman, Joint Legislative
Audit Committee

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INTRODUCTION

In compliance with federal Office of Revenue Sharing regulations, we have conducted a financial audit of the Department of Alcoholic Beverage Control (ABC). This audit was conducted under the authority vested in the Auditor General by Section 10527 of the Government Code and in the Department of Finance by Section 13294 of the Government Code.

The principal objective of the department is to administer the provisions of the Alcoholic Beverage Control Act, which gives the department exclusive right and power to license and regulate the manufacture, sale, purchase, possession and transportation of alcoholic beverages within the State, and subject to certain laws of the United States, to regulate the importation and exportation of alcoholic beverages into and from the State.

ABC's programs are funded by appropriations from the state General Fund and from liquor licenses and fees.

AUDITOR'S OPINION

To the Joint Legislative Audit Committee of the California Legislature and the Department of Finance:

We have examined the combined balance sheet of the Department of Alcoholic Beverage Control as of June 30, 1978, and the related statements of revenues, expenditures and changes in operating clearing and fund balances for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements, present fairly the financial position of the Department of Alcoholic Beverage Control as of June 30, 1978, and the results of its operations and changes in operating clearing and fund balance accounts for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The column amounts on the accompanying combined balance sheet captioned "Total - Memorandum Only" for June 30, 1978, are not necessary for a fair presentation of the financial statements, but are presented as additional analytical data and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

The column amounts on the accompanying combined balance sheet, statement of revenues, expenditures and changes in operating clearing and statement of changes in fund balance for the year ended June 30, 1977, which are presented for comparative purposes only, were not audited by us and accordingly we do not express an opinion on them.

Revenue Sharing Task Force



Wesley E. Voss
Assistant Auditor General

Date: June 8, 1979

Staff: Curt Davis, CPA
Merrill E. Tompkins, CPA
Sandra R. McHaney
Ann Reicherter
Richard Sanchez
Glenn Ostapeck

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 1978
(With Unaudited Amounts for 1977)

ASSETS	GOVERNMENTAL	FIDUCIARY	ACCOUNT	TOTAL	
	FUND	FUND	GROUP	(Memorandum Only)	
	General	Special Deposit	General	June 30, 1978	June 30, 1977
	Fund	Fund	Fixed Assets		
Cash	\$1,285,521	\$ -	\$ -	\$1,285,521	\$ 603,192
Cash in State Treasury	-	26,726	-	26,726	24,845
Accounts Receivable	34,458	-	-	34,458	4,189
Due from Other Funds	925,712	-	-	925,712	63,671
Prepayments to Other Funds	55,388	-	-	55,388	209,618
Expense Advances to Employees	7,610	-	-	7,610	4,023
Other Deferred Charges	200	-	-	200	134
Equipment	-	-	219,052	219,052	191,232
TOTAL ASSETS	\$2,308,889	\$26,726	\$219,052	\$2,554,667	\$1,100,904
LIABILITIES, ENCUMBRANCES OUTSTANDING AND FUND EQUITY					
Liabilities:					
Accounts Payable	\$ 159,463	\$ -	\$ -	\$ 159,463	\$ 157,955
Reimbursements Collected in Advance	3,950	-	-	3,950	-
Revenue Collected in Advance	890,384	-	-	890,384	-
Uncleared Collections	6,092	-	-	6,092	5,184
TOTAL LIABILITIES	1,059,889	-	-	1,059,889	163,139
Encumbrances Outstanding	45,317	-	-	45,317	72,260
Fund Equity:					
Investment in General Fixed Assets	-	-	219,052	219,052	191,232
Special Deposit Fund Balance	-	26,726	-	26,726	24,845
Operating Clearing	1,203,683	-	-	1,203,683	649,428
TOTAL FUND EQUITY	1,203,683	26,726	219,052	1,449,461	865,505
TOTAL LIABILITIES, ENCUMBRANCES OUTSTANDING AND FUND EQUITY	\$2,308,889	\$26,726	\$219,052	\$2,554,667	\$1,100,904

The notes to the financial statements are an integral part of this statement.

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN OPERATING CLEARING - BUDGET AND ACTUAL
GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1978
(With Unaudited Amounts for 1977)

	1978			1977
	Budget As Adjusted	Actual	Over (Under) Budget	Actual
<u>Sources of Financial Resources</u>				
Revenues ^{a/}	\$ 8,820,000	\$ 9,832,107	\$ 1,012,107	\$ 8,586,597
Prior Year Adjustments	-	23,915	23,915	184,217
Support Appropriation	11,435,181	10,260,624	(1,174,557)	5,518,024
Reimbursements	<u>320,610</u>	<u>318,362</u>	<u>(2,248)</u>	<u>184,047</u>
Total Sources of Financial Resources	<u>\$20,575,791</u>	<u>20,435,008</u>	<u>\$ (140,783)</u>	<u>14,472,885</u>
<u>Uses of Financial Resources</u>				
Expenditures:				
Current:				
Personal Services	\$ 9,673,457	9,450,346	\$ (223,111)	8,551,289
General Expense	229,165	223,529	(5,636)	206,052
Printing	64,987	64,992	5	42,696
Communications	215,564	210,035	(5,529)	195,033
Travel-in-State	322,422	311,709	(10,713)	297,365
Travel-out-of-State	2,500	857	(1,643)	1,465
Evidence and Witness Fees	20,102	18,709	(1,393)	21,631
Rent - Building Space	485,076	476,818	(8,258)	427,543
Business and Transportation Agency Service	30,570	30,570	-	22,964
Office of Administrative Hearings	291,500	276,959	(14,541)	271,499
Department of Justice (Fingerprints)	151,000	149,061	(1,939)	129,842
D.U.I. Program - Federal Funds	14,550	14,550	-	-
Accounting Machines - Operations	6,924	5,059	(1,865)	16,182
Department of General Services (Consultant)	-	-	-	38,688
Equipment	<u>84,558</u>	<u>75,721</u>	<u>(8,837)</u>	<u>36,247</u>
Total Expenditures	<u>11,592,375</u>	<u>11,308,915</u>	<u>(283,460)</u>	<u>10,258,496</u>
Transfer of Accountability to State Controller	<u>8,820,000</u>	<u>8,571,838</u>	<u>(248,162)</u>	<u>7,951,941</u>
Total Uses of Financial Resources	<u>\$20,412,375</u>	<u>19,880,753</u>	<u>\$ (531,622)</u>	<u>18,210,437</u>
Net Increase (Decrease) in Operating Clearing During the Year		554,255		(3,737,552)
Operating Clearing - July 1		<u>649,428</u>		<u>4,386,980</u>
Operating Clearing - June 30		<u>\$ 1,203,683</u>		<u>\$ 649,428</u>

a/ Revenues are not budgeted in the legislative budget bill. The amount shown on this statement is an agency budgeted revenue amount that is shown in the Governor's Annual Budget.

The notes to the financial statements are an integral part of this statement.

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL
STATEMENT OF CHANGES IN FUND BALANCE
SPECIAL DEPOSIT FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1978
(With Unaudited Amounts for 1977)

	<u>1978</u>	<u>1977</u>
Fund Balance - July 1	\$24,845	\$17,067
Additions:		
Deposit of Unclaimed Funds	11,630	12,492
Deductions:		
Funds Paid to Depositors	6,277	1,733
Funds Reverted to Original Appropriation	<u>3,472</u>	<u>2,981</u>
Fund Balance - June 30	<u>\$26,726</u>	<u>\$24,845</u>

The notes to the financial statements are an integral part of this statement.

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1978

1. Summary of Significant Accounting Policies

The preceding financial statements reflect the financial position and results of operations of the Department of Alcoholic Beverage Control for the General Fund and the Special Deposit Fund. The department also deposits revenues collected pursuant to the Alcoholic Beverage Control Act in the Alcohol Beverage Control Fund. A separate audit report will be issued on the Alcohol Beverage Control Fund.

The accounting policies of the Department of Alcoholic Beverage Control conform to generally accepted accounting principles as contained in the State Administrative Manual.

General Fund

The Department of Alcoholic Beverage Control accounts for only its portion of the State's General Fund. The State Controller maintains central accounts for the General Fund and publishes consolidated General Fund statements.

Income:

Throughout the fiscal year, income is accounted on a cash basis, except appropriation reimbursements which are recorded when billed.

At June 30, the accounts are adjusted to a modified accrual basis. All earned but uncollected revenues and unbilled reimbursements are accrued, except revenue receivables which are fully reserved and estimated not to be collectible within one year.

Expenditures:

Generally, appropriation expenditures are recorded during the year at the time claims for payment are filed with the State Controller. At June 30, all commitments are accrued as expenditures.

Special Deposit Fund

Monies received or collected for specific purposes by a state agency for which no fund has been created in the State Treasury are accounted for in the Special Deposit Fund. The State Controller maintains separate fund accounts for each agency and publishes consolidated Special Deposit Fund statements.

Income and Expenditures:

Both income and expenditures are accounted on a cash basis during the fiscal year.

Liabilities

Retirement Plan: Regular employees of the Department of Alcoholic Beverage Control are members of the Public Employees' Retirement

3. Encumbrances Outstanding

Encumbrances outstanding include all valid commitments against budget appropriations for which no goods or services had been received by June 30.

4. Operating Clearing

The account balance at June 30 represents a clearing account between the Department of Alcoholic Beverage Control and the State Controller.

5. Revenue

Unless otherwise provided for by law, revenue collected by a state agency is considered General Fund revenue and shall be remitted to the State Treasurer.

6. Support Appropriation

Support appropriation is the portion of the General Fund which the legislative Budget Act allocated to the Department of Alcoholic Beverage Control.

7. Due from Other Funds

This account represents the General Fund's share of the Department of Alcoholic Beverage Control revenue in the Alcohol Beverage Control Fund as of June 30, 1978.

8. Revenue Collected in Advance

This account consists of revenues collected, but not earned, by June 30, 1978.

9. Pending Legal Actions

Several legal actions totaling \$3,532,500 are pending against the Department of Alcoholic Beverage Control. The amount of liability, if any, cannot be determined at this time.

SUPPLEMENTAL INFORMATION

As an integral part of our examination, we reviewed the Department's accounting procedures and related system of internal accounting control to the extent we considered necessary to properly form an opinion concerning the fairness with which the Department's financial statements present financial position and results of operations in accordance with generally accepted accounting principles consistently applied.

Our review enabled us to suggest improvements which would result in better operating procedures and better operating controls. A management letter describing the suggested operating improvements was issued to the Department in conjunction with certain recommended adjusting entries necessary in order to achieve compliance with generally accepted accounting principles.

The Department fully concurs with the suggested operating improvements and adjusting entries.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
California State Department Heads
Capitol Press Corps