DEPARTMENT OF FINANCE
ARNOLD SCHWARZENEGGER, GOVERNOR
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April 15, 2010

Mr. Steve Hardy, Director
Department of Alcoholic Beverage Control
3927 Lennane Drive, Suite 100
Sacramento, CA 95834

Dear Mr. Hardy:

Revised Management Letter—Department of Alcoholic Beverage Control Special Review

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its review of the Department of Alcoholic Beverage Control (ABC). We reviewed the adequacy of ABC's policies and procedures over its federal grant management and budgetary processes and reconstructed the Alcohol Beverage Control Fund's (Fund 3036) fund condition statements for fiscal years 2003-04 through 2007-08. The results of our review were issued to you on November 9, 2009.

This letter discusses other matters that came to our attention during our review. While these observations are relevant to our review, they were not included in our review report because they did not directly relate to the specific objectives performed. This revised letter clarifies information and supersedes the letter issued on October 22, 2009.

Background

OSAE was requested to review ABC's fund condition statement (FCS) and determine the true ending fund balance for 2007-08. We found that sufficient supporting documentation for the FCS was not maintained. Therefore, we reconstructed the FCS based on ABC's CALSTARS and State Controller's Office (SCO) year-end reports. Our reconstruction resulted in a re-calculated 2007-08 ending fund balance of $12,989,249. To ensure the FCS presented in the Governor's Budget is reflective of ABC's CALSTARS records, we have recommended to ABC, via a separately issued report, that it post an adjustment to its beginning 2008-09 fund balance to reflect the reconstructed balance.

The following table was provided to ABC staff as guidance for use in calculating its adjusted beginning 2008-09 fund balance.

TABLE 1 2008-09 FCS BEGINNING FUND BALANCE ADJUSTMENT CALCULATION			
	Calculation	Report Observation	Comments
2008-09 Beginning Fund Balance	$10,741,000		
Add:			
Unsupported Year-End Adjustments	51,129	Observation 3	Reversal of unsupported amounts. Note 1
"	91,189	Observation 3	"
Improper Federal Grant Expenditures	869,805	Observation 8	Note 2
Reconstruction Variance	1,383,438		Unidentified variances between CALSTARS records and amounts reported in the FCS
Deduct:			
SCO 21st Century Project Fees	10,208	Observation 5	Posting of fees. Note 1
"	64,445		"
"	72,659		"
Subtotal	**12,989,249**	Appendix A	Amount reconciles with reconstructed FCS as reported in Appendix A
Add/Deduct:			
Prior Year Appropriation Activity	XXX,XXX		Amounts to be determined by ABC
2008-09 Adjusted Beginning Fund Balance	**$XX.XXX.XXX**		Amount reconciles with ABC's CALSTARS records

Note 1—Both the unsupported amounts and SCO 21st Century Project Fees were included in the beginning 2008-09 FCS balance. However, the reversal of the unsupported amounts and posting of SCO 21st Century Project Fees in CALSTARS results in transactions being posted to Cash and Fund Balance—bypassing FCS accounts such as Revenues, Expenditures, etc. To ensure this activity is reflected in the FCS, the transactions should be included in the fund balance adjustment. Not doing so will result in a variance between the amounts reported in the FCS and ABC's CALSTARS records.

Note 2—During our review, we identified $869,805 in federal grant expenditures that should be reimbursed to Fund 3036. However, as described in the final report, ABC may not be able to recover approximately $497,000 of those funds unless legislation granting appropriation authority for fiscal years 2005-06 and 2006-07 is passed. Therefore, we recognize ABC's adjusted beginning fund balance may be correspondingly reduced.

Observation 1

ABC has not reported prior-year appropriation activity in its fund condition statements, and was unaware that such activity should be reported.

We recommend ABC implement policies and procedures to calculate and report prior-year appropriation activity in its fund condition statements. Additionally, ABC should ensure its staff are knowledgeable of the fund condition preparation process and additional staff are appropriately cross-trained. Further, the fund condition statement should be reviewed and approved by someone other than the preparer.

Observation 2

During our review, we found ABC did not have documentation supporting fund condition statement figures or correspondence with Finance's Business Transportation and Housing Unit (BT&H). This may have contributed to ineffective budgeting processes and procedures.

We recommend ABC retain sufficient supporting budget documentation including correspondence with BT&H on key issues and decisions.

For additional observations and recommendations related to our review, please refer to the final report issued November 9, 2009. If you have any questions regarding this letter, please contact Cheryl Lyon McCormick, Manager, at (916) 322-2985.

Sincerely,

David Botelho, CPA
Chief, Office of State Audits and Evaluations

cc: Mr. Timothy Gorsuch, Chief Deputy Director, Department of Alcoholic Beverage Control
Mr. Eduardo Jimenez, Assistant Director, Administration, Department of Alcoholic Beverage Control
Mr. Steve Ernst, Assistant Director, Northern Division, Department of Alcoholic Beverage Control
Mr. Joe Cruz, Assistant Director, Southern Division, Department of Alcoholic Beverage Control
Ms. Ging Tucker, Fiscal Officer, Department of Alcoholic Beverage Control