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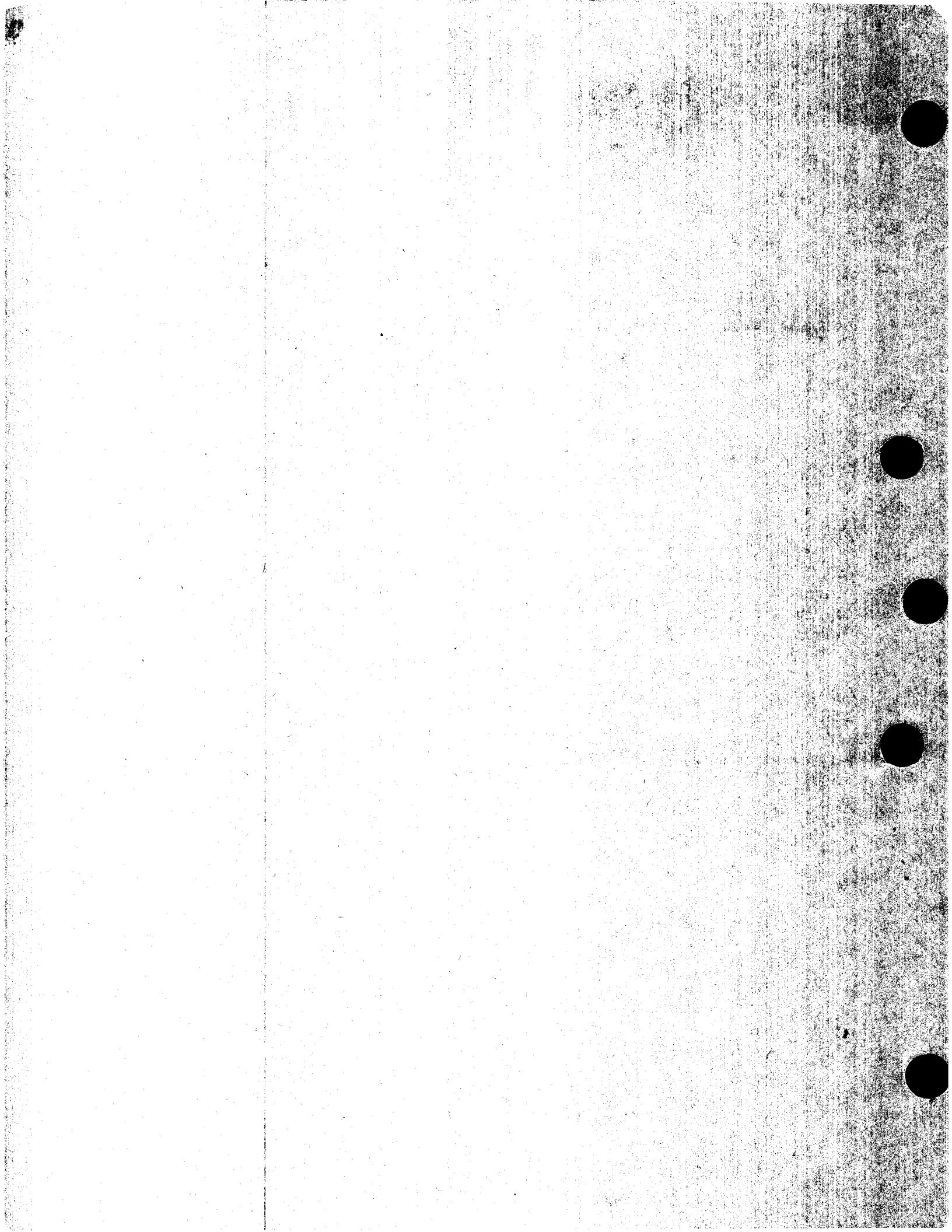
Alcoholic Beverage Taxes in
North Carolina

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Prepared for House Finance Committee by
Fiscal Research Division

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Introduction

In 1972-73, North Carolina collected over \$73 million in taxes relating to alcoholic beverages. (See table on page 2 for detailed breakdown of taxes collected). From these funds, \$9 million was shared with local governments. Local governments received another \$21 million in profits from the sale of spirituous liquor, and an additional uncertain amount in local ABC licenses (probably in the \$300,000-\$500,000 range) is collected annually. All total, the alcoholic beverage tax system annually generates almost \$98 million in revenues for State and local governments in North Carolina.

The sales system of alcoholic beverages is one of State and local control. Local governmental units hold elections to decide whether or not various types of alcoholic beverages may be sold in an area. The sale of beer and wine is handled by commercial outlets licensed both at the State and local level. The sale of spirituous liquor is handled through stores operated by local Alcoholic Beverage Control boards appointed by the local governing units. The overall supervision and administration of the ABC system is under the jurisdiction of the State Board of Alcoholic Control whose members are appointed by the Governor.

The purpose of this summary is to look at the overall flow of revenues relating to alcoholic beverage taxes. It is divided into four sections: (1) Taxes on spirituous liquor, (2) Taxes on beer and wine, (3) ABC permits and licenses, and (4) the ABC warehouse operation. The report is not conclusive but is an effort to provide information to the House Finance Subcommittee which is studying alcoholic beverage taxes prior to the 1975 Session of the General Assembly.

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NET COLLECTIONS OF BEVERAGE TAX FOR FISCAL YEAR ENDING JUNE, 1973

Net Beverage Collections

Beer License-Resident Mfr.	\$	500
Resident Bottler-Beer		-0-
Resident Wholesaler		9,030
Resident Importer		-0-
Beer License Non Res. Mfr.		4,155
Beer License Non Res. Whlsr.		2,467
Salesman Beer License		8,269
Dealers on Trains Beer License		100
Retail Dealers Beer License		82,575
Beer Excise		26,871,621
Wine License Res. Mfr., Unfortified		-0-
Wine License Res. Mfr., Fortified		-0-
Resident Bottler, Unfortified		-0-
Resident Bottler, Fortified		-0-
Wine License Res. Whlsr.		1,057
Resident Importer		1,350
Wine License Non Res. Mfr.		3,817
Wine License Non Res. Whlsr.		10,582
Comb. Whlsr. Beer & Wine		10,500
Wine License Salesman		1,607
Comb. Beer & Wine Salesman		6,797
Wine License On Premises		21,292
Wine License Off Premises		28,038
Wine Excise Fortified		1,895,106
Wine Excise Unfortified		861,733
Liquor		<u>34,137,266</u>
Total		<u>\$ 63,957,862</u>

	<u>State</u>	<u>Local</u>	<u>Total</u>
Beer License	\$ 107,096	\$ -0-	\$ 107,096
Beer Excise	26,871,621	8,298,460	35,170,081
Total	<u>\$ 26,978,717</u>	<u>\$ 8,298,460</u>	<u>\$ 35,277,177</u>
Wine License	85,040	-0-	85,040
Unfortified Wine	861,733	838,913	1,700,646
Fortified Wine	1,895,106	-0-	1,895,106
Liquor	<u>34,137,266</u>	<u>-0-</u>	<u>34,137,266</u>
Total	<u>\$ 63,957,862</u>	<u>\$ 9,137,373*</u>	<u>\$ 73,095,235</u>

*Does not include municipal and county licenses. Latest data available from Tax Research is for FY 1969-70 which show local license collections of over \$280,000.



Taxes on Spirituous Liquors

There are currently five taxes or "add-ons" on spirituous liquors. Three of them go to the State, and two go to local governments. These taxes are:

- (1) 10% tax on retail price (in lieu of sales tax [GS 105-113.93(a)]). Goes to State General Fund, 1972-73: \$15,161,539
- (2) 2% surtax on retail price [GS 105-113.93(b)]. Goes to State General Fund, 1972-73: \$3,032,308
- (3) 5¢ per 3 1/3 ounce or fractional part volume tax (GS 105-113.94). Goes to State General Fund, 1972-73: \$15,943,419
- (4) 5¢ per bottle add-on [GS 18A-15(3)]. Goes to County Commissioners for alcoholic rehabilitation and education. Began going to county July 1, 1973. In 1972-73: \$2,277,279 went to State General Fund.
- (5) Add-on of 3½% of retail price (exclusive of State taxes). [GS 18A-15(3)]. Retained by local ABC Boards in same manner as other profits. House Bill 1629 mandating this add-on becomes effective August 1, 1974. This will add \$5-6 million to local profits which totalled approximately \$21.4 million in 1972-73.

Collection

The three taxes going to the State General Fund are collected by the Privilege License, Beverage, Cigarette and Soft Drink Tax Division of the Department of Revenue. Local ABC Boards submit the tax on two reporting forms monthly to Revenue. Revenue compiles data on total collections, but does not check total annual payments by each local board.

The Revenue Department states that it is the responsibility of the State ABC Board to insure that local boards pay the correct amount of tax. The only statutory requirement for auditing local boards lies with the State ABC Board [GS 18A-15(2)], and the State Board does not check the audits closely, but uses them primarily for data compilation.

This lack of coordination and check on taxes yielding over \$34 million to the State annually needs attention. The Department of Revenue could be given responsibility for insuring that the correct amount of taxes are paid, or the State Board could be required to check local audits more diligently. In either case, more information about tax collections and audits, at the local level, needs to flow between Revenue and the State ABC Board.

This is not accusatory of local boards. The current system in its administration simply does not provide the same controls on spirituous liquor taxes that are used on other state taxes.

The 5¢ per bottle add-on is submitted by the local ABC Board to the local county commissioners monthly, accompanied by a report form provided by the State ABC Board. Here again, there is little check on reporting these funds. The State Board does not receive a copy of the monthly report sent to the county commissioners, and the local board does not necessarily send an audit to the county.

The 3½% "add-on" to retail price is not a tax but a legislated increase in the standard mark-up in the price of whiskey. The legislation further stated that this portion of the mark-up would not be subject to State taxes. The 3½% add-on to the "retail price" will increase the standard mark-up (which includes the 12% State tax) from 46% to 50.56% (a further explanation is in the pricing section). Since this add-on is to be treated as additional profits, neither the Revenue Department nor the State ABC Board will monitor it.

Pricing of Liquor

The retail price of spirituous liquor is set by the State Board of Alcoholic Control at "levels as shall promote the temperate use of these beverages. . . , which price shall be uniform throughout the State". To the quoted cost per case charged by the distiller are added freight cost and a bailment fee. (The bailment fee is now 69¢ per case, up from 40¢ and 45¢ a year ago. It is the charge for warehouse operation and delivery from Raleigh to the local boards).

Cost of Liquor (Including Federal Taxes)

+ Freight Cost
+ Bailment
Base Cost

This base cost is used for the markup. The markup from which the local boards derive operating costs and profits is equal to 30.36% of the base cost. The 12% State tax on "retail price" is on the base cost plus the markup, and it amounts to 15.64% of the base cost. Total markup before August 1, 1974 is 46%. To this total is added the 5¢ per 3 1/3 ounces volume tax (\$.50 per quart, \$.40 per fifth, \$.25 per pint, etc.) and the 5¢ per bottle rehabilitation add-on.

The pricing formula then looks like this:

Cost of Liquor
+Freight Cost
+Bailment
Base Cost
+30.36% of Base Cost
Retail Price
+15.64% of Base Cost (12% Tax x 1.3036 Base Cost)
Retail Price + 12% Tax (At this point, the per
bottle cost is rounded to
the next nickel)

+5¢ per 3 1/3 oz. Surtax
+5¢ per bottle add-on
TOTAL PRICE

The 3½% add-on created by House Bill 1629 effective August 1, 1974 increases the markup. Since it is levied on the "retail price", it is 3½% of 1.3036 x (Base Cost), and is 4.56% of the base cost. This means that the new formula will be:

Base Cost
+ 50.56% of Base Cost
+ 5¢ per 3 1/3 oz. Surtax
+ 5¢ per bottle add-on
TOTAL PRICE

This method of pricing insures that any increases in the costs of liquor, freight and bailment fees are automatically reflected in increased prices. The gross revenue available for local governments to cover costs and provide profits increases at the same rate as the base cost. For example, if there is a 10% increase in the base cost, revenue available to the local boards will increase by 10%. With the new 3½% add-on, the amount available for local boards will be 34.92% of the base cost, up from the current 30.36%.

Use of Funds from ABC Sales

In 1972-73, the government-controlled ABC stores did almost \$190 million dollars in retail sales. Of this amount the State received over \$34 million in liquor taxes which went to the General Fund. Another \$2.3 million from the 5¢ per bottle add-on also went into the General Fund. The cost of the goods sold, including federal taxes, was \$117 million.

The remaining \$36 million went to local ABC boards to meet operating expenses (\$14.6 million) and provide profits (\$21.4 million). The new 3½¢ add-on to retail price will increase this local amount by \$5 to 6 million based on 1972-73 data. With price increases from the distillers during an inflationary period, the actual amount will probably be higher.

The General Statutes require that local ABC Boards spend between 5% and 15% of their "total profits" on law enforcement [GS 18A-17(14)]. This is generally accomplished by either hiring local ABC enforcement officers or by turning over sums of money to the sheriff's department or local police department. In 1972-73, this amounted to \$1.7 million (7.9% of the profit statewide).

In addition, at least 7% of "total profits" must be expended by local boards for education on the excessive use of alcohol and for the rehabilitation of alcoholics. [GS 18-A-17(14)]. \$1.04 million was spent in this manner during 1972-73, which was 4.8% of profits statewide.

For 1973-74, the amount expended in this area at the local level was increased by \$2.3 million; the amount to be received from the 5¢ per bottle rehabilitation add-on. However, this money is turned over to the county commissioners, while the 7% requirement is expended by the ABC Board. This could cause some duplication of rehabilitation/education efforts. Once the county level is reached, coordination of program funding is essential. GS 18A-15(3) specifically limits the expenditure of the add-on funds by the commissioners, and guidelines for these expenditures have been developed by the Departments of Mental Health and Public Instruction. However, GS 18A-17(14) gives the local ABC boards more latitude in expending profits than the elected county commissioners have in using the 5¢ add-on funds.

Currently, no source appears to know the uses counties are making of these funds. There have been vague reports that some counties are not using them at all and that others have attempted to use the 5¢ add-on as matching funds for State mental health money. To avoid duplicate program funding and to insure that the General Assembly's intent is followed, some method of tracking or reporting this money might be needed.

According to State law, the remaining profits, after these required expenditures and after the retention of working capital, are to be paid quarterly into the general fund of each county [GS 18A-18(b)]. This amounted to almost \$19 million (including working capital) in 1972-73.

However, there are 120 local ABC systems, and it is possible for each system to have its own formula for the use and distribution of profits which varies from the above required expenditures and distributions. When legislation is introduced authorizing an ABC vote in a county or municipality, the legislation may spell out a formula for distribution among governmental units and may call for exemption from the required expenditures on law enforcement and research/education.

The State ABC Board does not know the extent of distributional formulas which vary from the General Statutes. For this reason, they are probably hampered in using the audits of local boards to monitor efforts in these areas. According to Wiley Ruth, State ABC Administrator, the State ABC Board is hiring someone to pull this information together over the summer. A check of several local audits indicates some distributions are made to municipalities, some to boards of education, some to mental health centers, and some to library funds as well as to the county general fund.

The basic issue here is the use of governmental funds and the control of expenditures. If the General Assembly wants to insure that additional law enforcement and rehabilitation funds are expended in areas where spirituous liquor is sold, based on the assumption that the availability and sale creates more need for these services, then some effort should be made to insure that all units expend the funds. The control of the funds is another question. While the General Statutes require that profits are placed in the general fund of each county, actual distribution differs widely. Of special interest are the funds which are sent directly to agencies controlled by non-elected officials, whose expenditure might not be subject to budgetary analysis.

Possible Alternatives in Taxes on Spirituous Liquors

1. Tax Rates

Consolidate the three different State taxes on 10%, 2% and 5¢ per 3 1/3 ounces into one tax rate to bring in the same amount of revenue. This would reduce the tax report forms filed by local boards and handled by the Department of Revenue by one half. It would also simplify the pricing formula and tie all of the spirituous liquor taxes to a percentage of sales.

2. Use of Funds

- a. Consolidate expenditures for research and education in one governmental source. Currently, the county Commissioners and the local ABC boards are both spending profits on add-on funds. The ABC boards could be required to turn over 7% of profits to the County for expenditure along with the 5¢ per bottle add-on funds.
- b. Standardize local board required expenditures for law enforcement. These funds could be turned over to the county or municipal governments with the stipulation that at least that much money be expended on enforcement of ABC laws.
- c. Standardize the distribution of profits among the local boards. Currently, the expenditures of profits may or may not be subject to the annual approval of local governments. The State Board of Alcoholic Control is studying the various distributional formulas this summer; the information gained should give a better look at the control exercised by elected officials.
- d. Standardize required local expenditures for law enforcement and research/education. Currently, some local boards are not required to spend the overall 7% and 5%-15% because of local enabling legislation which exempts them.



Taxes on Beer and Wine

The taxes on beer and wine are different from the taxes on spirituous liquors because they are excise taxes, not levies in lieu of sales taxes. In 1972-73 these excise taxes brought \$29.6 million into the General Fund, with another \$9.1 million going to local governments.

The statutes outlining the excise taxes on beer and wine are lengthy and difficult to follow. In GS 105-113.86 the taxes on beer and wine, as well as other instructions for collection run for 22 sections. The tax on fortified wine is in GS 105-113.95.

The tax on beer is in two basic parts, GS 105-113.86(a) and GS 105-113.86(a)(1). The second section adds a surtax which is equal to the base tax. Different rates of tax are mentioned for containers of various sizes, and optional payment rates are allowed in some instances. The following table outlines the amount of taxes mentioned for various containers, the actual tax rate per ounce, and the effect of optional payment on the rate.

Beer Excise Taxes [GS 105-113.86(a) and (a)(1)]

<u>Size</u>	<u>Tax</u>	<u>Tax Per Oz</u>	<u>Optional Payment</u>	<u>Tax Per Oz With Option</u>
31-gal barrel, partial kegs in proportion	\$15.00	.378¢	Not Advan- tageous	.378¢
1 - 6 oz.	2½¢/bottle	2.5¢-.4167¢	None allowed	2.5¢-.4167¢
8 - 12 oz.	5¢/bottle	.625¢-.4167¢	.42¢/oz.	.4167¢-.42¢
32 oz. (1 qt.)	13 1/3¢	.4167¢	.42¢/oz.	.4167¢
7 oz.	3¢/bottle	.4286¢	None allowed	.4286¢
16 oz. (½ qt.)	62/3¢/bottle	.4167¢	.42¢/oz.	.4167¢

These various rates, with optional payments, generally translate into a tax of just over four-tenths of one cent per ounce of malt beverage, or 5¢ per 12-ounce container. There appear to be four areas of inconsistency in the beer taxes:

1. The tax on barrels or partial barrels is at a rate substantially (10%) less than the rate on bottled or canned beer.

2. Bottled beer in containers of less than 6-ounces is taxed at a higher rate per ounce because of the flat-rate tax of 2½¢ per container with no optional payment.

3. The specific tax on bottles containing exactly 7-ounces is 3% higher than the tax per ounce on 6-ounce or 12-ounce bottles. The statute specifically prohibits payment of tax on 7-ounce bottles at the optional rate. This action could be interpreted as being aimed at specific brands sold in 7-ounce containers.

4. The flat-rate tax of 5¢ per bottle on containers from 8- to 12-ounces levies a higher tax on the smaller containers, but the optional payment reduces the difference to less than 1%.

The tax on unfortified wine (5%-14% alcohol) is 60¢ per gallon [GS 105-113.86(0)]. If the wine is manufactured in North Carolina "principally of fruits and berries grown in North Carolina" the tax is only 5¢ per gallon. Currently, there are no North Carolina wine manufacturers. This lower tax applies only to wine sold in the State and would probably cost more to collect than the revenue received. In 1972-73, the collections on unfortified wine totalled \$1.7 million. Almost 50% of this tax is distributed to local governments.

Taxes on fortified wine (14%-21% alcohol) are levied in GS 105-113.95 and are 70¢ per gallon, except for wines manufactured in North Carolina from native fruits and berries. Those sales would be taxed at 5¢ per gallon. All fortified wine collections are retained in the State General Fund; this amounted to \$1.9 million in 1972-73.

The taxes on wine vary in the effective tax rate on the alcoholic content. A gallon of unfortified wine with 12% alcohol contains about 15.4 ounces of alcohol. The tax of 60¢ per gallon is an effective tax of 3.9¢ per ounce of alcohol. A gallon of fortified wine with 20% alcohol contains approximately 25.6 ounces of alcohol, and a 70¢ per gallon rate is a 2.7¢ per ounce of alcohol tax. Tax rates on alcohol may be less on fortified wine.

Collection

Beer and wine tax collection methods are quite different from spirituous liquor tax collections. Beer and wine sales are not through government outlets but through dealers

licensed to sell the goods in the State. The collection of these excise taxes is heavily dependent on State licensing of persons dealing in beer and wine from the manufacturing to the retail level.

The liability for the excise tax falls on the first North Carolina resident wholesaler or importer receiving the beer or wine. The amount sold is reported by the fifteenth day of the month following the sales. Reports are filed with the Revenue Department and are essentially based on beginning inventory plus purchases less adjustments and ending inventory. The result is the amount of beverages on which excise tax is due.

The Revenue Department has a check on these reports because they receive copies of all invoices of beer and wine sold in North Carolina at the wholesale level. It is illegal to deal with an unlicensed manufacturer or wholesaler.

Beer and wine tax collections include the tax on goods broken while in the hands of the wholesaler. GS 105-113.86(i) allows deduction of goods lost in a "major disaster" (50 or more cases of beer or 25 or more cases of wine) from the taxes due. These deductions must be verified by the Revenue Department. After taxes are determined, the wholesaler is allowed an additional discount of 4% of the taxes due as compensation for spoilage and breakage and for tax reporting expenses. Over the past year, the discount amounted to over \$1.7 million for the beer and wine wholesalers.



Distribution and Use of Beer and Wine Tax Collections

Currently, there is a tax on beer and a surtax of equal amount which was added later. The law requires that 47½% of the original tax (but not the surtax) be distributed to counties and municipalities where beer may be sold at retail. This means that 23.75% of beer tax collections are earmarked for distribution.

The State distributes 50% of collections from the unfortified wine tax, but all of the tax from fortified wine is retained by the State. Total distributions of beer and unfortified wine do not total this percentages, however. If a specific area within a county or municipality prohibits sales, then the amount to be distributed is reduced in proportion to the land area (or population, if a municipality within a county) of this area and the reduction in distribution is retained by the State. Actual distribution is approximately 23.6% and 49.3% of net collections.

Distribution is not done on a fiscal year basis. It is based on the 12 months preceding September 30 of each year, and the checks must be issued within 60 days after that date. According to Cliff Pickett and Louis Hill, of the Revenue Department, the checks are generally issued around Thanksgiving.

The formula for distribution adds up the areas in which beer or wine may be licensed to be sold at retail for that particular beverage. A per capita figure is derived for each distribution (beer and unfortified wine). The formula allocates funds to municipalities, with the county receiving funds for its population living in unincorporated areas. According to GS 105-113.86(p), the State retains certain amounts of money marked for distribution based on certain areas within a county or municipality where sales of beer or wine are not allowed. This "defined area" money amounted to \$63,000 at the last distribution. The basis for "defined areas" is relatively confusing:

1. If a defined area is a municipality within a county, the amount retained by the State is based on Federal decennial census data, even though all distribution is based on the latest population estimates from the Department of Administration.

2. If a defined area is a portion of a municipality or part of an unincorporated area within a county, the amount retained by the State is in proportion to the land area of the county within the defined area.

The Department of Revenue closely monitors local ABC elections to insure accuracy to within one day in the distribution of beer and unfortified wine taxes. They compile annual questionnaires from counties and municipalities about the legality of beer and wine sales within their jurisdictions. The entire process is complicated by several basic factors within the legislation:

1. Distribution of State taxes is limited to areas where beer or wine may be licensed to be sold. If the distribution were a straight, statewide per capita basis the process would be much simpler.

2. The distribution formula for beer and unfortified wine must be determined separately because areas may allow the sale of one but not the other.

3. There are three different data bases used in determining distribution and defined area funds: Population estimates from Administration, Federal Census data, and land areas.

4. The Department of Revenue must keep up with any changes in local government such as new ABC elections, new incorporations, annexation of land area, etc. It might be possible to combine the reporting efforts here with those of the Local Government Commission in the Treasurer's Office or the Tax Research Division of Revenue. Cooperation with the State ABC Board and the Institute of Government in monitoring local government changes might ease the tracking efforts required.

The distribution formula disregards the fact that counties provide services to residents living in municipalities as well as unincorporated areas. For example, Mecklenburg County in the last distribution received 29.8% of beer and wine funds allocated to the county while Charlotte received 67.2% of the funds. Guilford County received 26.6% of the funds distributed to the county while the cities of Greensboro and High Point received a combined total of 72.5% of the total funds returned to the county.

This distribution is in contrast to profits from liquor stores which supposedly go to the general fund of the county where the stores are operated [GS 18A-18(b)]. However, there are many variations to this distributional formula for each local board.

The State excise tax on beer goes into the General Fund and is used accordingly. Restricting distribution of the local share to those areas where it is legal to sell beer discriminates to some extent against local government in areas which choose not to allow beer sales. It is not a local option tax, but a State tax which is shared with local government.

Possible Alternatives in Taxes on Beer and Wine

1. Tax Rates

- a. Rate adjustments and/or optional payment alternatives to make the malt beverage tax rate per ounce uniform for containers of all types and sizes.
- b. Consolidation of the tax statutes in GS 105-113.86(a) and 105-113.86(a)(1) to combine tax and surtax into one uniform rate.
- c. Change or eliminate the tax on wines manufactured in North Carolina from North Carolina fruits or berries. Should a winery open in North Carolina, the tax would be difficult to enforce and would probably cost more to collect than would be received in revenue.

2. Collection

- a. Reduce the rate of discount allowed to wholesalers responsible for the tax, or
- b. Change the due date for tax payments from the 15th of the month to the 10th of the month. This would create additional revenue and cost-savings for the State.

3. Distribution and Use

- a. Distribute local shares of State beer and unfortified wine taxes to all local governments instead of just those where beer or wine may be sold, or
- b. Change the law governing "defined areas" to use current population estimates and to provide that "defined area" funds not be retained by the State but be added to the amount available for distribution the following year.
- c. Consider the distributional formula since it favors municipal over county government in urban areas.



ABC Permits and Licenses

Some of the most complex sections of legislation dealing with alcoholic beverages are those dealing with the control of persons dealing with the beverages in the permit and licensing function. The rationale for licensing at all levels appears to have three bases. First, there is an attempt to produce some amount of revenue with licenses. Second, some degree of control over the type of person allowed to buy and sell alcoholic beverages is exercised by the State. Third, and foremost, through licensing, control of the flow of beer and wine is more closely monitored, and the collection of revenue-producing excise taxes is made easier.

Licensing is performed at all levels, from the manufacturing to the retail level. The chart with this section details the licenses and permits required to deal in beer or wine in North Carolina. State license fees vary from a \$5 retail beer license to a \$500 beer or wine manufacturing license. In general, the license fees are modest, with the State realizing \$192,136 in license fees for 1972-73. This represents the issuance of 18,459 licenses at all levels during the 72-73 license year, an average of \$10.40 per license. For the 1973-74 license year 19,273 licenses were issued, but total receipts are not yet available.

No license is issued by the Department of Revenue until the State ABC Board has issued a permit for that activity. To obtain a permit, one applies to the State Board, paying a \$25 application fee to cover the costs of an investigation. In 1972-73, total fees collected were \$323,055. Of this total, approximately \$95,000 were beer and wine permit applications, with the remainder coming from "brown bagging" permits.

The application is processed and eventually sent to an ABC agent in the field for an investigation on all aspects of the qualifications for the permit, including some personal background information on the applicant. If all is in order, the permit is issued by the Board, and a list of permits issued is sent to the Department of Revenue.

Revenue then forwards information and application forms for the appropriate license(s) to the permit holder. Upon receipt of the license tax and proper application, Revenue issues the license.

The division of responsibility is divided between the Board, as the investigative/enforcement arm, and Revenue as the collector of taxes.

The cost of collecting the ABC license taxes has been loosely estimated by Revenue as \$36,000 in 1972-73, which represents almost 19% of the revenue from that source. However, the licensing function theoretically aids in the collection of the approximately \$39 million in beer and wine excise taxes which were collected during the same year. Direct costs of excise tax collections were estimated at approximately \$90,000, less than 2/10 of one per cent of collections.

The costs of investigations and issuance of permits are borne in the ABC budget. The permit fee of \$25 is not charged to non-residents, nor are additional fees charged to cover annual renewals. The Governor's Efficiency Study Commission suggested increasing the permit application fee from \$25 to \$50 in order to fully cover costs. That report claimed that costs of issuing permits outstripped receipts from fees by \$315,000 a year. However, it is uncertain how much of this results from the required annual renewal of permits.

GS 18A-37 states that "all permits shall be for a period of one year unless sooner suspended or revoked and shall expire on April 30 of each year". Because of this, permits are renewed annually at substantial cost to the State without any fee being charged. This annual renewal of over 21,000 permits is estimated to cost over 700 man-days of labor time. The procedures used are chiefly manual, and the new permits are delivered by ABC agents in the field.

This annual renewal also causes additional work and cost to the Department of Revenue. A new permit number is assigned to each permit holder each year. When the ABC Board provides the names of permit renewals to Revenue, only the name and address is given. Revenue then must use approximately 32 man-days to go through ABC files, posting new permit numbers and partners' names on their permit records. This is necessary to tie the issuance of a license to the permit issued by the Board.

Several possibilities for cost-savings could be examined:

1. Allowing permits to run for more than one year could be tried. This could be tied to a stipulation that all permit premises be visited at least annually.
2. If annual renewals are retained, the use of a permanent permit number would avoid the necessity of creating an entirely new file each year by the Revenue Department.
3. Annual renewals could be handled with validation stickers or other means and mailed out.

4. Better use of automated equipment and forms design might eliminate some of the manual work in Revenue and the ABC Board.

5. A system of record-keeping in which holders of multiple permits are readily identified might lead to cost savings in paperwork and mailing.

This permit/application area is a maze of forms. There are 13 different application forms for various types of ABC permits, and there are 3 license application forms. Once the application is approved, there are 30-40 various forms of permits for display and several license forms. This does not consider the card files and records maintained at both Revenue and the ABC Board. Some effort could be made to tie the information requirements of the Board and Revenue together and to design application/permit/license forms which do not have to have the information transferred and recorded manually several times.

The Board of Alcoholic Control also issues "brown bagging" permits of four types (GS 18A-31).

- (a) Social establishments - \$200
- (b) Commercial establishments - Special Occasions - \$200
- (c) Restaurant (36-49 seats) - \$100
- (d) Restaurant (50 or more seats) - \$200
- (e) Two or more of the above - \$300

The fees listed above are application fees. There is an annual renewal fee equal to 25% of the original permit, which ranges from \$25 to \$75. No special license is required from the Revenue Department for holders of "brown bagging" permits. In calendar year 1973 \$224,180 was collected in permit fees, with 2,675 permits outstanding.

There appears to be some inconsistency between beer and wine permits/licenses and "brown-bagging" permits. Where beer and wine permit fees and license fees are collected by different departments and no permit renewal fee is charged, "brown-bagging" permits have an annual fee handled only by the Board of Alcoholic Control.



Type of License

- I. A. Brewing and Manufacturing (105-113.70)
License: \$500 for beer or wine
 \$5-\$250 for wine, based on # gallons made
Permits: \$25 application fee required for beer and wine. Same permit applies to all sales.
- B. Bottling Beer or Wine (105-113.71, 105-113.72)
License: \$250 for beer or wine
 \$400 for beer and wine
Permit: \$25 application fee (one fee covers all permits)

MFR., Resident Beer	\$500
MFR., Non-Resident Beer	4,155
MFR., Non-Resident Wine	<u>3,817</u>
	\$8,472

II. Wholesale Sales

- Licenses: \$150 beer or wine (105-113.73, 105-113.74)
 \$250 beer and wine
 \$150 beer and wine-nonresident manufacturer or wholesaler (105-113.89)
 Need separate license for each place of business. Cities can levy tax up to 1/4 of state tax (\$37.50 or \$62.50)
 \$150 resident importer (105-113.91)
Permits: \$25 application fee (one fee covers all permits)
- Salesman: (105-113.76)
License: \$12.50 for representative of manufacturer, bottler, or wholesaler
Permit: Required from state ABC Board (No Fee) (18A-42)

Resident Beer	\$ 9,030
Non-Resident Beer	2,467
Resident Wine	1,057
Non-Resident Wine	10,582
Resident Importer-Wine	1,350
Combination Beer & Wine	10,500

Salesman-Beer	8,269
Salesman-Wine	1,607
<u>Salesman-Beer & Wine</u>	<u>6,797</u>
	\$51,659

III. Retail Sales

- A. Railroad Trains (105-113.75)
License: \$100 for beer and unfortified wine for each system over which cars are operated in this State
Permit: None Required

Dealer on Train	\$100
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Type of License

III. Retail Sales - continued

B. Beer and Wine

1. Municipal

- License: \$15 "on premises" beer
 [105-113.79(a)(1)]
 \$15 "on premises" unfortified wine
 [105-113.79(b)(1)] [Fortified
 wine-no extra cost 105-113.85]
 \$5 "off premises" beer [105-113.79
 (a)(2)]
 \$10 "off premises" unfortified
 wine [105-113.79(b)(2)] [Fortified
 wine no extra cost 105-113.85]

Additional 10% of Base for Each Additional
 License to Same Person (Entity)

Permit: Apply to Governing Board of Municipality (No Fee Set)

2. County (105-113.81)

- License: \$25 "on premises" beer
 \$5 "off premises" beer
 \$25 unfortified wine (and fortified if
 have ABC Stores)

Permit: Apply to Board of Commissioners. If also
 in municipality, must get municipal license
 first.

3. State

<u>License:</u> \$25 "on premises" unfortified or fortified wine (105-113.83, 105-113.85)	Beer-Retail	\$ 82,575
\$5 "off premises" unfortified or fortified wine (105-113.83, 105-113.85)	Wine-on Premises	21,292
	Wine-off Premises	<u>28,038</u>
		\$131,905

\$5 beer (10% more for each additional outlet owned by same person [entity]) (105-113.84)

Permit: \$25 application fee to state ABC Board. One fee covers all permits for beer and wine sales at one location.

\$10 fee for new permit because of change in managers (18A-38, 18A-39)

Total License	
Collections	<u>\$192,136</u>



ABC Warehouse Operation

In March, 1973, the State began direct operation of the warehouse and distribution functions of the ABC spirituous liquor system. Since that time, the operation has been the subject of much study and publicity.

Briefly, the State Warehouse is the receiving point of all liquor shipped into North Carolina by the distillers. Shipments are made to local ABC boards from the warehouse as their orders for goods are received. The distiller bills the local boards directly and the State receives a "bailment" fee from the local boards for warehouse operation and shipping from Raleigh.

Most of the criticism of the warehouse operation centers around operating efficiency and bailment rates. When the State took over the warehouse, bailment fees were 40¢-45¢ per case. In November, 1973, the fees were increased to 45¢-50¢ per case. In May, 1974, the fee jumped to 69¢ per case, as much as a 72% increase since the State took over the operation.

In October, 1973, the State Auditor's Office issued a report on the warehouse, indicating that breakage and loss as of late July, 1973, amounted to approximately \$53,000 and made several recommendations for improving the operation.

In December, 1973, the State Auditor recommended to the State Board that the bailment operation be transferred to a private contractor in January 1974, when a move to a larger warehouse was planned. In February, 1974, an unaudited income statement compiled by the Auditor's Office showed a loss over the period of State operation (March 6, 1973, through January 24, 1974) of approximately \$105,000, caused by inventory loss and breakage amounting to \$155,000.

During the 1974 session of the General Assembly, the Joint Appropriations Committee considered a request for funds to build a State ABC warehouse. A subcommittee studied the warehouse operation and submitted a report recommending against appropriating the funds and suggesting transfer of the operation to a private contractor. Subsequently, House Bill 2079 was ratified directing the State Board to make the transfer by July, 1975.

In May, 1974, the bailment fee was increased by the Board of Alcoholic Control to 69¢ a case. (This is a 3¢-5¢ per bottle price increase on a fifth of liquor). One reason for the large increase was the knowledge that the warehouse operation must

make up all its losses within one year of continued operation. The Board has purchased equipment and sunk money into start-up expenses for the operation which they thought would be made up over several years operation. Another factor in the bailment increase was the receipt of \$75,000 in loans from the Contingency and Emergency Fund by the warehouse fund which must be repaid prior to the transfer of operations in July, 1975. Another \$15,000 has been made available but has not yet been transferred into the warehouse fund.

The bailment fee jump effective in May, 1974, will increase receipts of the warehouse fund by \$600,000 to \$700,000 according to ABC Administrator Wiley Ruth. These fees are departmental receipts, part of which will be used to cover losses due to breakage and theft which were not reflected in the budget approved by the General Assembly.

A copy of the Appropriations Subcommittee report and the reports of the State Auditor are attached.

REPORT
OF
SUBCOMMITTEE TO STUDY ABC WAREHOUSE

Senator William D. Mills
Senator George Rountree

Representative W. S. Harris
Representative Henry Frye

This subcommittee was assigned the responsibility for review and recommendations concerning the past, present, and future operations of the State ABC Warehouse. Members of the subcommittee have met with the Fiscal Research Division, the Auditor's Office, the Department of Administration Budget Office, Disbursing Office and Property Control Office, the Attorney General's Office, and the SBI. On February 7, we visited the State ABC Warehouse and talked with the Secretary and Deputy Secretary of the Department of Commerce, the Chairman and Administrator of the Board of Alcoholic Control, and the manager of the warehouse.

We have thoroughly studied this operation and want to share a few of the major points in our findings.

1. Prior to the State taking over the operation of the warehouse, there was no cost to the State. The private contractor operated solely from bailment fees. Since the State has taken over, bailment fees have been increased 5¢ per case and

1. (continued)

there is still an approximate \$112,000 operating deficit.

2. Furthermore, additional costs result from the time that the State Auditor, the State Disbursing Officer, the Budget Office, and the Department of Commerce, all General Fund supported, must now give to the operations of the warehouse. Before the State was not involved at all.

3. Before, the State only realized some loss of tax revenue on liquor that was lost or broken. Now the State must not only bear this tax revenue loss, but also the deficit in operating costs and the loss and breakage of the liquor.

4. Liquor shipments to local ABC boards and collections of bailment fees are poorly managed.

5. The only statutory requirement of auditing to insure that each local board pays the correct amount of tax is handled by the Board of Alcoholic Control. The Board does not check the audits very closely and the Department of Revenue deals only with total collections.

After much discussion and careful consideration of these points and other information, we submit the following recommendations for your adoption:

1. No appropriation for planning or construction of a State ABC Warehouse shall be made at this time.
2. The Department of Administration and the State Auditor's Office shall coordinate efforts to secure a private contractor to handle the distribution of liquor in North Carolina, effective July 1, 1975.
3. The President of the Senate and the Speaker of the House shall appoint a legislative committee to work with the Attorney General's Office and the Board of Alcoholic Control in drafting legislation which would place strict controls over private operations of the warehouse.
4. State tax laws shall be amended so that the Department of Revenue is responsible for auditing total liquor taxes due and payable.
5. State liquor tax laws shall include the same provisions as those tax laws for beer and wine, so that all liquor shipped into the State is taxed at the distributor level.



DEPARTMENT OF COMMERCE
Teeney I. Deane, Jr., Secretary
Raleigh, North Carolina

REVIEW OF THE STATE A.B.C. WAREHOUSE OPERATION

Prepared by:
Department of State Auditor
Raleigh, N. C.



DEPARTMENT OF COMMERCE

Teeney I. Deane, Jr., Secretary

Raleigh, North Carolina

REVIEW OF THE STATE A. B. C. WAREHOUSE OPERATION





RY L. BRIDGES
STATE AUDITOR
OHN W. BUCHAN
PUTY STATE AUDITOR
R. LEE BOWMAN
PUTY STATE AUDITOR

DEPARTMENT OF STATE AUDITOR
116 WEST JONES STREET
RALEIGH, N. C. 27603

AUDITING
SYSTEMS ACCOUNTING
N. C. FIREMENS' PENSION FUND
LAW ENFORCEMENT OFFICERS'
BENEFIT & RETIREMENT FUND
CONFEDERATE WIDOWS' PENSION

October 12, 1973

Mr. Teeney I. Deane, Jr., Secretary
State Department of Commerce
Raleigh, North Carolina

Mr. Deane:

In January, 1973 the State Board of Alcoholic Control made the decision to assume the responsibility of distributing liquor to the various local A. B. C. boards across the state. With this decision came the need for starting a warehouse operation, developing an accounting system for the operation, and making arrangements for transporting the liquor from the new warehouse to the local boards. It was decided by the Board that this new warehouse operation needed to be functional at the earliest possible date. The Board made arrangements for warehouse space, made a request to our department for assistance in developing an accounting system, and secured a contract with a trucking firm for transportation. The new warehouse began receiving shipments from distillers in March, 1973 and began shipping to local boards in April, 1973.

On July 28 and 29, 1973, employees of the Department of Commerce and its related agencies performed a physical inventory on the State A. B. C. Warehouse with members of the State Auditor's staff observing and verifying the count. We are submitting to you and the Board our findings, observations, and recommendations that resulted from the physical inventory.

Results of Inventory

Our findings indicate the following:

1. The physical count was 792 cases short of the July 27, 1973 book inventory representing a value of \$27,003.66.
2. The bottle inventory was 1,063 bottles short, representing a value of \$2,761.68.
3. An analysis of the breakage reports in the warehouse files indicate that 8,048 bottles have been broken for which the warehouse appears liable. This breakage represents a value of \$23,154.45.

The total of the above figures represents a value of \$52,919.79.

Findings During Inventory and Subsequent Audit

The Board, warehouse manager, and the Department of Commerce were made aware of the physical inventory date approximately four weeks ahead of time so that the proper planning and action could be instituted to facilitate the taking of the inventory. We specifically asked that the warehouse be in good order and that all necessary adjustments be made to the book inventory prior to July 28, 1973. While taking the physical inventory, we discovered some item numbers in three or four different locations within the warehouse. We found several instances where two code numbers were stored in the same space. We saw two items with another states'

identification stamp on them. When we began the recooperage area (cage) inventory, we discovered that there were a total of 798 cases that had been processed prior to July 28, 1973 for which the necessary adjustments had not been made to the warehouse books.

During the course of our post audit, we did a considerable amount of analysis of the warehouse case inventory. We found it necessary to make 57 adjustments to the July 27, 1973 book inventory. Some of these adjustments were made on transactions as far back as March 30, 1973. There were six adjustments made that were of major significance. One receipt of 851 cases was posted to the warehouse records twice. Two shipments were received, one of 112 cases and one of 1,170 cases, that were not posted to the warehouse records at all. Two shipments, one for 350 cases and the other for 408 cases, were received and posted to the wrong code numbers. Finally, there was a shipment from the State ABC Warehouse to the Northside Warehouse of 858 cases that was not deducted from the warehouse book inventory.

We did not do a detailed analysis of the cage book inventory because of the time involved and the poor condition of the cage records. We observed that there were 71 items in the cage inventory that were showing minus balances. These minus balances ranged from 1 to 138 bottles. We made adjustments to the July 27, 1973 book inventory to bring these 71 items back to zero for comparison with the physical inventory. It is our opinion that minus inventories are not logical and indicate that a large amount of errors are being made on the recooperage paper work.

We did a detailed analysis of all breakage reports up to July 27, 1973. Our examination indicated that a total of 8,921 bottles had been broken of which the warehouse appears responsible for 8,048. Of the 8,048 bottles that the warehouse is responsible for, 3,114 were shown as "Found in Warehouse" and 1,248 bottles were reported as "Fell off Pallet".

Observation in Management Area

One of the most obvious problems in the management area is the lack of adequate supervision of warehouse functions. This is evidenced by the receiving and shipping errors mentioned above, the large amount of breakage and the conditions under which this breakage is discovered, and the excessive number of adjustments that are necessary for shipments to the local boards.

The general condition of the recooperage area and the sizable number of errors that are created in this area also shows a deficiency of supervision. We realize that the abnormal amount of breakage has placed an additional burden on the recooperage process. The accumulation of spoiled bottles has reached the point of making movement inside the cage area hazardous and is taking up valuable working space. The area just outside the cage is often cluttered with pallets of liquor with broken bottles and because the recooperage process is usually behind, these cases sit in this area for days at a time.

Observations of Record Keeping

The record keeping function of the warehouse is not working as well as it should. There are a number of reasons for this and we are covering in this report what we feel are the most important. First, the excessive amount of paper work generated by the large number of adjustments for incorrect shipments by the warehouse and the abnormal amount of breakage has caused an additional burden to the record keeping operation. Secondly, the separation of the accounts receivable and collection functions from the other accounting activity has caused several problems. Duplicate files are maintained as a result of the separate locations. Most importantly, valuable time is lost in transferring the necessary documents between the two

locations. It is impossible to determine an accurate balance of accounts receivable at a current date because of the two to four week delay in the accounts receivable -30- clerks receiving copies of the shipping invoices. When the adjustments problem is added to this delay, it further complicates the problem. Also in the accounts receivable area, the proper entries have not been posted to the accounts receivable as of this writing for the direct shipments made in the transitional period from the previous warehouse system to the present system.

When the present accounting system was designed, this installation was handicapped by a short time period to develop such a system. The fact that the Board had to collect bailment fees from the local boards further complicated the development of the system and created a considerable amount of paper work. When we turned this system over to the Board, it was stipulated that it was a temporary system and that consideration should be given to updating the equipment in the system at an early date. The capabilities of the present system are limited and in some areas cannot meet the present demand of the warehouse operation.

Observations Concerning Physical Space and Equipment

It is readily apparent that additional warehouse and office space is needed. At present, overflow items are spread out over the warehouse and not confined to a few large moving items. The Board has found it necessary to authorize direct shipments by distillers to certain local boards during a peak four month period because the present warehouse is too small to accommodate the extra shipping and receiving during this period. The combining of the accounts receivable section with the rest of the accounting function at this time is impossible because the office space at the warehouse is already over burdened. Equipment breakdown and the lack of proper equipment has plagued the warehouse since the beginning of the operation. Information we have received from warehouse personnel and from our own observations indicated that few days have passed where all tow motors have operated without some type of breakdown.

Recommendations

It is our recommendation that the State Board of Alcoholic Control and other appropriate officials determine as soon as possible the future of the State ABC Warehouse. It is also recommended that immediate steps be taken to improve and expand the supervision of the shipping and receiving functions and the operation in the recuperage area. If the decision is reached that the State ABC Warehouse is to become in fact a permanent operation, we would make the following recommendations:

1. That the Board seek necessary consultation in up-grading the accounting system. We are of the opinion that this includes more sophisticated equipment and greater adaptation to the need of the parties involved.
2. That a detailed analysis of the "Affirmation Law" be made and if necessary, an opinion from the Attorney General as to the effect on the Board and its relation with the various distillers.
3. That the Board obtain additional warehouse and office space if at all possible. This would help ease the present crowded and inadequate conditions in the warehouse and enable the combining of the accounting functions that are presently separate.

4. That the Board obtain a signed contract with the distillers as to the relationship between the Board and the distillers. At present there is not a signed agreement covering the relationship and responsibilities between the two parties.
5. That the Board obtain a binding contract on the leasing of equipment to be used in the warehouse operation. We feel that this is essential in getting better adapted equipment for the warehouse operation and will result in better maintenance of the equipment.

We appreciate the courtesies and cooperation extended to us during the course of this review.

Respectfully submitted,

HENRY L. BRIDGES, STATE AUDITOR

Prepared by George C. King

Approved:

Carlisle C. Crover
C.P.A.

October 12, 1973



STATE OF NORTH CAROLINA
DEPARTMENT OF THE STATE AUDITOR
RALEIGH, NORTH CAROLINA 27602

HENRY L BRIDGES
STATE AUDITOR

December 11, 1973

Dr. L. C. Holshouser
Chairman, State Board of Alcoholic Control
Raleigh, North Carolina

Dear Dr. Holshouser:

As you know, we have been very heavily involved with the State A.B.C. Warehouse for almost a year. During this period we have made suggestions, issued one audit report, and made various recommendations concerning the operation of this warehouse. We feel that at this time we should clearly state our position as far as our future involvement is concerned. It is our recommendation that the Board, under its legal authority, contract the bailment operation at an early date. It appears to us that the most practical time to transfer from State operation to a bailee operation would be at the time the inventory is placed in the new warehouse.

We will be available to the Board to assist in the inventory that is now scheduled for December 31, 1973. We will also assist in the installation of the new piece of accounting equipment that will coincide with the inventory on December 31, 1973. After these two functions are completed, our involvement in the warehouse operation will be to the extent of our normal audit functions. Due to manpower limitations, we feel that we cannot continue to spend as much time in this operation as we have in the past.

If it is the decision of the Board to contract the bailment operation, we will make available whatever information we have to aid the Board in transferring this operation to a private contractor.

Sincerely,


Henry L. Bridges
State Auditor

GCK/nd

cc: Governor Holshouser
Don Beason
Wiley Ruth





X

HENRY L. BRIDGES
STATE AUDITOR

JOHN W. BUCHAN
DEPUTY STATE AUDITOR

R. LEE BOWMAN
DEPUTY STATE AUDITOR

DEPARTMENT OF STATE AUDITOR
116 WEST JONES STREET
RALEIGH, N. C. 27603

November 20, 1973

DIVISIONS

AUDITING
SYSTEMS ACCOUNTING
N. C. FIREMENS' PENSION FUND
LAW ENFORCEMENT OFFICERS'
BENEFIT & RETIREMENT FUND
CONFEDERATE WIDOWS' PENSION

M E M O R A N D U M

TO: Henry L. Bridges
State Auditor

FROM: George King
Frank Marseglia

SUBJECT: State A.B.C. Warehouse

Per your request for a detailed analysis of the major problems and possible solutions concerning the State A.B.C. Warehouse, we submit the following comments. We reiterate that the present stock inventory system was set up on an emergency basis with a limited time schedule and limited resources. Because of these limitations, the system was designed as an interim system with the idea that a more permanent system would evolve once the initial confusion had subsided. In addition, we feel that the problems as they exist presently are not a result of the limitations of the data processing hardware, but rather those that are directly related to poor warehouse management and office administration.

A. Personnel and Related Problems

Many of the problems at the warehouse are directly related to substandard supervision of employees. This covers data processing and office personnel as well as warehouse personnel, but centers mainly on the warehouse operation.

The large amount of breakage and the tremendous number of adjustments indicate that supervision in the warehouse is weak. The incorrect packing of loads and the breakage in turn create additional problems. The recooperage area is constantly overloaded because of the unusually large amount of breakage. This excessive breakage causes a great amount of additional paperwork

Memorandum

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as does the vast number of necessary adjustments caused by incorrect shipments.

We feel that in-house training sessions by qualified instructors, closer supervision of picking teams, and a more orderly procedure in the gathering area would go far in alleviating many of these problems. Also, the supervisors themselves should have their responsibilities clearly defined so that they know exactly what is expected of them.

The present supervision in the data processing section is weak. The equipment is at times not used in the best ways simply because the present supervisor is not fully aware of the capacities. Information that could be an important aid to management is not available. This position should be filled with a more knowledgeable person in inventory control systems and equipment and be one that can lead and direct personnel in this section.

The present warehouse manager is simply spread too thin. One person cannot handle all of the duties required of a warehouse manager and also perform office manager duties. We feel that an office manager with accounting and data processing background should be hired to run the office operation. This would give the warehouse manager the time to direct and supervise the warehouse functions as he should. This office manager's position that we are suggesting should incorporate the recommendations made for the data processing section. If this were the case, this individual would be responsible for all office decisions and data processing operations and at the same time, the presence of this caliber individual would lend stability and motivate better office practices.

It is our opinion that the majority of the major problems at the ABC Warehouse involve personnel problems and that special attention should be given to these problems as soon as possible.

B. Contractual Agreements

At present, there is no signed agreement between the State Board and the distillers covering the bailee-bailor arrangement and no signed contract on equipment leased by the warehouse. It is hard for us to understand how the Board got into this huge distribution system without

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having some type of formal agreement that sets forth the full responsibilities of both parties.

The towmotors used at the warehouse have been a constant source of problems since inception. The temporary nature of the warehouse in the beginning has caused this situation to date. We feel that the time has come to get a long term contract (2 years or more) which includes a strong maintenance clause. This should be a signed, enforceable contract. We feel that this would facilitate the daily planning and operation of the warehouse and aid management in meeting a highly sensitive schedule of shipping and receiving.

The trucking agreement that is now in force apparently has some flaws. If and when it becomes possible, we feel that the trucker should become fully responsible for a load from the time the seal is placed on a trailer until the local board takes responsibility. We realize that this would have to be negotiated, but we feel that it would relieve the warehouse of having responsibility for an area over which it has no control whatsoever.

C. Physical Space Deficiencies

There is an immediate need for additional warehouse and office space. Everyone involved is aware of this situation and we will not dwell on this point except to suggest that strong attempts be made to obtain additional warehouse and office space. The additional office space would facilitate the combining of the present separated Accounts Receivable Section of the accounting system with the warehouse operation. This action can save valuable time and also eliminate the need for a duplicate invoice file.

D. Recooperage Operation

Due to the large amount of "in-house" breakage the recooperage section has had to be very active. The required paperwork coming from this section has a direct bearing on the status of the warehouse inventory and it is important that the adjustments made to the inventory are accurate. To date this has not been the case. Personnel in this area has been poorly supervised and in turn the paper work has often been incorrect. We recommend that the management take necessary steps to insure that proper supervision is assigned in this area and that the resulting paperwork is

Memorandum

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accurate so that correct adjustments can be made to warehouse inventory.

E. Stock Inventory and Accounting System

Many of the problems related to the accounting and inventory system are directly tied to the preceding comments and therefore we will try not to cover them again. We will first list some of the problem areas and then list suggestions for improvements.

1. Problems

- a. "Out of Stock" items are creating a less than 1100 case truck shipment to local boards.
- b. A great amount of time is spent by data processing and office personnel in "bursting" printouts.
- c. Filing problems
- d. Bailment agreement has created a large amount of paperwork in that it requires an accounts receivable section to collect and record bailment from each local board.
- e. Hardware limitations.

2. Possible Solutions

- a. Consideration should be given to a stock allocation system whereby the local board's order could be run against a perpetual stock inventory record and at that time determine and allocate the available stock to that local board's order. This would eliminate the present "after the fact" determination which is creating a great deal of confusion at the time of shipment. This suggested method would be in the category of "before the fact" and would allow time to contact local boards prior to their shipping date for an increase in their order.

November 20, 1973

- b. At inception we recommended securing a forms burster. This would save valuable time that could be better applied in other areas. Forms bursters are available on a rental basis and at a fairly low cost.
- c. A file clerk should be added to the office staff to maintain the files in an up-to-date manner. In addition, this same person could operate the forms burster.
- d. It is suggested that the Attorney Generals' Office look into the matter of the Affirmation Law more closely with the possibility of some type of arrangement being arrived at that would satisfy all parties concerned. This would lead to the elimination of the present accounts receivable section, thus cutting down on a large amount of paperwork.
- e. The present hardware is limited in the areas of memory and faster printing capability. Memory capability would be required in order to accomplish the suggestion made in 2-a above. It is suggested that expansion of the present hardware be investigated along with other available equipment on the market. This suggestion should be kept in its proper perspective, that is, the more sophisticated the equipment the better qualified the personnel will have to be to operate it.

F. General Comments

We recognize that the above suggested solutions will involve considerable additional expense. Whether or not the revenue now being generated will be sufficient to absorb the higher operating costs is presently unknown to us since no meaningful financial statement can be presented to reflect the fiscal condition at a given time.

It is our opinion that a reduction of paper work and handling can be effected if some of the above mentioned changes are made. However, we feel very

Memorandum
Page 6

November 20, 1973

strongly that the present management and administration problems should be cleaned up before additional and more sophisticated hardware is considered.

We also feel that to insure the success of the State's endeavor in this operation that greater interest and support of the needs of the operation will be required by those individuals in higher echelon.

GCK:FJM:nd



STATE OF NORTH CAROLINA
DEPARTMENT OF THE STATE AUDITOR
RALEIGH, NORTH CAROLINA 27602

HENRY L. BRIDGES
STATE AUDITOR

February 4, 1974

Dr. L. C. Holshouser, Chairman
Board of Alcoholic Control
Raleigh, North Carolina

Dear Dr. Holshouser:

Please find attached an Income Statement and a Balance Sheet for the period of March 6, 1973 to January 24, 1974 for the A.B.C Warehouse. The figures, used in the preparation of these statements were obtained from records kept at the Department of Commerce and the A.B.C. Warehouse and are unaudited figures. These statements were prepared for use by the A.B.C. Board as an aid to management and in no way should be used to reflect the true financial position of the Warehouse. Since these statements are not audited, accordingly we do not express an opinion on them.

Respectfully submitted,

A handwritten signature in cursive script that reads "Henry L. Bridges".

Henry L. Bridges
State Auditor

HLB/GCK/nd

cc: Governor James E. Holshouser, Jr.
Mr. Scott Harvey, Sec. of Commerce



North Carolina ABC WarehouseIncome StatementMarch 6, 1973 Through January 24, 1974Revenues:

Bailment Fees	\$	1 064 065 99
Recooperage Fees		<u>8 974 45</u>

Total Revenue

\$	1 073 040 44
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Expenses: (Note 4)

Salaries	\$	288 754 07
Retirement Contributions		19 500 10
Social Security Contributions		16 558 15
Employee Benefits		6 209 40
Supplies		22 551 89
Communication		5 461 99
Freight		460 641 02
Travel		1 267 74
Printing and Binding		112 35
Utilities		7 498 70
Repairs and Alterations		6 913 00
General Expense		11 808 41
Rent - Old Warehouse		92 665 76
Rent - New Warehouse		3 226 05
Rent - Equipment		37 734 86
Rent - EDP Equipment		17 618 92
Equipment Purchases		21 376 50
Equipment Operation		2 914 88
Inventory Loss - Cases (Note 1)		52 947 79
Inventory Loss - Bottles (Note 1)		12 620 74
Inventory Breakage (Note 2)		<u>89 833 19</u>

Total Expenses

\$	<u>1 178 215 81</u>
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Net Income (Loss)

(\$	<u><u>105 175 07)</u></u>
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North Carolina ABC Warehouse

Balance Sheet

January 24, 1974

Assets

Cash	\$	82 652 19
Trade Accounts Receivable - Local Boards		26 159 14
Accounts Receivable - Distillers		<u>7 335 20</u>
<u>Total Assets</u>	\$	<u>116 146 53</u>

Liabilities and Fund Balance

Liabilities: (Note 3)

Accrued Expenses Payable	\$	40 110 71
Employee Contributions to Health Insurance		809 17
Payable to General Fund		25 000 00

Liability to Distillers:

Bottle Breakage (Note 2)	\$	89 833 19
Inventory Shrinkage (Cases) (Note 1)		52 947 79
Inventory Shrinkage (Bottle) (Note 1)		<u>12 620 74</u>
		<u>155 401</u>

Total Liabilities \$ 221 321

Fund Balance (105 175 0)

Total Liabilities and Fund Balance \$ 116 146 53

North Carolina ABC Warehouse

Notes To Financial Statements

Note 1: These figures represent the net difference between the book inventory and the physical inventory on January 24, 1974. A complete analysis of these differences could cause these figures to change significantly.

Note 2: Of the 33,128 bottles broken or distressed as of January 24, 1974, the warehouse liability is for 29,798 bottles or \$89,833.19.

Note 3: The A.B.C. Board is contingently liable to Lane Trucking Company for \$14,719.68. Lane plans to charge the distillers ten cents per case for the inventory moved from the old warehouse to the new warehouse, and to rebate two cents per case to the A.B.C. Board. However, in the event of refusal to pay this charge by the distillers, the A.B.C. Board has orally agreed to guarantee Lane eight cents per case.

Note 4: Expenses shown on the income statement are actual, cash expenditures from March 6, 1973 through January 24, 1974 plus accrued expenses. These accrued expenses were taken from vouchers, invoices, contracts, and other information made available to us.

