

April 22, 2002

Ms. Pat Craddock, Executive Director
Members of the Metropolitan Beer Permit Board
222 3rd Avenue North, Suite 450
Nashville, TN 37201

Report of Internal Audit Section

Dear Ms. Craddock and Metropolitan Beer Permit Board Members:

We have recently completed a performance audit of the Metropolitan Beer Permit Board (Beer Board). According to the *Government Auditing Standards* issued by the Comptroller General of the United States, “a performance audit is an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action.” A performance audit is different than financial statement audits, which are limited to auditing financial statements and controls, without reviewing operations and performance.

The Beer Board is an administrative body empowered under the Tennessee Code and created by the Metropolitan Code. The Board has jurisdiction of the licensing, regulation and control of the transportation, storage, sale, distribution, possession, receipt and/or manufacture of beer of an alcoholic content of not more than five percent by weight, or any other beverage of like alcoholic content. Regulation of beverages with higher alcohol content is performed by the State of Tennessee Alcoholic Beverage Commission. The Beer Board also has responsibility for granting permits to operate public dance halls and to conduct public dances.

The Beer Board consists of seven members appointed by the Mayor and approved by the Metropolitan Council. A staff member from the Metro Legal Department serves in an advisory role to the Board. The Board holds meetings twice monthly in order to review permit applications, resolve disputes and address penalties.

In addition to its permitting authority, the Board is empowered to employ inspectors who are authorized to enforce the applicable provisions of the Metropolitan Code. In order to fulfill this responsibility, the Beer Board office employs two full time inspectors who perform compliance monitoring of over one thousand establishments holding current beer and dance permits. The inspectors are tasked with performing multiple on-site inspections of all establishments annually. The Board office also employs three office staff supervised by an executive director. Among their responsibilities are the collection of fees and taxes and the maintenance of all records related to applications for beer and dance permits. The Board issues over four hundred permits annually.

Fee schedules and key Revenue and Expenditure totals for fiscal years ending June 30, 2001 and 2000 are outlined below:

Fee schedule:

Application fees - beer	\$250
Annual privilege tax	\$100
Dance application	\$100
Dance annual permit	\$100

	<u>2001</u>	<u>2000</u>
<i><u>Revenues:</u></i>		
Privilege tax revenues	\$146,000	\$140,000
Beer permits	105,000	99,000
Dance permits	31,000	30,000
Fees and penalties	<u>34,000</u>	<u>93,000</u>
 Total Revenues	 <u>\$316,000</u>	 <u>\$362,000</u>
 <i><u>Expenditures:</u></i>		
Personal service	\$257,000	\$251,000
Printing	1,588	2,574
Postal charges	2,414	3,234
Telecommunications	6,327	4,834
Office supplies	1,988	3,065
Motor Pool	11,962	14,304
All other internal service	<u>6,721</u>	<u>3,989</u>
 Total Expenditures	 <u>\$288,000</u>	 <u>\$283,000</u>

The decline in fee and penalty revenue in 2001 was the result of Beer Board action to temporarily change the practice of assessing civil penalties as a result of inspection citations. The historical practice of the Board was to assess penalties in lieu of permit suspensions at the discretion of the permit holder. These penalties ranged in amounts, but were frequently greater than \$1,000. The Board reduced the penalties during 2001 while taking time to interpret recent state court rulings limiting some fee and penalty assessments to \$50. The Board has recently returned to the former practice of assessing civil penalties in light of recent interpretations of court intentions.

Objectives, Scope, and Methodology

The overall objectives of this performance audit were as follows:

- Analyze key operating and financial statistics for the Beer Board.
- Evaluate key operating and financial controls.
- Examine compliance with applicable laws, regulations and other policies.
- Develop findings and recommendations for any areas where performance could be improved.
- Describe any instances of non-compliance with laws and regulations, or any instances of fraud, abuse or illegal acts noted.

The scope of the work included the Beer Board's primary operations. The audit was largely focused on fiscal year 2001 financial results and transactions and on the policies, procedures and operations in place during the time the audit was conducted. Certain other audit work and analyses required the consideration of financial results, performance and operations outside of those time periods.

The methodology employed throughout this audit was one of objectively reviewing various forms of documentation, including written policies and procedures, financial information, Board minutes and various other forms of data, reports and information maintained by the Beer Board and other Metro Departments. Various aspects of Beer Board operations were observed. Additionally, Beer Board personnel, Board members, and other stakeholders were interviewed.

We performed the audit procedures in accordance with generally accepted government auditing standards.

Findings and Recommendations

- 1.) The Beer Board office needs to establish key operational performance metrics and report results periodically to the Board.

Currently the Board office does not provide the Board with any formal management reporting on the operation of the Board office.

Recommendation:

Periodic presentations of financial and key performance metrics should be incorporated into the Board schedule. Examples of performance metrics might include the number of inspections completed per quarter, the number of new permits issued, and the total number of new sellers in a calendar year.

- 2.) The Beer Board office needs to coordinate operations with other Metro-wide initiatives.

There are currently several initiatives underway in the areas of cash management and Web enabling operations that could enhance the efficiency and effectiveness of Beer Board operations. The current Beer Board office processes are largely manual and result in a high degree of walk-in traffic in order to conduct business.

Recommendation:

The Board office should work with the Departments of Finance and Information Systems to ensure inclusion in broader initiatives that could positively impact their operations. Examples include Web based customer information including the rules and regulations handbook, on-line applications, and Internet payment of annual privilege taxes.

- 3.) Late penalties should be automatic for delinquent payment of annual privilege tax.

The Beer Board office does not automatically apply a late penalty for delinquent payment of annual privilege taxes, despite the added cost of multiple mailings and additional administrative time associated with collection efforts. Current state law does not specifically authorize such assessments. The Board office typically sends over one hundred registered mail late notices annually. The Board does assess civil penalties or revoke permits when there is no response to this second notification.

Recommendation:

The Board office should work with the Metro Legal department to investigate the possibility of implementing an automatic late penalty for delinquent annual privilege taxes. A \$20 charge applied to late payment of privilege tax billings would generate approximately \$2,000 to help defray the costs associated with the additional collection efforts.

4.) Pre-inspection site guidance advisory service should be implemented.

Currently, business owners and contractors have no ability to obtain pre-construction advice from the Beer Board office regarding proposed new sites, or the modification of existing sites, in order to determine the likelihood of obtaining a valid beer permit. Recent examples of sites which failed to meet distance requirements of the Code highlight the need to provide enhanced pre-construction advice.

Recommendation:

The Board office should develop and publish procedures that would provide information and assistance to business owners prior to construction or deal closure. This service may prevent businesses from making investments that might not be permitted as planned.

5.) The inspection process should be streamlined.

During the audit, the audit staff spent time with a beer permit inspector on his routine inspection rounds. We found the inspector highly competent and well aware of his responsibilities. We did, however, note that two establishments scheduled for inspection were closed at the time of the inspection visit. The auditor also noted that the inspection area scheduled for the day was not concentrated in a logical fashion. It should be noted that during the course of the review the Beer Board office was making efforts to provide greater detail and more logical routing instructions for the inspectors.

Recommendation:

The inspection process can be streamlined by listing establishment hours of operation and other key information on inspector routing guides and ensuring inspection routes are logically planned.

Management's response to the audit recommendations follow this report.

We greatly appreciate the cooperation and help provided by the management and staff of the Beer Board throughout the course of this audit.

This report is intended for the information of the management of the Metropolitan Government of Nashville and Davidson County. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Internal Audit Section

Kim McDoniel
Internal Audit Manager

Copy: Mayor Bill Purcell
Karl F. Dean, Director of Law
David L. Manning, Director of Finance
Eugene Nolan, Associate Director of Finance
Metropolitan Council Audit Committee
Richard V. Norment, Director of County Audit
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April 22, 2002

Ms. Kim McDoniel
Metro Department of Finance
Internal Audit Division
222 Third Avenue North, Suite 401
Nashville, TN 37201

Dear Ms. McDoniel:

This letter is acknowledgement that we have received the Internal Audit report of the Metropolitan Beer Permit Board. While we generally agree with the findings of the report, the specific recommendations will be discussed in more detail with the members of the Beer Permit Board as soon as practical.

As Executive Director of the Board Office I can assure you that our staff will keep your office apprised of the status of the Board's deliberations and actions related to the findings and recommendations contained in this report.

Regards,

Pat Craddock