

Asheboro ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
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ABC
COMMISSION
NORTH CAROLINA

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ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

November 17, 2015

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Moniqua S. McLean
ABC Board Auditor

Asheboro ABC Board
Ms. J. Brooke Schmidly, Chairperson
700 S Fayetteville Street
Asheboro, NC 27203

Dear Chairperson Schmidly,

We are pleased to submit this performance audit report on the Asheboro ABC Board. The objective of this audit was to examine existing policies, practices, and controls and to provide recommendations on methods to improve operating efficiency at the ABC Board in accordance with new legislative mandates.

The report consists of an executive summary, background information, operational findings and recommendations along with your response to our recommendations. This report will be posted on the Commission's public web site.

We would like to thank you, the ABC Board and your staff for the assistance and cooperation provided to us during the audit. Additionally, we appreciate the efforts your Board has made to comply with the new performance standards along with your efforts to increase profitability and reduce expenses.

If we can be of assistance in the future, please advise.

Respectfully,

Robert A. Hamilton
Administrator

CC. North Carolina Association of ABC Boards

EXECUTIVE SUMMARY

By state law, the ABC Commission shall ensure that all local ABC Boards comply with established performance standards by conducting regular audit or performance evaluations. Performance standards shall include, but are not limited to, standards that address enforcement of ABC laws, store appearance, operating efficiency, solvency, and customer service. Performance audits are examinations of existing operating policies, practices, controls, and activities to determine those areas in which there may be a need for improvements. This audit was conducted in accordance with Government Auditing Standards. This report details findings and recommendations with regard to organizational and operational issues.

To achieve the objectives of the audit, ABC Commission staff

- Reviewed applicable General Statutes, ABC Commission Rules, and administrative policies;
- Reviewed applicable reports and studies of ABC boards with similar size and geography;
- Verified compliance with Commission and Board policies;
- Reviewed organizational chart and job descriptions;
- Reviewed ABC store annual audit for the fiscal year 2014;
- Visited the store;
- Interviewed key ABC board personnel.

BACKGROUND INFORMATION

G.S. 18B-601 (c) authorized the city of Asheboro to hold an election for an ABC store. The referendum was held on July 29, 2008 and passed 3,942 to 2,666. A mixed beverage election occurred on the same date and passed 4,085 to 2,507. The first retail sale occurred on November 18, 2008.

Upon election of an ABC store, the city was authorized to create an ABC board consisting of a chairman and two board members to serve for three year staggered terms. Current board members include J. Brooke Schmidly, chairperson, Robert Morrison and Stephen Knight, board members.

The Asheboro ABC Board operates one retail store. The board staffs four full-time and five part-time employees. The general manager is responsible for the oversight of all store operations, policy implementation, inventory management, human resources, and other administrative decisions for the board. A board member handles some financial management of the board. The store manager is responsible for providing oversight of daily store operations, inventory management, and assisting the general manager with other duties. Store employees provide friendly customer service to all retail and mixed beverage customers, general store upkeep, and stock maintenance.

OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

On January 26, 2015, ABC Board Auditor, Moniqua S. McLean, visited the Asheboro ABC store and office and interviewed Rodney Johnson, general manager. Below is a financial analysis followed by operational observations, findings, and recommendations related to the performance audit.

FINANCIAL ANALYSIS

PROFIT PERCENTAGE TO SALES

The profit percentage to sales is calculated by dividing the total income (loss) from operations by the total liquor sales (Total Income (Loss) from Operations/Total Liquor Sales). The Commission has set goals based on the following breakdown:

- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2014, the Asheboro ABC board had gross sales of \$2,999,287; income from operations was \$326,412, a 10.88% profit percentage to sales.

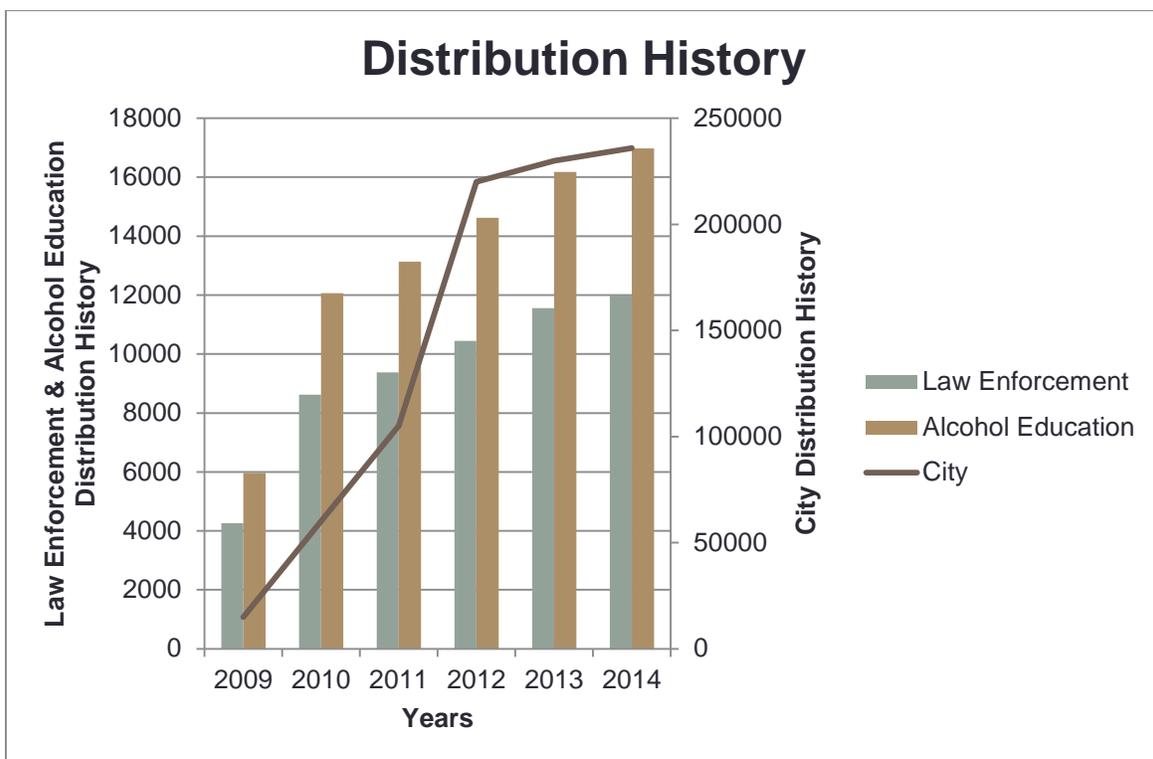
DISTRIBUTIONS

G.S. 18B-805 (b) requires the board to pay from gross receipts, all expenses, excise, mixed beverage and bottle taxes. G.S. 18B-805 (c) requires the board to make a minimum quarterly distribution of the 3 ½% markup rate to the town. In FY2014, Asheboro ABC made the minimum distribution of \$85,178, plus an additional distribution of \$150,822. \$694,801 in excise and other taxes were paid to the NC Department of Revenue, the Department of Health and Human Services, and the town.

G.S. 18B-805 (c) (2) and (3) requires the board to distribute at least five percent (5%) of profits to law enforcement and at least seven percent (7%) toward alcohol education/rehabilitation. The remaining profits are to be distributed to the City of Asheboro General Fund.

In FY2014, the Asheboro ABC Board distributed to the town \$11,994 for law enforcement. A law enforcement contract has been implemented and submitted to the Commission. Alcohol education distributions total \$16,972.

Below is a distribution chart analyzing the high-low trend of the Asheboro ABC Board for the past six years.



WORKING CAPITAL

G.S. 18B-805 (d) allows the board to set aside a portion of the remaining gross receipts, within the limits set by the rules of the Commission, as cash to operate the ABC system. Working capital is total cash, investments, and inventory less all unsecured liabilities. Gross sales means gross receipts from the sale of alcoholic beverages less distributions as defined in G.S. 18B-805 (b), (2), (3), and (4). The Commission has set efficiency goals based on the following breakdown:

- Four months for boards with gross sales less than \$1.5M
- Three months for boards with gross sales less than \$50M and greater than or equal to \$1.5M
- Two months for boards with gross sales equal to or greater than \$50M

In FY2014, the Asheboro ABC Board had a working capital of \$469,058, which is less than the maximum allowed to retain of three months gross sales (\$576,121) and is within the limits of NCAC 15A .0902.

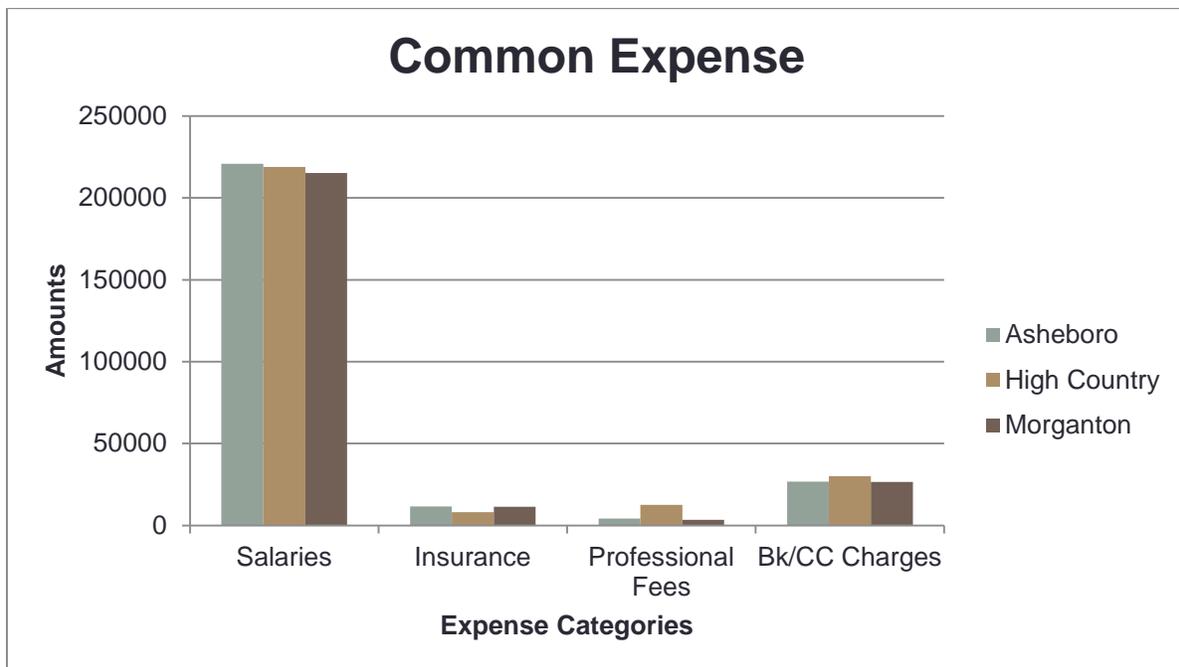
OPERATING COST RATIO

Operating costs are calculated by dividing total operating expenses less depreciation by the gross profit on sales (Total Operating Expenses less Depreciation/Gross Profit). Below are the average cost ratios for boards with and without mixed beverage sales (MXB):

- Single store boards with MXB sales that are equal to or greater than 25% of gross sales – cost ratio 0.75
- Single store boards with MXB sales less than 25% of gross sales – cost ratio 0.85
- Single store boards without MXB sales – cost ratio 0.85
- Boards with 2 stores with and without MXB sales – cost ratio 0.74
- Boards with 3 or more stores with and without MXB sales – cost ratio 0.64

The Asheboro ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.54. Mixed beverage sales make up 11.7% of total gross sales. In fiscal year 2014, sales increased 3.5% over fiscal year 2013 as expenses increased 4.5% over the same time period.

A common expense analysis shows that Asheboro ABC Board's expenses are in line with other boards.



NO RECOMMENDATIONS

STORE APPEARANCE

The Asheboro ABC Board operates one retail store and carries approximately 1350 product codes.

- The store appeared clean and free of trash. Counter areas were neat and well-organized.
- The store displayed clean and neat signage. The required Fetal Alcohol Syndrome poster is displayed and visible to the public.
- Landscaping around the store is well-maintained with no evidence of trash.
- Each product is displayed within its designated category. Bottles are fronted and dusted.
- A shelf management plan is utilized that exhibits a strategy following the premium products at eye level and lowest price products on the bottom shelves. Product placement is consistent with sizes going from largest on the right and smallest to the left. Horizontal brand blocking is shown for similar products across all categories. Cross merchandising is utilized in all areas to encourage impulse shopping.

CUSTOMER SERVICE

- The state price book is available for retail and mixed beverage customers. Sales clerks often refer to the price book for verification of products and pricing. Monthly sales information is shared with mixed beverage and retail customers on a consistent basis.
- Sales clerks' interaction with retail and mixed beverage customers is attentive, courteous, and all are eager to meet the needs of the customers.

NO RECOMMENDATIONS

PERSONNEL AND TRAINING

- All board members and the general manager have completed the ethics training required by the statute. One board member has since been reappointed and has not yet completed the ethics training.
- Cross training opportunities on key administrative duties are being extended to key employees in the event the general manager was suddenly unavailable. Other training is provided to new and existing staff on key areas, such as product knowledge, customer service, and clerk responsibilities on a continual basis.
- Personnel files are available and include the required human resource documentation and other personnel information as needed.

RECOMMENDATIONS

1. Have all reappointed board members complete the ethics requirement within 12 months of reappointment. *Refer to Appendix B (1) for statute.*

ABC BOARD POLICIES

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Law Enforcement Contract
 - Travel Policy (State Travel Adopted)
 - Asheboro Employee Manual
 - FY2014 Annual Audit
 - Fy2015 Budget (Proposed and Adopted)
 - Price Discrepancy Policy
 - Shelf Management Policy
 - Mixed Beverage Policy

NO RECOMMENDATIONS

INTERNAL CONTROL OBSERVATIONS

Internal control is the process by which the board provides assurance that operations are effective and efficient, reliable, and in compliance with applicable rules, laws and regulations. Internal control is strongest when activities are segregated creating a system of checks and balances, and adopting policies and procedures that follow current practices. Below are internal control findings that were observed during the audit fieldwork.

- The store manager schedules the employees for work shift hours. Time sheets are used for all clerks. During payroll, the employees fill out the time sheets and the store manager will sign off for hours worked. Time sheets are forwarded to the accountant/board member for review and processing.
- Cash drawers are counted by all clerks. Procedures are as follows: At the end of each assigned shift, employees shall have another employee count their register till and sign the Clerk Report verifying an accurate cash balance. If another employee is not reasonably available to verify the till balance, the employee shall count their own till balance and note on the Clerk Report the reason another employee was not available to conduct the count. In any event, an employee shall not verify their own till balance on consecutive shifts.
- Bank deposits are made regularly as required by the ABC Commission rule. Bank notifications are received and matched with corresponding daily register reports. To have effective oversight and aid in financial obligations, a board member verifies and oversees all financial duties. Bank reconciliations are completed by a board member on a monthly basis.
- Physical inventory counts are completed monthly by all employees using a scanner system provided by the computer vendor. In the process, each employee will begin scanning the product and counting what is displayed. For control purposes, the employee is not aware of how much product should be on hand. Spot checks are conducted frequently. If discrepancies occur, the general manager and store manager will investigate and recount for accuracy and verification. Once completed, the general manager, with the assistance of the store manager, will adjust the inventory system to match with the actual store counts.
- Breakage forms are routinely submitted to the Commission once signed by the distiller representative. A breakage policy has been adopted and forwarded to the Commission in the event that a customer or employee breaks a product.
- The board maintains a credit card to aid in purchases for the office, store and product knowledge. Management has implemented procedures for product knowledge purchases and maintains records along with receipts. The credit card statements are verified and reconciled by a board member. A credit card policy has been submitted to the Commission.
- Out of approximately 1,350 product codes, approximately 100 product codes were sampled to ensure accurate pricing and all were correct.

NO RECOMMENDATIONS

ADMINISTRATIVE COMPLIANCE FINDINGS AND OBSERVATIONS

- Board meeting minutes were viewed and followed the order of proceedings, providing sufficient detail that a reasonable person would be able to follow what transpired. Board meeting minutes included a certificate of accountability statement.
- Board member appointment dates and general manager compensation are current on the Commission website.
- Board member and general manager compensation is in compliance with G.S. 18B-800 (g) and (g1).
- The general manager serves as the finance officer. A request for waiver has been received by the Commission and approved until February 2017.
- Law enforcement activity reports have been submitted to the Commission as required by G.S. 18B-501 (f1).
- The board is in compliance with G.S. 18B-700 (k); there are no immediate family members employed related to board members or the general manager.
- In reviewing the budget to actual expenses as referenced in the financial audit, sales did not meet the budgeted amounts for the fiscal year 2014.
- All board members and the general manager are bonded for \$50,000 as required by G.S. 18B-700 (i).
- Liquor orders created by the board reflect the pre-audit certificate and signed by the general manager. For all other common orders, the board is usually invoiced by vendors for purchases.
- All checks bear the approved certificate indicating that the item has been approved by the general manager/finance officer for payment. Two signatures are present on all paid checks; that of the general manager and a board member. In the event that the general manager and/or board member is unavailable, other board members are authorized to sign checks.

NO RECOMMENDATIONS

AUDITOR'S SUMMARY

The performance audit recommendations were presented to the board on June 1, 2015. The board has not responded but is in agreement with all recommendations as presented. The board continues to implement strategies to improve profitability. Policies and procedures have been implemented to ensure compliance with statutes and Commission rules and to ensure efficient operations while maintaining checks and balances.

APPENDIX A

Illustration 1



Display within a shelf set.

Illustration 2



Shelf management

APPENDIX B

(1) G.S. 18B-706 (b) states, "Each member of a local board shall receive a minimum of two hours of ethics education within 12 months after initial appointment to the office and again within 12 months after each subsequent appointment to the office."

APPENDIX C

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Personnel and Training:</p> <ul style="list-style-type: none"> Have all board members completed the ethics required within 12 months of reappointment. 	<p> <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No </p> <p>**Note: Required by Commission rule.</p>	<p>(Please provide documentation supporting implementation status.)</p> <p> <input checked="" type="checkbox"/> Fully Implemented <input type="checkbox"/> Partially implemented 25% complete. (Explain below.) <input type="checkbox"/> Not implemented (Explain below.) </p> <p>All board members have completed the ethics requirement. Copies of the ethics verification is on file with the Commission.</p>