

Black Mountain ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
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ABC
COMMISSION
NORTH CAROLINA

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OBJECTIVE, PURPOSE, AND SCOPE

G.S. 18B-705 (a) authorizes the ABC Commission or alcohol law enforcement agents to conduct regular, special audits, or performance evaluations on all ABC boards. Performance audits are examinations of existing operating policies, practices, controls, and activities to determine those areas in which there may be a need for improvement.

The audits or evaluations are to ensure that all local ABC Boards comply with established performance standards pursuant to G.S. 18B-203 (a) (20). The audit scope includes performance standards that address compliance with ABC laws, store appearances, operating efficiency, solvency, and customer service.

To achieve the objectives of the audit, auditors:

- Reviewed applicable General Statutes, ABC Commission Rules, and administrative policies
- Reviewed applicable reports and studies of ABC boards with similar size and geography
- Consulted with specialists at UNC School of Government
- Verified compliance with Commission and Board policies
- Reviewed organizational chart and job descriptions
- Reviewed ABC board annual independent financial audits
- Visited the store(s)
- Interviewed key ABC board personnel.

As a basis for evaluating internal control, auditors applied the internal control guidance contained in professional auditing standards. Internal control is the process by which the board and management provide reasonable assurance that operations are effective and efficient, reliable, and in compliance with applicable rules, laws and regulations. As discussed in the standards, internal control consists of five interrelated components, which are (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.

BACKGROUND INFORMATION

S.L. 1971-457 authorized the Town of Black Mountain to hold an election for an ABC store upon a petition signed by at least fifteen percent (15%) of registered voters. The referendum was held on July 13, 1971 and passed 556 to 483. The first retail sale occurred on September 3, 1971. A mixed beverage election occurred on November 8, 2011 and passed 1,411 to 933.

Upon vote passage, the town was authorized to create an ABC board consisting of a chairman and two members to serve for three staggered-year terms. Current board members are William H. Christy, chairman, Debra Wooten and Rick Harwood.

The Black Mountain ABC Board operates one retail store and employs four full-time and three part-time employees. The general manager is responsible for providing oversight for the system including policy implementation, inventory management, minimal financial duties, and human resource management. The board has hired a bookkeeper to provide sufficient control over financial operations. Store employees have a primary responsibility in providing customer service, consistent store upkeep, and regular stock maintenance.

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 and \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In FY2016, the Black Mountain ABC Board had gross sales of \$2,207,256; income from operations was \$216,802. Profit percentage to sales for FY2016 is 9.8%.

DISTRIBUTIONS

G.S. 18B-805 (b) requires the board to pay from gross receipts all expenses, mixed beverage and bottle taxes. G.S. 18B-805 (c) requires the board to make a minimum quarterly distribution of the 3 ½% markup and .01/.05 cent bottle tax to the city.

In FY2016, the Black Mountain ABC Board made the required minimum distribution of \$63,345 to the municipality and the county. The Black Mountain ABC Board paid a total of \$504,873 in excise and other taxes to the North Carolina Department of Revenue, the Department of Health and Human Services, and the city.

S.L. 1971-457 requires the Black Mountain ABC Board to distribute quarterly the remaining profits to the following:

- *Seventy-five percent (75%) to the Town of Black Mountain General Fund;*
- *Twenty-five percent (25%) to the Buncombe County General Fund.*

In FY2016, the Black Mountain ABC Board made an additional distribution of \$8,655 proportionately to the city and the county.

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%) of profits toward alcohol education.

The Black Mountain ABC Board does not have a law enforcement contract. However, the board has distributed \$15,346 toward law enforcement to the Black Mountain Police Department.

Alcohol education distributions totaled \$10,742. Alcohol education distributions have been awarded to First at Blue Ridge. Annual reports have not been submitted to the ABC board.

RECOMMENDATIONS

1. Adopt a law enforcement contract with a local law enforcement agency detailing the services requested. *Refer to Appendix A (1) for statute.*
2. Request an annual report/statement from alcohol education recipients detailing how funds were spent. *Refer to Appendix A (2) for statute.*

WORKING CAPITAL

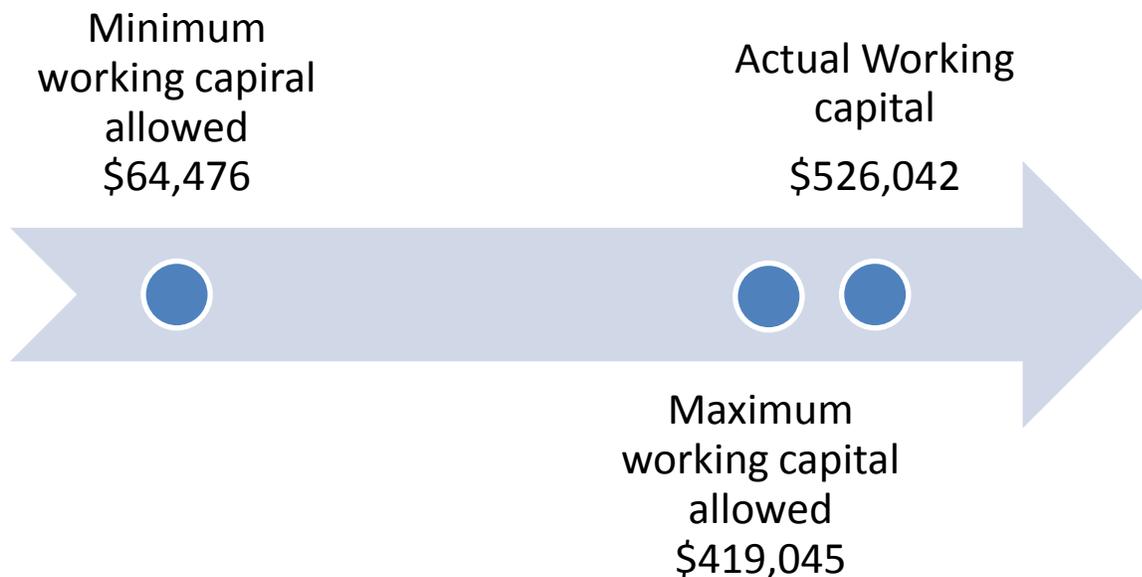
G.S. 18B-805 (d) allows the board to set aside a portion of the remaining gross receipts, within the limits set by the rules of the Commission, as cash to operate the ABC system. Working capital is total cash, investments, and inventory less all unsecured liabilities. Gross sales means gross receipts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

The Black Mountain ABC Board had gross sales of \$2,207,256 in FY2016. The board's working capital of \$526,042 is more than the maximum amount allowed to be retained.

RECOMMENDATIONS

1. Distribute the excess of working capital, \$106,997 to the appointing authority.
2. Ask for approval from the appointing authority allowing the board to set up a capital improvement fund account for a specific capital improvement purpose. Once the approval is received, forward to the Commission.



OPERATING COST RATIO

The operating costs ratio 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):

- Boards with 3 or more stores – cost ratio 0.63 or less
- Board with 1 or 2 stores with MXB – cost ratio .73 or less
- Boards with 1 or 2 stores without MXB – cost ratio .85 or less

The Black Mountain ABC Board operates one store with retail and mixed beverage sales. Mixed beverage sales make up 8.3% of total liquor sales. In FY2016, the Black Mountain ABC Board's operating cost ratio was 0.60. Sales have increased 10.1% over FY2015. Expenses have increased 17.5% over the same time period.

FINDINGS AND RECOMMENDATIONS

STORE APPEARANCE AND OPERATIONS

As a routine procedure, the ABC Auditor tours ABC store locations, evaluates interior and exterior store appearance, verifies product pricing and interviews store personnel. The store's shelf linear footage is approximately 1,109 ft. and carries approximately 1,300 product codes.

- The store appeared clean and free of trash. Counter areas were neat and well-organized. Store shelves were well-stocked with a variety of products.
- The store displayed neat and visible signage. The Fetal Alcohol Syndrome poster is displayed and visible to the public.
- Landscaping around the store is well-maintained and trash free.
- Shelf management and/or product placement follows marketing industry standards and shows the following:
 - Each product is displayed within its designated category
 - Premium products show at eye level and lowest-price products on the bottom shelves.
 - Sizes are consistent going from largest on the right and smallest to the left
 - Cross merchandising is utilized where possible to encourage impulse shopping
 - Bottles are fronted and dusted throughout the stores
- Sales clerks often refer to the North Carolina Liquor Quarterly for verification of products and pricing. Monthly sales information is shared with mixed beverage and retail customers on a consistent basis.
- Cash drawers are maintained by all clerks. All clerks are responsible for their own cash drawer. Management has implemented procedures for handling cash drawer overages/shortages.
- Bank deposits are made regularly according to the ABC Commission rules. In inspecting bank documentation, it was evident that store deposit slips were matched with corresponding daily register reports. Bank reconciliations are completed by the bookkeeper.
- Physical inventory counts are performed two times a year. Spot checks are conducted when determining the next liquor order, two times a month. If discrepancies are found, the general manager and another employee will investigate and recount. Adjustments to the inventory system are made by the bookkeeper.
- Out of approximately 1,300 product codes in the store, approximately 90 product codes were sampled to ensure accurate pricing. All were correct.

RECOMMENDATIONS

1. To have efficient inventory controls, consider conducting an inventory count more than two times a year.

PERSONNEL AND ABC TRAINING

- All board members, the general manager, and the finance officer have completed the ethics training as required. At the time of the audit fieldwork, one board member had since been reappointed and had not yet completed the ethics training. Each board member is required by statute to complete the training within one year of reappointment status.
- Cross training has been extended to employees in the event the store managers, general manager, or finance officer is unavailable.
- Additional training is provided to new and existing staff on key areas such as product knowledge, customer service, and clerk responsibilities.
- Employee personnel files are available and secured. Required human resource documentation and other information are available and appropriately filed.

RECOMMENDATIONS

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

ABC BOARD POLICIES

G.S. 18B-702 requires the board to annually adopt a budget and budget message. G. S. 18B-702 (s) requires the board to submit an annual independent audit of its operations to the appointing authority and the Commission. The Black Mountain ABC Board's policies and manual have been updated to include, but are not limited to, the following:

- Code of Ethics
- Travel Policy (Follows the Office of State Budget and Management Travel Policy)
- Black Mountain ABC Board Employee Manual
- Black Mountain ABC Board Credit Card Usage Policy
- Price Discrepancy Policy
- Mixed Beverage Policy
- FY2017 Budget (Proposed and Adopted)
- FY2016 Annual Financial Audit

In reviewing policies to ensure current practices are performed, it was found that the current policy for the sale to underage did not mention the board's position if an employee were charged with selling to an underage person.

Policies are required to be submitted to the Commission within fifteen days prior to adoption as required by the Commission rule, NCAC 15A .1102.

RECOMMENDATIONS

1. Adopt an addition to the employee handbook/manual detailing what would occur in the event an employee were found to have sold to an underage person.

INTERNAL CONTROL AND ADMINISTRATIVE OPERATIONS

- Board information on the ABC Commission website is not current reflecting board member appointment dates and salary information for all members including general manager.
- Employee work schedules are created by the general manager. All employees utilize a time sheet to record hours worked. Timesheets are verified and signed by the general manager and forwarded to the bookkeeper for processing. The bookkeeper manages and reconciles the payroll reports to create appropriate entries within the accounting system.
- In reviewing a sample of board credit card transactions, procedures were followed according to the adopted credit card usage policy.
- Breakage forms are submitted as required by the Commission rules. Management has implemented procedures for handling breakage when a customer/employee breaks product.
- Law enforcement activity reports have been submitted to the Commission as required by G.S. 18B-501 (f1).
- All purchases are authorized by the general manager and pre-audited by the finance officer. Pre-audit procedures are indicated through use of the certificate and signature of the finance officer as required in G.S 18B-702 (m). Purchase payments are made by petty cash on hand, board credit card, and/or business checks.
- Checks bear the approved certificate with finance officer/deputy finance officer signature as required by G.S. 18B-702 (q). Two signatures are located on all cancelled checks; that of the finance officer and a board member. Other parties are authorized to sign checks as authorized through bank documentation and indicated on the ABC board check signing policy.

RECOMMENDATIONS

1. Update the ABC Commission's website to reflect current board member appointment dates, compensation amounts, and other information as they come available.

ABC BOARD COMPLIANCE

- Board meeting minutes were reviewed and found to provide sufficient detail that a reasonable person would be able to follow what transpired.
- Board meeting minutes included a conflict of interest statement asking board members if conflicts existed with items on the meeting agenda. Each board member signs the statement at each monthly meeting.
- Board notifies the public of board meetings through the local media, the appointing authority, and the store.
- The general manager compensation is in compliance with G.S. 18B-700 (g1).
- The board is in compliance with G.S. 18B-700 (k) as there are no known relationships between staff, any board member, and the general manager employed within the system.
- All board members, the general manager, and the finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).

NO RECOMMENDATIONS

SUMMARY

A board meeting was held on October 19, 2016 with the Black Mountain ABC Board. Discussions were held regarding the future relocation efforts of the store. The board continues to discuss ways to improve profitability while maintaining budget appropriations and reducing costs. Procedures are implemented to ensure compliance with statutes and ABC Commission rules and to ensure efficient operations are conducted while maintaining sufficient controls.



ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

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Greensboro

MICHAEL C. HERRING
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Moniqua S. McLean
ABC Board Auditor

(919) 779-8365

March 2, 2017

Black Mountain ABC Board
Mr. William H. Christy, Chairman
207 NC Hwy 9
Black Mountain, NC 28711

Dear Chairman Christy,

We are pleased to submit this performance audit report on the Black Mountain 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. Your continued efforts to increase profitability and reduce expenses are commendable.

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

Respectfully,

A handwritten signature in black ink, appearing to read "R. A. Hamilton".

Robert A. Hamilton
Administrator

CC: North Carolina Association of ABC Boards

December 16, 2106

Moniqua S. McLean
ABC Board Auditor
4307 Mail Service Center
Raleigh, NC 27610

Via email only: moniqua.mclean@abc.nc.gov

Re: Black Mountain ABC Board

Dear Ms. McLean:

Thank you very much for your presentation of the Performance Audit at the October 19, 2016 meeting of the Black Mountain ABC Board. That was very informative and we appreciate your efforts.

You requested that we respond to the various recommendations that you made, and I am happy to do so in this email. I am responding by following the grouping of the various sections of the Audit:

Distributions.

1. You requested that we adopt a contract with the local law enforcement agency. *See attached*
2. You requested an annual report from the alcohol education recipients. *As we noted to you at the meeting, that had already occurred and you saw the report that we received from First, Inc.*

Working Capital

You had two recommendations regarding this, including a recommendation to either distribute the working capital or ask for approval of the Town of Black Mountain to set up a capital improvement fund. As we noted to you in our meeting, on September 12, 2016 the Board of Aldermen did approve a capital improvement fund. *A copy of the minutes from that meeting are attached.*

Store Appearance and Operations

You recommended that we consider conducting inventory count more than two times a year. ***Manager Randy Reece will institute regular spot checks between inventory counts and will report to the Board on this.***

ABC Board Policies

You recommended that we adopt an addition to the employee handbook detailing what would occur in the event an employee were found to have sold to an underage person. ***We will take up the issue of amending the employee handbook in early 2017, keeping in mind that there are issues to be considered regarding actions against an employee if there are legal actions being taken. However, we will reassert that we have a zero tolerance policy which will lead to termination if an employee is found to have sold to an underage person.***

Internal Control and Administrative Operations

1. You recommended that we update current information on the Commission's website. ***This has occurred.***

Again, we thank you for your time and efforts on the audit and meeting with the Board. Both Staff and the Board felt like this was a very useful process as it is our goal to strive to provide superior service to our customers while fully complying with ABC Board rules and regulations with the goal of maximizing profits to benefit the statutory recipients of those profits. Please let me know if you have any questions.

Sincerely,
Bill

Christy
William H. Christy

Digitally signed by Bill Christy
DN: cn=Bill Christy, o=Stone &
Christy, P.A., ou,
email=bill@stoneandchristy.com,
c=US
Date: 2016.12.16 10:35:47 -05'00'

Black Mountain ABC Board Chair

APPENDIX A

- 1) *G.S. 18B-501 (f) states, "Instead of hiring local ABC officers, a local board may contract to pay its enforcement funds to a sheriff's department, city police department, or other local law-enforcement agency for enforcement of the ABC laws within the law-enforcement agency's territorial jurisdiction."*
- 2) *G.S. 18B-805 (h) states, "...Any agency or person receiving funds from the county commissioners or local board under this subsection shall submit an annual report to the board of county commissioners or local boards from which funds were received, describing how the funds were spent."*