

# Boone ABC Board

## Performance Audit Report



Alcoholic Beverage Control Commission  
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**ABC**  
COMMISSION  
NORTH CAROLINA

## TABLE OF CONTENTS

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ABC Commission Statement.....	3
Operational Observations, Findings, and Recommendations.....	6
Auditor’s Summary.....	14
Appendices.....	15



# ABC

COMMISSION  
NORTH CAROLINA

## Alcoholic Beverage Control

CHAIRMAN:  
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**Moniqua S McLean**  
ABC Board Auditor  
919-779-8365

July 6, 2015

Boone ABC Board  
Ronnie Holste, Chairman  
2067 Blowing Rock Road  
Boone, NC 28607

Dear Chairman Holste,

We are pleased to submit this performance audit report on the Boone 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. 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.

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**

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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 board annual audit for the fiscal year 2014;
- Visited the store;
- Interviewed key ABC board personnel.

## **BACKGROUND INFORMATION**

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G.S. 18B-601 (c) authorized the town of Boone to hold an election for an ABC store. The referendum was held on March 18, 1986 and passed 3,438 to 1,525. The first retail sale occurred November 5, 1986. A special election allowed the board to hold an election for mixed beverage sales. The mixed beverage election was held on January 26, 1993 and did not pass. A second mixed beverage election occurred on August 19, 2008 and passed 1,111 to 408.

Upon election of an ABC store, the town was authorized to create an ABC board consisting of a chairman and two board members to serve for three year terms. Current board members are Ronnie Holste, board chairman, Freida Van Allen and Pat Wilkie, board members.

The Boone ABC Board operates one retail store. The board staffs eight full-time and one part-time employees. The general manager is primarily responsible for the overall oversight of the daily operations of the store including personnel, inventory control, accounts payable, and other administrative functions. The board has hired a finance officer within the organization to handle all financial aspects of the board. The board has also hired an external accountant to assist with adjusting the general ledger and other duties as required by the ABC Commission. All store employees are responsible for providing friendly customer service to all customers, general store upkeep, and stock maintenance.

## **OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS**

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On August 19, 2014, ABC Board Auditor, Moniqua S. McLean, visited the Boone ABC store and interviewed Ronnie Hayes, general manager, and Barry Horton, finance officer. Below is a financial analysis followed by operational observations, findings, and recommendations related to the performance audit.

### **FINANCIAL ANALYSIS**

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#### **PROFIT PERCENTAGE TO SALES**

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The profit percentage to sales is calculated by dividing the total income from operations by the total liquor sales (Total Income 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 Boone ABC Board had gross sales of \$5,334,057; income from operations was \$691,718, a 13% profit percentage to sales.

Factors affecting sales and profitability:

- Population of Boone is approximately 18,211 in 2013, a 6.4% increase since 2010;
- Surrounding towns with ABC stores include Blowing Rock, High Country, West Jefferson, and Wilkesboro;
- Recent renovation completed in August 2014;
- Heavy tourist traffic as a result of university population in the town limits.

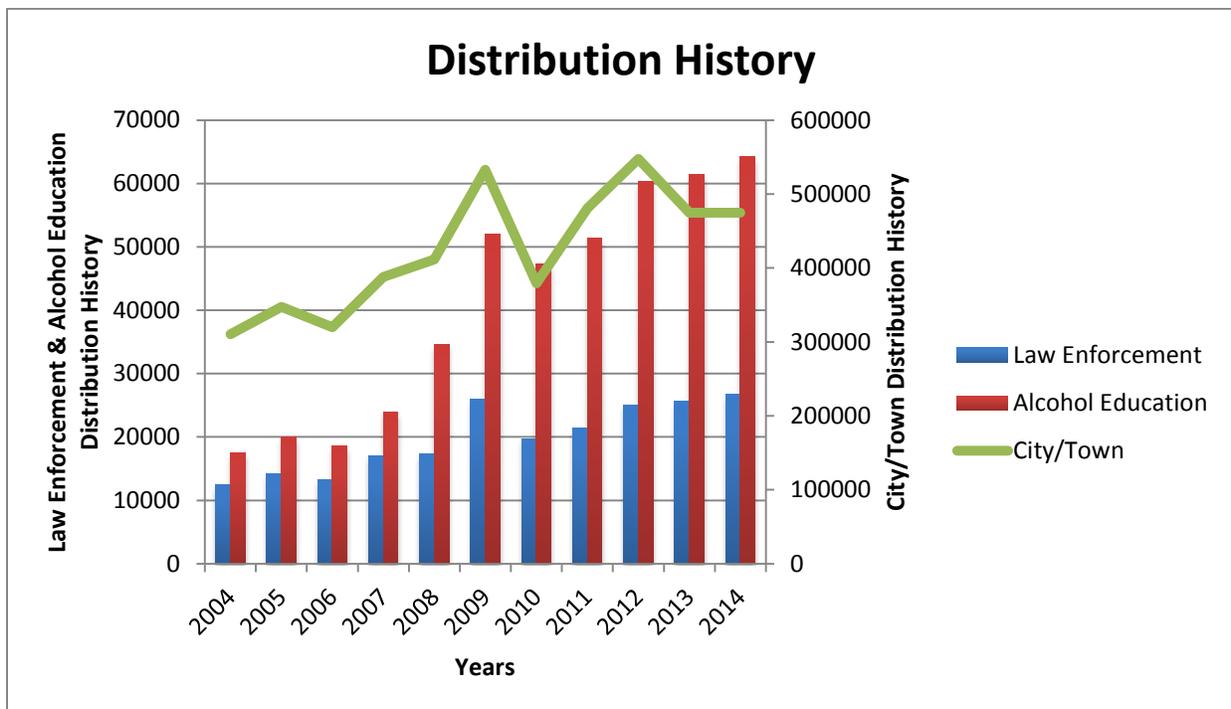
## DISTRIBUTIONS

G.S. 18B-805 (b) requires the board to pay from gross receipts, all expenses, excise, mixed beverage, and bottle tax. G. S. 18B-805 (c) (1) requires the board to make a minimum quarterly distribution of the 3½% markup rate to the appointing authority. In FY2014, Boone ABC made the required minimum distribution to the town totaling \$150,313, plus additional distribution of \$324,687. \$1,265,845 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) requires the board to distribute at least five percent (5%) of profits to law enforcement and at least seven percent (7%) to alcohol education/rehabilitation. The remaining profits are to be distributed to the Town of Boone General Fund.

In FY2014, the Boone ABC Board distributed to the town \$26,813 for law enforcement. A law enforcement contract has not been established according to G.S. 18B-501(f). Alcohol education distributions total \$64,352, 5% above the minimum requirement.

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



## RECOMMENDATIONS

1. Adopt a law enforcement contract with a local law enforcement agency or contract with the local Alcohol Law Enforcement (ALE) agency. *Refer to Appendix A (1) for statute.*

## **WORKING CAPITAL**

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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 Boone ABC Board had a working capital of \$161,555, which is less than the maximum allowed to retain of three months gross sales (\$1,017,318) and is within the limits of NCAC 02R .0902. The FY2014 financial audit shows a different working capital calculation.

## OPERATING COST RATIO

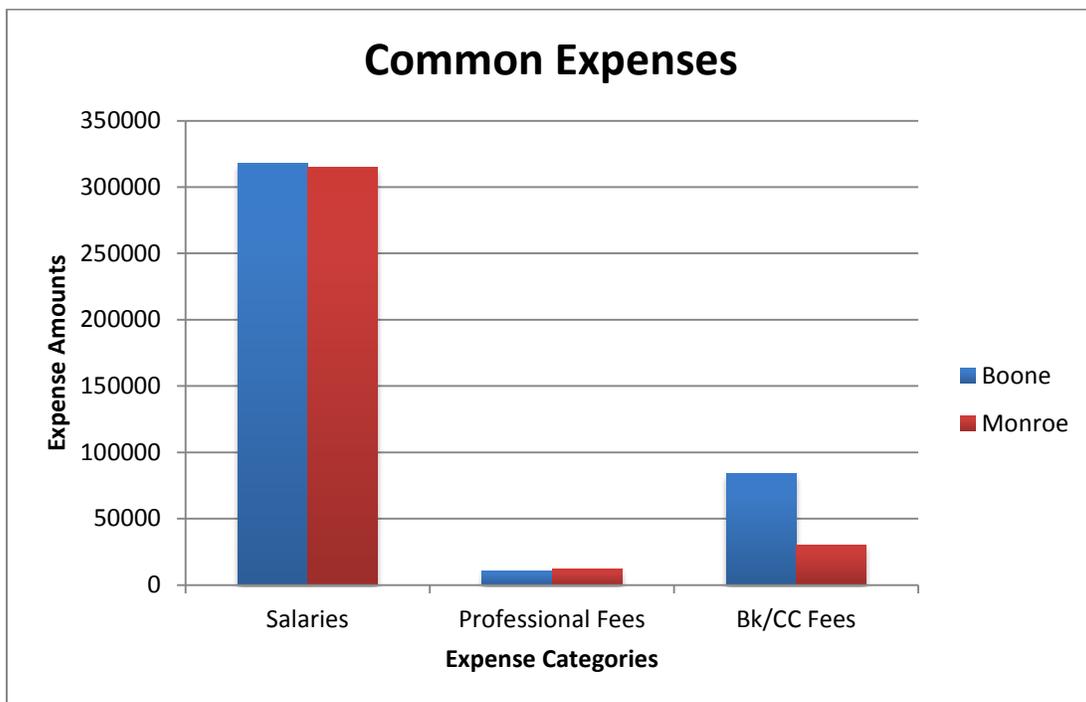
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Operating costs are calculated by dividing total operating expenses less depreciation by the gross profit on sales (Total Operating Expenses less Depreciation/Gross Profit). Below are the average cost ratios for boards with and without mixed beverage 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 Boone ABC Board operates one retail store with mixed beverage sales; the operating cost ratio is 0.46. Mixed beverage sales make up 19% of total gross sales. In fiscal year 2014, sales increased 5% over fiscal year 2013 while expenses increased 8.1% over the same time period. The board contributes to significant savings in overhead expenses as a result of owning the store.

A common expense analysis of Boone ABC and other similar size boards is shown below. Note: Because of the vast range of factors specified for all boards, one board was compared.



## NO RECOMMENDATIONS

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## **STORE APPEARANCE AND CUSTOMER SERVICE**

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The Boone ABC Board operates one retail store with shelf space of approximately 2,300 linear feet and carries approximately 1,900 product codes.

- The store appeared clean and free of trash. Counter areas were neat and well-organized.
- The store displayed neat and visible 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.
- 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. Each product is displayed with its designated category. Vertical brand blocking is used with similar products allowing the customer to view all within the brand. Product placement is consistent with sizes going from largest on the right and smallest to the left.
- Security systems are in place and functional in all designated areas.
- The state price book is available should customers inquire about specific product. Sales clerks' often refer to the price book for verification of product listing and pricing.
- Sales clerk's interaction with customers is attentive, courteous, and eager to meet the needs of customers.

## **NO RECOMMENDATIONS**

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## **PERSONNEL AND TRAINING**

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- Current board members have completed the initial ethics training. However, board members have since been reappointed and have not completed training.
- Cross training opportunities on key administrative duties are being extended to key employees in the event the general manager was suddenly unavailable.
- Training is provided to new and existing staff on key areas, such as product knowledge, customer service, and clerk responsibilities.
- Personnel files are available and include human resource documentation and other personnel information as required.

## **RECOMMENDATIONS**

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1. Have all reappointed board members complete the ethics requirement within 12 months of reappointment. *Refer to Appendix A (2) for statute.*
2. Consider additional training opportunities through the Commission and the ABC Officers Association on specific areas. The NC ABC Officers Association offers ABC Inspection training for local law enforcement officers.

## **ABC BOARD POLICIES**

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- Policies adopted and submitted to the Commission include:
  - Code of Ethics
  - FY2014 Annual Audit
  - FY2015 Budget (Proposed and Adopted)
  
- Policies not adopted include:
  - Travel Policy
  - Employee Handbook
  - Mixed Beverage Policy
  - Price Discrepancy Policy
  - Law Enforcement Contract

## **RECOMMENDATIONS**

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1. As a reminder, request approval annually from appointing authority to adopt the town's travel policy. *Refer to Appendix A (3) for statute.*
2. Adopt the above policies that incorporate customer friendly practices. Once adopted, submit a copy to the Commission and communicate to all employees should the need arise. *Refer to Appendix A (4) for rule.*

## **INTERNAL CONTROL PROCEDURES**

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- Time sheets are used by all clerks to record hours worked. The general manager verifies all time sheets to determine accuracy. The accounting/payroll software calculates the taxes and other withholdings and creates payroll checks. The general manager reviews the payroll summary and other payroll reports generated. As an additional checks and balances function, the accountant reviews payroll reports and assists with payroll adjustments.
- Cash drawers are counted by all clerks. All clerks are responsible for their own cash drawer. Management has implemented procedures should cash drawers are over or short.
- Bank deposits are made regularly as required by the ABC Commission rule. Bank notification is received and matched with corresponding daily register reports. Bank reconciliations are completed monthly by the finance officer.
- Physical inventory counts are completed quarterly by whoever is scheduled to work. Once the initial count is completed, management reviews and investigates variances. Once variances are checked and verified, management will adjust the inventory management system for the exact inventory held in the store. Breakage adjustments are included in this process.
- A credit card is issued to the board with the general manager as the only authorized user. The finance officer reconciles all transactions purchased with the card. Although the card is rarely used, a credit card policy has not been implemented.
- Out of approximately 1,900 product codes, approximately 120 product codes were sampled to ensure accurate pricing and all were correct.

## **RECOMMENDATIONS**

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1. To ensure strong internal controls for credit card purchases, adopt a written credit card usage policy. Document procedures for the usage including:
  - Who has authority to use the card,
  - What types of items the card may be used for,
  - Personal usage is prohibited;
  - An itemized receipt for every transaction is required,
  - Maximum limit allowed on purchases before approval is needed from the finance officer,
  - Receipts are to be submitted within 15 days of the purchase;
  - Have someone other than the persons authorized to make purchases reconcile the credit card statements.

## **ADMINISTRATIVE COMPLIANCE FINDINGS AND OBSERVATIONS**

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- 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 conflict of interest statement asking board members if conflicts existed with items on the meeting agenda.
- Board member appointment dates and general manager compensation is current on the Commission website.
- Board member and general manager compensation is in compliance with G.S. 18B-700 (g) and (g1).
- 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) whereas there are no immediate family members employed.
- All board members, the general manager, and the finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- Orders for liquor and other miscellaneous orders do not bear the pre-audit certificate as required by G.S. 18B-702 (m).
- All checks bear the approved certificate indicating that the item has been approved by the finance officer for payment. Two signatures are located on all paid checks, that of the general manager and the finance officer. In the event that the general manager and/or board chairman is unavailable, other board members are authorized to sign checks.

## **RECOMMENDATIONS**

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1. Place the pre-audit certificate with the finance officer's signature on the order to LB&B. When ordering supplies, have a purchase order or order confirmation that will have authorization from the finance officer before the transaction takes place. *Refer to Appendix A (5) for statute.*

## **AUDITOR'S SUMMARY**

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On October 16, 2014, ABC Board Auditor, Moniqua S. McLean, presented the performance audit recommendations. The board has not responded as to whether the recommendations have been implemented. Therefore, this audit is being submitted without a response from the board. A follow up visit will be conducted within six months of the final audit submission to determine whether the recommendations have been addressed and implemented.

## APPENDIX A

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- (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-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."*
- (3) *G.S. 18B-700 (g2) states, "...The local board shall annually provide the appointing authority's written confirmation of such approval to the Commission and a copy of the travel policy authorized by the appointing authority."*
- (4) *NCAC 02R.1706 (b) states, "If a local board has a price discrepancy between the price on the shelf or bottle and the cash register, and the price on the shelf or bottle is lower, the local board shall sell the item at the shelf or bottle price and correct the shelf or bottle price to match the Commission's published uniform price."*
- (5) *18B-702 (m) states "...the contract, agreement, or purchase order shall include on its face a certificate stating that the instrument has been pre-audited to assure compliance. The certificate, which shall be signed by the finance officer or any deputy finance officer approved, shall take substantially the following form:*

*"This instrument has been pre-audited in the manner required by GS 18B-702."*

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*(Signature of finance officer)*