

Canton ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
400 East Tryon Road, Raleigh, NC 27610
p: 919-779-0700 | f: 919-661-5927 | <http://abc.nc.gov>



ABC
COMMISSION
NORTH CAROLINA

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ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

CHAIRMAN:
JAMES C. GARDNER

KEVIN M. GREEN
Greensboro

MICHAEL C. HERRING
West Jefferson

ADMINISTRATOR:
ROBERT A. HAMILTON

LOCATION:
400 East Tryon Road
Raleigh NC 27610

MAILING:
4307 Mail Service Center
Raleigh NC 27699-4307

PHONE: (919) 779-0700
Fax: (919) 661-5927
<http://abc.nc.gov/>

Moniqua S. McLean
ABC Board Auditor
919-779-8365

January 4, 2016

Canton ABC Board
Ms. Elizabeth Crawford, Chairperson
40 Main Street
Canton, NC 28716

Dear Chairperson Crawford,

We are pleased to submit this performance audit report on the Canton 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 board annual audit for the fiscal year 2014;
- Visited the store;
- Interviewed key ABC board personnel.

BACKGROUND INFORMATION

S.L. 1967-671 authorized the Town of Canton 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 December 5, 1980 and passed 892 to 737. The first retail sale occurred on May 6, 1981. A mixed beverage election occurred on January 14, 2003 and passed.

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 three year staggered terms. Current board members are Elizabeth Crawford, board chairperson, Marty Phillips and Neal McCracken, board members.

The Canton ABC Board operates one retail store. The board staffs two full-time and three part-time employees. The general manager is responsible for the oversight of all daily operations including inventory management, human resource organization, and other administrative decisions for the board. The board has hired within the organization a finance officer to provide sufficient checks and balances. All store employees provide friendly customer service, general store upkeep, and stock maintenance.

OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

On May 5, 2015, ABC Board Auditor, Moniqua S. McLean, visited the Canton ABC store and interviewed Hugh Williams, general manager, and Joan Rymer, finance officer. 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 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 Canton ABC Board had gross sales of \$1,127,403; income from operations was \$48,689, a 4.32% profit percentage to sales.

Factors affecting sales and profitability:

- Surrounding townships with ABC stores within the county include Maggie Valley and Waynesville;
- Surrounding cities with ABC stores within a ten mile radius include Asheville;
- Estimated population reported to the US Census Bureau is 4,227 in 2010;
- Relocation of the store from downtown Canton occurred in September 2001;
- Two flood disasters occurred in 2004.

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) (1) requires the board to make a minimum quarterly distribution of the 3 ½% markup and bottle tax to the town and county. In FY2014, the Canton ABC Board did not make the minimum distribution of \$32,922. \$255,792 in excise and other taxes were paid to the NC Department of Revenue, the Department of Health and Human Services, the town, and the county.

G.S. 18B-805 (c) requires the board to distribute at least five percent (5%) of profits to law enforcement. S.L. 1967-671 requires the board to distribute five percent (5%) of profits for alcohol education or rehabilitation purposes. The remaining profits are to be distributed as follows:

- Sixty-four percent (64%) to the Town of Canton General Fund for any public or governmental purpose;
- Thirty-six percent (36%) to the Haywood County General Fund of which one-half is allocated to the Board of Education of Haywood County for school purposes, and one-half is allocated for any public or governmental purpose.

In FY2014, the Canton ABC Board distributed to the town \$2,400 to law enforcement and \$753 toward alcohol education or rehabilitation purposes. The board approved a \$500 distribution to the town for playground improvements.

RECOMMENDATIONS

1. Refrain from distributing towards purposes outside of the enabling act.
2. If unable to make the distributions, seek approval from the appointing authority to withhold the 3½% bottle tax distributions for a limited time or until a specific percentage of sales is achieved.

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 Canton ABC Board had a working capital of \$76,323 which is less than the maximum allowed to retail of four months gross sales (\$289,769) and is within the limits of NCAC 15A .0902.

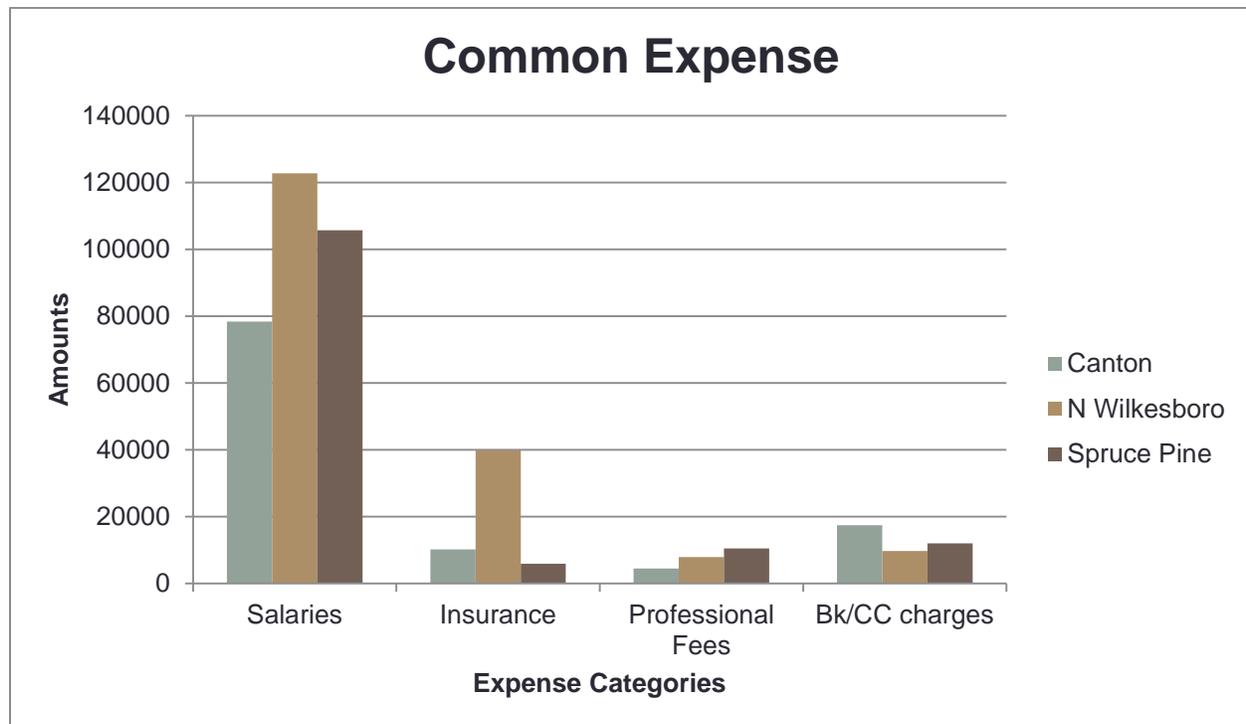
OPERATING COST RATIO

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):

- 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 Canton ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.77. Mixed beverage sales make up 4.0% of total gross sales. Compared with the state's increase in sales of 4.81% in fiscal year 2014, Canton ABC Board's sales increased 7.22% over fiscal year 2013 as expenses decreased 5.82% over the same time period. To meet the goal and remain at current expense levels of \$206,031, revenues must be increased to \$1,225,000, a 8.7% increase. To meet the goal and remain at current revenue levels of \$1,127,403, expenses must be reduced to \$195,000 a 5.4% decrease. The board acquired a bank loan and a line of credit to fund the new store and operations. Monthly payments for the bank loan are \$1,900 including interest. At the end of fiscal year 2014, the board had \$7,852 on the line of credit. Other liabilities include a capital lease obligation which matures in February 2015.

Below is a common expense analysis showing Canton ABC Board expenses compared with other similar size boards. Significant savings are expected in the long run as a result of owning the store and reducing overhead expenses.



STORE APPEARANCE

The Canton ABC Board operates one retail store with approximately 900 linear feet and carries approximately 850 product codes.

- The store appeared clean and free of trash. Counter areas were neat and well-organized.
- The store displayed neat and well-visible signage. The 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. Cross merchandising is not evident due to the lack of shelf space. Bottles are fronted and dusted.
- A shelf management plan is utilized that exhibits a strategy following the ultra-premium products on the top shelves, premium products at eye level, and value products on the lower 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.

CUSTOMER SERVICE

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

PERSONNEL AND TRAINING

- All board members, the general manager, and the finance officer have completed the initial ethics training required by the statute. Board members have since been reappointed and have not yet completed the ethics training.
- Cross training has not been extended on key administrative duties to employees in the event the general manager or finance officer were suddenly unavailable.
- Training is provided to new employees on customer service and clerk responsibilities. Other training opportunities are not extended.
- Personnel files are available and include human resource documentation and other personnel information as required.

RECOMMENDATIONS

1. Have all reappointed board members complete the ethics requirement within 12 months of reappointment. *Refer to Appendix A (1) for statute.*
2. Cross train key employees on various administrative duties in the event the general manager and/or finance officer is unavailable.
3. Consider additional training opportunities through the Commission and other Commission-approved courses. *Refer to Appendix A (2) for rule.*

ABC BOARD POLICIES

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Law Enforcement Contract
 - Travel Policy (Approval submitted from the Town of Canton)
 - FY2014 Annual Audit
 - FY2015 Budget (Proposed and Adopted)
 - Employee Handbook
 - 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 and appropriate practices. Below are internal control findings that were observed during the audit fieldwork.

- The general manager schedules and notifies employees for work shift hours. All employees use time cards to record hours worked. In the event an employee fails to clock in/out, the manager is notified and corrects the discrepancy. At the end of the payroll week, the manager calculates and processes payroll through the accounting/payroll system.
- Cash drawers are counted by all clerks. All clerks are responsible for their own cash drawer. Management has implemented procedures in handling cash drawer overages/shortages.
- Bank deposits are made regularly by the ABC Commission rule. Bank notifications are received and matched with corresponding daily register reports. Bank reconciliations are completed by the general manager.
- Physical inventory counts are conducted quarterly with frequent spot checks in between scheduled counts. If discrepancies occur, the general manager will investigate and recount for accuracy and verification. Once completed, the general manager will adjust the inventory system to match with the actual store counts.
- Unsalable merchandise is adjusted from inventory monthly. Breakage forms are submitted as required by the Commission rule.
- A credit card is issued to the board with the general manager as the authorized user. The chairman reviews all transactions purchased with the card. A credit card policy has not been implemented.
- Out of approximately 850 product codes, approximately 100 product codes were sampled to ensure accurate pricing and four were incorrect.

RECOMMENDATIONS

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.
2. To ensure correct pricing on the store shelves and in the computer system, audit shelf tags on a regular basis by incorporating this practice during or in between the regularly scheduled inventory counts.

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 do not include a conflict of interest statement asking board members if conflicts exist with items on the meeting agenda.
- Date/time/location of board meetings are not posted for public knowledge.
- Board member appointment dates and compensation amounts are current on the Commission website.
- Board member and general manager compensation is in compliance with G.S. 18B-800 (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); there are no immediate family members who are related to board members or the general manager.
- All board members, the general manager, and the finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- In reviewing the budget to actual expenses as reference in the financial audit of FY2014, some expenses were over budget.
- Liquor orders and miscellaneous purchases are not pre-audited by the finance officer. Store employees purchase store supplies and are reimbursed.
- In reviewing a sample of liquor invoices, payments were made within thirty days.
- Checks bear the approved certificate as required by G.S. 18B-702 (q) indicating that the items have been approved by the finance officer for payment. Two signatures are located on all paid checks; that of the finance officer and the general manager. In the event the finance officer or general manager is unavailable, there is no back up procedures for processing payments.

RECOMMENDATIONS

1. Have the board chairman read the conflict of interest statement to all board members at the beginning of each meeting. Reference the conflict of interest statement was read in the board minutes. *Refer to Appendix A (3).*
2. Post signage at the store and Town Hall notifying the public, when, where, and the time meetings are held. *Refer to Appendix A (4) for statute.*
3. Monitor budget more closely, particularly towards the year end, to determine whether amendments are needed. Amendments are required when expenses are over budget or have not been budgeted for and when sales are not meeting or are exceeding budgeted amounts.
4. 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.*
5. In the event the finance officer and/or general manager is unavailable, consider having board members authorized to sign checks.

AUDITOR'S SUMMARY

The performance audit recommendations were presented to the board on July 15, 2015. The board has since responded to the performance audit recommendations and strives to create strategies to maintain and improve profitability while maintaining or reducing costs and meeting budget appropriations. Management has acquired a new accounting system that will assist in better managing financial operations. Policies and procedures have been implemented to ensure compliance with statutes and Commission rules and to ensure efficient operations while maintaining checks and balances.

CANTON ABC BOARD

Moniqua,

We want to thank you for your time and effort in conducting the performance audit for our Board and presenting your findings to us at our July 15th Board meeting. It was a pleasure to meet and work with you.

We have already implemented or ~~out~~^{are} in the process of implementing your recommendations: We will make sure that all future distributions fall within the guidelines of the enabling act. We have a reciprocal agreement with the Waynesville ABC Board in the event that the General Manager is for whatever reason not available or incapacitated. Also, all Board members now have check signing ability. The Finance Officer now preapproves all Office Depot credit card purchases and all such invoices and receipts are presented to the Board of Directors. All Board meeting protocol recommendations have been enacted. The General Manager will conduct more random shelf tag audits to ensure proper pricing is being advertised.

We are extremely pleased with the growth in revenue we have experienced over the past few years and look forward to continued growth and success. We also look forward to continue to work with the ABC Commission and to make sure that we are in compliance with the Commission's policies. Thank you again for your time and consideration.

Sincerely,


Elizabeth Crawford, Chairperson


Hugh Williams, General Manager

APPENDIX A

(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."*

(2) *NCAC 02R .2001 (a) (3) states, "After taking the initial Commission training course for local boards, all finance officers and general managers shall complete a Commission training course for local boards every three years that they are employed by a local board."*

(3) *OP 4.19.4 states, "In an effort to avoid possible conflicts of interest it is recommended at the beginning of each meeting the Chairman ask fellow board members if there are any potential conflicts of interest. This can be done by reading the following ethics reminder:*

'In accordance with G.S. 18B-201, it is the duty of every Board member to avoid both conflicts of interest and appearances of conflicts. Does any member have any known conflict of interest or appearance of conflict with respect to any matters coming before the Board today? If so, please identify the conflict or appearance of conflict and refrain from any undue participation in the particular matter involved.'"

(4) *Operations Manual states "North Carolina General Statute 143-318.12 requires the following from public bodies:*

- a. Must have regular meetings*
- b. Post schedule with the Town Clerk (if the regular schedule changes, notice must be given to the clerk)*
- c. If a meeting is to be held at a time other than the regular time*
 - i. Announce the time and place during a meeting or*
 - ii. Written notice stating the purpose – bulletin board, and notice mailed to the media and interest persons who have requested notice*
 - iii. Notice given at least 48 hours in advance*
 - iv. If an emergency meeting is called because of generally unexpected circumstances that require immediate attention, then notice to the media and interested persons shall be made by telephone or other means."*

(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."

(Signature of finance officer)

APPENDIX B

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Personnel and Training</p> <p>Have all reappointed board members complete the ethics requirement within 12 months of reappointment</p> <p>**Continue providing and seeking additional training opportunities for all staff.</p>	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>**Note: Required by Commission rule.</p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input type="checkbox"/> Fully Implemented</p> <p><input checked="" type="checkbox"/> Partially implemented 50% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>Ethics training has not yet been completed for the reappointed board member. However, the general manager attends training through the Commission regularly.</p>
<p>Administrative Compliance:</p> <p>Have the board chairman read the conflict of interest statement to all board members for transparency.</p> <p>Post signage notifying the public of all meeting times and locations.</p> <p>Affix the pre-audit certificate on all orders before the transaction occurs.</p>	<p><input checked="" type="checkbox"/> Yes</p> <p><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</p> <p><input type="checkbox"/> Partially implemented 25% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>Management has implemented procedures to be in compliance with the statute.</p>