

# City of Lenoir 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

## **TABLE OF CONTENTS**

---

Objective, Purpose, and Scope.....	3
Background Information.....	4
Financial Analysis.....	5
Observations, Findings, and Recommendations.....	9
Summary.....	15
ABC Commission Statement.....	16
City of Lenoir ABC Board Response.....	17
Appendix.....	18

## **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**

---

S.L. 1977-118 authorized the City of Lenoir to hold an election upon a petition signed by fifteen percent (15%) of registered voters. The referendum was held on July 19, 1977 and passed 1,756 to 1,454. The first retail sale occurred on September 30, 1977. Subsequent mixed beverage elections occurred in 1982, 1988, and 1992 and did not pass. However, a mixed beverage election occurred on June 25, 1996 and passed.

S.L. 1977-118 authorized the City of Lenoir to create an ABC board consisting of a chairman and two members to serve for three-year staggered terms. Current board members are Marvin Lovins, chairman, Jerry Brooks, and Elizabeth Betsy Wilson.

The Lenoir City ABC Board employs four full-time and sixteen part-time employees. The administrative office consists of the general manager and the finance officer. The general manager is primarily responsible for providing oversight of all daily operations including policy implementation and human resource management. The finance officer is responsible for providing financial oversight and other financial duties as required by the ABC statutes and Commission rules. All store employees have a primary responsibility of providing friendly customer service, 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 FY2015, the Lenoir City ABC Board had gross sales of \$3,184,646; income from operations was \$313,104, a 10.24% profit percentage to sales. Sales revenue increased 7.42% over FY2014.

## **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 3½% markup and .01/.05 cent bottle tax to the county.*

In FY2015, the Lenoir City ABC Board made the required minimum distribution of \$92,664 to the city. The Lenoir City ABC Board paid a total of \$727,919 in excise and other taxes to the NC Department of Revenue, the Department of Health and Human Services, and the city.

*G.S. 18B-805 (c) (2) requires a local board to distribute quarterly at least five percent (5%) of profits to law enforcement. S.L. 1977-118 requires the board to distribution at least five percent (5%) toward alcohol education or rehabilitation.*

*G.S. 18-805 (h) requires an external agency receiving alcohol education, treatment, or rehabilitation funds from a local board to submit an annual report describing how the funds were spent.*

The Lenoir City ABC Board has a contract with the City of Lenoir Police Department and has distributed \$13,788 toward law enforcement. The ABC Board distributed the same amount for alcohol education/rehabilitation purposes. The board awards alcohol education funding to external agencies that specialize in alcohol education, treatment, rehabilitation, and other substance abuse programs. However, the board did not receive an annual or expense report detailing how the funds were spent.

S.L. 1977-718 requires the Lenoir City ABC Board to distribute quarterly the remaining profits as follows:

- Five percent (5%) for alcohol education
- Ten percent (10%) to the Caldwell County school administrative unit
- Eighty-five percent (85%) to the City of Lenoir General Fund

In FY2015, the Lenoir City ABC Board made an additional distribution of \$191,421 to the appropriate units.

## **RECOMMENDATIONS**

---

1. Require all external agencies that specialize in alcohol education, treatment, rehabilitation, etc. to submit an annual or expense report detailing how funds were spent to the ABC board.

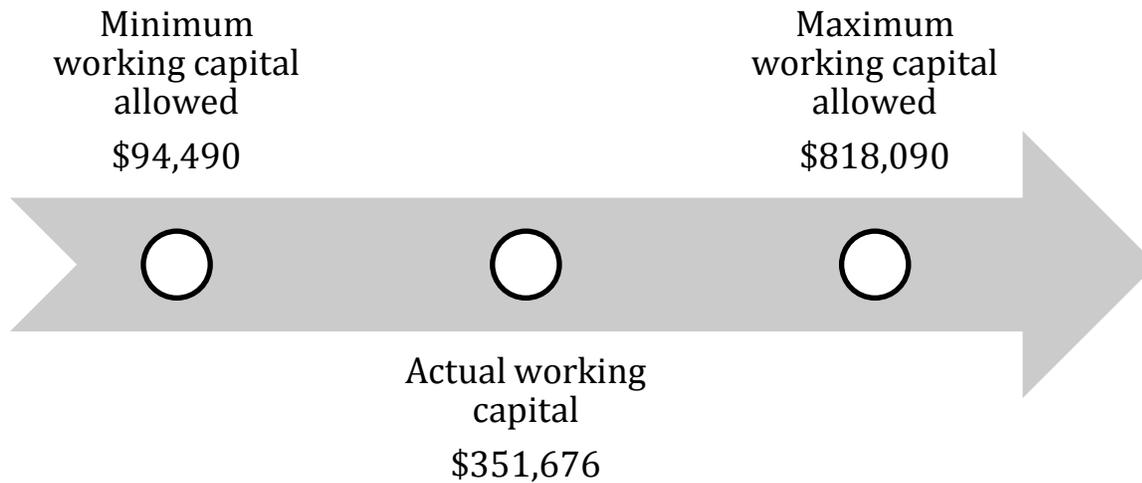
## WORKING CAPITAL

---

*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 Lenoir City ABC Board had gross sales of \$3,184,646 in FY2015. The board's actual working capital of \$351,676 is within the recommended range set by the rules of the Commission.



## **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 Lenoir City ABC Board operates two retail stores with mixed beverage sales. Mixed beverage sales make up 5.9% of total gross sales. In FY2015, the Lenoir City ABC Board operating cost ratio is 0.53. Sales have increased 7.42% over FY2014. Expenses decreased 4.28% 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 appearances, verifies product pricing, and interviews store personnel. The Lenoir City ABC Board operates two retail stores with an approximate average of 1,435 linear feet of shelf space and carries an approximate average of 900 product codes within each store.

- The stores appeared clean and free of trash. Counter areas were neat and well-organized.
- The stores displayed neat and visible signage. The Fetal Alcohol Syndrome poster is displayed and visible to the public in all locations.
- Landscaping around the store is well-maintained and trash free.
- Shelf management and/or product placement follows industry standards and ABC Commission rules that show 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 to smallest to the left
  - Cross merchandising is utilized where possible to encourage impulse shopping
  - Bottles are fronted and dusted throughout the store
- 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.
- Cash drawers are maintained by all clerks at the Almond Ct location. Clerks are assigned a register at the main store location. 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. Bank notifications are received and matched with corresponding daily register reports. Bank reconciliations are completed by the accountant.
- Each store counts store inventory on a quarterly basis. Spot checks are conducted two times a month based upon the previous inventory. Once conducted, the data is downloaded in the inventory management system to create a variance report. If discrepancies are found, the general manager will notify the store managers for a recount. Adjustments are made by the general manager. Unsalable merchandise is adjusted from the inventory monthly.

### **NO RECOMMENDATIONS**

---

## **PERSONNEL AND ABC TRAINING**

---

- All board members, the general manager, and the finance officer have completed the ethics training as required.
- Cross training has been extended on some key administrative duties to employees in the event the general manager or finance officer are unavailable.
- Additional training is provided to new and existing staff on key areas such as product knowledge, customer service, and clerk responsibilities. The general manager and other staff often attend various training courses offered by the NC ABC Commission and the NC Association of ABC Boards.
- Personnel files are available and include the required human resource documentation and other information as needed for payroll.

## **RECOMMENDATIONS**

---

1. Consider completing additional training opportunities through the Commission, such as the Responsible Alcohol Sellers Program, and other Commission-approved courses.

## **ABC BOARD POLICIES**

---

The Lenoir City ABC Board's policies have been updated to include, but are not limited to, the following:

- Code of Ethics
- Law Enforcement Contract (Lenoir Police Department)
- City of Lenoir ABC Board Travel Policy (Adopted the Office of State Budget and Management Travel Policy)

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

G.S. 18B-702 requires the board to adopt a budget and budget message and an annual independent audit for the fiscal year. The City of Lenoir ABC Board has submitted the following as required:

- FY2015 Annual Audit
- FY2016 Budget (Proposed and Adopted)
- FY2017 Budget (Proposed)

Policies not adopted include:

- Mixed-Beverage Policy
- Price Discrepancy Policy
- Sale to Underage Policy

## **RECOMMENDATIONS**

---

1. Adopt a mixed-beverage policy that follows current practices.
2. Adopt a price discrepancy policy that incorporates customer friendly practices. Once adopted, communicate to all employees should the need arise. *Refer to Appendix A (1) for rule.*
3. Adopt a policy that details the procedures the board will follow if an employee is charged with selling to a minor.

## **INTERNAL CONTROL AND ADMINISTRATIVE OPERATIONS**

---

Internal control is the process by which the board and management provides reasonable assurance that operations are effective and efficient, reliable, and in compliance with applicable rules, laws and regulations. As a basis for evaluating internal control, the performance audit applied the internal control guidance contained in professional auditing standards. 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.

- The general manager schedules and notifies employees for work shift hours. Each employee is assigned a time card to document hours worked. Time cards are verified by the general manager. At the end of the pay period, the general manager will enter employees' information on a time sheet for verification purposes. Time sheets are then processed by the finance officer.
- In reviewing a sample of travel reimbursements, procedures were followed according to the travel policy submitted.
- 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 pre-audited by the finance officer utilizing the certificate as required in G.S. 18B-702 (m). Other common purchases are indicated through use of a purchase order and are paid with a board issued credit card.
- In reviewing the budget to actual reconciliation as referenced in the financial audit of FY2015, the board overspent in some expense line items.
- A credit card is issued to the board with the general manager as the authorized user. Credit card reconciliations are performed by the finance officer monthly. A credit card usage policy has not been adopted.
- 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 general manager or finance officer is unavailable, board members are authorized to sign checks.
- Out of approximate average 900 product codes per store, approximately 100 product codes were sampled to ensure accurate pricing and all were correct.

## **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. 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.

## **BOARD COMPLIANCE**

---

- Board meeting minutes were reviewed and found to provide sufficient detail that a reasonable person would be able to follow what transpired. However, the board did not follow the appropriate procedures when going into closed session.
- Board meeting minutes did not include a conflict of interest statement asking board members if conflicts exist with the items on the meeting agenda.
- The board notifies the public of board meetings on the ABC Board's website, the city's website, and other media outlets within the city.
- Board member compensation is above the maximum specified in G.S. 18B-700 (g). However, the appointing authority has approved the excess and a copy of the approval has been submitted to the Commission.
- All board members, the general manager, and the finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- The board is in compliance with G.S. 18B-700 (k). There are no employees who are related to board members or the general manager.

## **RECOMMENDATIONS**

---

1. As specified in G.S. 143-318, the board must follow and enter into closed session proceedings through motion and vote. The purpose must be specifically stated within the motion and only that topic may be discussed in the closed session. All actions discussed in closed session must be stated and/or voted on in open session and included in open session minutes.
2. The board must approve closed session meeting minutes. The required procedure is to hold a new closed session meeting specifically to approve the minutes of an earlier session.
3. 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 (2).*

## **SUMMARY**

---

A board meeting was held on August 18, 2016 with the City of Lenoir ABC Board. Discussions were held regarding possibilities of elections within the county and surrounding areas. The board continues to discuss ways to improve profitability while maintaining budget appropriations and acquiring cost savings. Policies have been adopted by the board and management that reflect current practices. 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

January 16, 2017

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/>

City of Lenoir Board of Alcoholic Control  
Mr. Marvin D. Lovins, Chairman  
115 ABC Court  
Lenoir, NC 28645

Dear Chairman Lovins,

We are pleased to submit this performance audit report on the City of Lenoir 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 is commendable and should remain your most important goal. Thank you also for acting on the recommendations that were provided.

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

Respectfully,

Robert A. Hamilton  
Administrator

CC: North Carolina Association of ABC Boards

**City of Lenoir  
Board of Alcoholic Control  
115 ABC Court  
Lenoir, North Carolina 28645**

**Chairman  
Marvin D. Lovins**

**Members  
Jerry N. Brooks  
Elizabeth D. Wilson**

October 7, 2016

Mrs. Moniqua Mclean  
NC ABC Board Auditor  
4307 Mail Service Center  
Raleigh, NC 27699-4307

Mrs. Mclean,

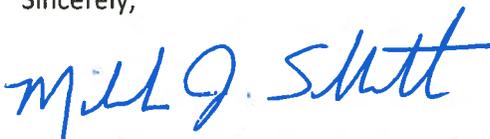
On behalf of the City of Lenoir ABC Board, we would like to thank you for delivering your performance audit report at our August 2016 board meeting. We acknowledge the importance of audits like yours to ensure customer satisfaction, improve store performance and to meet and exceed standards set by the state.

The recommendations made in your audit have been reviewed and the following have been addressed.

- An updated mixed beverage policy was adopted
- A price discrepancy policy was adopted that recognizes the lowest price for customers at the time of purchase
- An adopted policy is in place that outlines what happens if a Board employee is charged with selling to a minor
- Efforts to schedule additional training opportunities for employees will be made
- A written credit card policy for Board purchases was adopted that lists what is allowed
- The Board will make efforts to more closely monitor the budget to avoid any violations that exceed budgeted amounts
- The Board will better adhere to G.S. 143-318 and follow closed session proceedings. Practices will include the conflict of interest statement at the beginning of meetings, approval of closed sessions and specifically stating purpose when in a closed session

We appreciate your work on this audit and your professionalism in working with our employees. Our Board will continue to make improvements to better serve our customers and community.

Sincerely,



Michael Suddreth  
General Manager  
City of Lenoir ABC Board



## APPENDIX A

---

- 1) *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."*
- 2) *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.'*"