

Clay County 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

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

January 4, 2016

Clay County ABC Board
Mr. Tommy Moore, Chairman
P.O. Box 657
Hayesville, NC 28904

Dear Chairman Moore,

We are pleased to submit this performance audit report on the Clay County 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 2015;
- Visited the store;
- Interviewed key ABC board personnel.

BACKGROUND INFORMATION

G.S. 18B-601 (c) authorized Clay County to hold an election for an ABC store. The referendum was held August 8, 2009 and passed 2,722 to 1,896. A mixed beverage election occurred on the same date and passed 2,771 to 1,839.

Upon election of an ABC store, the county 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 Tommy Moore, board chairman, Carl Patterson and Clyde Camuel Shaver III, board members.

The Clay County ABC Board operates one retail store. The board staffs three full-time and seven 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. The board has hired a bookkeeper who provides financial reports and other duties as required by the ABC statutes. Store employees' main responsibility includes providing friendly customer service to all retail and mixed beverage customers, general store upkeep, and stock maintenance.

OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

On September 16, 2015, ABC Board Auditor, Moniqua S. McLean, visited the Clay County ABC store and interviewed Denny Patterson, general manager, and Vickie Benson, finance officer. Below is a financial analysis followed by operational observations, findings, and recommendation 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 2015, the Clay County ABC board had gross sales of \$2,004,886; income from operations was \$226,866, a 11.3% profit percentage to sales:

Factors affecting sales and profitability:

- Estimated population reported to the US Census Bureau is 10,581 for 2014, a 0.1% decrease over 2010;
- Surrounding ABC boards within a ten to twenty mile radius include Murphy and Franklin,
- Approximately 3 miles to the Georgia border;
- Paid off the store loan within two to three years of receipt;
- County approved withholding of quarterly distribution in order to pay off the loan.

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 FY2015, Clay County made the minimum distribution of \$56,764, plus addition distribution of \$123,236. \$454,845 in excise and other taxes were paid to the NC Department of Revenue, the Department of Health and Human Services, 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%) for alcohol education purposes. The remaining profits are to be distributed to the Clay County General Fund.

In FY2015, the Clay County ABC Board distributed to the county \$9,000 to law enforcement and \$12,500 toward alcohol education. The ABC Board has contracted with the Clay County Sheriff's Department.

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 FY2015, the Clay County ABC Board had working capital of \$386,955 which is less than the maximum allowed to retain of three months gross sales (\$387,510) and is within the limits of NCAC 15A .0902.

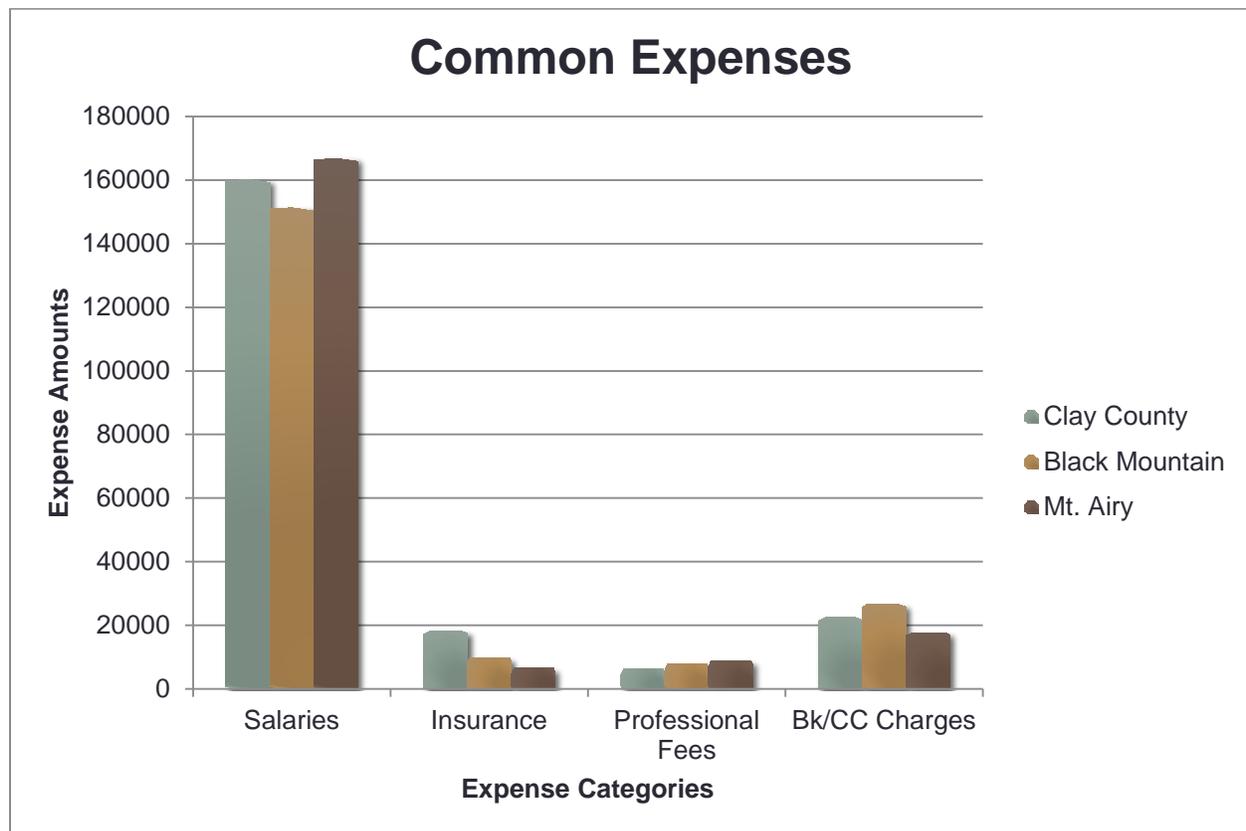
OPERATING COST RATIO

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 Clay County ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.52. Mixed beverage sales make up 4.9% of total gross sales. Compared with the state's estimated increase in sales of 7.68% in fiscal year 2015, the Clay County ABC Board's sales increased 7.3% over fiscal year 2014 as expenses increased 2.2% over the same time period.

Below is a common expense analysis showing the Clay County ABC Board's expenses compared with other similar size boards. Significant savings will continue to occur as a result of paying off existing lines of credit and store loans.



STORE APPEARANCE

The Clay County ABC Board operates one retail store with approximately 1,000 linear feet of shelf space and carries approximately 1,100 product codes.

- The store appeared clean and free of trash. Counter areas were neat and well-organized with limited signage.
- The store displayed neat and well-visible signage. The Fetal Alcohol Syndrome poster is in an area visible to the public.
- Landscaping around the store is well-maintained with no appearance of trash.
- Management has adopted a shelf management plan that gives specifics on category management and product placement in the store. Each product is displayed within its designated category. Bottles are fronted and dusted throughout the store.
- Product placement shows the premium products at eye level and lowest price products on the bottom shelves. In some areas, shelves were empty or filled in with empty boxes on bottom shelves in order to appear full. Sizes are consistent going from largest on the right and smallest to the left. Cross merchandising is utilized where possible 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.

RECOMMENDATIONS

1. Consider exploring more efficient ways of handling empty shelves. The common practice is to incorporate a shelf display when there is a limited brand category.

PERSONNEL AND TRAINING

- All board members have completed the ethics training required by the ABC statute.
- Cross training has been extended on key administrative duties to employees in the event the general manager or finance officer were 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 finance officer have attended various training courses offered by the NC ABC Commission.
- Personnel files are available and include the required human resource documentation and other personnel information as needed.

RECOMMENDATIONS

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

ABC BOARD POLICIES

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Law Enforcement Contract (Clay County Sheriff's Department)
 - Travel Policy (State Travel Policy Adopted)
 - FY2015 Annual Audit
 - Employee Handbook
 - FY2016 Budget (Proposed and Adopted)
 - Mixed Beverage Policy
 - Price Discrepancy Policy
 - Shelf Management 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 and appropriate. Below are internal control findings that were observed during the audit fieldwork.

- The general manager schedules all employees for work shift hours. Time cards are used for all employees. Management requires two persons at all times on each shift. Management usually works the day shift hours. In the event an employee fails to clock in/out, the general manager is notified and adjusts the schedule or finds a replacement. Time cards are forwarded to a payroll firm for processing. The payroll processing firm pays all taxes and files the reports.
- Cash drawers are maintained 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 finance officer.
- Physical inventory counts are performed yearly by all employees. Spot checks are conducted frequently. If discrepancies occur, someone other than the person counting will recount. Once completed, the finance officer will adjust the inventory system to match with the actual store counts.
- Unsalable merchandise is adjusted from inventory when it occurs. Breakage forms are submitted as required by the Commission rule.
- Out of approximately 1,100 product codes, approximately 130 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 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 posted for public knowledge.
- Board member appointment dates and compensation amounts are not 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).
- Liquor orders and miscellaneous purchases are pre-audited by the finance officer. Vendors often invoice the board when office and store supplies are needed and are pre-audited by the finance officer utilizing the certificate as required in G.S 18B-702 (m).
- 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 general manager or finance officer is unavailable, all board members are authorized to sign checks.

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 (1).*
2. Update board appointment information on the Commission website.

AUDITOR'S SUMMARY

On October 23, 2015, ABC Board Auditor, Moniqua S. McLean, presented the performance audit findings and recommendations to the board. The board strives to implement strategies to maintain and improve profitability while maintaining or reducing costs and meeting budget appropriations. Policies and procedures have been implemented to ensure compliance with statutes and Commission rules and to ensure efficient operations while maintaining sufficient checks and balances.

**Clay County ABC Store
P.O. Box 657
Hayesville, NC 28904
828-389-7039**

November 10, 2015

Mrs. Moniqua McLean, Auditor
North Carolina ABC Commission
4307 Mail Service Center
Raleigh, NC 27699-4307

Dear Mrs. McLean:

Thank you for attending our Board Meeting on October 23, 2015 and presenting the results of your audit in person.

Per your recommendation, the policy for disciplinary action regarding selling to underage and/or intoxicated persons is attached for your review.

On behalf of Clay County ABC Board, you are welcome to visit any time to provide support as we work with the Commission toward a common goal.

If we can be of further assistance, please notify us.

Respectfully,



Tommy Moore, Chairman
Clay County ABC Board

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NC ABC COMMISSION

APPENDIX A

- 1) *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.'"

APPENDIX B

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Administrative Compliance:</p> <p>**Have the board chairman read the conflict of interest statement to all board members for transparency.</p> <p>**Update board appointment information on the Commission website.</p>	<p><input type="checkbox"/> Yes</p> <p><input checked="" 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 Commission rule.</p>