

Clinton 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. 1957-1191 authorized the Town of Clinton 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 August 13, 1957 and passed 955 to 843. The first retail sale occurred on September 20, 1957. A subsequent mixed beverage election occurred on March 21, 2000 and passed 1,116 to 993.

Upon vote passage, the Town of Clinton Board of Commissioners is authorized to create an ABC board consisting of a chairman and two members to serve for three-year staggered terms. Current board members are Shurley McCullen, board chairperson, Dempsey Craig and Perry Solice, Jr.

The Clinton ABC Board employs two full-time and three part-time employees. The general manager is responsible for the oversight of all store operations including policy implementation, inventory management, human resource management, and other administrative decisions for the board. Store employees' primary responsibilities includes providing friendly customer service to all retail and mixed-beverage customers, general store upkeep, and stock maintenance. The board has hired an external accountant to provide sufficient checks and balances and other financial duties as required by the ABC statutes and ABC Commission rules.

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 Clinton ABC Board had gross sales of \$1,907,331; income from operations was \$258,294, a 13.54% profit percentage to sales. Sales revenue increased 6.17% 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 Clinton ABC Board made the required minimum distribution of \$56,149 proportionately to the City of Clinton Board of Education and the City of Clinton General Fund. The Clinton ABC Board paid a total of \$434,686 in excise and other taxes to the NC Department of Revenue, the Department of Health and Human Services, and the Town of Clinton.

S.L. 2005-218 requires the board to distribute quarterly not less than five percent (5%) and no more than fifteen percent (15%) for law enforcement purposes and the treatment and hospitalization of alcohol.

The Clinton ABC Board contracts with the City of Clinton Police Department and has distributed \$10,110 toward law enforcement. The ABC Board distributed \$44,200 for alcohol education/rehabilitation purposes.

S.L. 2005-218 requires the Clinton ABC Board to annually distribute the remaining profit as follows:

- *Twenty percent (20%) to the Clinton City Board of Education*
- *Eighty percent (80%) to the Town of Clinton General Fund.*

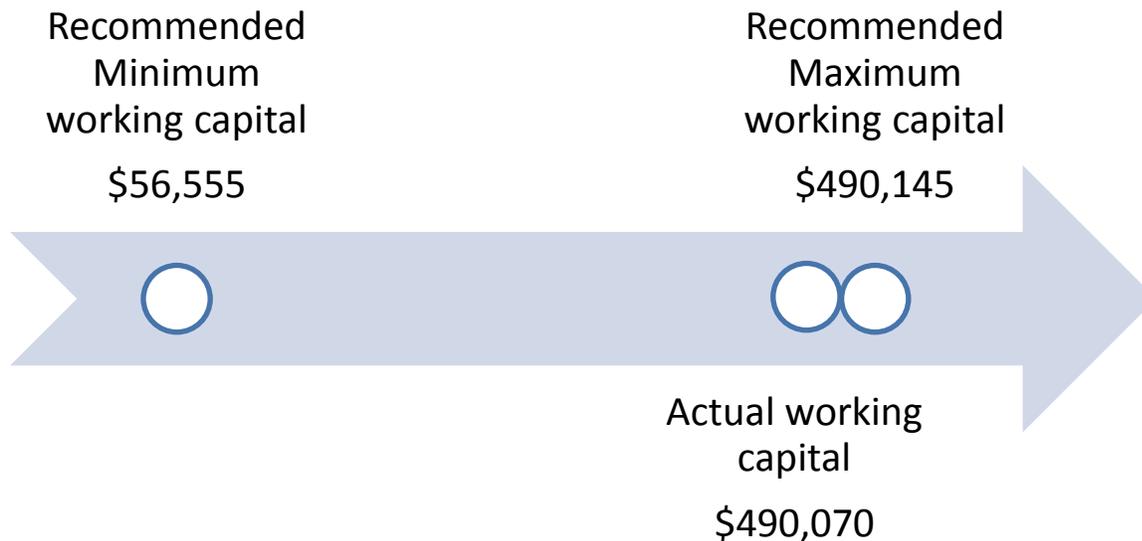
In FY2015, the Clinton ABC Board made an additional distribution of \$120,651 to the City of Clinton.

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 Clinton ABC Board had gross sales of \$1,907,331 in FY2015. The board's working capital of \$490,070 is within the recommended range set by the rules of the Commission.



OPERATING COST RATIO

The operating costs ratio is 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 Clinton ABC Board operates one retail store with mixed beverage sales. Mixed beverage sales make up 4.7% of total gross sales. In FY2015, the Clinton ABC Board operating cost ratio is 0.43. Sales have increased 6.17% since FY2014 and expenses have decreased 10.9% over the same time period.

FINDINGS AND RECOMMENDATIONS

STORE APPEARANCE

As a routine procedure, the ABC Auditor tours ABC store locations, evaluates interior and exterior appearances, product pricing, and interviews store personnel. The Clinton ABC Board operates one retail store with approximately 1,100 linear feet of shelf space and carries approximately 1,200 product codes.

- The store appeared clean and free of trash. Counter areas were neat and well-organized.
- The store displays 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 store.

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 appear to meet the needs of the customers.

NO RECOMMENDATIONS

PERSONNEL AND ABC TRAINING

- All board members and the general manager 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. The board has hired an external accounting firm to aid in financial duties in the event the general manager is 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 often attends 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.

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 Clinton ABC Board's policies and manuals have been updated to include, but are not limited to, the following:

- Code of Ethics
- Law Enforcement Contract (Contracts with the City of Clinton Police Department)
- Clinton ABC Board Travel Policy (Adopted the City of Clinton Travel Policy)
- Clinton ABC Board Employee Handbook/Manual and Addendums that include the following:
 - Clinton ABC Board Price Discrepancy Policy
 - Clinton ABC Board Procurement Card Policy

Policies are required to be submitted to the Commission within fifteen days prior to adoption as required by the 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 Clinton ABC Board has submitted the following as required:

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

Policies not adopted include:

- Mixed-Beverage Policy
- Sale to Underage Drinking Policy

RECOMMENDATIONS

1. Adopt a mixed-beverage policy that follows current practices.
2. Adopt a policy that details the position of the board when an employee is charged with selling to a minor.

INTERNAL CONTROL

- The general manager schedules and notifies employees for work shift hours. Time sheets are used by all employees. Management requires two persons at all times on each shift. In the event an employee fails to attend a shift, the general manager is notified and adjusts the schedule or finds a replacement. At the end of the payroll week, the general manager forwards all time sheets to the accountant for processing.
- 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. Bank notifications are received and matched with corresponding daily register reports. Bank reconciliations are completed by the accountant.
- In reviewing a sample of travel reimbursements, procedures were followed according to the travel policy submitted.
- A procurement card is issued to the board with the general manager as the authorized user. Credit card reconciliations are performed by the accountant monthly. The finance officer and all board members review all transactions purchased with the card. A procurement card policy has been adopted.
- Physical inventory counts are conducted randomly with routine spot checks performed more frequently. When discrepancies occur, the general manager will investigate and perform a recount. Adjustments are made only by the general manager. Unsalable merchandise is adjusted from inventory monthly.
- Breakage forms are submitted as required by the Commission rules. Management has implemented procedures in handling breakage when a customer/employee breaks product.
- Out of approximately 1,200 product codes, approximately 80 product codes were sampled to ensure accurate pricing and all were correct.

NO RECOMMENDATIONS

ABC BOARD COMPLIANCE

- 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.
- Date, time, and location of board meetings are posted for public knowledge.
- Board member appointment dates and compensation amounts are current on the Commission website.
- The board chairman receives compensation above the maximum allowed as stated in G.S. 18B-700 (g). An approval from the City of Clinton has been forwarded to the ABC Commission.
- The general manager compensation is in compliance with G.S. 18B-700 (g1).
- Law enforcement activity reports have been submitted to the Commission as required by G.S. 18B-501 (f1).
- A board member serves as the finance officer to the board. The board has obtained approval from the Commission allowing the board member to serve in this capacity for no longer than three years.
- 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).
- Vendors often invoice the board when office and store supplies are needed or the procurement card is used. All purchases are pre-audited by the finance officer utilizing the certificate as required in G.S. 18B-702 (m).
- 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 board member is unavailable, the board chairperson is authorized to sign checks.

NO RECOMMENDATIONS

SUMMARY

A board meeting was held on April 19, 2016 with the Clinton ABC Board. Discussions were held regarding future improvements to the store and the potential highway bypass in the area. The board continues to discuss ways to improve profitability while maintaining budget appropriations. 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

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Clinton ABC Board
Ms. Shurley McCullen, Chairperson
414 Southeast Blvd.
Clinton, NC 28328

Dear Chairperson McCullen,

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

Respectfully,

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

Robert A. Hamilton
Administrator

CC: North Carolina Association of ABC Boards

From: [W DEMPSEY](#)
To: [Mclean, Moniqua S](#)
Cc: [ABC, Clinton](#); dcraigcl204@gmail.com
Subject: Clinton ABC Store Performance Audit
Date: Wednesday, July 13, 2016 3:38:29 PM

Moniqua,

We want to thank you for meeting with the Board and taking time to review the Performance Audit with us. The Board was impress with the completeness and scope which gave us a better overview of how our store is operating. This report is very helpful and I might add is easy for lay person to read and understand.

Your recommendations on a Mixed-Beverage and a Under-Age policy was adopted by our Board on May 17, 2016. It is my understanding that copies of these policies have been mailed to you under a separate cover.

Thank you for effort, patience and time in meeting with us and for your advice and assistance.