

Craven County 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

S.L. 1935-493 authorized Craven County to hold an election for an ABC store. The referendum was held on July 2, 1935 and passed 2,262 to 558. The first retail sale occurred in July of the same year. A subsequent mixed beverage election occurred on September 25, 1979 and passed 4,720 to 4,665. The first mixed beverage sale occurred on October 16, 1979.

Upon vote passage, the county commissioners were authorized to create an ABC board consisting of a chairman and four members to serve for three staggered year terms. Current board members are Wilfred “Chip” Chagnon, chairman, Tony Lee, Charles Collins, Carol Crayton, and Barbara Whiteman.

The Craven County ABC Board employs thirty-three employees. The administrative staff consists of the general manager, the finance officer, an administrative secretary, and warehouse staff. All store personnel have primary responsibilities that include providing customer service, store upkeep, and regular inventory 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 fiscal year 2016, the Craven County ABC Board had gross sales of \$10,029,387; income from operations was \$1,075,625. Sales have increased 8.2% in fiscal year 2016. Profit percentage to sales for FY2016 is 10.7%.

The Craven County ABC Board operates six stores with retail and mixed beverage sales. Four out of six stores service mixed beverage permit holders. Mixed beverage sales make up 15.2% of total liquor sales.

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 3 ½% markup and .01/.05 cent bottle tax to the municipalities and county.

In FY2016, the Craven County ABC Board made the required minimum distribution of \$282,379 proportionately to the county and municipalities. The Craven County ABC Board paid a total of \$2,333,438 in excise and other taxes to the North Carolina 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 of profits toward alcohol education.

The Craven County ABC Board contracts with the Alcohol Law Enforcement Division of the North Carolina Department of Public Safety and has distributed \$43,996 for enforcement purposes and \$7,500 for alcohol education.

S.L. 1949=1081 requires the Craven County ABC Board to distribute quarterly the remaining profits as follows:

- *Ten percent (10%) to municipalities in which stores are located*
- *Ninety percent (90%) to the Craven County General Fund.*

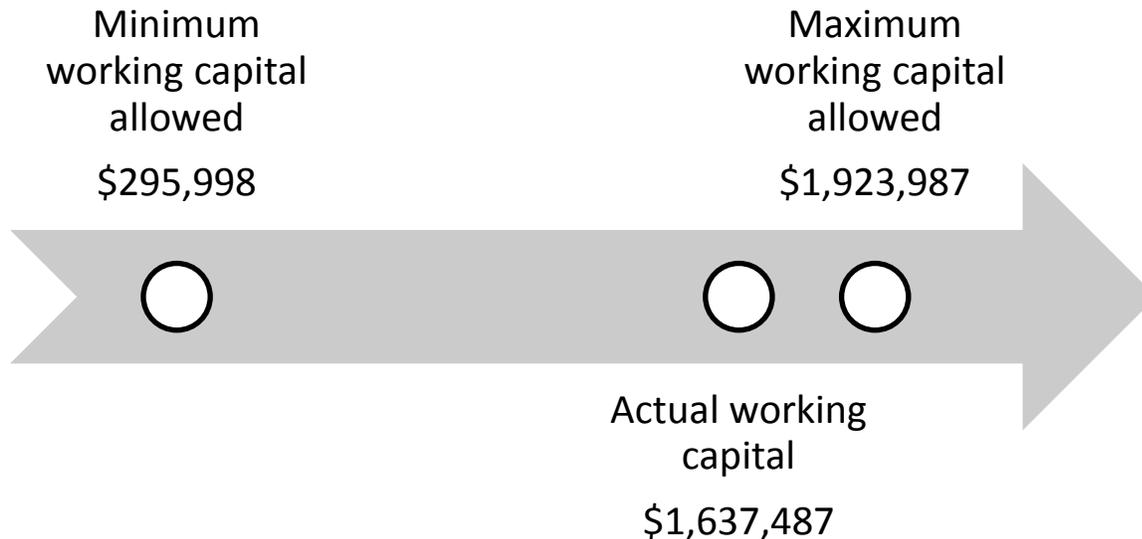
In FY2016, the Craven County ABC Board made an additional distribution of \$742,600 proportionately to the county and municipalities.

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 Craven County ABC Board had gross sales of \$10,029,387 in FY2016. The board's working capital of \$1,637,487 and is within the recommended range set by the rules of the NC ABC 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

In FY2016, the Craven County ABC Board's operating cost ratio was 0.53. Expenses decreased 7.1% in fiscal year 2016. The Craven County ABC Board leases two stores located in James City and Havelock. Rental expense totaled \$42,840 in FY2016.

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 Craven County ABC Board operates six retail stores. The stores' linear footage averages approximately 959 ft. There are approximately 1,900 product codes between stores.

- 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.
- Landscaping around the stores 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
- Sales clerks often refer to the North Carolina Liquor Quarterly for verification of products and pricing. Monthly sales information provided by the North Carolina ABC Commission is shared with mixed beverage and retail customers on a consistent basis.
- 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 finance officer.
- Physical counts are conducted weekly in the stores and two times a week in the warehouse. Inventory counts are forwarded to the administrative office where a variance report is generated. The stores' variance reports are returned for a second check. Once discrepancies are investigated and recounted on multiple occasions, adjustments are made to the inventory system. Variance reports and adjustment reports are reviewed by the operations director and the general manager.
- Breakage forms are submitted as required by the Commission rules. Management has implemented procedures for handling breakage when a customer/employee breaks product.
- Out of an average of 1,900 product codes throughout the system, approximately 350 product codes were sampled to ensure accurate pricing. Two were incorrect.

RECOMMENDATIONS

1. 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.

PERSONNEL AND ABC TRAINING

- All board members, the general manager, and the finance officer have completed the ethics training as required. Two board members have since been reappointed and have completed the reappointment ethics training. Each board member is required by statute to complete the training within one year of reappointment status.
- Cross training has been extended to employees in the event the store managers, general manager, or finance officer is unavailable.
- Additional training is provided to new and existing staff on key areas such as product knowledge, customer service, and clerk responsibilities. Employee meetings are offered to discuss additional policy implementation and other topic.
- Personnel files are available and include the required human resource documentation and other information.

NO RECOMMENDATIONS

ABC BOARD POLICIES

The Craven County ABC Board's policies and manual have been updated to include, but are not limited to, the following:

- Code of Ethics
- Law Enforcement Contract (Alcohol Law Enforcement Division of the NC Department of Public Safety)
- Craven County ABC Board Employee Handbook/Manual and Addendums that include the following:
 - Craven County ABC Board Procurement Card Policy
 - Craven County ABC Board Motor Vehicle Policy
 - Price Discrepancy Policy
 - Employee Spot Bonus – Incentive Program
 - Sale to Underage Policy – Zero Tolerance
- Craven County ABC Board Mixed Beverage Policy
- Craven County ABC Board Travel Policy (Adopted the Craven County Travel Policy)
 - Craven County ABC Board Members Mileage 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 Craven County ABC Board has submitted the following as required:

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

NO RECOMMENDATIONS

INTERNAL CONTROL AND ADMINISTRATIVE OPERATIONS

- At the time of the audit fieldwork, board member appointment information on the Commission website did not reflect current information. Management has since updated the Commission website.
- Employee work schedules are created by the store managers. All employees utilize a time sheet to record hours worked. Timesheets are verified and signed by the store manager's and forwarded to the administrative office for processing. The finance officer manages and reconciles the payroll reports to create appropriate entries within the accounting system.
- In reviewing a sample of board credit card transactions, procedures were followed according to the adopted credit card usage policy to the extent of the ordering and disbursement processes.
- In reviewing a sample of travel reimbursements, procedures were followed according to the travel policy of the Craven County ABC Board.
- The board owns two vehicles, one delivery truck to transfer products between stores and 1 car to visits stores. Vehicle expenses were verified and followed procedures according to the board vehicle policy.
- Law enforcement activity reports have been submitted to the Commission as required by G.S. 18B-501 (f1).
- All purchases are authorized by the general manager and pre-audited by the finance officer utilizing the certificate as required in G.S 18B-702 (m). Pre-audit procedures are indicated through use of a purchase order or vendor invoice. Purchase payments are made by petty cash on hand, board credit card, and/or business checks.
- 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 board chairman and the general manager. Other parties are authorized to sign checks as authorized through bank documentation. The board uses a signature stamp for the check signing process.

RECOMMENDATIONS

1. Adopt a policy on the use of the signature stamp.

ABC BOARD COMPLIANCE

- Board meeting minutes were reviewed and found to provide 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.
- At the time of the audit fieldwork, board meeting notifications have not been made available to public. Management has since updated the ABC board's website to reflect scheduled board meeting dates and has displayed signage at the store locations.
- The board is in compliance with G.S. 18B-700 (k) as there are no known relationship between staff, any board member, and the general manager employed within the system.
- Board member and general manager compensation is in compliance with G.S. 18B-700 (g) and (g1).
- All board members, the general manager, and the finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).

NO RECOMMENDATIONS

SUMMARY

A board meeting was held on January 17, 2017 with the Craven County ABC Board. The board continues to discuss ways to improve profitability while meeting 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

KEVIN M. GREEN
Greensboro

MICHAEL C. HERRING
West Jefferson

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Moniqua S. McLean
ABC Board Auditor

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March 2, 2017

Craven County ABC Board
Mr. Wilfred "Chip" Chagnon, Chairman
3493 Martin Drive
New Bern, NC 27561

Dear Chairman Chagnon,

We are pleased to submit this performance audit report on the Craven 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. Your continued efforts to increase profitability and reduce expenses are commendable.

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

Respectfully,

Robert A. Hamilton
Administrator

CC: North Carolina Association of ABC Boards

CRAVEN COUNTY ABC BOARD

3493 Martin Drive
New Bern, NC 28561

Wilfred "Chip" Chagnon, Chairman
Tony Lee
Carol Crayton

Barbara Whiteman
Charles Collins
Donna Rouse

January 25, 2017

Moniqua McLean
4307 Mail Service Center
Raleigh, NC 27699-4307

Dear MS McLean:

Subject: Craven County ABC Board Response to the Performance Audit Report, November 18, 2016.

1. This is in response to the Craven County ABC Board Performance Audit Report (Draft) (PAR) dated November 18, 2016. The audit was conducted by MS Moniqua McLean, NC ABC Commission Auditor.
2. The Craven County ABC Board (CCABC) is pleased with the depth, breadth, and results of the draft audit in meeting the NC ABC Commission's stated goals and objectives.
3. The PAR revealed in the boldest of auditing terms that the CCABC is:
 - a. Clearly operating well-within the high standard of the NC ABC Commission and within the General Statutes of the State;
 - b. Operates safe, modernized, clean, well-lighted stores: and a well organizes and managed warehouse, and administrative area;
 - c. Enforces the NC ABC laws,
 - d. Controls the sale of liquor;
 - e. Operates a highly profitable system;
 - f. Maintains a fiscally strong operation; and
 - g. Employees qualified and well trained employees.
4. The CCABC had one material deficiency; and one minor shortcoming, both corrected "on-the-spot", and prior to the auditor leaving the area.
5. The following is in corrective action or response to the findings:
 - a. Page 7, in reference to findings and recommendations on two incorrect product codes. In the six stores audited and sample of 350 product codes (of 1,900 possible), two items were found to be incorrect. This is .0057% of the total items found incorrect in the sample pool. We would suggest that zero percent is nearly unobtainable in boards that have six stores. Still, we have cautioned our employees to double check each code in the future.
 - b. Page 10, in reference to the use of a signature stamp. The CCABC instituted a written signature stamp policy on November 4, 2016.

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6. We sincerely thank MS McLean for her fair and professional auditing approach. She represented the very best of the NC ABC Commission in her professional conduct and deportment during this audit.

Sincerely,


Wilfred (Chip) Chagnon
Craven County ABC Board Chairman

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