

Elizabethtown 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

May 13, 2016

Elizabethtown ABC Board
Mr. Charles M. DeVane, Chairman
2817 West Broad St.
Elizabethtown, NC 28337

Dear Chairman DeVane,

We are pleased to submit this performance audit report on the Elizabethtown 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 the town of Elizabethtown to hold an election for an ABC store. The referendum was held October 6, 1981 and passed 764 to 578. A subsequent mixed beverage election occurred on September 12, 2002 and passed 472 to 459. The first retail sale occurred on March 2, 1982.

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 for three year staggered terms. Current board members include Charles DeVane, chairman, Glendell Robinson and Wayne Edge, board members.

The Elizabethtown ABC Board operates one retail store with mixed beverage sales. The board staffs 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, accounts payable, human resource management, and other administrative decisions for the board. Store employees' primary 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 October 28, 2015, ABC Board Auditor, Moniqua S. McLean, visited the Elizabethtown ABC store and interviewed Mark Gillespie, general manager. 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 2015, the Elizabethtown ABC board had gross sales of \$1,240,643; income from operations was \$119,351, a 9.6% profit percentage to sales.

Factors affecting sales and profitability:

- Population reported to the US Census Bureau as 3,583 in 2010;
- Only ABC board in the county;
- The board owns the land and building and has no debt.

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, the Elizabethtown ABC Board made the minimum distribution of \$36,370, plus additional distribution of \$68,630. \$281,047 in excise and other taxes were paid to the NC Department of Revenue, the Department of Health and Human Services, and the town.

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%) toward alcohol education. The remaining profits are to be distributed to the Town of Elizabethtown General Fund.

In FY2015, the Elizabethtown ABC Board distributed to the town \$4,149 to law enforcement and \$5,809 towards alcohol education. The ABC Board has contracted with the Town of Elizabethtown Police 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 Elizabethtown ABC Board had working capital of \$229,452 which is less than the maximum allowed to retain of four months gross sales (\$318,066) and is within the limits of NCAC 15A .0902.

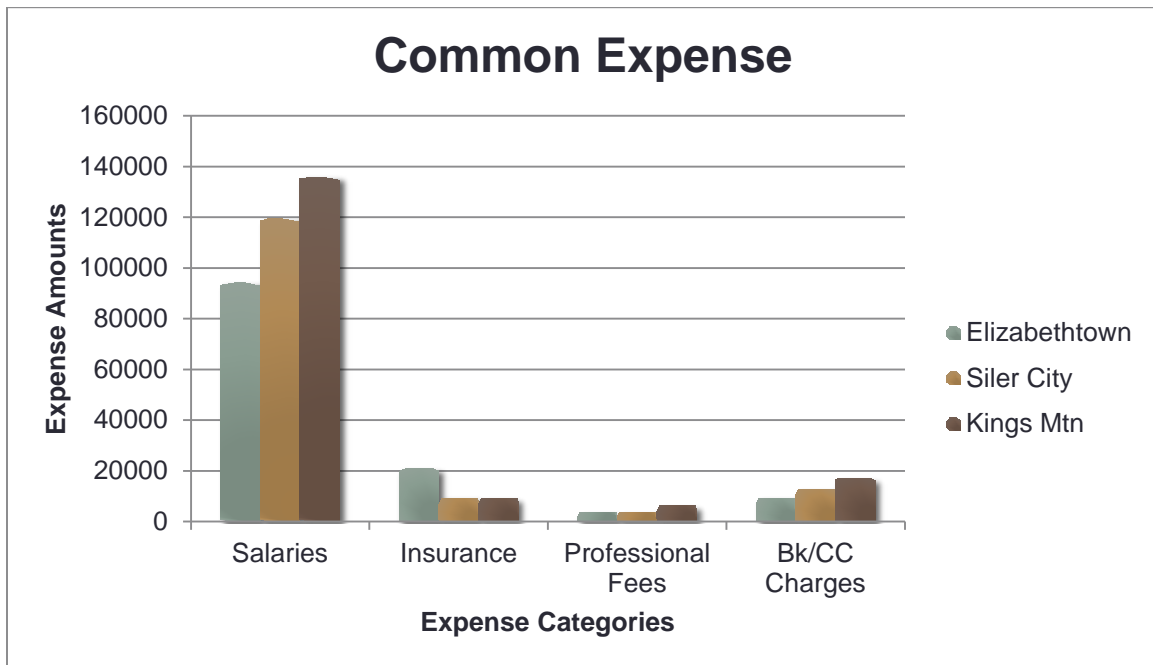
OPERATING COST RATIO

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 Elizabethtown ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.56. Mixed beverage sales make up 2.5% of total liquor sales. Compared with the state's estimated increase in sales of 7.68% in fiscal year 2015, the Elizabethtown ABC Board's sales increased 3.2% over fiscal year 2014. Expenses increased 8.9% over the same time period.

Below is a common expense analysis showing the Elizabethtown ABC Board's expenses compared with other similar size boards.



Staffing by board: Elizabethtown – 2 full-time and 3 part-time employees; Siler City – 3 full-time, 3 regular part-time, and 1 seasonal part-time employees; Kings Mountain – 2 full-time and 4 part-time employees.

STORE APPEARANCE

The Elizabethtown 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 well-visible signage. The Fetal Alcohol Syndrome poster is displayed and visible to the public.
- A television is present in the store and displayed the news channel as required by the ABC Commission rule.
- Landscaping around the store is well-maintained and trash free.
- Shelf management and product placement 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.
 - North Carolina products are displayed on the end caps with Made in North Carolina signage.

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.

NO RECOMMENDATIONS

PERSONNEL AND TRAINING

- All board members have completed the initial ethics training as required. Board members have since been reappointed and all have completed the reappointment ethics training as required.
- 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 and the NC Association of ABC Boards.
- Personnel files are available and include the required human resource documentation and other personnel information as needed.

NO RECOMMENDATIONS

ABC BOARD POLICIES

Policies adopted and submitted to the Commission include:

- Code of Ethics
- Law Enforcement Contract (Elizabethtown Police Department)
- Travel Policy (Town of Elizabethtown Approval and Policy Submitted)
- FY2015 Annual Audit
- Employee Handbook
- FY2016 Budget (Proposed and Adopted)
- Mixed Beverage Policy
- Price Discrepancy Policy
- Sale to Underage 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 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 enters data into the payroll accounting program for processing. The accounting program is not often backed up.
- 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 rule. 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 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. Board members review all transactions purchased with the card. A credit card policy has not been adopted.
- Physical inventory counts are performed monthly by category by all scheduled employees. Spot checks are conducted frequently. When discrepancies occur, the general manager and other employees will investigate and perform a recount. Adjustments are made by the general manager. Unsalable merchandise is adjusted from inventory monthly.
- Breakage forms have not been submitted recently but the auditor has collected the most recent during the audit fieldwork.
- Out of approximately 1,200 product codes, approximately 100 product codes were sampled to ensure accurate pricing and all were correct.

RECOMMENDATIONS

1. Schedule regular backups for the accounting system.
2. Submit breakage forms quarterly as required by the Commission rule. *Refer to Appendix A (1) for rule.*
3. 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.

ADMINISTRATIVE COMPLIANCE FINDINGS

- 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/location of board meetings are 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).
- To aid in the truck deliveries, the general manager hires a relative for this process.
- 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 or the board credit 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 general manager and a board member. In the event the general manager or board member is unavailable, other board members are authorized to sign checks.

RECOMMENDATIONS

1. Refrain from employing relatives. *Refer to Appendix B (2) for statute.*

AUDITOR'S SUMMARY

On February 9, 2016, ABC Board Auditor, Moniqua S. McLean, presented the performance audit findings and recommendations to the board. Discussions were held regarding future strategies and plans of the ABC system. The board continues to strive to improve profitability while maintaining budget appropriations and reducing costs. 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.

Elizabethtown ABC Board
2817 West Broad St.
Elizabethtown, NC 28337

To: Moniqua McLean

From: Elizabethtown ABC Board

Re: Performance Audit

Moniqua,

We have received the results of the performance audit, and we have addressed the four recommendations that were made from the audit. The board has passed a new credit card policy, daily backup are being made on our accounting system, breakage report will be sent quarterly as required by the commission, and the employing of relatives to unload the truck has stopped which makes it difficult in a small town to find someone you can trusted and depend on. The board is looking for ways to become more profitable, maybe we can get some ideals from other board through a newsletter or some other means. Our town and county have not had any growth in several years our population has remain the same, which means we have an aging population. We would like to thank you for your time and professionalism you showed throughout the whole audit.

Sincerely,

Charles M. DeVane

Board Chairman

APPENDIX A

- 1) *NCAC 15A .1701 (b) states, "...A Destruction of Unsalable Merchandise Report shall be completed and signed by the witnessing parties. A written copy of the report shall be sent to the distiller and a written or electronic copy shall be sent quarterly to the Commission. The original shall be retained by the local board for a period of three years."*
- 2) *G.S. 18B-700 (k) states, "Members of an immediate family shall not be employed within the local board if such employment will result in one member of the immediate family supervising another member of the immediate family..."*

APPENDIX B

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>ABC Board Policies</p> <p>Adopt a board credit card usage policy.</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 50% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>A board credit card usage policy is adopted and on file at the Commission.</p>
<p>Board Compliance:</p> <p>Refrain from employing relatives.</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 50% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>The board has since found other methods that would prevent from hiring and employing relatives.</p>