

Fairmont 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

Fairmont Board of Alcoholic Control
Mr. Steve Floyd, Chairman
200 North Belmont Street
Fairmont, NC 28340

Dear Chairman Floyd,

We are pleased to submit this performance audit report on the Fairmont Board of Alcoholic Control. 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 many efforts your Board has made to comply with the new performance standards along with your continued 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

S.L. 1967-405 authorized the Town of Fairmont to hold an election for an ABC store upon a petition signed by at least twenty-five percent (25%) of registered voters. The referendum was held on August 28, 1970 and passed 493 to 245. A subsequent mixed beverage election was held on November 5, 2002 and passed 482 to 378. The first retail sale occurred on November 6, 1970.

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 staggered year terms. Current board members are Steve Floyd, board chairman, Cynthia Nealey and Larry Floyd, board members.

The Fairmont ABC Board operates one retail store with mixed beverage sales. The board staffs two full-time and two part-time employees. The general manager is primarily responsible for providing oversight of all daily operations including accounts payable, policy implementation, and human resource management. The board has hired an external accountant to provide sufficient checks and balances 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.

OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

On January 21, 2016, ABC Board Auditor, Moniqua S. McLean, visited the Fairmont ABC store and interviewed J. Cary Sealey, general manager. Below is a financial analysis followed by operations 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 Fairmont ABC board had gross sales of \$610,768; income from operations was \$43,821, a 7.17% profit percentage to sales.

Factors affecting sales and profitability:

- Population of the Town of Fairmont reported by the US Census Bureau in 2010 is 2,663;
- Estimated population of Robeson County reported by the US Census Bureau in 2014 is 134,760, a 0.4% increase since 2010;
- Surrounding towns or cities with ABC store within Robeson County include Rowland, Maxton, Lumberton, Pembroke, and Red Springs.

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 Fairmont ABC Board made the minimum distribution of \$18, 614, plus additional distribution of \$4,386. \$136,975 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) requires the board to distribute at least five percent (5%) of profits to law enforcement. S. L. 1971-375 requires the board to distribute to the following:

- Sixty-five percent (65%) to the Town of Fairmont General Fund for any governmental purpose, including but not limited to library purposes, recreational purposes, and educational purposes; and
- Thirty-five percent (35%) to the Robeson County General Fund for any governmental purposes, including but not limited to library purposes, educational purposes, and hospital purposes.

In FY2015, the Fairmont ABC Board did not distribute toward law enforcement.

RECOMMENDATIONS

1. Begin distributing toward law enforcement as required in G.S. 18B-805.

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 Fairmont ABC Board had a working capital of \$159,887 which is \$1,955 more than the maximum amount allowed to retain of four months gross sales (\$157,931).

RECOMMENDATIONS

1. Distribute the excess of \$1,955 to the town or ask for an approval to place in a capital improvement fund.

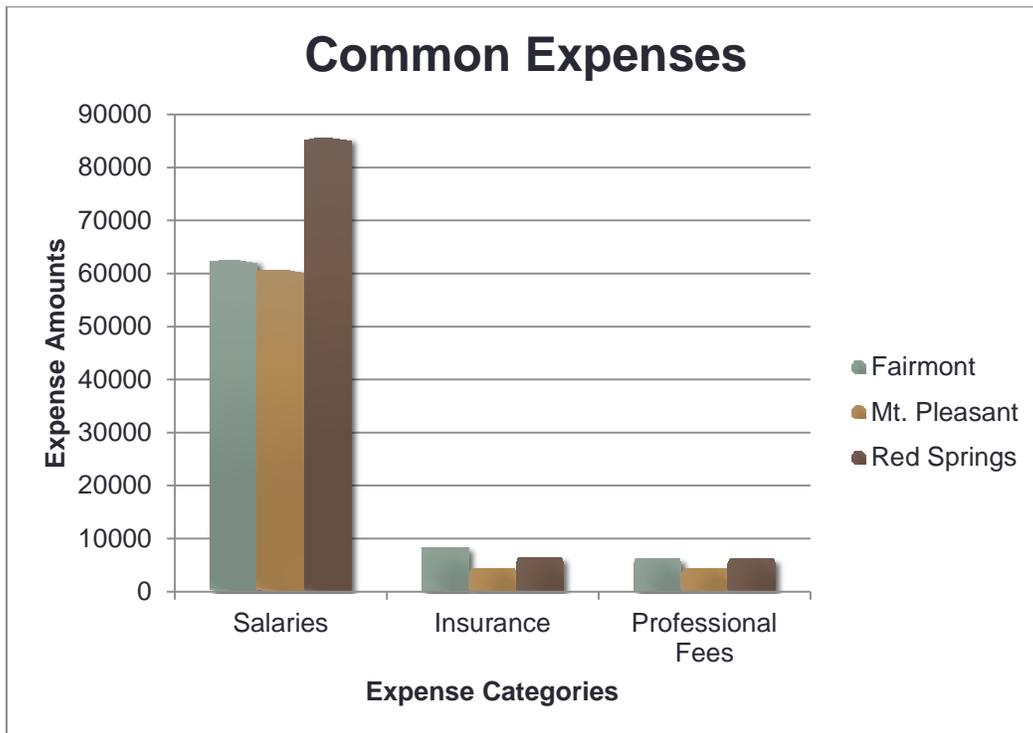
OPERATING COST RATIO

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 Fairmont ABC Board operates one retail store without mixed beverage sales: the operating cost ratio is 0.73. Compared with the state's increase in sales of 7.59% in fiscal year 2015, the Fairmont ABC Board's sales increased 3.71% over fiscal year 2014. Expenses have increased 13.27% over the same time period.

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



Note; Staffing by board: Fairmont – 2 full-time and 2 part-time employees; Mt. Pleasant – 3 full-time and 2 part-time; Red Springs – 2 full-time and 4 part-time employees.

STORE APPEARANCE

The Fairmont ABC Board operates one retail store with approximately 1,000 linear feet of shelf space and carries approximately 900 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.
- Each product is displayed within its designated category. Bottles are fronted and dusted.
- A shelf management plan is utilized that exhibits a strategy following the premium products at eye level and value products on the bottom shelves. Product placement is consistent with sizes going from largest on the right and smallest to the left. Some shelves are empty.

CUSTOMER SERVICE

- The state price book is available should customers ask for specific product. Sales clerks often refer to the price book for verification of product and pricing. In the event the shelf price is lower than the register price, the sales clerk follows procedures when handling price discrepancies.

RECOMMENDATIONS

- 1) Consider the following to improve or enhance shelf management:
 - a. Cross-merchandising by placing products that mix together on the same shelves. Intermingle North Carolina products within their specific category as well as having a designated area.
 - b. Using more of the end caps to incorporate valuable displays for new and bestselling items.
 - c. 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, general manager, and finance office have completed the initial ethics training as required by the ABC statutes. One board member has since been reappointed and has not taken the training.
- Cross training has been extended on key administrative duties to employees in the event the general manager was unavailable.
- Additional training is provided to new and existing staff on key areas, such as product knowledge, customer service, and clerk responsibilities.
- Personnel files are available and include the required human resource documentation and other personnel information as needed.

RECOMMENDATIONS

1. Have all reappointed board members complete the ethics requirement within 12 months of appointment. *Refer to Appendix A (1) for statute.*
2. 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
 - Travel Policy (State Travel Policy Approved)
 - FY2015 Annual Audit
 - FY2016 Budget (Proposed and Adopted)
 - Employee Handbook includes
 - 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. Below are internal control findings that were observed during the audit fieldwork.

- An employee creates the work schedule for part-time employees with the general manager's verification; full-time employees have a set schedule. Time sheets are not used by employees. In the event an employee is absent, the general manager or assistant manager will fill in for the employee. At the end of the payroll week, the general manager manually calculates payroll. Adjustments to payroll are made at the end of the month by the accountant.
- 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 not made daily as required by the ABC Commission rule. Bank notifications are received and matched with corresponding daily register reports. Bank reconciliations are completed monthly by the finance officer.
- On some occasions, employees have cashed payroll checks at the store.
- The board and staff rarely travel consequently there were no travel expense reports to view.
- Three credit cards are issued to board members and the general manager as the authorized user. Credit card reconciliations are performed by the general manager monthly. The board chairman reviews all transactions purchased with the card. A credit card policy has not been adopted.
- Breakage forms have not been submitted to the Commission as required by the rule.
- The board has adopted a policy on how to handle the breakage if a customer or employee damages product.
- Verification was not available as to when physical inventory is conducted. Documentation is not kept as required by the Records Retention Schedule provided by the NC Department of Cultural Resources. However, adjustments are provided as a standard with the inventory management system. Adjustments are made by the general manager and the assistant manager.
- Out of approximately 900 product codes, approximately 100 product codes were sampled and four were incorrect.

RECOMMENDATIONS

1. Refrain from allowing employees to cash payroll checks in the store.
2. Submit breakage forms quarterly as required by the Commission rule. *Refer to Appendix A (2) for rule.*
3. Since board members rarely travel, consider reducing the number of credit cards issued.
4. 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.
5. Follow the Records Retention Schedule as to determine what documentation is to be retained.
6. 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.

ADMINISTRATIVE COMPLIANCE FINDINGS

- Board meeting minutes were viewed. However, the minutes did not follow the order of proceedings that transpired. Board meeting minutes did not include a conflict of interest statement asking board members if conflicts existed with items on the meeting agenda.
- Date/time/location of board meetings are not 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 not been submitted to the Commission as required by G.S. 18B-501 (f1) for the following months: August through December 2015.
- 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.
- The general manager serves as the finance officer for the board. The board has not obtained approval from the Commission allowing the general manager to serve in this capacity for up to three years.
- All board members, the general manager, and the finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- In reviewing a sample of liquor invoices, some payments were not made within thirty (30) days.
- In reviewing the budget to actual expenses as referenced in the financial audit of FY2015, the board underestimated in sales and overspent in some expense line items.
- Liquor orders are not pre-audited by the finance officer. The board will approve miscellaneous purchases and payment is made using the credit card.
- 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 the assistant manager. In the event the general manager is unavailable, checks are pre-signed.

RECOMMENDATIONS

1. Have detailed board minutes that a reasonable person would be able to follow what transpired. Eliminate judgmental statements and opinions recorded in minutes.
2. 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 (3).*
3. Post signage at the store and Town Hall notifying the public, when, where, and the time meetings are held. *Refer to Appendix A (4) for statute.*
4. Update board appointment information on the Commission website.
5. Submit law enforcement activity reports for the months mentioned. If there was no information submitted, enter "0".
6. Begin to work on a plan to designate someone other than the general manager as finance officer. The intent is to generate stronger internal controls and checks and balances.
7. 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.
8. Place the pre-audit certificate with the finance officer's signature on the order to LB&B. When ordering supplies, have a purchase order or order confirmation that will have authorization from the finance officer before the transaction takes place. *Refer to Appendix A (5) for statute.*
9. Cease from pre-signing checks when the general manager is unavailable. Consider authorizing a board member to sign checks.

AUDITOR'S SUMMARY

On February 16, 2016, ABC Board Auditor, Moniqua S. McLean, presented the performance audit findings and recommendations to the board. The board strives to improve profitability while maintaining budget appropriations and reducing expenses. Policies and procedures have been implemented to ensure compliance with statutes and Commission rules. Efficient operations are established to maintain sufficient checks and balances.

FAIRMONT BOARD OF ALCHOLIC CONTROL
200 NORTH WALNUT STREET
FAIRMONT, NC 28340

April 11, 2016

Moniqua S. McLean, ABC Board Auditor
ABC Commission
4307 Mail Service Center
Raleigh, NC 27699-4307

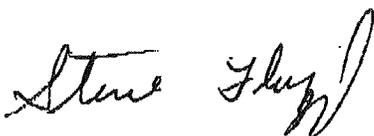
Dear Ms. McLean,

Thank you for attending our recent ABC Board meeting. Since your visit, we have implemented the following recommendations, according to the State:

- ABC Store Credit Card Policy, only 1 person has access to the card and is used for purchases of small items, such as cleaning supplies. Larger purchases are only made through approval of the Board.
- Working Capital, distributions of \$1,955 was given to the County and City of Fairmont.
- Law Enforcement Distribution, to date we have paid \$329.97 and will continue to pay on a quarterly basis according to statute GS -18B-805.
- Law enforcement activity report, the new form is not available at this time, but once provided will submit monthly.
- Salaries have been cut back to keep in line with the budget.
- New items will be added to fill empty shelves.
- A Board member is presently working on ethics training.
- New policy pertaining to cash and checks – no checks will be cashed in the future.
- Breakage will be handled quarterly and the required form will be sent to the Commission.
- There will be two signatures as required for all checks written on behalf of the store. In an emergency, the Board Chair is authorized to sign if needed.
- The current budget is on target at this time.
- Fairmont ABC Store has a zero tolerance policy on underage drinking.
- At each Board meeting, the Chair will read the Conflict of Interest Statement to all Board Members and Manager at the first of every meeting. All meeting minutes will be approved by the Board at the start at each following meeting.
- Bank deposits are made daily and will continue so in the future.
- All bank returns will go to the Chair for his approval before given to the Store Manager.

Thank you once again for your guidance for improvement for the Fairmont ABC Store. If you should have any further questions or concerns, please feel free to contact me (910) 628-7747.

Sincerely,



4-11-16

RECEIVED

APR 11 2016

Steve Floyd, Chairman
Fairmont ABC Board

NC ABC COMMISSION

APPENDIX A

- 1) *G.S. 18B-706 (b) states, "Each member of a local board shall receive a minimum of two hours of ethics education within 12 months after initial appointment to the office and again within 12 months after each subsequent appointment to the office."*
- 2) *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."*
- 3) *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.' "

- 4) *Operations Manual states "North Carolina General Statute 143-318.12 requires the following from public bodies:*
 - a. *Must have regular meetings*
 - b. *Post schedule with the Town Clerk (if the regular schedule changes, notice must be given to the clerk)*
 - c. *If a meeting is to be held at a time other than the regular time*
 - i. *Announce the time and place during a meeting or*
 - ii. *Written notice stating the purpose – bulletin board, and notice mailed to the media and interest persons who have requested notice*
 - iii. *Notice given at least 48 hours in advance*
 - iv. *If an emergency meeting is called because of generally unexpected circumstances that require immediate attention, and then notice to the media and interested persons shall be made by telephone or other means."*
- 5) *18B-702 (m) states "...the contract, agreement, or purchase order shall include on its face a certificate stating that the instrument has been pre-audited to assure compliance. The certificate, which shall be signed by the finance officer or any deputy finance officer approved, shall take substantially the following form:*

"This instrument has been pre-audited in the manner required by GS 18B-702."

(Signature of finance officer)

APPENDIX B

| RECOMMENDATION | REQUIRED BY STATUTE | IMPLEMENTATION STATUS |
|---|--|--|
| <p>Personnel and Training</p> <p>Have all reappointed board members complete the required ethics training with 12 months of reappointment</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>Management is planning to schedule the board member for ethics training. A copy of the ethics verification will be forwarded to the Commission once training is completed.</p> |
| <p>ABC Board Policies</p> <p>Adopt the following policies:</p> <ul style="list-style-type: none"> • Sale to Underage Drinker Policy • Board Credit Card Usage Policy | <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>The board has adopted a policy that details the repercussions of an employee selling to an underage drinker.</p> |

| RECOMMENDATION | REQUIRED BY STATUTE | IMPLEMENTATION STATUS |
|--|--|---|
| <p>Internal Control/Administrative Compliance</p> <p>Submit breakage forms quarterly.</p> <p>Keep all documentation according to the time frame as indicated in the Records Retention Schedule.</p> <p>Have detailed board minutes of what transpired in the board meetings.</p> <p>Have the board chairman read a conflict of interest statement at the beginning of each board meeting.</p> <p>Post signage notifying the public of the board meetings.</p> <p>Update board information on the Commission website.</p> <p>Affix the pre-audit certificate on all obligations before they occur.</p> <p>Cease from pre-signing checks.</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>Management has implemented procedures to incorporate these standards and rules in order to be in compliance with the statute.</p> |