

Forest City ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
400 East Tryon Road, Raleigh, NC 27610
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ABC
COMMISSION
NORTH CAROLINA

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ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

November 17, 2015

CHAIRMAN:
JAMES C. GARDNER

Forest City ABC Board
Mr. Scott Roach, Chairperson
430 Oak Street
Forest City, NC 28043

KEVIN M. GREEN
Greensboro

ADMINISTRATOR:
ROBERT A. HAMILTON

Dear Chairperson Roach,

LOCATION:
400 East Tryon Road
Raleigh NC 27610

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

MAILING:
4307 Mail Service Center
Raleigh, NC 27699-4307

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.

PHONE: (919) 779-0700
FAX: (919) 661-5927
<http://abc.nc.gov/>

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.

Moniqua S. McLean
ABC Board Auditor

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 2014;
- Visited the store;
- Interviewed key ABC board personnel.

BACKGROUND INFORMATION

G.S. 18B-601 authorized the City of Forest City to hold an election for an ABC store. The referendum was held on March 12, 2002 and passed 957 to 871. The first retail sale occurred on April 22, 2003.

Upon election of an ABC store, the city was authorized to create an ABC board consisting of a chairman and two board members. Current board members are Scott Roach, board chairman, Angie Smith and David Linder, board members.

The Forest City ABC Board operates one retail store with mixed beverage. The board staffs three full-time and four part-time employees. The general manager is primarily responsible for the overall operations of the store including personnel, inventory control, accounts payable, and providing friendly customer service. The board has hired a finance officer to handle all financial aspects of the board. All store employees are responsible for providing friendly customer service, general upkeep, and stock maintenance.

OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

On April 29, 2015, ABC Board Auditor, Moniqua S. McLean, visited the Forest City ABC store and office and interviewed George Helton, general manager, and Bettie Hendron, finance officer. 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 2014, the Forest City ABC Board had gross sales of \$1,770,447; income from operations was \$104,393, a 5.90% profit percentage to sales.

Factors affecting sales and profitability:

- Population of Forest City is approximately 7,404 in 2013, a 1.0% decrease since 2010;
- Surrounding towns with ABC stores include Shelby, Rutherfordton, Lake Lure, and Columbus.

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 to the town. In FY2014, Forest City ABC made the minimum distribution of \$52,160, plus additional distribution of \$25,475. \$404,668 in excise and other taxes were paid to the NC Department of Revenue, the Department of Health and Human Services, and the city.

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/rehabilitation purposes. The remaining profits are to be distributed to the Forest City General Fund.

In FY2014, the Forest City ABC Board distributed to the town \$2,683 for law enforcement and \$3,756 for alcohol education.

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 FY2014, the Forest City ABC Board had working capital of \$363,863 which is greater than the maximum allowed of four months gross sales (\$339,909). The excess of actual working capital, \$23,954, over the maximum has been distributed.

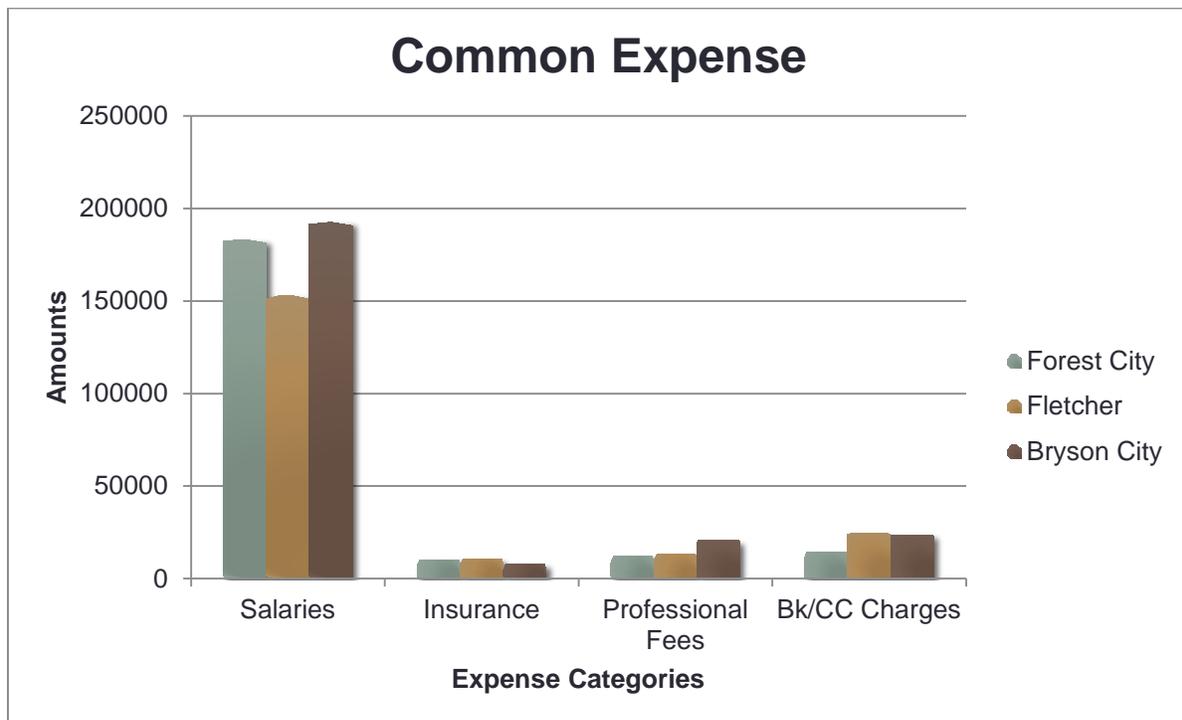
OPERATING COST RATIO

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 Forest City ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.71. Mixed beverage sales make up 5.6% of total gross sales. Compared with the state's increase in sales of 4.81% in fiscal year 2014, sales increased 0.89% over fiscal year 2013 while expenses increased 1.18% over the same time period. The town of Forest City funded the ABC building for \$95,639. The board makes payments including a five percent (5%) interest totaling \$2,768. The board expects to pay off in FY2018.

A common expense analysis shows that the Forest City ABC Board's expenses are comparable with other similar size boards. The board has significant savings as a result of owning the store and reducing overhead expenses.



STORE APPEARANCE

The Forest City ABC Board operates one retail store with approximately 1,350 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.
- The store displayed neat and well-visible signage. The Fetal Alcohol Syndrome poster is displayed and visible to the public.
- Landscaping around the store is well-maintained with no evidence 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 ultra-premium products on top shelves, premium products at eye level, and value products on the lower shelves. Displays are located throughout the store promoting bestselling, new items, etc. North Carolina products are placed within their own category but are also shown with similar brands through cross merchandising. Product placement is consistent with sizes going from largest on the right and smallest to the left. Horizontal brand blocking is shown for similar products.

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. Monthly sales information is shared with mixed beverage and retail customers on a consistent basis.
- Sales clerk's 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, the general manager, and the finance officer have completed the initial ethics training required by the statute. However, board members have since been reappointed and have not yet completed the continuing ethics training.
- Cross training has been extended on key administrative duties to employees in the event the general manager was suddenly unavailable.
- Training is provided to new staff on primary duties and responsibilities. Training for existing staff is not always conducted in areas such as product knowledge and updated ABC laws and Commission rules.
- Personnel files are available and included human resource documentation and other personnel information as required.

RECOMMENDATIONS

1. Have all reappointed board members complete the ethics requirement within 12 months of reappointment. *Refer to Appendix B (1) for statute.*
2. Consider additional training opportunities through the Commission and other ABC boards on specific areas such as customer service, best retail and marketing practices, etc.

ABC BOARD POLICIES

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - FY2014 Annual Audit
 - FY2015 Budget (Proposed and Adopted)
 - Travel Policy (Board approved the State's Travel Policy)
 - Mixed Beverage Policy
 - Employee Handbook
 - Shelf Management Plan

- Policies not adopted include:
 - Law Enforcement Contract
 - Price Discrepancy Policy

RECOMMENDATIONS

1. Have an agreed upon law enforcement contract and submit to the Commission. All local boards are required to have an agreement, even if the agreement results in no enforcement activity without distribution. *Refer to Appendix B (2) for statute.*
2. Adopt a written price discrepancy policy that incorporates customer friendly practices. Once adopted, communicate to all employees should the need arise. *Refer to Appendix A (3) for rule*

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 employees for work shift hours. All employees use a time card entry system to record hours worked. At the end of the payroll week, the general manager and finance officer will verify all time sheets and calculate hours worked by each employee. A payroll accounting software program processes all payroll activities.
- Cash drawers are counted 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 in compliance with 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 conducted once a year. Throughout the year, the staff will conduct a category count and perform frequent spot checks of multiple product codes. If discrepancies occur, the finance officer and general manager will investigate and recount for accuracy and verification. Once completed, the finance officer will adjust the inventory system to match with the actual store counts.
- Unsalable merchandise is adjusted from inventory when the forms are completed and within two weeks of the occurrence. Breakage forms are submitted as required by the Commission rule. Management has implemented procedures for handling breakage write-offs when a customer or an employee is responsible.
- A credit card is issued to the board with two authorized users. A sample of board credit card transactions was viewed. A credit card policy has not been adopted.
- Out of approximately 1,100 product codes, approximately 100 codes were sampled to ensure accurate pricing and all were correct.

RECOMMENDATIONS

1. 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 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 members sign the Certificate of Accountability clause at each board meeting.
- 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).
- 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/general manager. The board is usually invoice by vendors for purchases.
- 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 finance officer is unavailable, all board members are authorized to sign checks.

NO RECOMMENDATIONS

AUDITOR'S SUMMARY

The performance audit recommendations were presented to the Forest City ABC board on June 8, 2015. The board has since responded to the performance audit recommendations and strives to implement strategies to improve profitability. Policies and procedures have been implemented to ensure compliance with statutes and Commission rules and to ensure efficient operations while maintaining checks and balances.

FOREST CITY ABC BOARD 168
430 OAK STREET
FOREST CITY, NC 28043
(828) 247-4454

August 19, 2015

Ms. Moniqua S. McLean
ABC Board Auditor
400 E. Tryon Road
Raleigh, NC 27610

RE: Forest City ABC Boards Performance Audit Response

Dear Ms. McLean:

The Forest City ABC Board has reviewed the audit performed by you on April 29, 2015 and the following action is being addressed or has been completed:

1. Ethics requirements for all re-appointed Board Members is being scheduled in the near future.
2. Any training materials available through the ABC Commission Website to aid our store to perform better is being reviewed.
3. We have a Law Enforcement Contract with the Forest City Police Department. A copy will be forwarded to your office.
4. A price discrepancy policy will be made available for all employees to read and follow to promote customer friendly practices.
5. An store credit card purchase usage procedure policy is being formulated by the Store. It addresses who can use the card, what purchases can be made, and how much can be purchased without Board approval.

The Forest City ABC Board and it's staff would like to thank you and the ABC Commission for a constructive audit to help our store perform better.

Sincerely,



Scott Roach, Board Chairperson
Forest City ABC Board 168

SR:bh

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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) *G.S. 18B-501 (f) states, "Instead of hiring local ABC officers, a local board may contract to pay its enforcement funds to a sheriff's department, city police department, or other local law-enforcement agency for enforcement of the ABC laws within the law-enforcement agency's territorial jurisdiction."*
- (3) *NCAC 15A .1705 (b) states, "If a local board has a price discrepancy between the price on the shelf or bottle and the cash register, and the price on the shelf or bottle is lower, the local board shall sell the item at the shelf or bottle price and correct the shelf or bottle price to match the Commission's published uniform price."*

APPENDIX B

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>ABC Board Policies:</p> <p>Update the following policies:</p> <ul style="list-style-type: none"> • Law Enforcement Contract • Price Discrepancy Policy • Board Credit Card Usage Policy 	<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 type="checkbox"/> Fully Implemented</p> <p><input checked="" type="checkbox"/> Partially implemented 25% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>The board is currently updating and adopting all policies as mentioned. Once completed, copies will be forwarded to the Commission.</p>
<p>Personnel and Training:</p> <p>Have all board members completed the ethics required within 12 months of reappointment.</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 type="checkbox"/> Fully Implemented</p> <p><input type="checkbox"/> Partially implemented 25% complete. (Explain below.)</p> <p><input checked="" type="checkbox"/> Not implemented (Explain below.)</p> <p>Board members have not completed the ethics requirement. Notification has been sent to the ABC board about the noncompliance.</p>