

Gastonia 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. 1967-830 authorized the City of Gastonia to hold an election for an ABC store. The referendum was held on September 19, 1967 and passed 5,409 to 5,381. The first retail sale occurred on December 1, 1967. A subsequent mixed beverage election occurred on September 24, 1985 and passed 7,426 to 6,549.

Upon vote passage, the city was required to create an ABC board consisting of a chairman and four board members. Current board members include Wade White, Chairman, Thomas Summer, Jr., Melvin Burris, Michael Dean, and Brenda Craig.

In 2005, the Gastonia ABC Board entered into an agreement with the Mt. Holly ABC Board to provide administrative services, such as full accounting and back-office support, human resource and administrative functions, limited purchasing functions, and records retention.

In 2006, the ABC Commission approved a merger agreement between the Town of Dallas and the Gastonia ABC Board. The merger was to form a consolidated system that would best serve the public and generate greater revenues with significant savings.

The Gastonia ABC Board employs eight full-time and thirty-nine part-time employees. The administrative staff consists of the general manager, the finance officer, an accountant, and warehouse staff. All store personnel have primary responsibility to 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 FY2016, the Gastonia ABC Board had gross sales of \$10,028,429; income from operations was \$835,857. Profit percentage to sales for FY2016 is 8.3%.

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 city.

In FY2016, the Gastonia ABC Board made the required minimum distribution of \$287,637 to the municipality. The Gastonia ABC Board paid a total of \$2,329,982 in excise and other taxes to the North Carolina Department of Revenue, the Department of Health and Human Services, and the city.

S.L. 1967-830 requires the Gastonia ABC Board to distribute quarterly the remaining profits to the City of Gastonia General Fund. According to the merger agreement between the Town of Dallas and the Gastonia ABC Board, thirty percent (30%) of profits earned from the store in the Town of Dallas will be distributed to the Town of Dallas. The Gastonia ABC Board will retain seventy percent (70%) of the profits to Gastonia ABC system to recover initial startup and capital expenses.

In FY2016, the Gastonia ABC Board made an additional distribution of \$380,763 to the municipalities.

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%) of profits toward alcohol education.

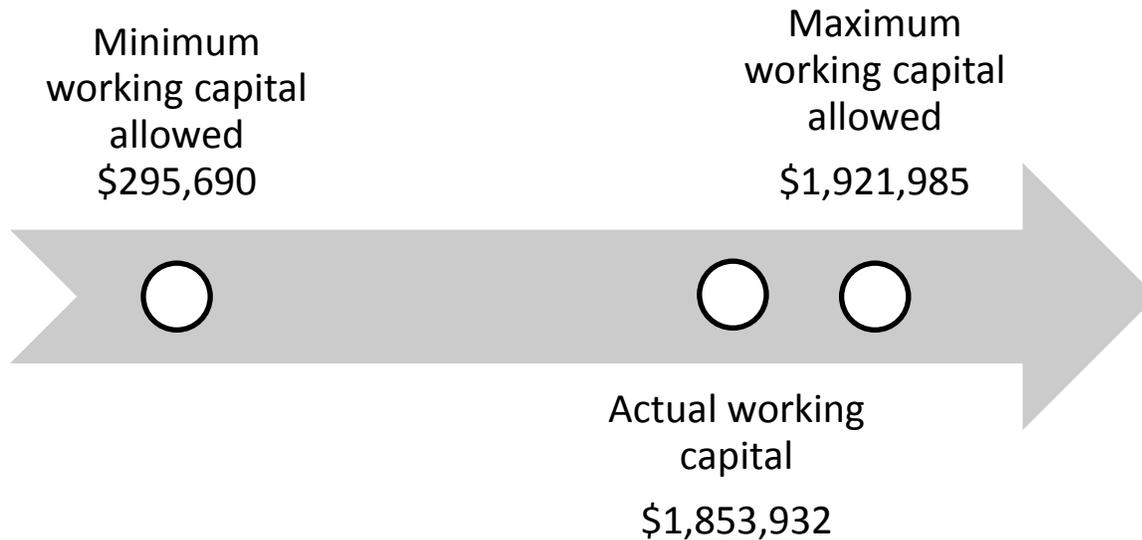
The Gastonia ABC Board contracts with the City of Gastonia Police Department and has distributed \$29,381 for enforcement purposes and \$2,234 for alcohol education.

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 ABC 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 ABC 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 Gastonia ABC Board had gross sales of \$10,028,429 in FY2016. The board's working capital of \$1,853,932 is within the recommended range set by the rules of the ABC Commission.



OPERATING COST RATIO

The operating costs ratio was 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 Gastonia ABC Board operates five stores with retail and mixed beverage sales. One out of five stores service mixed beverage permit holders. Mixed beverage sales make up 13.3% of total gross sales. In FY2016, the Gastonia ABC Board's operating cost was 0.61. Sales increased 6.6% since FY2015. Expenses increased 7.2% over the same time period.

Factors affecting the operating cost:

- Two stores are leased, Dallas and W. Gastonia, with total rental expenses of \$44,822 in FY2016

FINDINGS AND RECOMMENDATIONS

STORE APPEARANCE AND OPERATIONS

As a routine procedure, the ABC Board Auditor tours ABC store locations, evaluates interior and exterior store appearance, verifies product pricing and interviews store personnel. The Gastonia ABC stores' shelf linear footage averages approximately 1,058 linear ft. The stores carry approximately 1,900 product codes between stores.

- The stores appeared clean and free of trash. Counter areas were neat and well-organized. Store shelves are well-stocked with a variety of products. In an effort to have a variety, products are shared between stores.
- The stores displayed neat signage. The Fetal Alcohol Syndrome poster is displayed in a designated area in all store locations.
- Landscaping around the stores is well-maintained and trash free.
- The following are specified in the board's shelf management plan but is not limited to:
 - Each product is displayed within its designated category
 - Lowest priced or value products are located at eye-level or on top shelf
 - Cross merchandising is utilized where possible to encourage impulse shopping
 - Bottles are fronted and dusted throughout the store
 - Product placement is based upon sales as a percentage of the category total.
- Sales clerks often refer to the North Carolina Liquor Quarterly for verification of products and pricing. Monthly sales information 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. Store deposit slips are matched with corresponding daily store register reports. Bank reconciliations are completed by the finance officer and the accountant monthly.
- Physical counts are conducted monthly. A scanner system enables the store clerk to scan the barcode of a product to determine how many bottles are available. Store employees are not able to identify the master system product availability. Inventory counts from the scanner are uploaded into the inventory system for review by the administrative office. A variance report is created and reviewed to determine if discrepancies exist. Once discrepancies are investigated and recounted, adjustments are made to the inventory system.
- Out of approximately 1,900 product codes throughout the system, approximately 250 product codes were sampled to ensure accurate pricing. All were correct.

NO RECOMMENDATIONS

PERSONNEL AND ABC TRAINING

- All board members, the general manager, and the finance officer have completed the ethics training as required. Board members have since been reappointed and have completed the required reappointment ethics training. Board members are required to complete ethics training within one year of reappointment status.
- Cross training opportunities have been extended to other employees in the event that key personnel are unavailable.
- To have knowledgeable staff, training is provided continuously on key areas such as product knowledge, customer service, and store responsibilities.
- Employee personnel files are available and secured. Required human resource documentation and other information are available and appropriately filed.

NO RECOMMENDATIONS

ABC BOARD POLICIES

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

- Code of Ethics
- Law Enforcement Contract
- Gastonia ABC Board Travel Policy (Adopted the City of Gastonia Travel – Effective January 2016)
- Gastonia ABC Board Employee Handbook/Manual and Addendums that include the following:
 - Gastonia ABC Board Price Discrepancy Policy
 - Gastonia ABC Board Mixed Beverage Policy
 - Gastonia ABC Board Procurement Card Usage Policy
 - Gastonia ABC Board Vehicle Policy

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

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

NO RECOMMENDATIONS

INTERNAL CONTROL AND ADMINISTRATIVE OPERATIONS

- Board information on the ABC Commission website is current reflecting board member appointment dates and salary information for all members including the general manager.
- 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 procurement card transactions, procedures were followed according to the adopted a procurement card policy to the extent of the ordering and disbursement processes. However, board members are not reviewing the credit card statements as indicated in the credit card policy.
- In reviewing a sample of travel reimbursements, procedures were followed according to the travel policy of the Gastonia ABC Board.
- The board owns one vehicle to deliver product between stores. Vehicle expenses were verified and followed procedures according to the board vehicle policy. A vehicle usage policy has not been adopted and submitted to the ABC Commission.
- Breakage forms are submitted as required by the ABC Commission rules. Management has implemented procedures for handling breakage when a customer/employee breaks product.
- 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 finance officer and the general manager. Other parties are authorized to sign checks as authorized through bank documentation and indicated on the ABC board check signing policy.

RECOMMENDATIONS

1. Follow the current credit card policy as submitted by requiring a designated board member to review credit card statements.

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.
- Board notifies the public of board meetings through the local media, the appointing authority, and the administrative office.
- The general manager compensation is in compliance with G.S. 18B-700 (g1).
- The board is in compliance with G.S. 18B-700 (k) as there are no known relationships between staff, any board member, and the general manager employed within the system.
- 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 November 30, 2016 with the Gastonia ABC Board. Discussions were held regarding potential new stores within the system, improvements to existing stores, and new stores in other towns in close proximity of Gastonia stores. 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

KEVIN M. GREEN
Greensboro

MICHAEL C. HERRING
West Jefferson

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Raleigh NC 27699-4307

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Moniqua S. McLean
ABC Board Auditor

(919) 779-8365

February 27, 2017

Gastonia ABC System
Mr. Thomas L. Summer, Jr., Chairman
P.O. Box 129
Gastonia, NC 28053-0129

Dear Chairman Summer,

We are pleased to submit this performance audit report on the Gastonia ABC System. 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



Gastonia *ABC* System

Thomas L. Sumner, Jr (Chairman)
Porter McAteer (Vice-Chairman)
Michael R. Dean (Treasurer)
Melvin E. Burris (Secretary)
Brenda Craig (Public Relations)
David Fish (Executive Director)

December 6, 2016

Dear Moniqua,

On behalf of the Gastonia ABC Board, we would like to thank you for attending our November 30, 2016 Board meeting to present your final performance audit report. We always strive to exceed expectations with the North Carolina ABC Commission as well as the municipality of Gastonia.

Every year the Board works on improvements to the stores to better serve our customers and our community. Recently we have opened a new store, started minor remodeling projects to our existing stores, installed new security cameras, and we continue to bring in new items for our customers. We also committed to an alcohol education program for middle school students. These are the types of projects the Board will continue to do each year not only to keep the stores modern, and the citizens of Gastonia serviced in the stores, but to also assist the community with financial support for alcohol education.

The recommendation made in the audit in regards to our credit card policy has been addressed. Going forward this will ensure we are in compliance with the policy.

We appreciate the professionalism, communication, and transparency you provided throughout the entire process. Going forward the Gastonia ABC Board will continue to strive to be a model Board for the State.

Regards,

David Fish
Executive Director
Gastonia ABC Board