

Halifax County ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
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ABC
COMMISSION
NORTH CAROLINA

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OBJECTIVE, SCOPE, AND METHODOLOGY

G.S. 18B-705 (a) authorizes the ABC Commission to ensure that all local ABC Boards comply with established performance standards by conducting regular or special audits, performance evaluations or taking other measures, which may include inspections by Commission auditors or alcohol law enforcement agents.

The audit scope includes performance 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.

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 audit for the FY2015
- 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 consists of five interrelated components: (1) control environment; (2) risk assessment; (3) control activities; (4) information and communication; and (5) monitoring.

This audit was conducted in accordance with generally accepted government auditing standards. Those standards require that the auditor plan and perform the audit to obtain sufficient and appropriate evidence This evidence is to provide a reasonable basis for the findings and conclusions based on the audit objectives.

BACKGROUND

S.L. 1935-493 authorized Halifax County to hold an election for an ABC store. The referendum was passed and the first retail sale occurred on July 19, 1935.

Upon vote passage, the county was authorized to create an ABC board consisting of a chairman and two members to serve for three staggered-year terms. Current board members are Robert Shield, chairman, Drewery Beale and Johnny Draper.

Subsequent mixed beverage elections occurred in the following areas:

- Halifax County – March 8, 1988 and did not pass
- Weldon – November 7, 1989 and passed 298 to 112
- Halifax County – January 11, 2000 and passed 3,983 to 3,053.

The Halifax ABC Board staffs five full-time and thirty-seven part-time employees. The administrative staff consists of the general manager, the finance officer, and the warehouse manager. Each store has a store manager whose primary responsibility is to provide customer service, store upkeep, and regular stock 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 2015, the Halifax County ABC Board had gross sales of \$4,819,183; income from operations was \$309,250. Profit percentage to sales for FY2015 is 6.42%. In FY2016, the Halifax County ABC Board increased gross sales to \$4,953,261, a 2.8% increase over fiscal year 2015.

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 3½% markup and .01/.05 cent bottle tax to the county.

In FY2015, the Halifax County ABC Board made the required minimum distribution of \$142,174 to the county. The Halifax County ABC Board paid a total of \$1,102,712 in excise and other taxes to the NC Department of Revenue, the Department of Health and Human Services, and the county.

G.S. 18B-805 (c) (2) requires the board to distribute at least five percent (5%) of profits to law enforcement.

The Halifax County ABC Board contracts with the Alcohol Law Enforcement division with the Department of Public Safety and has distributed \$22,000 for enforcement purposes.

S.L. 1995-45 requires the Halifax County ABC Board to distribute quarterly the remaining profits to the Halifax County General Fund. A resolution was adopted by the county to divide profits as follows:

- *Twenty-five percent (25%) to the municipalities with stores*
- *Seventy five percent (75%) to the Halifax County General Fund.*

In FY2015, the Halifax County ABC Board made an additional distribution of \$62,121 proportionately to the municipalities and the county.

WORKING CAPITAL

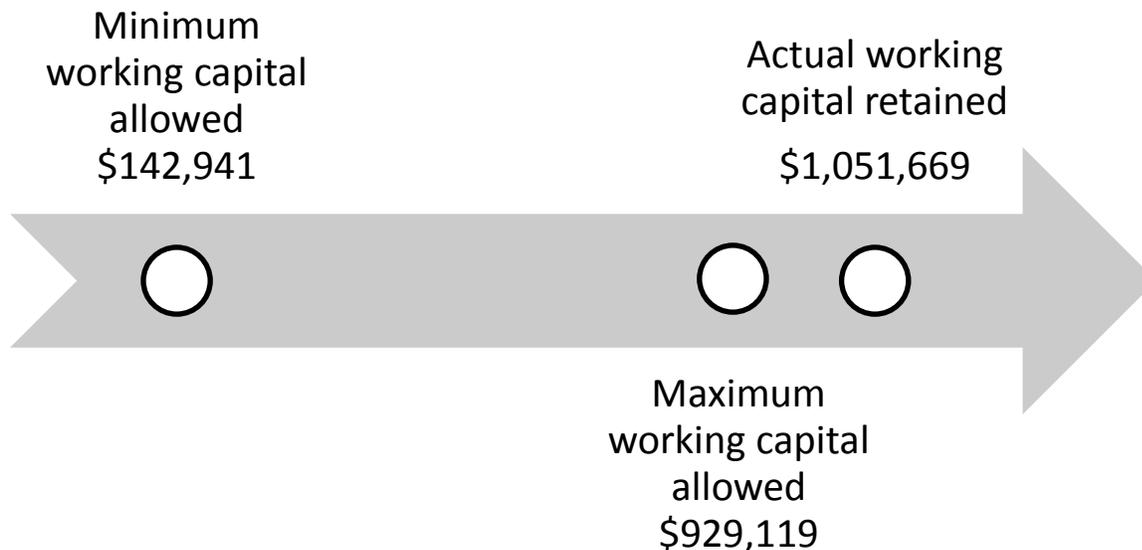
G.S. 18B-805 (d) allows the board to set aside a portion of the remaining gross receipts, within the limits set by the rules of the Commission, as cash to operate the ABC system. Working capital is total cash, investments, and inventory less all unsecured liabilities. Gross sales means gross receipts 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 Halifax County ABC Board had gross sales of \$4,819,183 in FY2015. The board's working capital of \$1,051,669 is more than the maximum amount allowed to be retained.

RECOMMENDATIONS

1. Distribute the excess of working capital, \$122,550 to the county.
2. Ask for approval from the county allowing the board to set up a capital improvement fund account for a specific capital improvement purpose. Once the approval is received, forward to the 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

The Halifax County ABC Board operates five retail stores with mixed beverage. One store services mixed beverage permit holders. Mixed beverage sales make up 5% of total gross sales. In FY2015, the Halifax County ABC Board's operating cost ratio was 0.68. Sales have increased 6.16% over FY2014. Expenses have increased 2.73% over the same time period.

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 Halifax County ABC Board operates nine retail stores. The stores' linear footage averages approximately 764 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 in all locations.
- Landscaping around most 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 stores
- 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.
- 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 monthly at each store. Stores are not able to identify the system's count. Inventory counts are forwarded to the admin 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.
- Out of approximately 1,900 product codes throughout the system, approximately 250 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. At the time of the audit fieldwork, one board member had since been reappointed and had not yet completed the 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.
- Personnel files are available and include the required human resource documentation and other information.

NO RECOMMENDATIONS

ABC BOARD POLICIES

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

- Code of Ethics
- Travel Policy (Follows the State's travel policy)
- Price Discrepancy Policy
- Employee Handbook/Manual
- Mixed Beverage Policy
- Halifax County ABC Board Credit Card Usage Policy
- Shelf Management Policy
- Sale to Underage Policy (Needs Revision)

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 (g) requires the board to adopt a budget and budget message and an annual independent audit for the fiscal year. The Halifax County ABC Board has submitted the following as required:

- FY2017 Budget (Proposed and Adopted)
- FY2015 Annual Audit

RECOMMENDATIONS

1. Adopt an addition to the employee handbook/manual detailing what would occur in the event an employee were found to have sold to an underage person.

INTERNAL CONTROL AND ADMINISTRATIVE OPERATIONS

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 a basis for evaluating internal control, the performance audit applied the internal control guidance contained in professional auditing standards. 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.

- Board information on the Commission website is not reflecting current compensation information for all board members.
- Store managers create work schedules for store employees. Employees' record hours work using a time card. The employee and store manager will sign the time card and forward to the main office.
- In reviewing a sample of travel reimbursements, procedures were followed according to the travel policy submitted.
- The board owns two vehicles: a delivery truck to help transport product between stores and from the warehouse, and a board vehicle for travel purposes. Vehicle expenses were verified. A vehicle usage policy has not been adopted and submitted to the Commission.
- Breakage forms are submitted as required by the 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 pre-audited by the finance officer utilizing the certificate as required in G.S. 18B-702 (m). Purchases are indicated through use of petty cash on hand or vendor invoices.
- 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. However, two signatures are located on all paid checks; that of the finance officer and one of two board members. The board uses a signature stamp for the check signing process.

RECOMMENDATIONS

1. Update the Commission website to reflect the current compensation of all board members.
2. Adopt a vehicle usage policy that would specify the following:
 - a. Who is able to use the vehicle,
 - b. Requirement that all drivers must have a valid driver's license
 - c. What purposes vehicle may be used for
 - d. Requirement that a mileage and/or gas log be filled out for every trip, if applicable.
3. 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.
- Board notifies the public of board meetings through the county office.
- Board members receive additional compensation in mileage to and from board meetings.
- 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 relationship 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).

RECOMMENDATIONS

1. Adopt an additional travel reimbursement policy for board members receiving travel to and from board meetings.

SUMMARY

A board meeting was held on September 14, 2016 with the Halifax County ABC Board. Discussions were held regarding the future improvements of existing 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

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Greensboro

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March 2, 2017

Halifax County ABC Board
Mr. Robert F. Shields, Chairman
P.O. Box 280
Halifax, NC 27839

Dear Chairman Shields,

We are pleased to submit this performance audit report on the Halifax 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

HALIFAX COUNTY ABC BOARD
PERFORMANCE AUDIT
RESPONSE TO RECOMMENDATIONS

RECOMMENDATION

Distribute the excess of working capital to the county.

RESPONSE

At the October 5, 2016, the Halifax County ABC Board voted to distribute the excess working capital to the County of Halifax.

RECOMMENDATION

Ask for approval from the county allowing the board to set up a capital improvement fund account for a specific capital improvement purpose. Once the approval is received, forward to the Commission.

RESPONSE

Will be meeting with the County to ask for approval to withhold 30% of net profit for capital improvements. Once approved, we will forward to the Commission.

RECOMMENDATION

Adopt an addition to the employee handbook/manual detailing what would occur in the event an employee were found to have sold to an underage person.

RESPONSE

On October 5, 2016 the board amended the current policy to reflect this recommendation. The amended policy is attached.

RECOMMENDATION

Update the Commission website to reflect the current compensation of all board members.

RESPONSE

The Commission website was corrected on September 9, 2016 to reflect the current compensation of all board members.

RECOMMENDATION

Adopt a vehicle usage policy that would specify the following:

- a. Who is able to use the vehicle**
- b. Requirement that all drivers must have a valid driver's license**
- c. What purpose vehicle may be used for**
- d. Requirement that a mileage and/or gas log be filled out for every trip, if applicable**

RESPONSE

On October 5, 2016 the board adopted a vehicle usage policy to reflect this recommendation. The policy is attached.

RECOMMENDATION

Adopt a policy on the use of the signature stamp.

RESPONSE

On October 5, 2016 the board adopted a signature stamp policy to reflect this recommendation. The policy is attached. In addition, as we have discussed, checks already bear the approved certificate as required by G.S. 18B-702(q).

RECOMMENDATION

Adopt an additional travel reimbursement policy for board members receiving travel to and from board meetings.

RESPONSE

On October 5, 2016 the board adopted a board member mileage policy to reflect this recommendation. The policy is attached.