

High Point ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
400 East Tryon Road, Raleigh, NC 27610
p: 919-779-0700 | f: 919-661-5927 | <http://abc.nc.gov>



ABC
COMMISSION
NORTH CAROLINA

TABLE OF CONTENTS

| | |
|--|----|
| ABC Commission Statement..... | 3 |
| Objective, Purpose, and Scope..... | 4 |
| Background Information..... | 5 |
| Financial Analysis..... | 6 |
| Observations, Findings, and Recommendations..... | 10 |
| Auditor’s Summary..... | 16 |
| High Point ABC Board Response..... | 17 |
| Appendices..... | 18 |



ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

January 3, 2017

CHAIRMAN:
JAMES C. GARDNER

KEVIN M. GREEN
Greensboro

MICHAEL C. HERRING
West Jefferson

ADMINISTRATOR:
ROBERT A. HAMILTON

LOCATION:
400 East Tryon Road
Raleigh NC 27610

MAILING:
4307 Mail Service Center
Raleigh NC 27699-4307

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

High Point Alcoholic Beverage Control Board
Mr. David Wall, Chairman
201 West Fairfield Road
High Point, NC 27263

Dear Chairman Wall,

We are pleased to submit this performance audit report on the High Point Alcoholic Beverage Control 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,

A handwritten signature in black ink, appearing to read "R. A. Hamilton".

Robert A. Hamilton
Administrator

CC: North Carolina Association of ABC Boards

OBJECTIVE, PURPOSE, AND SCOPE

G.S. 18B-705 (a) authorizes the ABC Commission or alcohol law enforcement agents to conduct regular or 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.

The audit fieldwork was performed on June 21, 2016 and was completed October 12, 2016.

BACKGROUND

S.L. 1955-841 authorized the City of High Point to hold an election for ABC stores upon a petition signed by at least fifteen percent (15%) of registered voters. The referendum was held on November 2, 1976 and passed 293 to 109. The first retail sale occurred on March 1, 1977. A subsequent mixed beverage election occurred on March 9, 1979 and passed 5,561 to 3,983. The first mixed beverage sale occurred on February 27, 1979.

Upon vote passage, the city was authorized to create an ABC board consisting of a chairman and two members to serve for three staggered-year terms. S.L. 2006-2136 increased the number of board members from three to five. Current board members are David Wall, chairman, Beth Koonce, Mary Lou Blakeney, and James Tanner. There is one seat vacant.

In 2002, the ABC Commission approved a merger agreement between the Town of Jamestown and the City of High Point. The merger was to form a consolidated system that would best serve the public and generate greater revenues with significant savings.

The High Point ABC Board employs thirty-two full-time and sixteen part-time employees. The administrative staff consists of the general manager, the operations manager, the finance officer/human resources manager, the inventory manager, and the administrative assistant. Each store has a store manager and assistant manager whose primary responsibilities are 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 FY2015, the High Point ABC Board had gross sales of \$16,177,600; income from operations was \$1,803,513. The board obtained a 11.15% profit percentage to sales.

In FY2016, the High Point ABC Board had gross sales of \$17,162,306; income from operations was \$1,962,262. The board obtained a 11.4% profit percentage to sales.

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 High Point ABC Board made the required minimum distribution of \$460,664 proportionately to the City of High Point and the county. The High Point ABC Board paid a total of \$3,737,567 in excise and other taxes to the NC Department of Revenue, the Department of Health and Human Services, the city and the county.

In FY2016, the High Point ABC Board made the required minimum distribution of \$486,755 proportionately to the City of High Point and the county. The High Point ABC Board paid a total of \$3,952,357 in excise and other taxes to the NC Department of Revenue, the Department of Health and Human Services, the city and the county.

S.L. 1979-384 authorizes the profits of a “mixed beverage permit holder located at an airport outside the city, the ABC board share of the ten dollar (\$10.00) addition shall be divided equally among the ABC boards of all the cities in that county that have authorized the sale of mixed beverages.”

S.L. 1981-290 requires the High Point ABC Board to distribute quarterly the remaining profit:

- *Eight percent (8%) to the Guilford County General Fund*
- *Ninety-two percent (92%) to the City of High Point General Fund*

Per the 2002 merger agreement between the City of High Point and the Town of Jamestown, the ABC board is required to distribute \$50,000 per year to the Town of Jamestown.

In FY2015, the High Point ABC Board made an additional distribution of \$949,578 to the city and the county. The ABC Board distributed a shared mixed beverage profit totaling \$3,526 equally to all cities with authorized sales of mixed beverage within the county.

In FY2016, the High Point ABC Board made an additional distribution of \$1,183,023 to the city and the county. The ABC Board distributed a shared mixed beverage profit totaling \$3,637 equally to all cities with authorized sales of mixed beverage.

G.S. 18B-805 (c) (2) requires the board to distribute at least five percent (5%) of profits to law enforcement. S.L. 1977-459 requires the board to distribute not less than five percent (5%) and not more than fifteen percent (15%) for law enforcement, education and rehabilitation purposes.

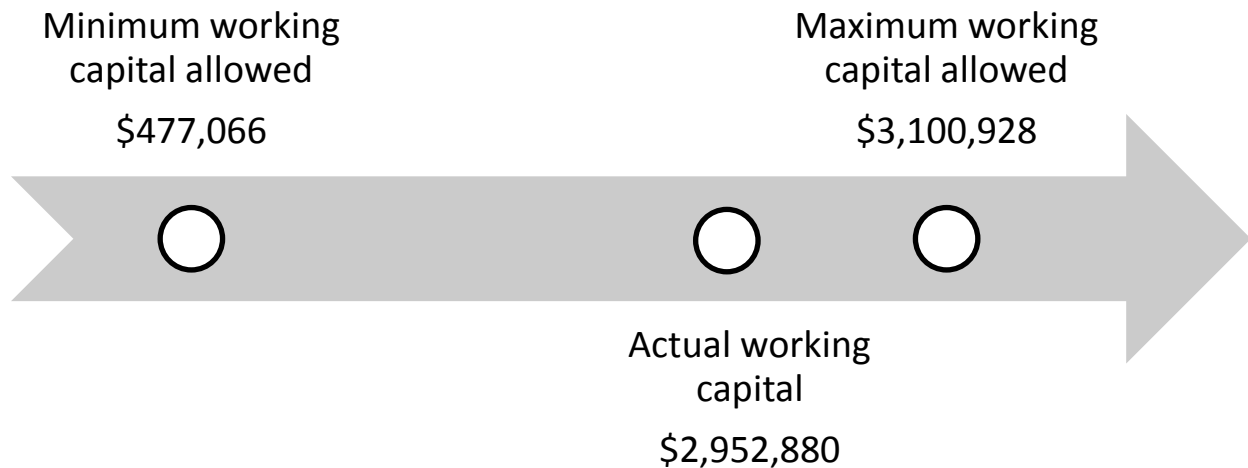
The High Point ABC Board contracts with the High Point Police Department and has distributed \$101,818 toward law enforcement and \$50,000 for alcohol education and rehabilitation in FY2016.

WORKING CAPITAL

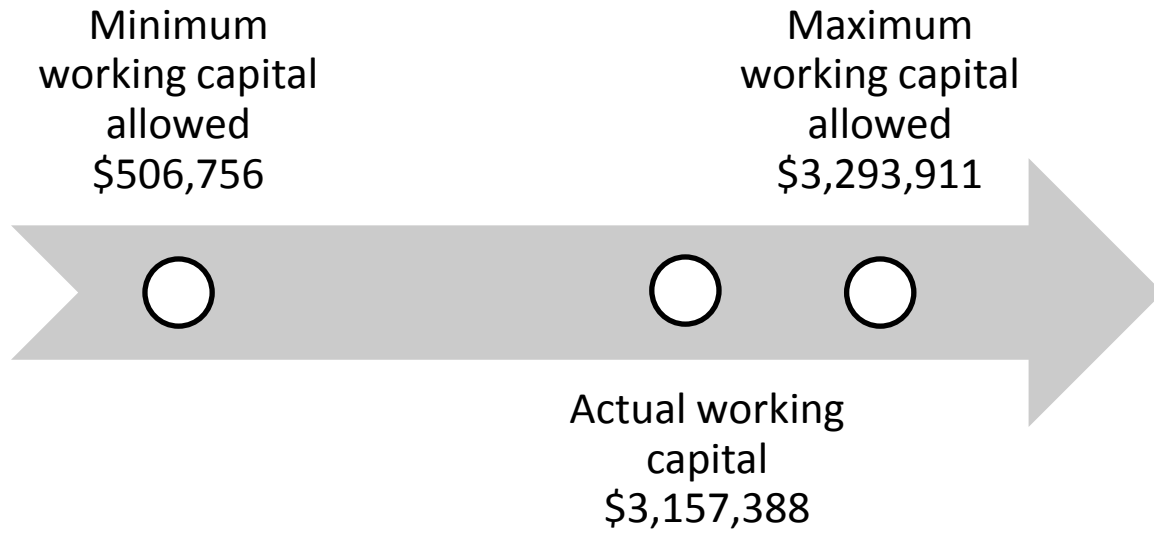
G.S. 18B-805 (d) allows the board to set aside a portion of the remaining gross receipts, within the limits set by the rules of the Commission, as cash to operate the ABC system. Working capital is total cash, investments, and inventory less all unsecured liabilities. Gross sales means gross receipts 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 High Point ABC Board had gross sales of \$16,177,600 in FY2015. The board's working capital of \$2,952,880 is within the recommended range set by the rules of the Commission.



In FY2016, the High Point ABC Board had gross sales of \$17,162,306. The board's working capital of \$3,157,388 is within the recommended range set by the rules of 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 High Point ABC Board operates six stores with retail and mixed beverage sales. Four out of six stores service mixed beverage permit holders. Mixed beverage sales make up 10.6% of total gross sales.

In FY2015, the High Point ABC Board's operating cost ratio was 0.51. Sales have increased 8.05% since FY2014. Expenses have increased 2.56% over the same time period. In FY2016, the High Point ABC Board operating cost ratio remained the same.

The High Point ABC Board leases two stores and a warehouse storage facility. Rental expense totaled \$127,546 in FY2015. Rental expense increased 1.5% in FY2016.

OBSERVATIONS, FINDINGS AND RECOMMENDATIONS

STORE APPEARANCE AND OPERATIONS

As a routine procedure, the ABC Auditor tours ABC store locations, evaluates interior and exterior appearances, verifies product pricing and interviews store personnel. The stores' linear footage averages approximately 1,278 ft. and carries 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 effort to have a variety, products are shared with stores.
- The stores displayed neat signage. The Fetal Alcohol Syndrome poster is displayed in a designated area.
- Landscaping around the stores is well-maintained and trash free.
- Although the shelf management and product placement evolves, the board follows current marketing trends that encourage consumers to trade up to higher dollar value purchases. The following are areas is specified in the board's shelf management plan but is not limited to:
 - 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
 - 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 monthly.
- Each store receives a schedule from the administrative office to count all inventory. 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 340 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. At the time of the audit fieldwork, two board members have since been reappointed and not yet completed the ethics training. Board members are required to complete ethics training within one year of reappointment status. Since the audit fieldwork, all board members have completed the required ethics training as indicated in the General Statutes.
- 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

G.S. 18B-702 requires the board to annually adopt a budget and budget message. G. S. 18B-702 (s) requires the board to submit an annual independent audit of its operations to the appointing authority and the Commission. The High Point 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 Office of State Budget and Management Travel Policy)
- Price Discrepancy Policy
- Employee Handbook/Manual
- Law Enforcement Contract
- Mixed Beverage Policy
- High Point ABC Board Credit Card Usage Policy
- Shelf Management Policy
- Procedural Manuals for Staff Positions
- Sale to Underage Policy
- FY2017 Budget (Proposed and Adopted)
- FY2015 Annual Audit
- FY2016 Annual Audit

Policies are required to be submitted to the Commission within fifteen days prior to adoption as stated by the Commission rule, NCAC 15A .1102.

NO RECOMMENDATIONS

INTERNAL CONTROL AND ADMINISTRATIVE OPERATIONS

- Board information on the Commission website is current reflecting board member appointment dates and salary information for all members including the general manager.
- In determining work schedules, the operations director schedules all employees for work shift hours using scheduling software. Once completed, schedules are uploaded into a secured system for each store to review. Employees currently use time sheets to record hours worked. However, the ABC system is in transition to a new time reporting system. Timesheets are signed by the employee and the store manager and forwarded to the administrative office for processing.
- In reviewing a sample of travel reimbursements, procedures were followed according to the travel policy of the Office of State Budget and Management.
- The board owns three vehicles to deliver product between stores. Vehicle expenses were verified and followed procedures according to the board vehicle policy. A vehicle usage policy has 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 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. The general manager reviews and verifies payments using the check register generated by the finance officer.
- 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 board chairman. However, the general manager and the finance officer sign payroll checks.

NO RECOMMENDATIONS

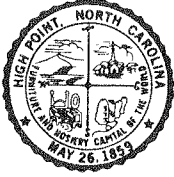
ABC BOARD COMPLIANCE

- 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 include a conflict of interest statement asking board members if conflicts exist with the items on the meeting agenda.
- Board notifies the public of board meetings on the ABC Board website and the city's website.
- Board member compensation is above the maximum specified in G.S. 18B-700 (g). However, the appointing authority has approved the excess and a copy of the approval has been submitted to the North Carolina Alcohol Beverage Control Commission.
- 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

AUDITOR'S SUMMARY

A board meeting was held on July 20, 2016 with the High Point ABC Board. Discussions were held regarding future improvements to existing stores and future strategies to maintain and increase profits. The board strives to improve profitability while maintaining budget appropriations and have significant cost savings. Policies have been adopted by the board and management that exhibit current practices. Procedures are implemented to ensure compliance with statutes and Commission rules and to ensure efficient operations are conducted while maintaining sufficient controls.



HIGH POINT
ALCOHOLIC BEVERAGE CONTROL BOARD
201 WEST FAIRFIELD ROAD
HIGH POINT, NORTH CAROLINA 27263
(336) 434-2146
FAX (336) 434-6463

BOARD:
David Wall, Chairman
Elizabeth Koonce
James Tanner
Mary Lou Blakeney

General Manager
Rosalind R. Stewart

August 17, 2016

North Carolina ABC Commission
Moniqua S. McLean, MAFM
400 East Tryon Road
Raleigh, NC 27610

On behalf of the High Point ABC Board, our general manager, and all our staff, I would like to thank you for your recent visit and your audit evaluation. The Board's number one objective and the number one performance goal for our general manager is to adhere to all the State's rules and regulations. It was a pleasure to share with you our policies, procedures, operations, store locations and financial information and receive your comments about how well we are doing following those requirements. We will continue to strive to do our best for our customers, appointing authority and the North Carolina ABC system.

The Board appreciates your attendance at our July 20th Board meeting to present your findings. We were pleased with your findings and value your openness on the process.

Three of our Board members and our Finance Officer attended the Ethics Training class offered at the recent ABC Conference. You and Laurie Lee did an excellent job presenting the material and the accompanying discussions were practical and informative.

We appreciate the help you and the Commission provides to our Board. We appreciate your time and efforts. Safe travels!

Sincerely,

David Wall
Chairman, High Point ABC Board

APPENDIX A

| RECOMMENDATION | REQUIRED BY STATUTE | IMPLEMENTATION STATUS |
|--|--|---|
| <p>Personnel and Training</p> <p>Have all reappointed board members complete the ethics requirement 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 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>Three board members have completed the required ethics training as indicated in the General Statutes. Appropriate documentation is filed with the Commission.</p> |