

# Highlands 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
Operational Observations, Findings, and Recommendations.....	6
Auditor’s Summary.....	15
Appendices.....	16



# 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/>

Highlands ABC Board  
Ms. Brenda Pierson, Chairperson  
PO Box 1345  
Highlands, NC 28741

Dear Chairperson Pierson,

We are pleased to submit this performance audit report on the Highlands 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 would appreciate any efforts your Board can make to comply with the new performance standards.

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

## **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. 1977-611 authorized the Town of Highlands to hold an election for an ABC store. The referendum was held on August 16, 1977 and passed 226 to 108. The first retail sale occurred on October 3, 1977. A mixed beverage election occurred on November 6, 2007 and passed 236 to 217.

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. In January 2014, the town expanded the board from a three to five members. Current board members are Brenda Pierson, board chairperson, Harry Bears, John Underwood, Leslie Cook, and Rick Trevathan, board members.

The Highlands ABC Board operates one retail store with mixed beverage sales. The board staffs three full-time and one part-time employee. The general manager's duties consist of providing oversight of all daily operations including policy implementation, human resource management, and store operations. The board has hired a finance officer and a bookkeeper from within the organization to provide sufficient checks and balances and to provide financial duties relating to 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 October 5, 2015, ABC Board Auditor, Moniqua S. McLean, visited the Highlands ABC store and interviewed Kevin Vinson, general manager and Lisa Talley, bookkeeper. 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 2015, the Highlands ABC board had gross sales of \$1,612,478; income from operations was \$89,170, a 5.5% profit percentage to sales.

Factors affecting sales and profitability:

- Population reported to the US Census Bureau as 924 in 2010;
- One other ABC Board within the county, Franklin ABC;
- Approximately 5 miles to the Georgia border;
- High rental expense for the store contributes to a lower profit percentage;
- Recent opening of second store in Jackson County (Cashiers).

## **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 Highlands ABC Board made the minimum distribution of \$42,944, plus additional distribution of \$26,509. \$390,184 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. The Town of Highlands approved a distribution formula as indicated below:

- Eight percent (8%) to the Highlands Recreational Facilities
- Seven percent (7%) to the Highlands-Cashiers Hospital
- Seven percent (7%) to the Highlands Scholarship Fund
- Remainder to the Town of Highlands General Fund to cap at \$75,000.

In FY2015, the Highlands ABC Board distributed to the town \$2,311 to law enforcement and \$3,236 for alcohol education. The ABC Board has contracted with the Town of Highlands Police Department. In previous years, the board has distributed to external programs that provide alcohol education; a financial report was not submitted to the board.

## **RECOMMENDATIONS**

---

1. Have the alcohol education/rehabilitation programs that receive funding submit annual financial reports detailing how the funds were spend. *Refer to Appendix A (1) for statute.*

## **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 or cash equivalents 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 Highlands ABC Board had working capital of \$389,060, which is above the maximum working capital of \$305,572.

## **RECOMMENDATIONS**

---

1. Distribute the excess of working capital or seek approval from the appointing authority to set up a capital improvement fund for future building projects.

## OPERATING COST RATIO

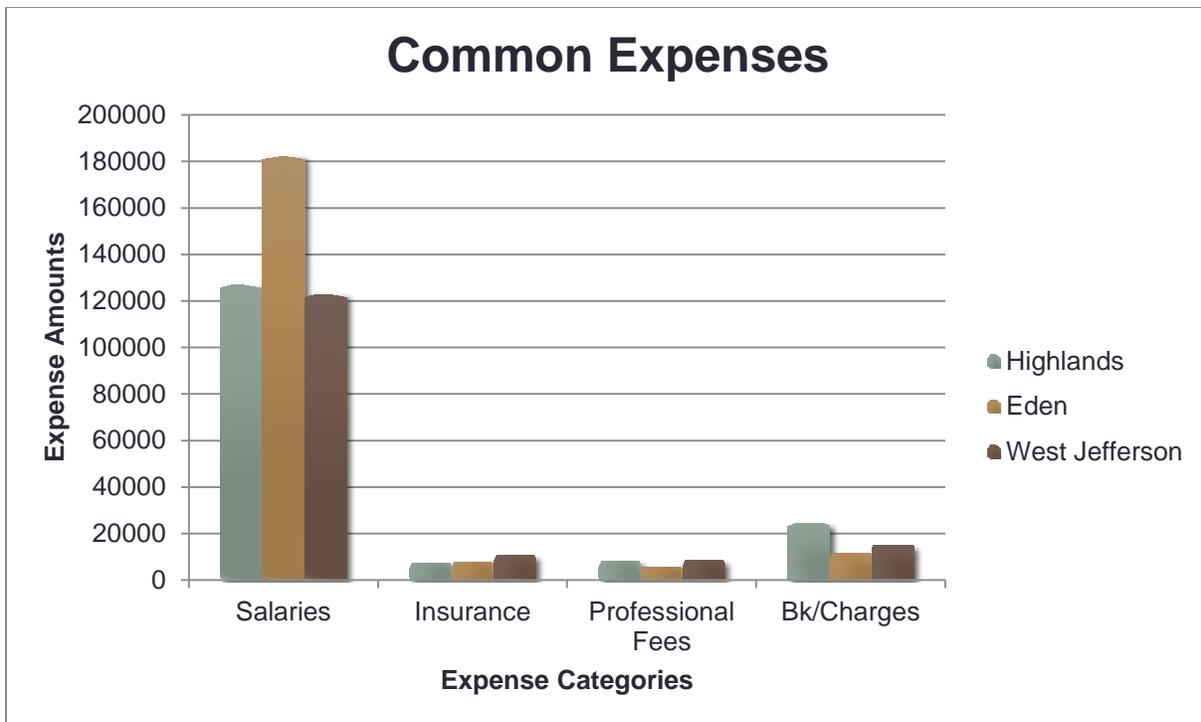
---

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 Highlands ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.69. Mixed beverage sales make up 38% of total gross sales. Compared with the state's estimated increase in sales of 7.68% in fiscal year 2015, the Highland's ABC Board's sales decreased 14.9% over fiscal year 2014. Expenses decreased 8.3% over the same time period.

Below is a common expense analysis showing the Highlands ABC Board's expenses compared with other similar size boards. Note: The staffing per board is as follows: Highlands – 3 full-time and 1 part-time employee, Eden – 4 full-time and 2 part-time employees, and West Jefferson – 2 full-time and 5 part-time employees.



## **STORE APPEARANCE**

---

The Highlands ABC Board operates one retail store with approximately 1,200 linear feet of shelf space and carries approximately 2,000 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.
- 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.
- Product placement is consistent with sizes going from largest on the right and smallest to the left. Each product is displayed within its designated category. Bottles are fronted and dusted throughout the store. In some areas, shelves were empty.

## **CUSTOMER SERVICE**

---

- The state price book is available for retail and mixed beverage customers. 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.
- Sales clerks' interaction with retail and mixed beverage customers is attentive, courteous, and all are eager to meet the needs of the customers.

## **RECOMMENDATIONS**

---

1. Consider 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 and the general manager have completed the ethics training required by the ABC statute.
- 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 and existing staff on key areas, such as product knowledge, customer service, and clerk responsibilities. Management has often attended training from Commission-approved courses and frequents the General Managers' Conference hosted by the NC Association of ABC Boards.
- Personnel files are available and include the required human resource documentation and other personnel information as needed.

## **RECOMMENDATIONS**

---

1. 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 Adopted)
  - FY2015 Annual Audit
  - Employee Handbook
  - FY2016 Budget (Proposed and Adopted)
  - Mixed Beverage Policy
  - Price Discrepancy Policy
  
- Policies not adopted include:
  - Sale to Underage Drinking Policy

## **RECOMMENDATIONS**

---

1. Adopt a written policy that details the board's expectations when faced with an employee selling to a minor.

## **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.

- The general manager schedules all employees work shift hours. Employees are required to clock in or out but a time sheet is generated for recordkeeping. Management requires two persons at all times on each shift. Management usually works the day shift hours. In the event an employee fails to clock in/out, the general manager is notified and adjusts the schedule or finds a replacement. Once the time sheet is generated, it is forwarded to the bookkeeper for entry to the payroll accounting system.
- 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 made regularly by the ABC Commission rule. Bank notifications are received and matched with corresponding daily register reports. Bank reconciliations are completed by the general manager.
- In reviewing a sample of travel reimbursements, procedures were followed according to the travel policy submitted.
- Out of approximately 2,000 product codes, approximately 130 product codes were sampled to ensure accurate pricing and four 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.

## **ADMINISTRATIVE COMPLIANCE FINDINGS**

---

- 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. However, the board does not follow procedures when entering into closed session and discusses open session topics within closed session.
- Board meeting minutes included a conflict of interest statement asking board members if conflicts existed with items on the meeting agenda.
- Date/time/location of board meetings are posted for public knowledge.
- Board member appointment dates and compensation amounts are not current on the Commission website.
- Board member and general manager compensation is in compliance with G.S. 18B-700 (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 employed 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 and miscellaneous purchases are approved in advance by the finance officer as to verify that there is budgeted money for such purchases and are indicated by placing a pre-audit certificate and signature of the finance officer/deputy finance officer. The board is usually invoiced by vendors for common purchases. Individual liquor invoices are stamped with the pre-audit certificate
- In reviewing a sample of liquor invoices, payments were made within thirty days as required by the NC ABC Commission rule.
- In reviewing the budget to actual expenses as referenced in the financial audit of FY2015, the board did not meet the projected sales budget.
- 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 a board member. In the event the finance officer or board member is unavailable, other board members are authorized to sign checks.

## **RECOMMENDATIONS**

---

1. Follow the proper procedures when entering into closed session and taking minutes. *Refer to Appendix A (2) for statute.*
2. Update board appointment information on the Commission website.
3. To save time, eliminate stamping and signing each invoice; place the pre-audit certificate on the order to LB&B. Authorization should occur before the transaction takes place.
4. 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.

## **AUDITOR'S SUMMARY**

---

On December 15, 2015, ABC Board Auditor, Moniqua S. McLean, presented the performance audit recommendations. The board has not responded as to whether the recommendations have been implemented. Therefore, this audit is being submitted without a response from the board. Due to a nonresponse from the board, a follow up visit will be planned in the future.

## APPENDIX A

---

- 1) *G.S. 18B-805 (h) states, "...Any agency or person receiving funds from the county commissioners or local board under this subsection shall submit an annual report to the board of county commissioners or local board from which funds were received, describing how the funds were spent."*
- 2) *G.S. 143-318.11 states, "...A public body may hold a closed session and exclude the public only when a closed session is required:*
  - a. To prevent the disclosure of information that is privileged or confidential...*
  - b. To prevent the premature disclosure of an honorary degree, scholarship, prize, or similar award.*
  - c. To consult with an attorney employed or retained by the public body in order to preserve the attorney-client privilege between the attorney and the public body...*
  - d. To discuss matters relating to the location or expansion of industries or other businesses in the area served by the public body, including agreement on a tentative list of economic development incentives that may be offered by the public body in negotiations.*
  - e. To establish, or to instruct the public body's staff or negotiating agents concerning the position to be taken by or on behalf of the public body in negotiation (i) the price and other material terms of a contract or proposed contract for the acquisition of real property by purchase, option, exchange, or lease; or (ii) the amount of compensation and other material terms of a n employment contract or proposed employment contract.*
  - f. To consider the qualifications, competence, performance, character, fitness, conditions of appointment, or conditions of initial employment of an individual public officer or employee or prospective public officer or employee...*
  - g. To plan, conduct, or hear reports concerning investigations of alleged criminal misconduct."*