

Hoke County ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
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ABC
COMMISSION
NORTH CAROLINA

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ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

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Greensboro

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Moniqua S. McLean
ABC Board Auditor
919-779-8365

May 11, 2016

Hoke County ABC Board
Mr. Cleo Bratcher, Jr., Chairman
PO Box 457
Raeford, NC 28376

Dear Chairman Bratcher,

We are pleased to submit this performance audit report on the Hoke 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 along with your efforts to increase profitability and reduce expenses.

If we can be of assistance in the future, please advise.

Respectfully,

Robert A. Hamilton
Administrator

CC: North Carolina Association of ABC Boards
Letitia Edens, Hoke County Manager

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. 1937-49 authorized Hoke County to hold an election for an ABC store. The referendum was held on May 26, 1962 and passed 1,398 to 1,296. The first retail sale occurred on August 6, 1962. A subsequent mixed beverage election occurred on May 6, 1997 and passed 927 to 895. Mixed-beverage sales began on May 31, 1997.

Upon election of an ABC store, the county was authorized to create an ABC board consisting of a chairman and two board members to serve for three staggered year terms. Current board members are Cleo Bratcher, chairman, Samuel Graham and Dooie Leach, board members.

The Hoke County ABC Board operates one retail store with mixed beverage sales. The board staffs two full-time and four part-time employees. The general manager is responsible for the oversight of all store operations, policy implementation, inventory management, human resources, and other administrative decisions for the board. The board has hired a finance officer from within the organization to provide sufficient checks and balances and 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 January 28, 2016, ABC Board Auditor, Moniqua S. McLean, visited the Hoke County ABC store and interviewed Mike Summers, general manager and Larry Black, 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 (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 to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2015, the Hoke County ABC board had gross sales of \$1,295,613; income from operations was \$135,983, a 10.50% profit percentage to sales.

Factors affecting sales and profitability:

- Estimated population reported to the US Census Bureau is 51,611 for 2014; a 9.9% increase over 2010;
- Surrounding ABC boards within a ten to twenty mile radius include Cumberland County ABC store (Hope Mills), Scotland County, Moore County (Aberdeen).

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 county. In FY2015, Hoke County made the minimum distribution of \$38,288 to the Hoke County General Fund. \$296,243 in excise and other taxes were paid to the NC Department of Revenue, the Department of Health and Human Services, and the county.

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%) for alcohol education purposes. The remaining profits are to be distributed to the Hoke County General Fund.

In FY2015, the Hoke County ABC Board distributed additional distribution to the county totaling \$84,383, \$4,889 to law enforcement, and \$6,843 toward alcohol education. The ABC board contracts with the Raeford Police Department for law enforcement.

NO RECOMMENDATIONS

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 FY2015, the Hoke County ABC Board had working capital of \$127,258, which is less than the maximum allowed to retain of four months gross sales (\$333,123) and is within the limits of NCAC 15A .0902.

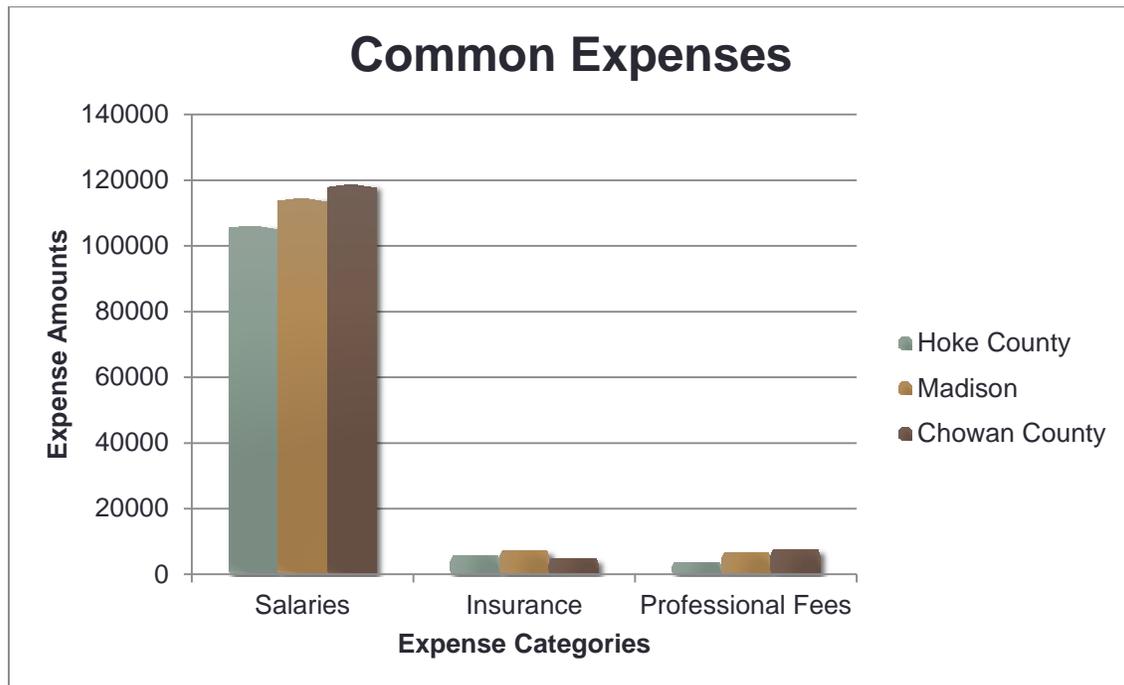
OPERATING COST RATIO

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 Hoke County ABC Board operates one retail store with mixed-beverage sales: the operating cost ratio is 0.55. Mixed beverage sales make up 6.0% of total gross sales. Compared with the state's increase in sales of 7.59% in fiscal year 2015, the Hoke County ABC Board's sales increased 5.07% over fiscal year 2014. Expenses increased 4.28% over the same time period.

Below is a common expense analysis showing the Hoke County ABC Board's expenses compared with other similar size boards.



STORE APPEARANCE

The Hoke County ABC Board operates one retail store with approximately 900 linear feet of shelf space and carries approximately 1,000 product codes.

- The store appeared clean and free of trash. The front of the store was cluttered with empty boxes. Counter areas were neat and well-organized with limited signage.
- Signage in the store was worn and faded. 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.
- Management has adopted a shelf management plan that gives specifics on category management and product placement in the store. Each product is displayed within its designated category. Bottles are fronted and dusted throughout the store.
- Product placement shows the premium products 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 not often utilized.

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. Replace worn signage with current signage.
2. Remove empty boxes from the front of the store to a better location that will be easily accessible for customers.

PERSONNEL AND TRAINING

- Two out of three board members, the general manager, and the finance office have completed the initial ethics training as required by the ABC statute. However, one board member has since been appointed and has not yet completed the appointment training.
- Cross training has been extended on key administrative duties to employees in the event the general manager is unavailable.
- Additional training is provided to new and existing staff on key areas, such as product knowledge, customer service, and clerk responsibilities. The general manager has attended training courses offered by the NC ABC Commission.
- Personnel files are available and include the required human resource documentation and other personnel information as needed.

RECOMMENDATIONS

1. Have the new board members complete the ethics requirement within 12 months of appointment. *Refer to Appendix A (1) for statute.*
2. 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 (Town of Raeford Police Department)
 - Travel Policy (State Travel Policy Adopted)
 - FY2015 Annual Audit
 - Employee Handbook
 - FY2016 Budget (Proposed and Adopted)
 - Mixed Beverage Policy
 - Shelf Management Policy
 - Price Discrepancy Policy

- Policies not adopted include:
 - Sale to Underage Policy

RECOMMENDATIONS

1. Adopt a policy that details the position of the board when an employee is charged with 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 and appropriate practices. Below are internal control findings that were observed during the audit fieldwork.

- The general manager and/or the finance officer schedule all employees for work shift hours. Employees enter hours worked with signature using a time sheet. The finance officer verifies hours worked by all employees. In the event a change in schedule is needed, both the general manager and finance officer will either find a replacement or work the hours. At the end of the payroll week, the finance officer calculates and processes payroll through the accounting/payroll system.
- 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 following 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, conference registration documentation was unavailable.
- In reviewing board credit card transactions, procedures were followed according to the board credit card policy. A copy of the policy has been submitted to the Commission.
- Physical inventory counts are conducted quarterly. Routine spot checks are conducted frequently by category. When discrepancies occur, the general manager and finance officer will investigate and perform a recount. Adjustments are made by the general manager and/or finance officer. Physical count and adjustment documentation was not available to view.
- Breakage forms are submitted as required by the Commission rule. Management has implemented procedures in handling breakage when a customer/employee breaks product.
- Out of approximately 1,000 product codes, approximately 100 product codes were sampled to ensure accurate pricing and all were correct.

RECOMMENDATIONS

1. Keep all documentation pertinent to expense reimbursement and inventory management according to the time frame as indicated in the Records Retention Schedule.

ADMINISTRATIVE COMPLIANCE

- 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 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 who are related to board members or the general manager.
- All board members, except for the general manager and finance officer, are bonded for \$50,000 as required by G.S. 18B-700 (i).
- In reviewing a sample of liquor invoices, payments were made within thirty days.
- Liquor orders and miscellaneous purchases are pre-audited by the finance officer utilizing the certificate as required in G.S.18B-702 (m). Vendors often invoice the board when office and store supplies are needed or the board credit card is used. All purchases are pre-audited by the finance officer utilizing the certificate as required in G.S 18B-702 (m).
- Checks do not 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 or the general manager is unavailable, board members are authorized to sign checks.

RECOMMENDATIONS

1. Update the Commission website to reflect current board appointment and compensation amounts.
2. Update board insurance to include the finance officer as bonded for \$50,000. *Refer to Appendix A (2) for statute.*
3. Affix the approved certificate to all checks, excluding payroll checks, indicate the payment has been authorized and approved. *Refer to Appendix A (3) for statute.*

AUDITOR'S SUMMARY

On March 14, 2016, ABC Board Auditor, Moniqua S. McLean, presented the performance audit findings and recommendations to the board. The board continues to strive to improve profitability while maintain budget appropriations. Policies and procedures have been implemented to ensure compliance with statutes and Commission rules. Efficient operations are established to maintain sufficient checks and balances.

April 11, 2016

Ms. Moniqua Mclean, ABC Auditor

NC ABC Commission

4307 Mail Service Center

Raleigh, NC 27699-4307

Dear Ms. Mclean,

Thank you for attending our meeting on March 14, 2016 to review our performance audit.

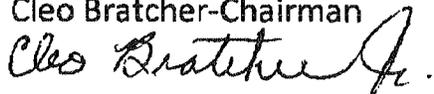
We have addressed your recommendations from the audit and have corrected them or we are in the process now.

- All signage has been replaced with current signage.
- We have relocated our half pint boxes from the front of the store. These were the boxes that were thought to be empty.
- We are currently trying to schedule our newly appointed Board Member a time to take the ethics training.
- We have adopted an Underage Drinking Policy that will be forwarded to the Commission.
- We do keep our reimbursement documents according to the retention schedule. The document you were looking for was found after you had already left.
- We have begun keeping all inventory adjustments and physical count sheets according to the schedule.
- The Commission website has been updated accordingly.
- The load checks now have the required certificate stamped on them.

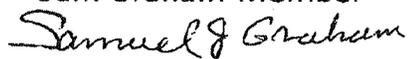
Thank you for your time and the information that you provided us with your visit.

Hoke County ABC Board,

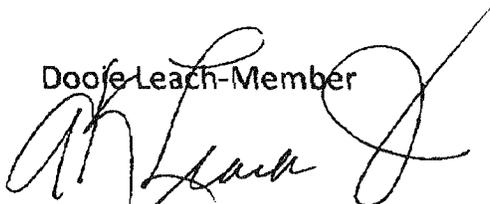
Cleo Bratcher-Chairman



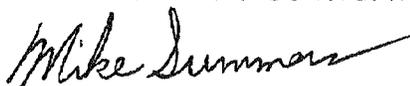
Sam Graham-Member



Dooje Leach-Member



Mike Summers-General Manager



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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-700 (i) states, "Each local board member and the employees designated as the general manager and finance officer of the local board shall be bonded in an amount not less than fifty thousand dollars (\$50,000) secured by a corporate surety, for the faithful performance of his duties."*
- 3) *G.S. 18B-702 (q) states, "Except as provided in this subsection, each check or draft on an official depository shall bear on its face a certificate signed by the finance officer or a deputy finance officer approved for this purpose by the local board (or signed by the chairman or some other member of the board pursuant to subsection (o) of this section). The certificate shall take substantially the following form:*

'This disbursement has been approved in the manner required by G.S. 19B-702.

(Signature of finance officer).' "

APPENDIX B

| RECOMMENDATION | REQUIRED BY STATUTE | IMPLEMENTATION STATUS |
|---|--|--|
| <p>Personnel and Training</p> <p>Have the new board member complete the required ethics training with 12 months of appointment</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 50% complete. (Explain below.)</p> <p><input checked="" type="checkbox"/> Not implemented (Explain below.)</p> <p>Management is planning to schedule the new board member for ethics training. A copy of the ethics verification will be forwarded to the Commission once training is completed.</p> |
| <p>ABC Board Policies</p> <p>Adopt a policy that details repercussions of an employee selling to an underage drinker.</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>The board has adopted a policy that details the repercussions of an employee selling to an underage drinker.</p> |

| RECOMMENDATION | REQUIRED BY STATUTE | IMPLEMENTATION STATUS |
|---|--|---|
| <p>Administrative Compliance</p> <p>Update the Commission website to reflect current board appointment and compensation amounts.</p> <p>Update board insurance to include the finance officer.</p> <p>Affix the approved certificate on all checks, excluding payroll.</p> <p>Keep all documentation according to the time frame as indicated in the Records Retention Schedule.</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>Management has implemented procedures to incorporate these standards and rules in order to be in compliance with the statute.</p> |