

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

May 11, 2016

Jackson County ABC Board
Mr. David Noland, Chairman
30 E. Sylva Shopping Center
Sylva, NC 28779

Dear Chairman Noland,

We are pleased to submit this performance audit report on the Jackson 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. From the information within the audit, the merger between the Town of Sylva and Jackson County was successful.

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

Respectfully,

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 both stores;
- Interviewed key ABC board personnel.

BACKGROUND INFORMATION

G.S. 18B-601 authorized Jackson County to hold an election for an ABC store. Through the resolution of the Town of Sylva and Jackson County, a merger agreement was created May 1, 2014 to form the Jackson County ABC Board.

With this resolution, a new board was created consisting of five members. Current board members are David Noland, chairman, Donald Ferguson, Marion Jones, Maurice Moody, and Tom Albert, board members.

The Jackson County ABC Board operates two retail stores with mixed beverage sales. The board staffs seven full-time and three part-time employees. The general manger is primarily responsible for providing oversight of all daily operations including accounts payable, policy implementation, and human resource management. The board has hired a finance officer to perform duties that provide sufficient checks and balances and efficient internal controls related to financial operations. 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 6, 2015, ABC Board Auditor, Moniqua S. McLean, visited the Jackson County ABC stores and interviewed Stephen Rhodes, general manager. 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 Jackson County ABC board had gross sales of \$4,002,426; income from operations was \$435,598, a 10.9% profit percentage to sales.

Factors affecting sales and profitability:

- Population reported to the US Census Bureau is estimated at 40,981 in 2014, a 1.8% increase since 2010;
- Surrounding towns with ABC boards include Highlands, Franklin, Waynesville, and Maggie Valley;
- Tribal ABC Commission runs casino within a fifteen mile radius;
- Highly trafficked college area contributes to the volume of sales; and
- Recent merger increased the size from a one-store to a two-store board.

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 Jackson County ABC board made the minimum distribution of \$112,451, plus additional distribution of \$287,549. \$936,215 in excise and other taxes were paid to the NC Department of Revenue, the Department of Health and Human Services, the town, 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%) toward alcohol education purposes. The remaining profits are to be distributed as follows:

- Sixty percent (60%) to the Jackson County General Fund; and
- Forty percent (40%) to the Town of Sylva General Fund.

In FY2015, the Jackson County ABC Board distributed \$16,220 toward law enforcement and \$22,708 toward 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 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 Jackson County ABC Board had working capital of \$555,645, which is less than the maximum allowed to retain of three months gross sales (\$763,294) and is within the limits of NCAC 15A .0902.

OPERATING COST RATIO

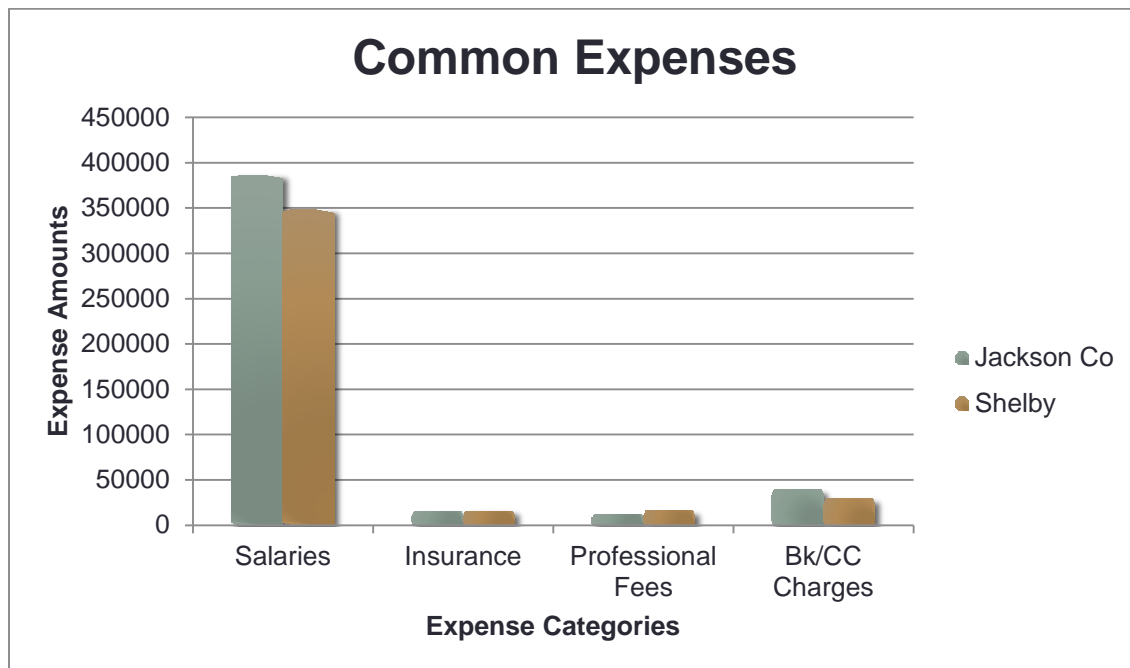
Operating costs are calculated by dividing total operating expenses less depreciation by the gross profit on sales (Total Operating Expenses less Depreciation/Gross Profit). Below are the average cost ratios for boards with and without mixed beverage sales (MXB):

- 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 Jackson County ABC Board operates two retail stores with mixed beverage sales: the operating cost ratio is 0.53. Mixed beverage sales make up 18% of total gross sales. Compared with the state's estimated increase in sales of 7.68% in fiscal year 2015, the Jackson County ABC Board's sales increased 36.8% over fiscal year 2014.

Note: The Jackson County ABC Board opened for a full year in 2015. The analysis combines the Sylva ABC Board with the Jackson County ABC Board amounts.

Below is a common expense analysis showing the Jackson County ABC Board's expenses compared with another similar size boards. Note: The staffing is as follows: Jackson County – 7 full-time and 3 part-time employees, Shelby – 7 full-time and 4 part-time employees.



STORE APPEARANCE

The Jackson County ABC Board operates two retail stores with a range of 1,000 to 1,600 linear feet of shelf space and carries an average 1,100 product codes.

- Both stores appeared clean and free of trash. Counter areas were neat and well-organized with limited signage.
- The stores displayed neat and well-visible signage. The Fetal Alcohol Syndrome poster is located in both stores in an area visible to the public.
- Landscaping around the stores is well-maintained with no appearance of trash.
- Each product is displayed within its designated category. However, where possible, cross merchandising is utilized to encourage impulse shopping. Bottles are fronted and dusted throughout both locations.
- A shelf management plan is utilized in both stores that exhibits a strategy following the ultra-premium products on the top shelves, premium products at eye level, and value products on the lower shelves. Product placement is consistent with sizes from largest on the right and smallest to the left.

CUSTOMER SERVICE

- The state price book is available at both locations should customers ask for specific product. Sales clerks often refer to the price book for verification of product and pricing. Monthly sales information is shared with mixed beverage and retail customers on a consistent basis.
- Sales clerk's interaction with retail and mixed beverage customers is attentive, courteous, and all are eager to meet the needs of the customers.

NO RECOMMENDATIONS

PERSONAL AND TRAINING

- All board members have completed the initial ethics training as required. Since the initial training, all board members have been reappointed and have completed the reappointment ethics training.
- Cross training has been extended on key administrative duties to employees in the event the general manager is unavailable.
- New hire training is provided to new staff on key areas, such as product knowledge, customer service, and clerk responsibilities. Additional training is provided to all staff on the same practices including the Responsible Alcohol Selling Program (RASP training) offered by the NC ABC Commission. The general manager has attended various training courses offered by the NC ABC Commission.
- Personnel files are available and include the required human resource documentation and other personnel information.

NO RECOMMENDATIONS

ABC BOARD POLICIES

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Law Enforcement Contract
 - Travel Policy (NC Travel Policy Adopted)
 - FY2015 Annual Financial Audit
 - FY2016 Budget (Proposed and Adopted submitted)
 - Employee Handbook
 - Mixed Beverage Policy
 - Shelf Management Policy
 - Price Discrepancy Policy

- Policies not adopted include:
 - Sale to Underage 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, with the assistance of the assistant store manager, schedules and notifies employees for work shift hours. Time sheets are used for all employees. Management requires two persons at all times on each shift. Management usually works the day shift hours. In the event an employee fails to attend the shift, the general manager or assistant manager is notified and adjusts the schedule or finds a replacement. At the end of 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 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.
- Physical inventory counts are performed monthly by all scheduled employees. Spot checks are conducted frequently in between scheduled inventory times as part of the daily work activity. If discrepancies occur, someone other than the person counting will recount. The general manager will also recount and investigate the discrepancy. Once completed, the general manager will adjust the inventory system to match with the actual store counts. Unsalable merchandise is adjusted from inventory monthly. Breakage forms are submitted as required by the Commission rule.
- Out of an average of 1,100 product codes per store, approximately 220 product codes were sampled to ensure accurate pricing and all were correct.

NO RECOMMENDATIONS

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. 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 current on the Commission 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 Commission. The general manager compensation is in compliance with G.S. 18B-700 (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 orders and miscellaneous purchases are not pre-audited by the finance officer. Vendors often invoice the board when office and store supplies are needed. These invoices do not have the pre-audit certificate attached.
- In reviewing a sample of liquor invoices, payments were made within thirty days.
- 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 general manager and the board chairman. In the event the general manager or chairman is unavailable, two other board members are authorized to sign checks.

RECOMMENDATIONS

1. Place the pre-audit certificate with the finance officer's signature on the order to LB&B. When ordering supplies, place the pre-audit certificate on the invoice with the authorization from the finance officer before the transaction takes place. *Refer to Appendix A (1) for statute.*

AUDITOR'S SUMMARY

On November 17, 2015, ABC Board Auditor, Moniqua S. McLean, presented the performance audit findings and recommendations to the board. Discussions were held regarding future strategies and plans of the ABC system. The board strives to improve profitability while maintaining budget appropriations. Policies and procedures have been implemented to ensure compliance with statutes and Commission rules and to ensure efficient operations while maintaining sufficient checks and balances.

JACKSON COUNTY ABC

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Sylva, NC 28779
Phone (828)586-6280
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Cashiers Store (828)743-4015

March 7, 2016

Mrs. Moniqua S. McLean
NC ABC Commission, Auditor
4307 Mail Service Center
Raleigh, NC 27699-4307

Dear Mrs. McLean,

The Jackson County ABC Board would sincerely like to thank you for your time and valuable input provided during our performance audit on October 6th 2015. We appreciate your guidance, support and positive feedback regarding our stores and staff. Our Board takes great pride in the services that we provide for our customers, Jackson County, The Town of Sylva and The North Carolina ABC Commission.

Based on your review and recommendations, the following items were immediately addressed and adjusted:

- A written policy was adopted that detailed the actions that the Board would take if an employee knowingly or unknowingly sold alcohol to a minor. Each employee was provided with a copy of said policy and signed it showing that they understood the severity and ramifications of the offence.
- The Financial Officer and or General Manager will place the pre-audit certificate with the Financial Officer's signature on the order edit list to LB&B.
- When ordering supplies, the pre-audit certificate is placed on the invoice with authorization from the Financial Officer in advance of the transaction taking place.

The performance audit experience was extremely pleasurable for the Board, management and staff members of The Jackson County ABC system. It is very satisfying to know that at any time that I can reach out to you for advice, questions and or concerns, should they arise. We will continue to exert integrity and professionalism as a provider of controlled spirituous liquor in Jackson County, North Carolina.

Sincerely,


Stephen Rhodes
General Manager
On behalf of The Jackson County ABC Board

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NC ABC COMMISSION

APPENDIX A

- 1) 18B-702 (m) states “...the contract, agreement, or purchase order shall include on its face a certificate stating that the instrument has been pre-audited to assure compliance. The certificate, which shall be signed by the finance officer or any deputy finance officer approved, shall take substantially the following form:

“This instrument has been pre-audited in the manner required by GS 18B-702.”

(Signature of finance officer)

APPENDIX B

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>ABC Board Policies</p> <p>Adopt a policy that details the repercussions of an employee selling to an underage drinker.</p>	<p><input type="checkbox"/> Yes</p> <p><input checked="" 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>
<p>Administrative Compliance</p> <p>Affix the pre-audit certificate on documents when order inventory and supplies.</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 this standard and to remain in compliance with the statute.</p>