

Kenansville 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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June 18, 2018

Kenansville ABC Board
Mr. Jimmie Newkirk, Chairman
PO Box 488
Kenansville, NC 28349

Dear Chairman Newkirk,

We submit to you this second performance audit report on the Kenansville 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 the existing legislative mandates.

The report consists of an executive summary, background information, operational findings and recommendations. Your Board did not provide a response in reference to the findings and recommendations. This report will be posted on the Commission's public web site.

Once again we would like to thank you, the ABC Board and your staff for the assistance and cooperation provided to us during this second audit. Additionally, we appreciate the continued efforts by your Board to comply with the performance standards. Thank you for 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

OBJECTIVE, PURPOSE, AND SCOPE

In addition to regular and special financial audits, G.S. 18B-705 (a) authorizes the N.C. ABC Commission to conduct performance audits of all local ABC boards in the state. 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 are designed to ensure that all local ABC Boards comply with established performance standards pursuant to G.S. 18B-203 (a) (20). The audits' scope addresses compliance with ABC laws and rules, store appearance, operating efficiency, solvency, and customer service.

To achieve the objectives of the audit, auditors:

- Review applicable General Statutes, ABC Commission Rules, and Administrative Policies
- Review applicable reports and studies of ABC boards with similar size and geography
- Consult with specialists at the UNC School of Government
- Verify compliance with Commission and Board policies
- Verify results of previous performance audit recommendations
- Review organizational chart and job descriptions
- Review ABC board annual independent financial audits
- Visits the store(s)
- Interview key ABC board personnel.

The initial round of performance audits for the local ABC Boards concluded in 2016 and provided a comprehensive overview of the operations of the local boards. The follow-up round of performance audits now under way is designed to provide local boards with information that targets specific areas for improvement. Board activities that meet or exceed current performance standards are not included as areas recommended for corrective action and so are not included in the attached summary report and recommendations.

PROFIT PERCENTAGE TO SALES AND OPERATING COST ANALYSIS

In FY2017, the Kenansville ABC Board had a profit percentage of 3.99%, a 0.19% increase over FY2016. In FY2016, the Kenansville ABC Board had a profit percentage to sales of 3.80%. The ABC Commission profit percentage to sales standard for ABC Boards with gross sales less than \$2M is targeted at 5% or higher. Thus, the Kenansville ABC Board did not meet the targeted profit percentage. To meet the profit percentage to sales standard, the Kenansville ABC Board will have to increase sales by 7.7% or \$585,000 with all other factors constant.

Kenansville ABC Board converted the retail sales floor to a self-service in July 2015, or FY2016. Since the conversion, sales have increased 11.3%. As sales have increased, expenses have increased by 9.5% over FY2016. The operating cost ratio for Kenansville ABC was 0.80 in FY2017. The ABC Commission standard operating cost for ABC boards with one or two stores with mixed beverage sales is less than 0.73. To meet the operating cost ratio standard and remain with current operating expenses, the Kenansville ABC Board will have to increase sales to \$605,000.

Below is a chart showing the expenses and the income from operations for the previous two years.

	FY2017	FY2016	Percentage Variance
Expenses excluding Depreciation	\$103,935	\$94,942	9.5%
Income (Loss) from Operations	\$21,682	\$18,562	16.8%

BUDGET ANALYSIS

In reviewing the budget to actual analysis of the FY2017 financial audit, sales revenues met the budgeted projections. Overall expenses were within budget for the same time period. The board made budget amendments throughout the year to adjust sales and other expenses. The below chart shows the final budget to actual amounts and the variances.

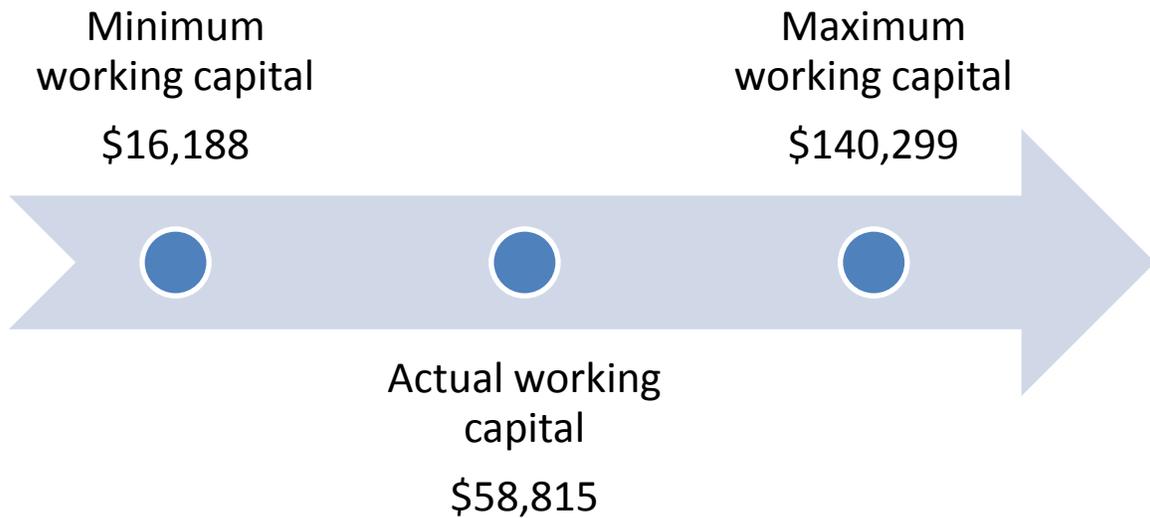
	FY2017 Budget Projections	FY2017 Actual	Variance
Sales	\$543,015	\$543,270	\$255
Total Operating Expenses including Capital Outlay	\$535,481	\$520,782	\$14,699

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.

Based on the existing rules, the Kenansville ABC Board is allowed to maintain a minimum working capital of \$16,188 and a maximum working capital of \$140,299. The actual working capital the board has retained is \$58,815.

The NC ABC Commission has set a working capital standard for boards with gross sales less than \$1.5M an amount equal to four months of sales revenue. The board's actual working capital has met the standard set by the NC ABC Commission.



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 3 ½% markup and .01/.05 cent bottle tax to the municipalities and county. Below is a chart of taxes paid to the NC Department of Revenue, the Town of Kenansville, and Duplin County.

G.S. 18B-805 (c) (2) and (3) requires the board to distribute quarterly at least five percent (5%) of profits to law enforcement and at least seven percent (7%) of profits toward alcohol education.

S.L. 1965-1004 requires the board to distribute quarterly the following net profits:

- Ten percent (10%) to the Duplin County General Fund for drainage control purposes
- Thirty-five percent (35%) to the Duplin County General Fund
- Fifty-five percent (55%) to the Town of Kenansville General Fund

Revenues Less Taxes and Cost of Sales FY2017	
Sales (Retail and Mixed Beverage)	\$543,270
Excise Tax	\$119,765
Mixed Beverage Tax Combined	\$507
Rehabilitation Tax	\$2,101
Net Sales	\$420,897
Cost of Liquor Sold	\$291,487
Gross Profit	\$129,410

	FY2017 Calculations	Actual Distributions Made	Percentage Variance
Gross Profit (Taken from Above)	\$129,410		
Total Operating Expenses	\$107,727		
Income from Operations	\$21,682		
Income (Loss) Before Distribution	\$21,714		
3 ½ Minimum Distribution	\$16,208	\$21,438	32.3%
<ul style="list-style-type: none"> • 45% to Duplin County • 55% to Town of Kenansville 	<ul style="list-style-type: none"> • \$7,294 to Duplin County • \$8,914 to Town of Kenansville 	<ul style="list-style-type: none"> • \$9,647 to Duplin County • \$11,791 to Town of Kenansville 	
Law Enforcement	\$275	\$275	
Alcohol Education	\$385	\$ -	

A contract between the Kenansville ABC Board and the Town of Kenansville Police Department is in effect and requires the board to distribute at least 5% of the net profits in quarterly installments. In addition to the law enforcement requirement, the board is required to expend at least seven percent (7%) towards alcohol education or rehabilitation purposes. The Kenansville ABC Board has not distributed towards alcohol education and is required to do so in FY2018 if there are sufficient profits.

FINANCIAL ANALYSIS RECOMMENDATIONS

RECOMMENDATION: *To increase sales, consider effective practices to generate more revenue such as:*

- *Partnering with distilleries to showcase product as long as it meets the NC ABC Commission's promotion requirements*
- *Creating recipe cards, displays, and other marketing techniques to further enhance customer shopping experience*
- *Borrowing common marketing strategies from suppliers and other boards for best practices in shelf management, customer service, and inventory management*
- *Contacting neighboring systems to inquire about selling off discontinued or slow-moving products or ask for a price reduction from the NC ABC Commission*
- *Considering a customer request log and evaluate the log monthly to determine if requests are addressed.*

RECOMMENDATION: *Invite the NC ABC Association's efficiency committee to visit and recommend strategies on effective operations.*

REQUIRED ACTION: *Begin distributing toward alcohol education/rehabilitation programs as described by G.S. 18B. G.S. 18B-805 (c) (3) states that the local board shall spend, or pay to the county commissioners to spend, for the purposes stated an amount set by the board which shall be at least seven percent (7%) of the gross receipts remaining. G.S. 18B-805 (h) states that funds distributed shall be spent for the treatment of alcoholism or substance abuse, or for research or education on alcohol or substance abuse. Any agency or person receiving funds from the county commissioners or local board 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.*

STORE APPEARANCE

The ABC Board Auditor visited the store to evaluate store appearance. The overall store appeared clean, neat, and clutter-free. The initial performance audit stated the shelf management system would not be efficient for a counter store. Since the conversion, a minimal shelf management system is in place.

RECOMMENDATION: *Consider utilizing resources that would increase sales with minimum cost. Refer to recommendations under the financial analysis.*

OPERATIONAL AND ADMINISTRATIVE COMPLIANCE

- While inspecting stores, the ABC Auditor randomly selected approximately forty items to determine if uniform pricing is displayed on the shelves. Of those selected, all were correct.
- In conducting a random inventory count on approximately twenty-five codes to determine the accuracy of the inventory management, weak internal controls are evident. Management inquiries suggest that a physical inventory is conducted monthly. However, evidence revealed that a physical inventory was not conducted in July or August but only conducted in September.

REQUIRED ACTION: *To strengthen internal controls for inventory management, conduct a regular monthly inventory beginning with the warehouse and ending with the retail store. At the end of the count, make the adjustments accordingly to match the actual counts with the inventory system. Once adjustments are made, provide copies to the board for review. To further ensure accuracy and completeness, throughout the month, have the general manager, finance officer, and board members conduct a spot check. Analyze inventory discrepancies to prevent unexplained adjustments in the future. Have board members review all monthly inventory adjustments. Have someone other than the person(s) handling the inventory assist with physical counts quarterly.*

- Board member appointment dates have been updated with the NC ABC Commission. However, board members who have been reappointed have not completed the required ethics training.

REQUIRED ACTION: *Have all reappointed board members complete the required ethics training. 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. The ethics education shall cover laws and principles that govern conflicts of interest and ethical standards of conduct for local ABC boards."*

CORRECTIVE ACTION: *All board members have completed the required ethics training in accordance with G.S. 18B-706 (b). Board members submitted an ethics verification form to the NC ABC Commission.*

- Bank deposits are not being made daily as required by NCAC 2R .0905.

REQUIRED ACTION: *Daily deposits are required for every ABC store. In the event the general manager is unavailable, have other employees perform this task so as to be in compliance with this rule. Ask the local law enforcement officers to assist with taking the deposits to the bank and include in you law enforcement contract.*

- In reviewing a sample of liquor vendor invoices and payment schedules, some payments were made more than thirty days after receipt of product.

REQUIRED ACTION: *Pay all liquor vendor invoices within thirty days of receipt. NCAC 02R .1407 (c) states, "Local boards shall remit full payment of the distiller's invoice within thirty (30) days of delivery of the liquor."*

- Board meeting minutes did not reflect voting actions taken by board members. Budget to actual information is not presented to the board.

REQUIRED ACTION: *Board meeting minutes should be written so that a reasonable person can understand what transpired. All voting actions taken by the board members must be reflected in the minutes. Monthly financial reports presented to the board should be referenced and attached in the minutes.*

ADDITIONAL NOTES

The Kenansville ABC Board has not responded to the performance audit required action steps except for the above noted corrective action. A follow up visit will be scheduled to verify if action steps were taken place on other required actions. The NC ABC Commission strongly encourages the board to implement the required action steps to ensure compliance with the NC ABC statutes and the NC ABC Commission rules.