

Kings Mountain 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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March 19, 2018

Kings Mountain ABC Board
Mr. David Faunce, Jr., Chairman
PO Box 785
Kings Mountain, NC 28086

Dear Chairman Faunce,

We are pleased to submit this second performance audit report on the Kings Mountain 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 along with your response to our 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 and to complete the suggested recommendations. Your continued efforts to increase profitability and reduce expenses are commendable and it appears you are on the correct path.

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 RATIO

In 2017, the Kings Mountain ABC Board had a profit percentage of 8.15%, a 1.72% increase over FY2016. In FY2016, the Kings Mountain ABC Board had a profit percentage to sales of 6.43%. The ABC Commission profit percentage to sales standard for ABC Board with gross sales is less than \$2M is targeted at 5% or higher. Thus, the Kings Mountain ABC Board met the targeted profit percentage.

The operating cost ratio for Kings Mountain ABC was 0.64 in FY2017. The ABC Commission standard for ABC boards with one or two stores with mixed beverage sales is less than 0.73. Thus, the Kings Mountain ABC Board met the standard.

Kings Mountain ABC Board's operating expenses decreased 0.5% over FY2016. Below is a chart showing the expenses and the income from operations for the previous two years.

| | FY2017 | FY2016 |
|--|-----------|-----------|
| Expenses excluding Depreciation | \$251,387 | \$252,716 |
| Income (Loss) from Operations | \$132,979 | \$97,216 |

BUDGET ANALYSIS

In reviewing the budget to actual analysis of the FY2017 financial audit, sales revenues exceeded the budgeted projections by 0.6%. Overall expenses were within budget for the same time period. The below chart shows the final budget to actual amounts and the variances.

| | FY2017 Budget Projections | FY2017 Actual | Variance \$ | Variance % |
|--|---------------------------------|------------------|-------------|------------|
| Sales | \$1,623,388 | \$1,632,606 | \$9,218 | 0.6% |
| Total Operating Expenses including Capital Outlay | \$280,186 | \$266,510 | \$13,676 | 5.1% |

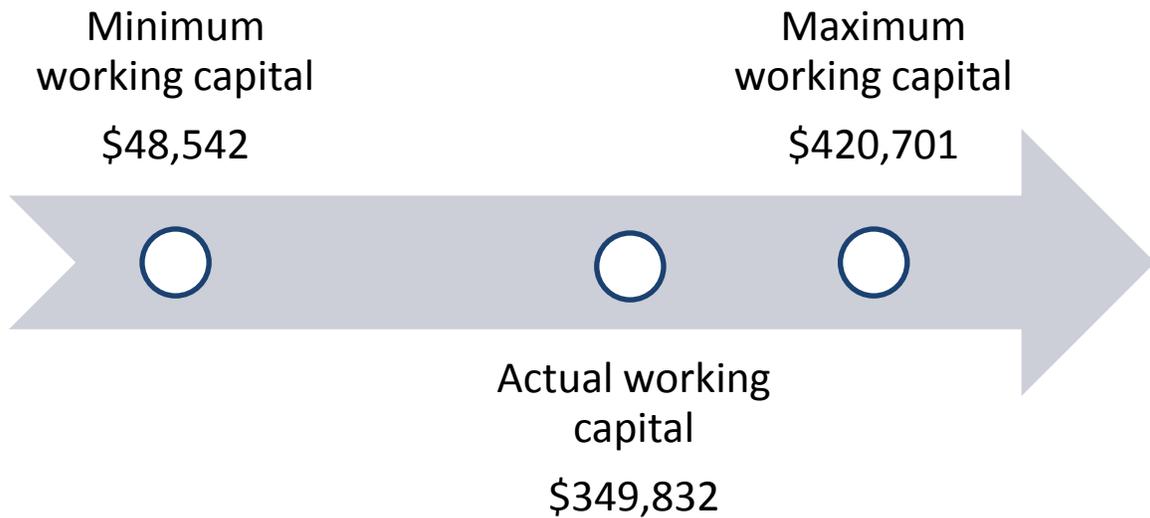
Although overall expenses were under budget, certain line item expenditures were not included in the initial budget.

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 Kings Mountain ABC Board is allowed to maintain a minimum working capital of \$48,542 and a maximum working capital of \$420,701. The actual working capital the board has retained is \$349,832.

The NC ABC Commission has set a working capital standard for boards with gross sales greater than \$1.5M but less than \$50M an amount equal to three 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 Kings Mountain, and Cleveland 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. 1969-832 requires the board to distribute quarterly one-hundred percent (100%) of net profits.

| Revenues Less Taxes and Cost of Sales FY2017 | |
|--|--------------------|
| Sales (Retail and Mixed Beverage) | \$1,632,606 |
| Excise Tax | \$357,315 |
| Mixed Beverage Tax Combined | \$7,220 |
| Rehabilitation Tax | \$5,969 |
| Net Sales | \$1,262,101 |
| Cost of Liquor Sold | \$872,321 |
| Gross Profit | \$389,780 |

| | FY2017 Calculations | Actual Distributions | Percentage Variance |
|--|------------------------|-------------------------|------------------------|
| Gross Profit (Taken from Above) | \$389,780 | | |
| Total Operating Expenses | \$256,801 | | |
| Income from Operations | \$132,979 | | |
| Income (Loss) Before Distribution | \$133,333 | | |
| 3 ½ Minimum Distribution | \$47,840 | \$47,840 | |
| Law Enforcement | \$4,272 | \$12,749 | 198% |
| Alcohol Education | \$5,981 | \$12,749 | 113% |

A contract between the Kings Mountain ABC Board and a law enforcement agency is not in effect. However, the Kings Mountain ABC Board continues to make distributions to the town for law enforcement. The ABC Board distributes to the Cleveland County Public Health Center for the CODAP program, an alcohol education/rehabilitation program. The board does not receive a report from the agency detailing how funds were spent.

FINANCIAL ANALYSIS RECOMMENDATIONS

Recommendation #1: Adopt a law enforcement contract with a local law enforcement agency. A sample law enforcement contract is found on the NC ABC Commission website.

Corrective Action Taken: The ABC Board has adopted a law enforcement contract with the City of Kings Mountain and submitted a copy of the contract to the NC ABC Commission.

Recommendation #2: Require any agency receiving funds for alcohol education/rehabilitation purposes to provide the board a report annually detailing how the funds were spent.

Corrective Action Taken: The ABC Board has received an annual financial report from the alcohol education agency receiving funds. A copy of the report is available at the ABC Board.

Recommendation #3: Amendments to the adopted budget are required when additional expenses have been incurred. As a reminder, payments cannot be made to any vendor if funds are not available in the budget.

STORE APPEARANCE

The ABC Board Auditor visited the store to evaluate store appearance. The overall store appeared clean, neat, and clutter-free. The shelves were full with a variety of product and displaying featured new items, bestselling products on the end-caps. The shelf management system followed basic guidelines of displaying premium products on top and eye-level shelves and value priced products on the lower shelves.

OPERATING AND ADMINISTRATIVE COMPLIANCE

- **While inspecting stores, the ABC Auditor randomly selected approximately sixty items to determine if uniform pricing is displayed on the shelves. Of those selected, all were correct.**

Recommendation #4: As a reminder, to strengthen internal controls for inventory management, conduct a regular monthly inventory beginning with the warehouse and ending with the retail store. Since the general manager orders liquor, have store employees conduct the physical inventory and make calculations. Once calculations are completed, forward to the general manager so that adjustments can be made and the board reviews. To further ensure accuracy and completeness, throughout the month, have the general manager, finance officer, and board members conduct a spot check.

- **The board has adopted a credit card policy and a copy has been forwarded to the NC ABC Commission. However, in reviewing the credit card policy, specific subjects were not addressed or stated.**

Recommendation #5: Include the following items in the current credit card policy

- *Travel on ABC Board business will follow the current travel policy of the NC Office of State Budget and Management*
- *Personal and non-employee purchases are prohibited*
- *Alcoholic beverage purchases are prohibited.*

Corrective Action Taken: The board has amended the credit card policy to include the above items. A copy of the amended policy has been submitted to the NC ABC Commission.

- **Law enforcement officers performing duties outside of the current contract are paid as a vendor in the accounting system. No documentation is available indicating hours worked on specific days.**

Recommendation #6: As a follow up to the recommendations of the external auditors, law enforcement officers must be classified as either an independent contractor or an employee so that applicable tax withholdings are acknowledged. Require all officers that perform duties outside of the law enforcement contract to complete a time sheet or time record stating hours worked on the specified days.

Corrective Action Taken: Management has created a form to be completed by law enforcement officers to document hours worked for the ABC board. A copy of the form has been submitted to the NC ABC Commission.

- **In reviewing the board meeting minutes, procedures for entering into closed session were not followed.**

Recommendation #7: Follow the closed session proceedings as indicated in the ABC Operations Manual. The procedure for entering into closed session is as follows:

- 1. When in open session, a motion to enter into closed session stating the specific reason is required.*
- 2. A vote is made and if approved, the board will enter the closed session to discuss the stated topic. No vote can be made while in closed session.*
- 3. To re-enter open session from closed session, a vote is made and if approved, open session is resumed.*

Corrective Action Taken: The board has adopted a policy for how to handle closed session proceedings. A copy of the policy has been submitted to the NC ABC Commission.

Kings Mountain ABC Board

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David Faunce-Chairman
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Lyn Chesire
Ralph Grindstaff
Sandra Murphrey
Rick Murphrey

December 1st, 2017

To: Ms. Moniqua McLean, ABC Board Auditor
North Carolina ABC Commission
Re: Performance Audit

Dear Ms. McLean,

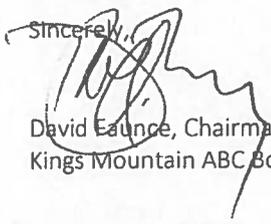
On behalf of the Kings Mountain ABC Board, we would like to thank you for conducting our audit. Our Board and staff appreciate any recommendations to help improve our system and to maintain the integrity that we at the Kings Mountain ABC Board strive to achieve.

We have followed up on your recommendations outlined in the audit, and are submitting copies of actions that we have adopted.

1. Our law enforcement contract has been completed and adopted.
2. We have notified our agency receiving funds for alcohol education, and they have submitted their annual report to us at this time.
3. We updated our Board Travel Policy and it is now in place.
4. Our board is now aware and we have made amendments to our notes, of how a closed session is to be handled. We have implemented the correct procedure and it is being followed.
5. At this time we are conducting regular inventories, starting with warehouse and ending with the retail store. To further ensure accuracy throughout the month the general manager and finance officer are performing spot checks.

The Kings Mountain ABC Board appreciates your hard work and recommendations during this process.
Thank You.

Sincerely,



David Faunce, Chairman
Kings Mountain ABC Board