

Laurel Park 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

September 10, 2015

Laurel Park ABC Board
Mr. Michael Hodes, Chairman
1709 Brevard Hwy
Hendersonville, NC 28791

Dear Chairman Hodes,

We are pleased to submit this performance audit report on the Laurel Park 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

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 2014;
- Visited the store;
- Interviewed key ABC board personnel.

BACKGROUND INFORMATION

S.L. 1981-163 authorized the Town of Laurel Park to hold an election for an ABC store. The referendum was held on June 16, 1981 and passed 340 to 55. A mixed beverage election occurred on the same date and passed 351 to 44. The first retail sale occurred on January 24, 1983.

Upon election of an ABC store, the town is 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 Michael Hodes, board chairman, Thomas Allen and Robert Pitre, board members.

The Laurel Park ABC Board operates one retail store. The board staffs one full-time and eight part-time employees. The general manager is responsible for daily oversight of all store operations including, but not limited to, human resource organization, inventory management, and implementation of other administrative decisions for the board. The board has hired within the organization a finance officer. To provide efficient checks and balances, the board has hired an external accountant to issue financial statements. Store employees' primary responsibility is to provide friendly customer service, general store upkeep, and stock maintenance.

OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

On May 21, 2015, ABC Board Auditor, Moniqua S. McLean, visited the Laurel Park ABC store and interviewed Karen Jordan, general manager, and Robert Works, 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 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 2014, the Laurel Park ABC Board had gross sales of \$1,079,248; income from operations was \$24,275, a 2.25% profit percentage to sales.

Factors affecting sales and profitability:

- Population in 2010 is 2,180;
- Surrounding towns with ABC stores within Henderson County include Fletcher and Hendersonville.

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 to the town. In FY2014, the Laurel Park ABC Board did not make the minimum distribution of \$30,530. However, distributions to the town and county totaled \$24,532. \$246,827 in excise and other taxes were paid to the NC Department of Revenue, the Department of Health and Human Services, the town and county.

G.S. 18B-805 (c) (2) requires the board to distribute at least five percent (5%) of profits to law enforcement. S.L. 1981-163 authorized the board to distribute the remaining profits as follows:

- One hundred percent (100%) to the Town of Laurel Park General Fund of which the town shall distribute as follows:
 - Sixty-two percent (62%) remains with the Town of Laurel Park;
 - Twenty-five percent (25%) to the Henderson County General Fund;
 - Twelve percent (12%) to the Henderson County Public Schools;
 - One percent (1%) to the Henderson County Public Library;

In FY2014, the Laurel Park ABC Board distributed \$117 to law enforcement. The board is not required to distribute toward alcohol education. However, alcohol education distributions totaled \$82. The board has made future obligations to pay for an alcohol education program.

RECOMMENDATIONS

1. To continue this distribution, seek approval from the appointing authority allowing the board to distribute for alcohol education/rehabilitation purposes.
2. If unable to make the minimum distribution, seek approval from the appointing authority to withhold the 3½% bottle tax distributions for a limited time or until a specific percentage of sales is achieved.

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 FY2014, the Laurel Park ABC Board had a working capital of \$215,363, which is less than the maximum allowed to retain of four months gross sales (\$277,474) and is within the limits of NCAC 02R .0902.

OPERATING COST RATIO

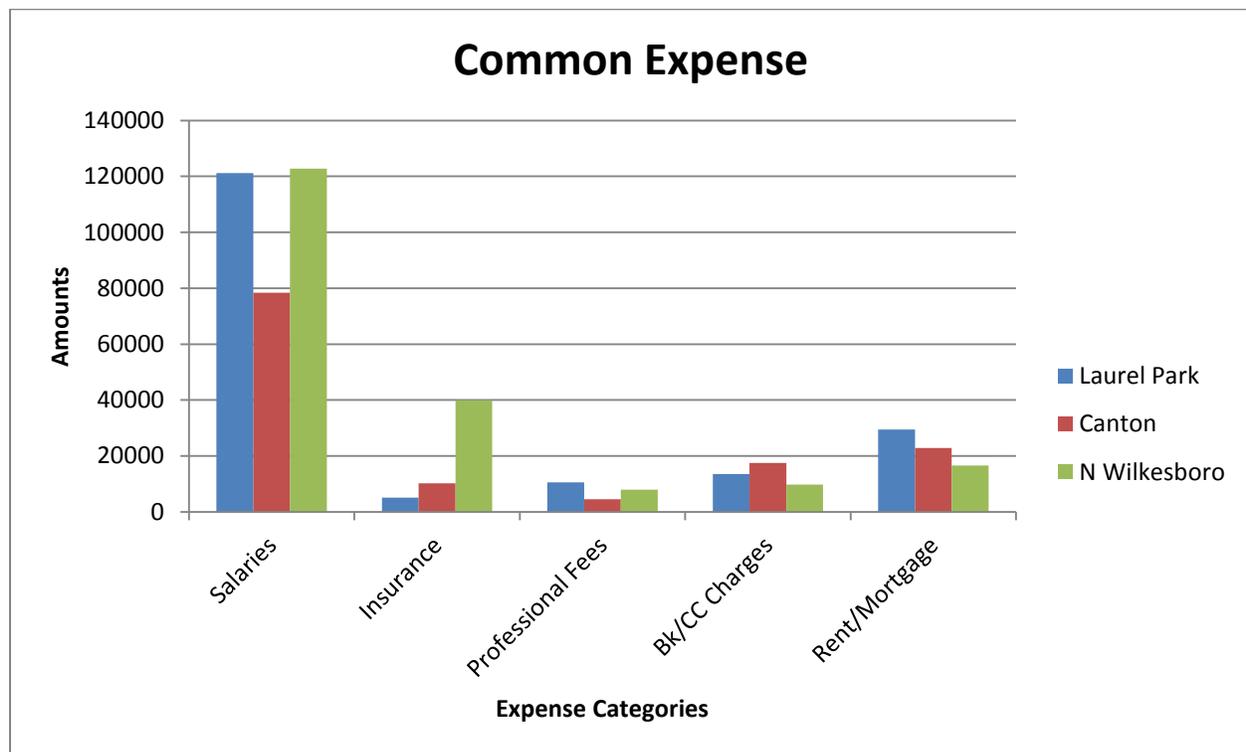
Operating costs are calculated by dividing total operating expenses less depreciation by the gross profit on sales (Total Operating Expenses less Depreciation/Gross Profit). Below are the average cost ratios for boards with and without mixed beverage sales (MXB):

- 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 Laurel Park ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.90. Mixed beverage sales make up 8.6% of total gross sales. Compared with the state's increase in sales of 4.81% in fiscal year 2014, the Laurel Park ABC Board's sales decreased 1.56% over fiscal year 2013 as expenses increased 5.27% over the same time frame. To meet the cost ratio goal and remain at current expense levels of \$266,841, revenues must be increased to \$1,315,000, a 22% increase. To meet the cost ratio goal and remain at current revenue levels of \$1,079,248, expense levels must be decreased to \$195,000, a 19% decrease.

The board leases the current retail space for \$29,400 annually or \$2,450 monthly.

Below is a common expense analysis showing the Laurel Park ABC Board's expenses compared with other similar size boards. The analysis shows that salaries and rental expense is higher but other common expenses are within range. Note: Insurance expense for North Wilkesboro includes general and health insurance. Staffing for the following boards includes: North Wilkesboro - 3 full-time and 1 part-time and Canton - 2 full-time and 3 part-time employees.



STORE APPEARANCE

The Laurel Park ABC Board operates one retail store with approximately 1,062 linear feet and carries approximately 850 product codes.

- The store appeared clean and free of trash. Counter areas were neat and well-organized.
- The store displayed neat and well-visible signage. The Fetal Alcohol Syndrome poster is displayed and visible to the public.
- Landscaping around the store is well-maintained with no evidence of trash.
- Each product is displayed within its designated category. However, cross merchandising is utilized to encourage impulse shopping specifically with North Carolina products. Bottles are fronted and dusted.
- A shelf management plan is utilized 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. Horizontal brand blocking is shown for similar products.

CUSTOMER SERVICE

- The state price book is available 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

PERSONNEL AND TRAINING

- Two out of three board members and the general manager have completed the initial ethics training required by the statute. One board member has since been appointed and has not yet completed the ethics training.
- Cross training has been extended on key administrative duties to employees in the event the general manager was suddenly unavailable. The assistant management serves as the backup to the general manager.
- Training is provided to new and existing staff on key areas, such as product knowledge, customer service, and clerk responsibilities.
- Personnel files are available and include human resource documentation and other personnel information as required.

RECOMMENDATIONS

1. Have all newly appointed 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 and other Commission-approved courses.

ABC BOARD POLICIES

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Law Enforcement Contract
 - Travel Policy (Approval submitted from the Town of Laurel Park)
 - FY2014 Annual Audit
 - FY2015 Budget (Proposed and Adopted)
 - FY2016 Budget (Proposed)
 - Employee Manual
 - Mixed Beverage Policy
 - Price Discrepancy Policy
 - Shelf Management Policy

NO RECOMMENDATIONS

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 schedules employees for work shift hours. All employees use time sheets to record hours worked. At the end of the payroll week, the general manager will verify all time sheets and calculate hours worked by each employee. An accounting program processes all payroll activities.
- Cash drawers are counted 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 finance officer.
- Physical inventory counts are conducted quarterly with frequent spot checks and are performed usually by the general manager and finance officer. However, any and all employees can assist. If discrepancies occur, the general manager and finance officer will investigate and recount for accuracy and verification. Once completed, the general manager or finance officer will adjust the inventory system to match with the actual store counts.
- Unsalable merchandise is adjusted from inventory when it occurs. Breakage forms are submitted as required by the Commission rule.
- Out of approximately 850 product codes, approximately 100 product codes were sampled to ensure accurate pricing and one was 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 AND OBSERVATIONS

- 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.
- Board member appointment dates and compensation amounts are current on the Commission website.
- Board member and general manager compensation is in compliance with G.S. 18B-800 (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, 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 pre-audited by the finance officer/general manager. The board is usually invoice by vendors for purchases.
- 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 finance officer and a board member. In the event the finance officer is unavailable, all board members and the general manager are authorized to sign checks.

NO RECOMMENDATIONS

AUDITOR'S SUMMARY

The Laurel Park ABC Board accepted the recommendations as outlined in the performance audit report and submitted a response to the recommendations. The board strives to implement strategies to maintain and improve profitability while maintaining or reducing costs and meeting 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.

LAUREL PARK ALCOHOLIC BEVERAGE CONTROL BOARD

June 26, 2015

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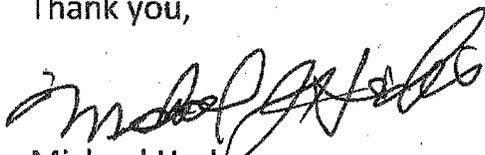
Dear Moniqua,

The Laurel Park ABC Board would like to thank you for your time and input during our performance audit on May 21, 2015.

Based on your review and recommendations our Board will continue its efforts to become more efficient through increasing sales and decreasing expenses where possible. In addition, we will review our distribution decisions to maximize distributions, while following N.C. general statutes. The Town of Laurel Park has been notified about the minimum distributions for FY2014. Finally, the new Board member has now completed required ethics training.

Our main focuses have always included providing a service to the people of Laurel Park; distributing funds to the Town, County, Schools, Library and organizations that prevent alcohol abuse and underage drinking; and to be a responsible provider of controlled spiritous liquor.

Thank you,



Michael Hodes

Chairman, Board of Directors

Laurel Park ABC

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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."*

APPENDIX B

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Personnel and Training:</p> <p>Have all reappointed board members complete the ethics requirement within 12 months of reappointment.</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 ____% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>All board members have completed this requirement.</p>