

Madison 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 6, 2015

Madison ABC Board
Mr. Ted Caple, Chairman
216 W Academy St
Madison, NC 27025

Dear Chairman Caple,

We are pleased to submit this performance audit report on the Madison 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 maintain 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

Chapter 832 of the 1969 Session Law authorized the Town of Madison to hold an election for an ABC store based upon a written petition of at least twenty-five percent (25%) of registered voters. The referendum was held on September 16, 1969 and passed 353 to 272. The first sale occurred on November 24, 1969. A mixed beverage election was held on July 20, 2004 and passed 166 to 143.

Upon election of an ABC store, the town was authorized to create an ABC board consisting of a chairman and two board members to serve three staggered year terms. Current board members are Ted Caple, board chairman, and Micky Silvers, board member. Since the audit fieldwork, a new board member has been appointed: Mary Louise Cardwell.

The Madison ABC Board operates one retail store. The board staffs two full-time, including the general manager, and one part-time employee. The general manager is responsible for the oversight of all daily operations pertaining to the store, inventory management, human resources, and implementation of other administrative decisions for the board. Store employees are primarily responsible for providing friendly customer service to all customers, general store upkeep, and stock maintenance.

OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

On September 10, 2014, ABC Board Auditor, Moniqua S. McLean, visited the Madison ABC store and interviewed Claudine McCullough, 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 2014, the Madison ABC board had gross sales of \$1,071,081; income from operations was \$31,270, a 2.9% profit percentage to sales.

Factors affecting sales and profitability:

- Surrounding towns within a fifteen mile radius with ABC stores include Reidsville, Eden, and Walnut Cove (Stokes County);
- Population of the Town of Madison was 2,246 in 2010.

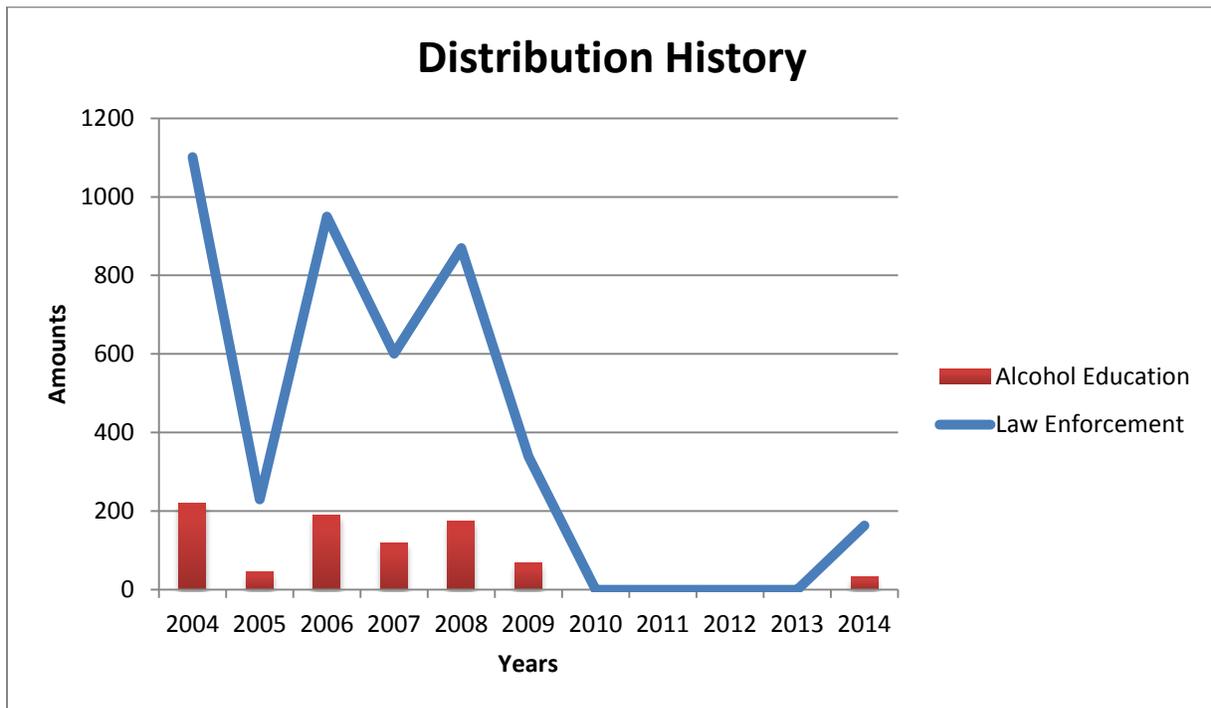
DISTRIBUTIONS

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) (1) requires the board to make a minimum quarterly distribution of the 3 ½% markup rate to the town. In FY2014, Madison ABC made the required minimum distribution to the town totaling \$31,446. \$244,573 in excise and other taxes were paid to the NC Department of Revenue, the Department of Health and Human Services, and the town.

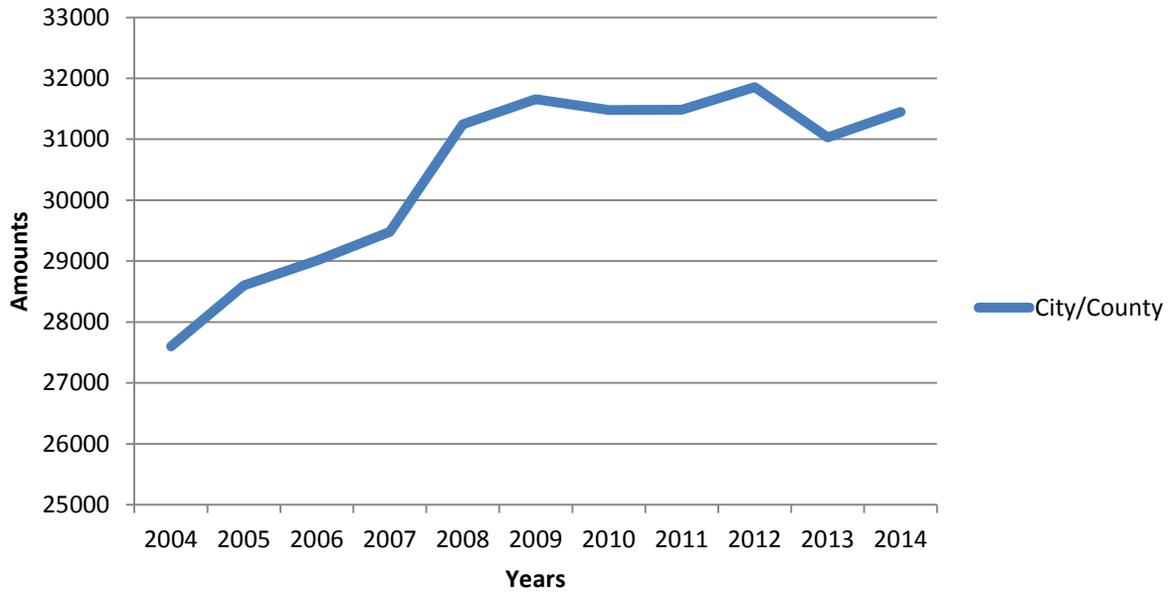
G.S. 18B-805 (c) (2) requires the board to distribute at least five percent (5%) of profits to law enforcement. The local enabling act requires the board to distribute at least five percent (5%) but no more than fifteen percent (15%) to alcohol education. The remaining profits are to be distributed as follows:

- 5% to the Rockingham County Library Fund
- 2 ½% to the Annie Penn Memorial Hospital
- 2 ½% to the Morehead Memorial Hospital
- 7% to the Rockingham County General Fund
- 83% to the Madison General Fund

Below are law enforcement/alcohol education and county/municipality distribution charts analyzing the high-low trends of the Madison ABC Board for the past ten years.



County & Municipality Distribution History



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 Madison ABC Board had a working capital of \$232,466, which is less than the maximum allowed of four months gross sales (\$275,503) and is within the limits of NCAC 02R .0902.

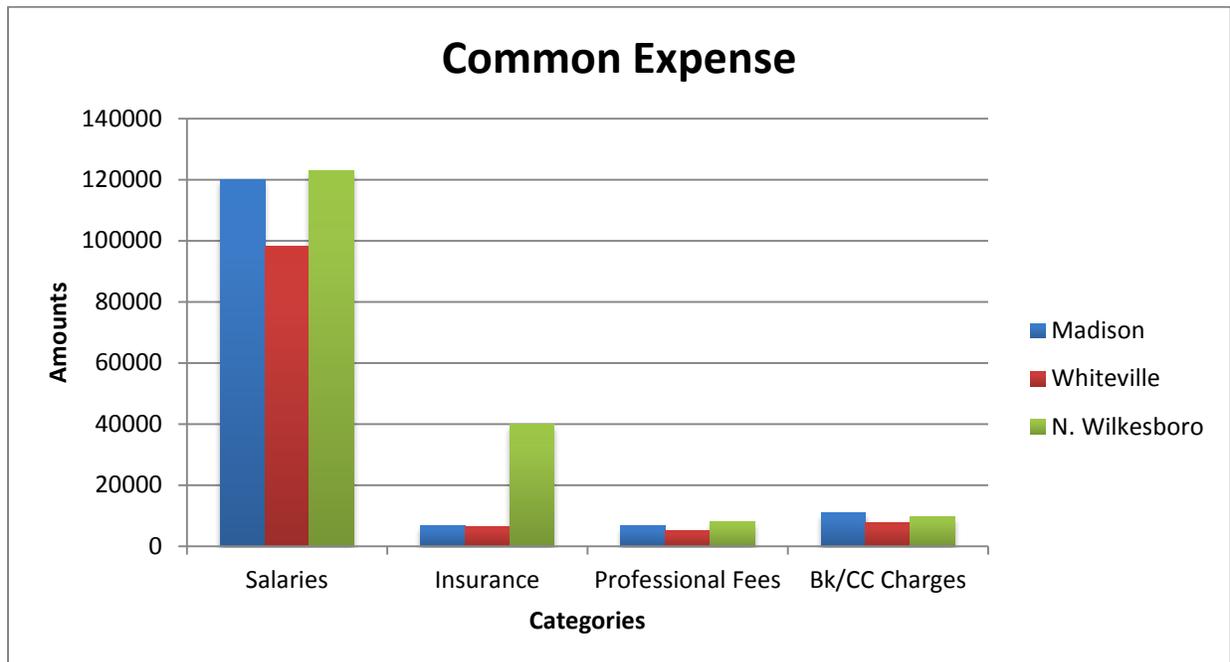
OPERATING COST RATIO

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):

- Single store boards with MXB sales that are equal to or greater than 25% of gross sales – cost ratio 0.75
- Single store boards with MXB sales less than 25% of gross sales – cost ratio 0.85
- Single store boards without MXB sales – cost ratio 0.85
- Boards with 2 stores with and without MXB sales – cost ratio 0.74
- Boards with 3 or more stores with and without MXB sales – cost ratio 0.64

The Madison ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.86. Mixed beverage sales make up 4.7% of total gross sales. In fiscal year 2014, sales increased 1.8% over fiscal year 2013 while expenses decreased 3.6% over the same time period. To meet the cost ratio goal and remain at current operating expense of \$220,963, revenues must be increased to approximately \$1,080,000, a 0.8% increase. To meet the cost ratio goal and remain at current revenue of \$1,071,081, expenses must be reduced to approximately \$220,000, a 0.4% decrease.

A common expense analysis shows that Madison ABC Board expenses are in line with other similar size boards. Note: Insurance expenses for North Wilkesboro ABC Board include health insurance.



RECOMMENDATIONS

1. To minimize excess spending and to ensure the best price is offered on services, request bids annually from various vendors to get the best rates possible on financial audits, specific utilities, maintenance contracts, and credit card processing fees.

INVENTORY TURNOVER

The inventory turnover is calculated by dividing the cost of liquor by the average inventory in the system (Cost of Liquor/Average Inventory).

The Madison ABC Board receives deliveries two times a month: the inventory turnover rate is 5.1. The average inventory turnover rate for similar boards with the same delivery schedule is 5.6.

RECOMMENDATIONS

1. Consider the following to increase inventory turns:
 - Incorporating a shelf management plan that analyzes sales data to targeted shopping patterns;
 - Utilizing end caps and empty shelf space as much as possible to highlight slow moving and new products;
 - Moving stock within the store to increase visibility and to encourage more impulse shopping;
 - Splitting cases with other boards or taking advantage of the Special Purchase Allowance and the Boutique collections to increase variety;
 - Eliminating poor performing items to drive category sales and increase shopper satisfaction;

STORE APPEARANCE AND CUSTOMER SERVICE

The Madison ABC Board operates one retail store with shelf space of approximately 1,000 linear feet and carries approximately 900 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.
- Bottles were fronted and dusted.
- Landscaping around the store is well-maintained with no evidence of trash.
- Security systems are in place and functional in all designated areas.
- A basic shelf management plan is in use that exhibits a strategy following the premium products at eye level and lowest priced products on bottom shelves. Product placement is consistent with sizes arranged from largest on the right and smallest on the left. Each product is displayed within its designated category.
- The state price book is available in 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 customers is attentive, courteous, and all are eager to meet the needs of the customers.

NO RECOMMENDATIONS

PERSONNEL AND TRAINING

- Current board members have completed the initial ethics training. The town has since appointed a new board member.
- Cross training opportunities are being extended on key administrative duties to key employees in the event the general manager was suddenly unavailable.
- Training is provided continuously to new and existing staff on areas applicable to job performance. Management often attends the NC Association of ABC Boards General Manager conferences for additional training opportunities.
- 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 B (1) for statute.*
2. Consider additional training opportunities through the Commission and other ABC boards on specific areas such as customer service, best retail and marketing practices, etc. The NC ABC Officers Association offers ABC inspection training for local law enforcement officers.

ABC BOARD POLICIES

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Law Enforcement Contract
 - FY2014 Annual Audit
 - FY2015 Budget (Proposed and Adopted)
 - Employee Manual
 - Mixed Beverage Policy

- Policies not adopted include:
 - Travel Policy
 - Price Discrepancy Policy

RECOMMENDATIONS

1. As a reminder, request approval annually from appointing authority to adopt the town's travel policy. *Refer to Appendix B (2) for statute.*
2. Adopt the above policies that incorporate customer friendly practices. Once adopted, communicate to all employees should the need arise. *Refer to Appendix B (3) for rule.*

INTERNAL CONTROL PROCEDURES

- Payroll procedures are conducted by the manager reviewing all time cards received and manually calculating the wages and taxes. Once completed, adjustments are made in the accounting/payroll software.
- Cash drawers are counted by all clerks. All clerks are responsible for their own cash drawer. Management has implemented procedures on handling cash drawer overages/shortages.
- Bank deposits are made regularly as required by the ABC Commission rule. Bank notifications are received and matched with corresponding daily register reports. Bank reconciliations are completed by the general manager/finance officer.
- Physical inventory counts are performed monthly by the general manager. Spot checks are conducted frequently. If discrepancies occur, the general manager will investigate and recount for accuracy and verification. Once completed, the general manager will adjust the inventory system to match with the actual store counts.
- Out of approximately 900 product codes, approximately 65 product codes were sampled to ensure accurate pricing and all were correct.

RECOMMENDATIONS

1. To ensure strong segregation of duties on inventory, have someone other than the person(s) responsible for that inventory count the inventory on a monthly basis. When this is not possible, have a board member perform spot checks.

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 general manager compensation is 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 employed related to board members or the general manager.
- The general manager serves as the finance officer. The board has obtained approval from the Commission allowing the general manager to serve in this capacity for no longer than three years.
- All board members and the general manager are bonded for \$50,000 as required by G.S. 18B-700 (i).
- Although initial liquor orders do not bear the pre-audit certificate, each individual vendor invoice has the pre-audit certificate and is signed by the general manager. The board is usually invoiced by vendors for purchases or the ABC board debit/credit card is used. A credit card policy has been adopted and forwarded to the Commission.
- All checks bear the approved certificate indicating that the item has been approved by the finance officer/general manager for payment. Two signatures are located on all paid checks; that of the general manager and the board chairman. In the event that the general manager and/or board chairman is unavailable, other board members are authorized to sign checks.

RECOMMENDATIONS

1. Begin to work on a plan to designate someone other than the general manager as finance officer. The intent is to generate stronger internal controls and checks and balances.
2. To save time, eliminate stamping and signing each invoice; place the pre-audit certificate on the order to LB&B. Authorization should occur before the transaction takes place.

AUDITOR'S SUMMARY

ABC Board Auditor, Moniqua S. McLean, presented the performance audit recommendations. The board has not responded as to whether the recommendations have been implemented. Therefore, this audit is being submitted without a response from the board. Since the initial audit fieldwork, the board has made store improvements. A follow up visit will be conducted within six months of the final audit submission to determine whether the recommendations have been addressed and implemented.

APPENDIX A

Illustration 1



Illustration 2



Partial view of shelf management/product placement

Illustration 3



Monthly sale items on display

APPENDIX B

- (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 (g2) states, "...The local board shall annually provide the appointing authority's written confirmation of such approval to the Commission and a copy of the travel policy authorized by the appointing authority."*
- (3) *NCAC 02R.1706 (b) states, "If a local board has a price discrepancy between the price on the shelf or bottle and the cash register, and the price on the shelf or bottle is lower, the local board shall sell the item at the shelf or bottle price and correct the shelf or bottle price to match the Commission's published uniform price."*